



All Party Parliamentary Group for the **Private Rented Sector**

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# **ACCESS TO PRIVATE RENTED HOUSING FOR THE UNDER 35s**

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## ***REPORT AND ORAL EVIDENCE***

**13<sup>th</sup> October 2014**

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This Report was researched by The Public Affairs Company on behalf of its client, the Residential Landlords Association and was funded by the Residential Landlords Association.

## **The APPG for the Private Rented Sector**

The purpose of the APPG is to raise awareness of the private rented housing sector in Parliament; to provide a forum for parliamentarians to discuss issues pertinent to the sector and engage with landlords, tenants and other interested parties; and to hold inquiries into policy and operational issues relevant to the sector and produce reports.

### **Officers of the Group during the Inquiry**

- ❑ Oliver Colvile MP (Conservative, Plymouth Sutton and Devonport) – Chair
- ❑ Karen Buck MP (Labour, Westminster North) – Vice Chair
- ❑ David Ward MP (Liberal Democrat, Bradford East) – Vice Chair

### **Secretariat**

The Public Affairs Company (a consultancy) acts as the Group's secretariat on behalf of the Residential Landlords Association, and is funded by them.

### **Contact**

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## 1.0 ABOUT THE INQUIRY

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- 1.1 On 14<sup>th</sup> May 2014 the Group formally launched its inquiry, with a call for evidence, on issues related to access to private rented housing for those under the age of 35.
- 1.3 The Inquiry launched with the following terms of evidence:
- What trends are there in under 35s looking for a place to live?
  - What types of properties do under 35s look for and are there enough?
  - What has been the impact of the Shared Accommodation Rate on access to, and the availability of, shared homes to rent?
  - What impact have Article 4 Directions had on the supply of homes to rent for under 35s?
  - What has been the impact of applying Council Tax to bed-sits as separate dwellings?
  - What should be done to ensure supply meets the demands of under 35s seeking a house to rent?
- 1.4 Nineteen items of written evidence were submitted to the Inquiry and these are listed in Appendix 1 of this report and can be viewed in full online at [http://rla.org.uk/policyhub/wp-content/uploads/2014/10/PRS-access-for-U35s\\_Full-Written-Evidence\\_Oct.14.pdf](http://rla.org.uk/policyhub/wp-content/uploads/2014/10/PRS-access-for-U35s_Full-Written-Evidence_Oct.14.pdf).
- 1.5 Two oral evidence sessions were held.
- 1.6 On the 17<sup>th</sup> June 2014 the Group took evidence from:
- Alan Ward** – Chairman of the Residential Landlords Association
  - Alex Hilton** – Director of Generation Rent
  - Ian Fletcher** - Director of Policy (Real Estate) at the British Property Federation
- 1.7 On the 8<sup>th</sup> July 2014 the Group took evidence from:
- Martin Bellinger** – Chief Operating Officer, Essential Living
  - Colum McGuire** – Vice President (Welfare), National Union of Students
  - Katharine Sacks-Jones** – Head of Policy and Campaigns, Crisis
- 1.8 The Group would like to thank all those individuals and organisations that provided both written and oral evidence which has been invaluable in preparing this report and for the constructive way in which all witnesses have engaged with the Group's work.

## 2.0 SUMMARY AND RECOMMENDATIONS

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- 2.1 Over half of all tenants in the private rented sector are under the age of 35, a demonstration of the importance that the sector has to play in meeting the housing needs of this group.
- 2.2 Given the quantity of under 35s in the sector, and the types of accommodation that they live in, it is clear that a number of recent policy developments will have had a notable impact on some or all of this group. In particular:
- ❑ In 2010, the then Housing Minister, Grant Shapps MP, announced that local authorities would be free to choose whether or not to adopt 'Article 4 Directions' for all or part of their areas which enable those local authorities that choose to use them to make landlords apply for planning permission where they intend to turn a house into a House of Multiple Occupation – a shared house comprised of 3 or more unrelated persons.
  - ❑ In the Spending Review of 2010, the Government announced that the age limit at which tenants could claim housing benefit only for a room in a shared house (known as the Shared Accommodation Rate) would increase from 25 to 35. This came into effect on 1<sup>st</sup> January 2012.
  - ❑ The Group heard during the course of the inquiry of concerns that local authorities are now charging council tax on bedsit accommodation.
  - ❑ The Rent a Room Scheme that allows someone to earn up to a threshold of £4,250 per year tax-free from letting out furnished accommodation in their own home has remained frozen since 1997.

## 2.3 ARTICLE 4 DIRECTIONS

- 2.3.1 The Group is not convinced about the need to revoke Article 4 Directions. They should continue to be a tool for local authorities to use to respond to local the needs of all residents and in the process be accountable to their local electorate accordingly.
- 2.3.2 The Government should work with local authorities, through the Local Government Association, to review what impact Article 4 Directions are having on the ability of those requiring it to access shared housing.
- 2.3.3 We would endorse the argument for so called "flipping" to be allowed. At present, where a property is allowed to be an HMO under an Article 4 Direction, if a landlord then decides later to let it to a family, which they are able to do without planning permission, but after that wanted to revert back to it being a HMO, they would need planning permission. Flipping would mean once a landlord had received permission for a building to be used as a HMO it would be in force indefinitely enabling them to flip the use of the property from HMO to family use and back to HMO again, if they so wish. This would avoid the situation faced in some areas whereby HMOs remain empty because landlords do not want to have to go through the planning application process if they decide to let the property to a family.
- 2.3.4 The Group was interested to hear of initiatives such as the 'Leave Leeds Tidy' campaign bringing together residents, students, the university and the local authority to ensure students leave their streets and surrounding areas in a fit state when they leave

for term breaks. We call on such partnerships to be replicated as a way of properly integrating students into their local communities and addressing some of the concerns those residents have about high concentrations of such tenants.

- 2.3.5 Where students and other occupants of shared housing cause repeated trouble and fail to respond to warnings about their behaviour, Universities, students unions, landlords and the local police should ensure that robust action is taken against such tenants, with a much swifter process to evict them where need be.

## **2.4 SHARED ACCOMMODATION RATE**

- 2.4.1 We recommend that the Government launches a full review of the operation of the Shared Accommodation Rate. We argue that such a review should cover:

- Whether there is sufficient shared housing to cope with the increased demand for such accommodation that the SAR changes have led to.
- Whether the level at which the SAR is set is sufficient to secure the accommodation that claimants require.
- The exact details of the circumstances under which housing benefit claimants under the age of 35 are exempt from it, such as those with mental health difficulties.
- What can be done to ensure that SAR claimants who are parents without custody of their child(ren) are nevertheless able to house them when they visit.

- 2.4.2 We would further call on the Government to undertake research into the impact that permitting direct payments of housing benefits to landlords might have on landlords' willingness to let to those tenants claiming housing benefits. Whilst the Government has maintained a stance of arguing that payments directly to tenants promote financial responsibility, it was clear from the evidence we received that many landlords are simply not willing to let to those on the SAR due to the risks involved in receiving rent. Greater assurances are needed for the landlord community that payments will be received on time.

## **2.5 RENT A ROOM ALLOWANCE**

- 2.5.1 The Group therefore calls on the Government to increase the rent-a-room allowance to the levels suggested by [spareroom.co.uk](http://spareroom.co.uk) with a level in London higher than that outside.

## **2.6 COUNCIL TAX**

- 2.6.1 In light of concerns raised with us, the Group would welcome clarification from Ministers as to the exact position in respect of local authorities being able to charge Council Tax on bedsit accommodation and how extensive it might be.
- 2.6.2 Should the position be as we have been told, we would recommend that Ministers give this serious consideration to ensure that simply charging Council Tax on an already existing room in a shared house isn't being used as a way of generating New Homes Bonus.

2.6.3 We would also recommend that the Government give consideration either to banning the practice of Council Tax being applied to bedsit rooms or introduce a more realistic Council Tax band for such accommodation.

## **2.7 VAT RULES**

2.7.1 Whilst we appreciate the complexities around VAT rules, it appears to be an anomaly that VAT cannot be reclaimed on properties converted to rent given the pressing need to increase the supply of such properties. We would therefore call on the Government to undertake a study into the potential impact of allowing VAT to be reclaimed where existing properties are converted for housing use, either owner occupied or to rent.

## **2.8 BETTER INFORMED TENANTS**

2.8.1 Mindful of Government amendments to the Consumer Rights Bill to secure transparency in the fees that letting agents charge tenants and landlords, we believe that this should go further. We call on the Government that as part of wider efforts to empower tenants that it be made a requirement of landlords to let prospective tenants aware of all the likely costs associated with renting a property including the Council Tax band as well as estimated utility costs. This should be coupled with information on how best tenants can shop around for gas, electricity and water suppliers to secure the best deal possible on their bills, thereby driving the overall cost of renting down as much as possible.

## **2.9 COMMUNITY CONTRIBUTIONS**

2.9.1 It is the Group's views that local authorities should be given greater powers to secure community contributions from developers of large scale PRS developments as appropriate to local needs.

2.9.2 We also call on the Government to give serious consideration to enabling local authorities to charge landlords Business Rates as a further contribution to the community. Such a move would need to be contained within wider reforms to the taxation system which would recognise the business of renting a property as a trading activity and not as an investment, as is currently the case. As part of this, in re-distributing revenue from the rates, we would call on the Government to consider how it could compensate accordingly those local authorities that might be missing out on substantial sums of council tax due to high numbers of students.

2.9.3 The availability of car parking in areas with a high density of shared housing remains a concern for many owner occupied residents who can find it difficult to find parking spaces, especially during term time. Whilst we should avoid draconian measures, if we are to build the case for more homes to rent it is important that residents in areas where they are needed are supportive of such moves and that new developments do not build further resentment. We therefore call on the Government to give serious consideration to expecting developers of large scale private rented housing schemes to be expected to provide the necessary car parking to accompany such developments. Where the only parking available however is on street, the Government should work with local authorities to explore ways of limiting the number of cars per property.

## 3.0 BACKGROUND

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### 3.1 A GROWING PRIVATE RENTED SECTOR

- 3.1.1 Over the past year the debate around the role that the private rented sector has to play in meeting the country's housing has increased by several notches, spurred by the sector now being the only one growing and taking over the social rented sector in size.
- 3.1.2 As noted in the most recent English Housing Survey<sup>1</sup>, the sector now comprises 18% of all households in England, up from its low point in modern times of 9% recorded in 1992.
- 3.1.3 In comparison, the social rented sector now makes up 16.8% of all households in the country having fallen from a modern day high of 31.4% in 1980.
- 3.1.4 The owner occupied sector makes up the remaining 65.2% of households, down from its recent peak of 70.9% in 2003.
- 3.1.5 Whilst housing growth is something that all parties agree on the need to achieve within the private rented sector, it has come with significant challenges, especially for those under the age of 35.

### 3.2 UNDER 35s AND THE PRIVATE RENTED SECTOR

- 3.2.1 Just over 50% of tenants in the private rented sector are aged under 35<sup>2</sup>, a figure which has increased from the just under 47% recorded in 2008-09.
- 3.2.2 More broadly, the private rented sector contains by far the youngest demographic of the three housing tenures. 73% of private tenants for example are aged under 45 compared with 37% of social renters and just 27% of owner occupiers. Just 8% of tenants in the sector are over the age of 65<sup>3</sup>.
- 3.2.3 Of the 889,000 additional private rented households recorded between 2008-09 and 2012-13, 49% of these were new households aged between 25 and 34<sup>4</sup>. Furthermore, of households across all housing tenures within the 25-34 age bracket, the proportion of this group in private rented accommodation has increased from 31% in 2008-09 to 45% in 2012-13<sup>5</sup>.
- 3.2.4 The private rented sector also has the largest proportion of full-time students - 5% compared with 1% of social rented households<sup>6</sup>.
- 3.2.5 Of those private rented sector households where the tenant is aged under 30<sup>7</sup>:

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<sup>1</sup> Department for Communities and Local Government. (February 2014). *English Housing Survey – Headline Report 2012-13*. Annex Table 1, Page 48.

<sup>2</sup> Department for Communities and Local Government. (23<sup>rd</sup> July 2014). *Table FA3101 (S418): Demographic and economic characteristics of social and privately renting households, 2012-13*.

<sup>3</sup> Department for Communities and Local Government. (July 2014). *English Housing Survey – Households Report 2012-13*. Pages 34-35.

<sup>4</sup> Department for Communities and Local Government. (July 2014). *English Housing Survey – Households Report 2012-13*. Page 35.

<sup>5</sup> Department for Communities and Local Government. (July 2014). *English Housing Survey – Households Report 2012-13*. Page 35.

<sup>6</sup> Department for Communities and Local Government. (July 2014). *English Housing Survey – Households Report 2012-13*. Page 36.

<sup>7</sup> Department for Communities and Local Government. (23<sup>rd</sup> July 2014). *Table FA3111 (S419): Demographic and economic characteristics of young social sector and private sector tenants, 2012-13*.



- ❑ 52.8% are single.
  - ❑ 64.1% are in either one or two bedroomed properties – 20.9% in one bedroom properties and 43.2% in two bedroom households.
  - ❑ 51.9% have been in their home for less than a year with 34.8% having been in their rented accommodation for a year or more, but less than 3 years.
  - ❑ 60.1% are in full time work, 10.9% are in part time work, 5.6% are unemployed and 13.2% are in full time education.
  - ❑ 28.5% of such households are comprised of couples with no dependent children; 16.5% are couples with one or more dependent children; 13.4% are lone parents with a dependent child or children; 20.7% are classed as “other multi-person household” whilst the remaining 20.9% are single person households.
- 3.2.6 42.5% of private sector tenants aged between 16 and 34 are in receipt of housing benefits compared to 20.5% of those in the same age group in social rented accommodation<sup>8</sup>.
- 3.2.7 Those aged under 35 across all housing tenures tend to be more mobile, with 81.2% of all those aged between 16 and 34 having said that they have moved in the past year<sup>9</sup>. 50.8% of those aged 16 to 34 who have moved into the owner occupied sector in the past three years have done so from the private rented sector<sup>10</sup>.
- 3.2.8 66.1% of 16-34 year olds within the private rented sector have moved from one private rented home to another within the past year<sup>11</sup>.
- 3.2.9 78% of tenants aged 16 to 24 and 25 to 34 have said that the hope to buy a property in the future<sup>12</sup>.
- 3.2.10 The proportion of younger mortgagors under the age of 35 has declined from 21% in 2008-09 to 18% in 2012-13<sup>13</sup>.
- 3.2.11 Adding to the pressures faced by those under 35 is the number growing numbers of over 35s seeking to access shared homes in volumes not seen before.
- 3.2.12 The flat sharing website, Spareroom.co.uk has produced figures showing a 20,000 increase over the past five years in the number of over 40s looking for a room in shared housing<sup>14</sup>. In February this year the Office for National Statistics published an analysis of 2011 Census data showing that the number of families living in shared housing increased by 70% in the

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<sup>8</sup> Department for Communities and Local Government. (23<sup>rd</sup> July 2014). *Table FA3221 (S420): Demographic and economic characteristics of social sector and private tenants who were receiving Housing Benefit, 2012-13.*

<sup>9</sup> Department for Communities and Local Government. (23<sup>rd</sup> July 2014). *Table FA4121: Demographic characteristics of moving households, 2012-13.*

<sup>10</sup> Department for Communities and Local Government. (23<sup>rd</sup> July 2014). *Table FA4411 (S349): Characteristics of recent owners by previous tenure, 2008-09.*

<sup>11</sup> Department for Communities and Local Government. (23<sup>rd</sup> July 2014). *Table FA4622 (S540): Whether moved within the private rented sector in the last year, by age of household reference person, 2012-13.*

<sup>12</sup> Department for Communities and Local Government. (July 2014). *English Housing Survey – Households Report 2012-13. Page 40.*

<sup>13</sup> Department for Communities and Local Government. (July 2014). *English Housing Survey – Households Report 2012-13. Page 21.*

<sup>14</sup> The Guardian. (26<sup>th</sup> January 2014). *Over-40s forced back into flatsharing by housing shortage, high rents and divorce.*

decade up to the 2011 census as typically young families are increasingly locked out of the UK's housing market<sup>15</sup>.

### 3.3 POLICY DEVELOPMENTS

3.3.1 Given the quantity of under 35s in the private rented sector, and the types of accommodation that they live in, it is clear that a number of recent policy developments will have had a notable impact on some or all of this group. In particular:

- ❑ In 2010, the then Housing Minister, Grant Shapps MP, announced<sup>16</sup> that local authorities would be free to choose whether or not to adopt 'Article 4 Directions' for all or part of their areas which enable those local authorities that choose to use them to make landlords apply for planning permission where they intend to turn a house into a House of Multiple Occupation – a shared house comprised of 3 or more unrelated persons.
- ❑ In the Spending Review of 2010, the Government announced that the age limit at which tenants could claim housing benefit only for a room in a shared house (known as the Shared Accommodation Rate) would increase from 25 to 35. This came into effect on 1<sup>st</sup> January 2012<sup>17</sup>.
- ❑ The Group heard during the course of the inquiry of concerns that local authorities are now charging council tax on bedsit accommodation.
- ❑ The Rent a Room Scheme that allows someone to earn up to a threshold of £4,250 per year tax-free from letting out furnished accommodation in their own home has remained frozen since 1997.

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<sup>15</sup> The Guardian. (6<sup>th</sup> February 2014). *Almost 300,000 'concealed families' share their home with another family.*

<sup>16</sup> Department for Communities and Local Government. (17<sup>th</sup> June 2010). *Housing Minister Grant Shapps today announced that councils will have greater flexibility to manage concentrations of shared housing in their...*

<sup>17</sup> House of Commons Library. (11<sup>th</sup> October 2013). *Measures to reduce Housing Benefit expenditure – an overview - SN/SP/5638.*

## 4.0 ARTICLE 4 DIRECTIONS

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### 4.1 BACKGROUND

4.1.1 Article 4 Directions are tools available to local authorities to require planning permission to be required for specified new developments and any renovations to existing buildings in a certain geographic area. It revokes what is known as 'Permitted Development Rights'. The House of Commons Library has defined this as:

*"Permitted development rights are basically a right to make certain changes to a building without the need to apply for planning permission. These derive from a general planning permission granted from Parliament, rather than from permission granted by the local planning authority."*<sup>18</sup>

4.1.2 Under the terms of Article 4 of the Town and Country Planning (General Permitted Development) Order 1995, local authorities have the power to remove permitted development rights. While article 4 directions are confirmed by local planning authorities, the Secretary of State must be notified, and has wide powers to modify or cancel most article 4 directions.

4.1.3 In June 2010, the then Housing Minister, Grant Shapps MP announced<sup>19</sup> that local authorities would be given greater flexibility to manage concentrations of shared housing in their area.

4.1.4 His announcement, designed to tackle high concentrations of shared homes which "*can sometimes cause problems, especially if too many properties in one area are let to short term tenants with little stake in the local community*" meant that councils would be free to choose, if they so wished, to apply an Article 4 Direction for Houses of Multiple Occupation (HMO), requiring landlords to apply for planning permission where they want to convert a property to an HMO. This removed the blanket application of the Directions under the previous regime.

4.1.5 In response to a written parliamentary question tabled by the Group's Chairman, the former Planning Minister, Nick Boles MP, confirmed that 168 local authorities have issued an Article 4 direction applying to either all or part of their geographic boundary<sup>20</sup>.

### 4.2 WHY ARTICLE 4 DIRECTIONS?

4.2.1 There is little doubt that Article Directions, as applied to shared housing have been a response to growing fears within many communities that the transitory nature of tenants in shared housing destabilises communities and can cause problems of tenants being unable to integrate properly into community life. The term often used somewhat disparagingly is "studentification".

4.2.2 In its response to the Communities and Local Government Select Committee report of 2013 on the private rented sector, the Government confirmed that it felt that Article 4 Directions should continue to be a tool available to local authorities "*where there are concerns from the local community about high concentrations of houses of multiple occupation.*"<sup>21</sup>

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<sup>18</sup> House of Commons Library. (26<sup>th</sup> March 2014). *Permitted Development Rights - SN/SC/485*.

<sup>19</sup> Department for Communities and Local Government. (17th June 2010). *Housing Minister Grant Shapps today announced that councils will have greater flexibility to manage concentrations of shared housing in their...*

<sup>20</sup> HC Deb, 14 July 2014, c533W

<sup>21</sup> HM Government. (October 2013). *Government Response to the Communities and Local Government Select Committee Report: The Private Rented Sector – CM 8730*.

4.2.3 In September 2008, the Department for Communities and Local Government published a report on the issue of Houses of Multiple Occupation. As part of this it noted<sup>22</sup>:

*“The concentration of HMOs and certain social groups can result in unintended consequences that can create friction with the local community and can also lead to both positive and negative effects upon a local housing market area, including social, economic, as well as environmental and physical impacts.”*

### 4.3 THE CASE AGAINST ARTICLE 4 DIRECTIONS

4.3.1 What became clear throughout the course of the inquiry is the strength of feeling the issue of Article 4 Directions raises, with growing evidence raising questions about whether they are necessarily the right tool for the problem they are designed to solve.

4.3.2 In their report for the previous Labour Government, published in 2008 on the private rented sector, Dr Julie Rugg and David Rhodes from the Centre for Housing Studies at York University concluded that just 59 out of 8,000 local authority wards in England face what they describe as *“intensive student habitation”*<sup>23</sup>. This amounts to roughly 0.7% of council wards facing such a problem.

4.3.3 As outlined in the background section to this report, it is clear that shared homes of the kind that Article 4 Directions seek to control are now increasingly being relied upon by those who are not students.

4.3.4 Witnesses were also clear in their concern about the impact of Article 4 Directions on the supply of shared homes to rent

4.3.5 Alan Ward, Chairman of the Residential Landlords Association told us that apart from students, shared homes are a key source of housing for young professionals and that it was ‘vital’ that towns wanting to attract and retain the economic contribution of a young workforce have the homes in place that they need. He therefore called for the direction to be scrapped altogether, arguing that what was needed was better enforcement of existing anti-social legislation to address the social problems that some communities face from HMOs.

4.3.6 Similar sentiments were raised by Alex Hilton from Generation Rent who dubbed Article 4 Directions as stigmatising people because of their age whilst Column McGuire from the National Union of Students simply concluded that they were “unfair, impractical and not effective”.

4.3.7 These were sentiments that were shared by a large number of other groups and individuals who provided written evidence to the inquiry.

### 4.4 GROUP’S VIEW

4.4.1 Issues around the concentration of Houses of Multiple Occupation continue to be contentious in many areas given that debate over them strikes at the heart of efforts to secure balanced and sustainable communities. The Group appreciated therefore that views are strongly held on all sides of the debate.

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<sup>22</sup> Department for Communities and Local Government. (September 2008). *Evidence Gathering – Housing in Multiple Occupation and possible planning responses*. Page 4

<sup>23</sup> Centre for Housing Policy at York University. (2008). *The Private Rented Sector – It’s contribution and potential*. Page xxi

- 4.4.2 It is important that in discussing the merits or otherwise of controlling the use of such properties does not serve to divide communities. Debate needs to be held in an air of respect, recognising the importance of shared housing for those especially under the age of 35 whilst respecting the concerns that communities have about concentrations of such properties.
- 4.4.3 Having weighed up all of the evidence and material, **the Group is not convinced about the need to revoke Article 4 Directions. They should continue to be a tool for local authorities to use to respond to the local needs of all residents and in the process be accountable to their local electorate accordingly.**
- 4.4.4 That said, **the Government should work with local authorities, through the Local Government Association, to review what impact Article 4 Directions are having on the ability of those requiring it to access shared housing.**
- 4.4.5 **We would endorse argument for so called “flipping” to be allowed. At present, where a property is allowed to be an HMO under an Article 4 Direction, if a landlord then decides later to let it to a family, which they are able to do without planning permission, but after that wanted to revert back to it being a HMO, they would need planning permission. Flipping would mean once a landlord had received permission for a building to be used as a HMO it would be in force indefinitely enabling them to flip the use of the property from HMO to family use and back to HMO again, if they so wish. This would avoid the situation faced in some areas whereby HMOs remain empty because landlords do not want to have to go through the planning application process if they decide to let the property to a family.**
- 4.4.6 It is important that the legislation designed to tackle anti-social behaviour is properly enforced, rather than simply reaching for planning powers to start with.
- 4.4.7 The Group was interested to hear of initiatives such as the ‘Leave Leeds Tidy’ campaign bringing together residents, students, the university and the local authority to ensure students leave their streets and surrounding areas in a fit state when they leave for term breaks. **We call on such partnerships to be replicated as a way of properly integrating students into their local communities and addressing some of the concerns those residents have about high concentrations of such tenants.**
- 4.4.8 **Where students and other occupants of shared housing cause repeated trouble and fail to respond to warnings about their behaviour, Universities, students unions, landlords and the local police should ensure that robust action is taken against such tenants, with a much swifter process to evict them where need be.**

## 5.0 SHARED ACCOMMODATION RATE

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### 5.1 BACKGROUND

5.1.1 The Shared Accommodation Rate (SAR), previously known as the Shared Room Rate was first introduced within the Housing Benefit (General) Amendment Regulations 1996<sup>24</sup>.

5.1.2 Under the provisions of these regulations, the amount that those under the age of 25 could claim in Housing Benefit was limited to the average rent charged for a room in a shared house. The definition of a shared house was a separate bedroom with shared toilet, kitchen, and bathroom and living room facilities.

5.1.3 The Government's stated aim<sup>25</sup> of the measure was:

*"to ensure that Housing Benefit does not encourage young people to leave the parental home unnecessarily or to take on higher priced accommodation at the taxpayers' expense than they could afford from their own earnings."*

5.1.4 At the time the measure was controversial. The Social Security Advisory Committee expressed considerable concern about the regulation. It recommended that if it were to be introduced it should be based on "modest accommodation with exclusive use of kitchen, bathroom and toilet facilities."<sup>26</sup>

5.1.5 Similarly, in 2000, the then Social Security Select Committee concluded that *"there is a strong case for abolishing the single room rent limits."*<sup>27</sup>

### 5.2 2010 SPENDING REVIEW

5.2.1 Presenting the Government's spending review in 2010, the Chancellor announced that the Government would be increasing the age threshold for the shared room or accommodation rate from 25 to 35 *"so that housing benefit rules reflect the housing expectations of people of a similar age not on benefits."*<sup>28</sup>

5.2.2 According to the accompanying documentation published alongside the Chancellor's statement, the measure was thought likely to achieve savings in the welfare budget of £215 million a year by 2014-15<sup>29</sup>. It came into force from the 1<sup>st</sup> January 2012, having been approved by Parliament within the Housing Benefit (Amendment) Regulations 2011.

5.2.3 In November 2010, responding to a written parliamentary question from Laurence Robertson MP, the then Housing Minister, Grant Shapps MP informed the House that the measure would affect "around 88,000" housing benefit claimants.<sup>30</sup>

### 5.3 SELECT COMMITTEE RESPONSE

5.3.1 In December 2010, the Work and Pensions Select Committee published its report<sup>31</sup> on the changes announced in the June 2010 Budget to housing benefits. In this the

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<sup>24</sup> House of Commons Library. (30<sup>th</sup> May 1996). *The Housing Benefit (General) Amendment Regulations 1996 [SI 1996/965] - Research Paper 96/67.*

<sup>25</sup> Department of Social Security press notice 96/09. (2nd April 1996).

<sup>26</sup> Housing Benefit (General) Amendment Regulations 1996, Report by the Social Security Advisory Committee, Cm 3225, 1996

<sup>27</sup> Social Security Select Committee Sixth Report of 1999-2000, Housing Benefit, HC 385-I, 2001

<sup>28</sup> HM Treasury. (20<sup>th</sup> October 2010). *Spending Review Statement.*

<sup>29</sup> HM Treasury. (October 2010). *Spending Review 2010.* Page 69

<sup>30</sup> HC Deb 1st November 2010 cc537-8W



Committee raised serious concerns about the proposed reforms to the Shared Accommodation Rate raising fears that there was insufficient shared accommodation to handle the increase in demand for such housing that would arise as a result of the policy. The committee concluded:

*“Young people will be particularly hard hit by the LHA changes as single people under the age of 35 will only be entitled to the shared room rate which, even when calculated at the median, has been found to be too low to find a decent quality tenancy in many areas. The problem of lack of available accommodation for young people has been acknowledged by DWP, and our predecessor Committee recommended that the level of benefit for young people should be increased. However, the Government’s reforms take this in the opposite direction: benefits for young people will be lowered as a result of setting the shared room rate at the 30<sup>th</sup> percentile and extending the shared room rate policy to young people under the age of 35. We understand the need for savings at a difficult time economically, but it should be considered as an interim measure and the Government should review this policy prior to 2015. At this point, we would like to see a reconsideration of our predecessors’ recommendation.”*

5.3.2 In its response to the report<sup>32</sup> the Government reiterated the reasons for the policy. It explained:

*“The Government does not think it unreasonable to limit Housing Benefit in the same way to those slightly older working age individuals who have recourse to public funds, particularly as many of their contemporaries in work are living in shared accommodation. The shared accommodation rate is also paid to individuals or couples over 25 with no children who live in shared accommodation. Currently just under half of those in receipt of the shared accommodation rate are over 25, reflecting the fact that they are living in shared accommodation rather than self-contained accommodation. Work should be people’s first choice and exemptions will remain for the most vulnerable.”*

5.3.3 The Government went on to outline groups that would be exempt from the SAR, including:

- People who are severely disabled and young people leaving care (under age 22).
- Those in supported accommodation or social housing.
- Those getting the middle or higher rate care component of Disability Living Allowance, and where no one gets a Carer’s Allowance for them.

5.3.4 The Government’s response continued:

*“The impact of this policy change on people under the age of 35 will vary considerably depending on their specific circumstances but it has never been the intention that Housing Benefit should fully meet every individual’s circumstances. People facing a rent shortfall who are not covered by the exemptions can be considered for extra help from the Discretionary Housing Payment scheme. This allows local authorities to give extra help on a case by case basis to those facing difficulties meeting their housing costs.”*

5.3.5 Revisiting the subject earlier this year<sup>33</sup>, the Select Committee again raised concerns about the policy, since, they argued, that it “may have reduced the availability of safe,

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<sup>31</sup> Work and Pensions Select Committee. (22<sup>nd</sup> December 2010). *Changes to Housing Benefit announced in the June 2010 Budget*. HC469

<sup>32</sup> Work and Pensions Select Committee. (10<sup>th</sup> March 2011). *Changes to Housing Benefit announced in the June 2010 Budget: Government Response to the Committee’s Second Report of Session 2010–11*. HC845

*appropriate accommodation for younger people, some of whom may be vulnerable.”* It went on to recommend that the Government undertakes a full assessment of the impact of the SAR changes. It continued:

*“If it appears that it is resulting in some vulnerable young people having to live in situations which are inappropriate or which put them at risk, the Government should investigate introducing exemptions for vulnerable people, and take steps to increase provision of appropriate accommodation.”*

## 5.4 IMPACT OF THE POLICY

5.4.1 A common theme from witnesses was concerns that the changes to the Shared Accommodation Rate have led to landlords being increasingly reluctant to rent to those on the rate thereby making it more difficult for those affected by the measure to access homes to rent at an affordable price.

5.4.2 In his written submission to the Group, Terry Lucking, Managing Director of Belvoir Lettings, Peterborough and Cambridge summed up the effect of the changes to the Shared Accommodation Rate as follows:

- ❑ A reduction in the supply of shared accommodation affordable at the shared accommodation rate.
- ❑ Makes in unattractive for professional investors to invest in the sector owing to low rents and risks of not being paid.
- ❑ A reduced willingness to supply quality accommodation owing to concern over low rates and not being paid by the tenant.

5.4.3 In its evidence to the Group, the Residential Landlords Association pointed to research that it had carried out of its members which showed that 51% of those renting to tenants under 35 in receipt of the shared accommodation rate do not intend to renew existing tenancies when they run out. The RLA continued, *“We find this very worrying as where will these tenants go once their existing tenancies expire with shared accommodation being in such short supply? We feel that this is an early warning sign of the attitudes of Landlords now that these changes are starting to take effect and we feel that this needs to be taken seriously.”*

5.4.4 The reluctance of landlords to commit to the shared accommodation market was highlighted in a report<sup>34</sup> for the Department for Work and Pensions published last year which argued:

*“Landlords seemed generally reluctant to undertake conversions or develop their HMO portfolios in response to SAR changes, and expressed concerns about the management burden of HMOs and the impact of Article 4 planning restrictions in some areas. Indeed, a common theme in interviews with landlords and housing advisers in differing housing market contexts was the mismatch between the increased demand for shared accommodation, brought about in part by the LHA changes, and the slow supply response. Landlords in all case study areas said they were reluctant to move more strongly into the HMO market, often due to what they perceived as the burden of*

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<sup>33</sup> Work and Pensions Select Committee. (2<sup>nd</sup> April 2014). *Support for housing costs in the reformed welfare system*. HC 720

<sup>34</sup> Department for Work and Pensions. (2013). *Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit: Interim report*.



*managing shared accommodation. It remains to be seen whether this view will change as the SAR changes bed down, or whether other companies will move into this market.”*

- 5.4.5 The drying up in the supply of shared housing has been noted also by organisations representing tenants, In its written evidence, Generation Rent told us that the changes made to the SAR have *“put a general pressure on the number of shared homes available to rent as it has overnight moved a large demographic into looking for a particular type of property and competing with each other to be housed in shared accommodation.”*
- 5.4.6 It is a point shared also by Crisis, whose research was quoted frequently by witnesses as a barometer of the impact of the Shared Accommodation Rate. In its evidence to the Group it cited a survey it had conducted of housing advisers which *“found that 94 per cent reported seeing less accommodation available to SAR claimants since the extension of SAR.”* It continued, *“further research from Crisis shows that fewer than 2% of rooms in shared houses are available and affordable to those on the Shared Accommodation Rate.”*
- 5.4.7 The Group heard also about concerns that the changes to the Shared Accommodation Rate could be forcing those with mental health difficulties and other such problems into shared housing that not only is inappropriate but could actively aggravate their conditions. Similarly, it was noted that where parents are divorced, if the one without custody of the child(ren) was on the Shared Accommodation Rate they simply could not afford to have an extra room in which their children could stay for odd periods.

## **5.5 GROUP’S VIEW**

- 5.5.1 Changes made to the Shared Accommodation Rate have certainly caused a substantial degree of controversy and passionate debate from those with concerns about both the intended and unintended consequences of the scheme.
- 5.5.2 Having been in force for a while now, the Group is not convinced that the upheaval of scrapping the changes made to the SAR altogether is necessarily the best way forward.
- 5.5.3 **We do recommend, however, that the Government launches a full review of the operation of the Shared Accommodation Rate. We argue that such a review should cover:**
- Whether there is sufficient shared housing to cope with the increased demand for such accommodation that the SAR changes have led to.**
  - Whether the level at which the SAR is set is sufficient to secure the accommodation that claimants require.**
  - The exact details of the circumstances under which housing benefit claimants under the age of 35 are exempt from it, such as those with mental health difficulties.**
  - What can be done to ensure that SAR claimants who are parents without custody of their child(ren) are nevertheless able to house them when they visit.**

5.5.4 **We would further call on the Government to undertake research into the impact that permitting direct payments of housing benefits to landlords might have on landlords' willingness to let to those tenants claiming housing benefits.** Whilst the Government has maintained a stance of arguing that payments directly to tenants promote financial responsibility, it was clear from the evidence we received that many landlords are simply not willing to let to those on the SAR due to the risks involved in receiving rent. Greater assurances are needed for the landlord community that payments will be received on time.

## 6.0 RENT A ROOM ALLOWANCE

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### 6.1 BACKGROUND

- 6.1.1 Against a background of increasing difficulties for many under the age of 35 in accessing private rented accommodation at a price that they can afford, one potential avenue to explore is what more can be done to support and encourage people to make better use of their owner occupied homes.
- 6.1.2 Whilst much of Government policy has focussed on the need to better utilise social rented housing, according to figures<sup>35</sup> from the flat and house sharing website, spareroom.co.uk, there are an estimated 15 million empty bedrooms in owner occupied properties in England alone.
- 6.1.3 Efforts to better capitalise on the potential that renting rooms could play in the overall housing mix date back to the Conservative's election manifesto in 1992<sup>36</sup>. Committing to encouraging *"a strong private rented sector while continuing to safeguard the rights of existing regulated tenants"* the Party outlined plans to introduce a new 'Rent a Room' scheme which home-owners would be able to use to *"let rooms to lodgers without having to pay tax on the rent they receive."*
- 6.1.4 The measure was subsequently included soon after the election in what was then the Finance Bill in July 1992. Declaring that the proposals reflected the then Government's commitment to *"a strong private rented sector which will increase the quantity and variety of low cost rented housing"*, speaking for the Government, the Earl of Caithness used the second reading of the Bill in the Lords to outline how the scheme would work. He explained:
- "The scheme is a simple one which will ensure that gross annual rents, not exceeding £3,250, from letting furnished rooms in one's own house will be exempt from income tax. That incentive to people to rent out spare rooms in their homes should make a significant contribution to the supply of furnished accommodation, and it has been widely welcomed."*
- 6.1.5 The tax free allowance was last increased in 1997 to £4,250 per year, where it has remained ever since.

### 6.2 INCREASING THE ALLOWANCE

- 6.2.1 Speaking to the Group, one landlord renting just a couple of properties and who has previously used the rent-a-room allowance called for it to be increased, arguing that £4,250 is simply too low a level to be viable and called for the level to increase.
- 6.2.2 Katharine Sacks-Jones from Crisis also said that increasing the allowance was certainly something that could be looked at. She argued that the idea of people taking in lodgers has the potential to work for this younger age group.
- 6.2.3 As part of its campaign to increase the allowance, spareroom.co.uk has argued that if the allowance had risen in line with inflation the threshold would now be at least £6,500. Given that, it says, the average UK rent for rooms let to a lodger is £5,593 a year (£7,667 in London) the website is calling for the allowance threshold to be increased to a minimum of £7,500 a year.

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<sup>35</sup> See <http://www.spareroom.co.uk/raisetherooft/about/>.

<sup>36</sup> Conservative Election Manifesto for 1992 can be found at <http://www.conservativemanifesto.com/1992/1992-conservative-manifesto.shtml>.

### 6.3 GROUP'S VIEW

- 6.3.1 The Group recognises the complexities of reforming taxation, and notes the Government's ongoing reluctance to undertake a full review of the rent-a-room allowance.
- 6.3.2 That said however, the prospect of utilising 15 million empty rooms identified by [sparerroom.co.uk](http://sparerroom.co.uk) is, the Group believes too great an opportunity to miss. Furthermore, the prospect of boosting the supply of such rooms at a time when many are struggling to find a place to rent could have a considerable impact in bringing rents down, thereby reducing expenditure on areas such as housing benefit.
- 6.3.3 **The Group therefore calls on the Government to increase the rent-a-room allowance to the levels suggested by [sparerroom.co.uk](http://sparerroom.co.uk) with a level in London higher than that outside.**

## 7.0 COUNCIL TAX

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- 7.1 During the course of our inquiry, the Group heard concerns that local authorities are being allowed by the Valuation Office Agency under what are known as 'disaggregation rules' to apply Council Tax to rooms in shared housing as separate dwellings, even where amenities such as bathrooms and bedrooms are not self-contained.
- 7.2 The Group was told by one witness that whilst legal, they felt it to be a "sneaky way" of local authorities being able to generate New Homes Bonus, even where new bed spaces aren't actually created; as well as increasing council tax revenue.
- 7.3 The British Property Federation also expressed concerns about the policy, arguing that it has added to the financial pressures faced by tenants on low incomes. In its written evidence to the Group the BPF explained:
- "Historically, the attraction of bed-sits has been their comparatively low rents and the financial benefits of splitting the council tax and bills. The changes to council tax have put increased pressure on those who are already actively seeking out more affordable accommodation. A report released by the Citizens Advice Bureau showed that in the first three months of 2014 there was a 17% increase in people approaching them for advice on council tax arrears when compared to the same period for 2013. The impact of this has been to limit the availability of affordable properties in certain areas, driving those who can't afford local market rent into less economically vibrant areas."*
- 7.4 For Generation Rent, Alex Hilton told us that whilst he didn't agree that Council Tax shouldn't be payable on rooms in shared homes, there should be an increase in the number of Bands to reflect the size of these rooms – both higher and lower bands. B and A, he said, is still too high for a room in a shared home.
- 7.5 **In light of the concerns raised, the Group would welcome clarification from Ministers as to the exact position in respect of local authorities being able to charge Council Tax on bedsit accommodation and how extensive it might be.**
- 7.6 **Should the position be as we have been told, we would recommend that Ministers give this serious consideration to ensure that simply charging Council Tax on an already existing room in a shared house isn't being used as a way of generating New Homes Bonus.**
- 7.7 **We would also recommend that the Government give consideration either to banning the practice of Council Tax being applied to bedsit rooms or introduce a more realistic Council Tax band for such accommodation.**

## 8.0 VAT RULES

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- 8.1 Whilst political debate over the private rented sector has at times got heated such as how the sector should be regulated and how best to ensure properties to rent are affordable, there nevertheless remains common ground over the need to boost the supply of new homes.
- 8.2 The need to increase supply is as acute in the private rented sector as it is in any other, not least given that increasing the number of potential homes to rent enables tenants to shop around for properties, providing them with genuine choices over where they live. Such a scenario in turn raises the need for landlords to compete both on quality and cost.
- 8.3 Whilst much of the Government's efforts to increase the supply of private rented homes has focussed on attracting greater institutional investment in the sector, given that almost 90% of the country's landlords are individuals renting out just one or two properties, much greater effort is needed to encourage this group to invest in new homes. As the Communities and Local Government Select Committee noted in its report on financing new housing supply<sup>37</sup>:
- “While it is right to consider the potential for large institutions to invest in the private rented sector, it is also important to remember that the sector is, and will continue to be, dominated by small companies and individual landlords. Although these smaller landlords tend to invest in existing property, they do make an indirect contribution to new housing supply, and in the past have provided upfront funding for development by buying property ‘off-plan’.”*
- 8.4 Whilst there are a number of areas that could be looked at when seeking to boost supply, one very specific concern that was raised with the Group related to VAT.
- 8.5 At present, VAT can be reclaimed on building materials and services where someone is:
- Building a new home.
  - Converting a property into a home.
  - Building a non-profit communal residence – e.g. a hospice.
  - Building a property for a charity.
- 8.6 VAT cannot be reclaimed where an existing property is converted into a home either for rent or owner occupation.
- 8.7 Whilst we appreciate the complexities around VAT rules, it appears to be an anomaly that VAT cannot be reclaimed on properties converted to rent given the pressing need to increase the supply of such properties. **We would therefore call on the Government to undertake a study into the potential impact of allowing VAT to be reclaimed where existing properties are converted for housing use, either owner occupied or to rent.**

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<sup>37</sup> Communities and Local Government Select Committee. (7<sup>th</sup> May 2012). *Financing of New Housing Supply*. HC1652

## 9.0 BETTER INFORMED TENANTS

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- 9.1 As part of the inquiry, the Group questioned witnesses about tenants having a better understand of the costs associated with renting.
- 9.2 Whilst the inquiry has deliberately not focussed on rent controls, capping or indexation given how controversial these are, there was general agreement that tenants should have a better idea of the costs of renting the property as a whole, including understanding the cost of gas, electricity and other utilities within the property.
- 9.3 Responding to questioning from the Chairman on this point, Alan Ward, Chairman of the Residential Landlords Association noted that whilst landlords are required to provide tenants with an Energy Performance Certificate for their properties, these are not really very meaningful. Tenants, he explained, very rarely ask for them, utility costs, electrical safety certificates or other such documentation. There is, he said, a *“desperate need for tenant education.”*
- 9.4 Alex Hilton, of Generation Rent explained that whilst he felt tenant education is a good thing, it is not necessarily a panacea for the sector. People’s expectations of what accommodation they will get, he argued, are so low that they don’t ask for things on the basis that, he concludes, the entire market is set up to get tenants into properties as quickly as possible, without asking too many questions.
- 9.5 Interjecting on the subject, Sam Cowen from the website [spareroom.co.uk](http://spareroom.co.uk) told the Group that the majority of tenants now look for rents that are inclusive of utility bills as a way of better managing their finances.
- 9.6 With all political parties seeking to address cost of living issues, the Group believes that greater efforts could be made to better inform private sector tenants, especially those under the age of 35, on budgeting and managing their finances.
- 9.7 Mindful of Government amendments to the Consumer Rights Bill to secure transparency in the fees that letting agents charge tenants and landlords, we believe that this should go further. **We call on the Government that as part of wider efforts to empower tenants that it be made a requirement of landlords to let prospective tenants aware of all the likely costs associated with renting a property including the Council Tax band as well as estimated utility costs. This should be coupled with information on how best tenants can shop around for gas, electricity and water suppliers to secure the best deal possible on their bills, thereby driving the overall cost of renting down as much as possible.**

## 10.0 COMMUNITY CONTRIBUTIONS

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- 10.1 We have already noted in this report that the issue of shared housing or Houses of Multiple Occupancy have long been controversial, especially within University towns and cities where many owner occupiers have voiced concerns about the phenomena known as 'studentification.'
- 10.2 Whilst many such concerns are motivated by fears about the behaviour of such tenants, there remain legitimate concerns around the lack of infrastructure to accompany developments of medium to large scale developments of shared homes.
- 10.3 Examples of concerns expressed during the inquiry included ensuring that there is sufficient parking where HMOs are constructed or contributions to major road junctions to ensure new units can cope with extra amounts of traffic. Questions were also raised around what, if any contribution, large scales PRS developers should make to affordable housing.
- 10.4 This issue came out starkly in exchanges with Martin Bellinger from Essential Living. Challenged by Jeremy Corbyn MP about an apparent failure by the company to provide a social contribution as part of a large private rental development within his constituency, Mr Bellinger explained that under the Permitted Development Rights granted for the scheme, no social contribution was requested as would be the case with a Section 106 agreement. It also emerged in these exchanges that local authorities do not have sufficient powers to ensure rental developers make sufficient contributions to the community to ensure that the infrastructure can support such developments.
- 10.5 Colum McGuire from the NUS supported the need for developers to make a greater contribution to the community where rental properties are being developed.
- 10.6 The Group believes that local authorities are best placed to understand local needs. Whilst shared housing is a vital market for those under the age of 35 looking for a place to live, there remains legitimate concerns about the ability of many communities with high concentrations of HMOs to cope with the influx of new tenants it can bring.
- 10.7 **It is the Group's views that local authorities should be given greater powers to secure community contributions from developers of large scale PRS developments as appropriate to local needs.**
- 10.8 **We also call on the Government to give serious consideration to enabling local authorities to charge landlords Business Rates as a further contribution to the community.** Such a move would need to be contained within wider reforms to the taxation system which would recognise the business of renting a property as a trading activity and not as an investment, as is currently the case. As part of this, in re-distributing revenue from the rates, we would call on the Government to consider how it could compensate accordingly those local authorities that might be missing out on substantial sums of council tax due to high numbers of students.
- 10.9 The availability of car parking in areas with a high density of shared housing remains a concern for many owner occupied residents who can find it difficult to find parking spaces, especially during term time. Whilst we should avoid draconian measures, if we are to build the case for more homes to rent it is important that residents in areas where they are needed are supportive of such moves and that new developments do not build further resentment. **We therefore call on the Government to give serious consideration to expecting developers of large scale private rented housing schemes to be expected to provide the necessary car parking to accompany**



**such developments. Where the only parking available however is on street, the Government should work with local authorities to explore ways of limiting the number of cars per property.**

## ORAL EVIDENCE SESSION 1: Access to Private Rented Housing for Under-35s

Tuesday 17<sup>th</sup> June 2014, 12pm – Committee Room 19

### Members in Attendance

- ❑ Oliver Colvile MP (Conservative, Plymouth Sutton and Devonport) – Chairman – declared an interest as an adviser to a PR firm advising developers on gaining planning permission for developments as well as having sat on the Statutory Instrument Committee that looked at Article 4 Directions. He represents also a constituency with a large student population.
- ❑ Lord Tope of Sutton (Liberal Democrat)
- ❑ Teresa Pearce MP (Labour, Erith and Thamesmead)

### Witnesses

- ❑ **Alan Ward** – Chairman of the Residential Landlords Association
- ❑ **Alex Hilton** – Director of Generation Rent
- ❑ **Ian Fletcher** - Director of Policy (Real Estate) at the British Property Federation

### Opening Remarks

- ❑ **Alan Ward**
  - There is ample evidence showing the acute pressures that those under the age of 35 face in accessing private rented housing.
  - They occupy 1.9 million properties and there are at least 4.5 million of them as tenants in the sector.
  - This group isn't just students or single people but includes also sharers who are working and claiming benefits and single people and couples with children.
  - Whilst there is much talk of people wanting to climb the 'property ladder' this fails to note the costs of moving and maintaining an owner occupied property and other costs such as the fees for agents, solicitors, surveyors and stamp duty and mortgage fees. This however is all outweighed by renting which is why renting appeals to young people who are yet to settle down.
  - Renting also means no lists of 'weekend jobs' and it is relatively cheap to move.
  - Outside of London, the RLA remains particularly concerned about Article 4 Directions, a planning control that prevents homes from being occupied by non-family groups. These are not HMOs which come under mandatory licensing. These are properties for 3, 4 or 5, usually young people, which are 'vital' for towns who want to attract and retain the economic contribution of a young work force.
  - Some local authorities, often those with large number of students residing in their area, have been persuaded to use Article 4 Directions and have, as such, placed city wide bans which effectively stops investment in homes for under 35s and freezes the market for those wanting to sell their properties.
  - The RLA is calling for Article 4 Directions to be scrapped altogether.
  - Turning to bedsits and single accommodation, these are traditionally the least expensive form of accommodation. However, local authorities have started to apply Council Tax to each bedsit under what they term "disaggregation rules".
  - Whilst perfectly legally, the RLA believe this to be a 'sneaky way' to generate the New Homes Bonus and increasing Council Tax revenue. Properties captured by this action also include a simple room with a lock on the door. They don't need to be self-contained.

- The RLA have said that this policy is wrong as it doesn't create any new homes. It is further complicated by the decision to localise council tax benefit in April last year.
- In respect of Council Tax the onus is now on the tenant to pay whereas previously it was on the landlord and we have yet to see what happens to a Council's 'bad debt position' where this re-banding has occurred because the tenants tend to be more mobile and transitory. This means that if they get into arrears they are less attractive to landlords.
- The RLA is therefore calling for a halt to this re-banding of Council Tax on single rooms and bedsits.
- In respect of benefits, the RLA's written submissions uses DWP statistics to demonstrate the exaggerated position of young benefit claimants in London compared to the rest of the country.
- The major issue here is that under Local Housing Allowance its set at a local level where the formula in theory compares the rent with the cheapest third of properties in a given area (the 30<sup>th</sup> percentile) with the wider market for properties with the same number of bedrooms.
- This Shared Accommodation Rate or Single Room Allowance is now paid to all single housing benefit claimants without children under the age of 35.
- Nationally the difference is £41 a week. In London that figure stands at £102 a week. This means such accommodation is relatively unaffordable for those claiming the Shared Accommodation Rate.
- RLA research has shown that in line with the DWP's own research, 62% of landlords do not rent to working age claimants and 51% said they would not re-let to tenants under the age of 35.
- The RLA has five proposals for how to fix the problems highlighted:
  1. Remove Article 4 Directions since it is a control on young people living together. Addressing the poor behaviour of tenants is a management issue rather than a planning matter.
  2. Ensure that Council's including housing for under 35s within their planning frameworks
  3. Stop 'greedy councils' from imposing Council Tax on bedsits and single rooms.
  4. Ensure local authorities actually engage with landlords to encourage homes to rent for those under the age of 35 and claimants in particular.
  5. Remove a penalty for private landlords wanting to build to rent. VAT rules prevent landlords from claiming it back on homes specifically to rent.

#### □ Alex Hilton

- Agrees with the context presented by Alan Ward in terms of the pressures faced by young people.
- Agrees also with certain elements of what the RLA proposes, particularly on Article 4 Directions which are stigmatising groups of people simply on the basis of their age. This is especially pertinent given recent changes to anti-social behaviour legislation making it easier to tackle anti-social behaviour problems that might arise in private rented housing.
- The pressures faced aren't so much about young people. Whilst they are disproportionately represented in the private rented sector, they are under pressure not because they are young but because they cannot afford to buy a home which, is faced by others outside of this age group, such as divorcees who might find themselves back in the private rented sector.
- Generation Rent commissioned a poll, undertaken by ComRes at the beginning of the year which interviewed 1,000 tenants in the private sector. This found that 65% of these people would prefer to buy a home of their own, proving that the private rented sector is not a tenure of choice.
- A further 10% of this group would rather be in social rented accommodation showing that it is only a small proportion of tenants in the private rented sector who are choosing to live in it.
- Generation Rent does not believe the private rented sector is attractive and the problem remains that for many the housing market is imply out of reach for them in terms of the cost

- of buying a home. There is a certain desperation among some tenants that if they don't get on to the housing ladder as soon as possible it will simply disappear from them altogether.
- Explained that Generation Rent disagrees with the RLA in respect of rent levels. Alex Hilton said that rents are increasing, arguing that it is inconceivable that house prices increase but rent's don't.
  - Citing statistics being produced by the Office for National Statistics on rent levels, whilst it shows that rents are not increase, this remains experimental data that shouldn't be quoted and doesn't incorporate current market rents.
  - Generation Rent is in discussions with the ONS about drawing up a comprehensive and reliable data set on rent levels.
  - Alex Hilton mentioned that as rents increase people don't necessarily pay more rent. They have a choice of where they live, how much rent they pay and the quality of the conditions in which they live. Once a tenant reaches the limits of what they pay, the other factors become overriding with conditions decreasing and having to be further away from a place of work or other commitments a tenant might have.
  - Rent increases are being drawn out into worsening conditions in private rented homes and tenants being forced to live in less relevant economic locations.
  - The implication of this is that areas where there are pressures on the market has the potential to create economic damage to the UK.
  - The APPG inquiry and its recommendations will be important to supporting the economy by enabling people to live close to where they are working.
  - Generation Rent supports calls for the removal of Article 4 Directions.
  - Citing Generation Rent's "Renter's Manifesto" and a document on the secondary housing market Alex Hilton argued that tenants should be able to see a rented home as just that rather than someone's investment.
  - The housing market, in pushing people away from the economically active locations in the country is in danger of cause damage to the country's GDP.
  - The biggest buy to let mortgage broker, Paragon, has shown that landlords are making 16.3% a year profits, and have done on average for the last 18 years, regardless of the recession. This is not a sustainable level, given that this profit levels factors in the risk profile of being a landlord.
  - Being a landlord is a low risk, high return business the upshot being that under 35s are having problems finding somewhere to live.

#### □ **Ian Fletcher**

- Markets work best when they deliver a variety and choice of accommodation which at present isn't being delivered in the private rented sector which is a reflection of more significant constraints on the supply of housing.
- Much of the BPF's focus therefore been on the boosting the supply of properties, although this in no way under-estimates the important, perhaps most vital role, that Houses of Multiple Occupation provide to the private rented market, accommodation which Ian Fletcher suggested didn't get the appreciation that it deserves given the role it fulfils in keeping rents affordable and enabling people to live where they want to live and properly using the housing stock available.
- Last week he had spoken to the person running the housing within the Olympic Park village scheme, the market part of which was built as four bedroom accommodation in anticipation of families. The vast majority of it however is being let to individuals wanting to share, a demonstration of the pressures that this group is facing in respect of housing choices and needs in London.
- Ian Fletcher sat on the Government's Montague Review looking at institutional investment in the private rented sector, the recommendations of which he said have not had the profile that they deserve.
- There are about 10,000 units being delivered at present, five successful bidders are developing in various parts of the country within another 10 due to sign contracts this month and another 35 schemes are various stages of due diligence Whilst this won't address the country's housing need, it is never the less diversifying supply and delivering innovation into

- the sector in terms of what they offer such as longer tenancies or no letting fees and allowing tenants to undertake basic tasks such as decorating a property.
- The purpose built student accommodation market is about 20 years more advanced than the build to rent sector, which itself supplies around a third of all hall of residence accommodation across the United Kingdom. This has diversified immensely in terms of the choices available to students. The product itself is unlike traditional hall type accommodation, and more HMO style accommodation on one site such as cluster flats and studio apartments. Without this, the country's Higher Education sector would not have been able to expand to the degree that it has over the last 20 years or so. The pipeline of student accommodation delivery in London which is normally 5,000 units a year is, over 2 years looking more like 600 which will pose significant challenges for Universities in the capital with knock on challenges for the wider private rented sector.
  - In respect of the challenges set out by Alan Ward, Ian Fletcher had little to add in terms of them and the proposed solutions.
  - Savills has undertaken a large piece of work on what renters want in terms of accommodation as well.

## Questions

- ❑ **Oliver Colvile MP** asked whether the BPF also shares the belief that Article 4 Direction should be got rid of.
- ❑ **Ian Fletcher** said that the evidence, prepared by Julie Rugg of York University for the previous Government showed that the problem of so called 'studentification' was only a problem in 20 local authority wards in the whole of England. Whilst the previous Government had proposed a blanket imposition of an Article 4 Directions, the current Government, 'thankfully' Ian Fletcher said, decided that it should be for local authorities to decide on whether they wanted to adopt an Article 4 Direction. The other bit of evidence that is lacking is the need for Houses of Multiple Occupation in the localities where Article 4 Directions are being considered. The recent National Planning Policy Framework gives some clearer guidance to local authorities that they need to plan better for the private rented sector in all its shapes and forms. A number of Article 4 Directions have so far been based on fairly tenuous evidence and instead been driven by emotions.
- ❑ **Lord Tope of Sutton** sought greater clarification about what the witnesses were actually calling for in respect of Article 4 Directions and why.
- ❑ **Alan Ward** responded by explaining that Directions create a separate planning category of Class 4 use, which means that if a landlord has a house which has not previously been used as a shared house, for example for three nurses, a landlord has to go to the planning authority for permission to turn it into a shared home to rent (Class 4 Use). Not landlord however is just going to 'hang around' whilst their planning application is being processed. It is therefore very frustrating and adds a degree of waste bureaucracy.
- ❑ **Alex Hilton** added that where there is an anti-social behaviour problem it should be dealt with as such in the property causing the problems rather than through a blanket planning measure. Stigmatising groups of people in the way Article 4 Directions do creates a community cohesion problem. In Liverpool, he said, students are concerned that the local authority might also use a licensing scheme to stigmatise them in the same way that Article 4 Directions do. The way therefore to address a community cohesion problem is through dialogue rather than creating laws and barriers that Article 4 Directions do.
- ❑ **Ian Fletcher** said that whilst the BPF might, on the face of it, be expected to support Article 4 Directions on the basis that it drives students into purpose built accommodation, they do in fact see them as 'so so wrong' in terms of dictating where a particular group of people live.

- ❑ **Alan Ward** noted that whilst the Directions are often predicated on the students it affects all sharers.
- ❑ **Alex Hilton** agreed with this point and said that increasing numbers of people are forced into sharing because of where the market prices are. He said that he felt that the growth of the HMO market is a sign of the failure of the market. He argued that HMOs are not a way for people to live sustainably. In terms of purpose built student accommodation, it is almost exclusively aimed at the premium end of the market.
- ❑ **Ian Fletcher** disagreed with this point, saying that this is not the case. He cited survey data by the National Union of Students showing rents in every purpose built student accommodation in the country which shows that there is a range of costs from below PRS properties all the way up to premium accommodation. It was, he said, a typical range of rents within the sector.
- ❑ **Alex Hilton** disagreed with Ian Fletcher's points, noting that not all students are living in purpose built accommodation and this group are seeking cheaper rents elsewhere. You would not he said expect student accommodation to be priced at normal PRS market rents.
- ❑ **Teresa Pearce MP** asked what, if any evidence there was about the number of people impacted by the changes to the Shared Accommodation Rate.
- ❑ **Alex Hilton** said that he didn't have the answer on the top of his head.
- ❑ **Teresa Pearce MP** asked if he thought it would be 'significant'.
- ❑ **Alex Hilton** said that he would expect so, but that this would be a guess.
- ❑ **Teresa Pearce MP** noted that the shared accommodation within her constituency has been largely supported living units, and that she hasn't seen a noticeable increase in the number of such properties. She noted that the increase in private rented properties in her area has mainly been for families rather than HMOs. Where there has been growth in HMOs, Ms Pearce noted, has been largely men in their thirties who, for example, have divorced and moved into such housing.
- ❑ **Alex Hilton** responded by saying that the Housing Benefit criteria is based on income, costs and living circumstances. The issue isn't that the changes to the Shared Accommodation Rate has increase the number of people capture, but a change in the level of benefits they can receive. The choice then is whether to have less money in your pocket or living in poorer conditions. Expectations are very low at the bottom end of the market. Around 1.5 million people are both working and receiving Housing Benefit in the private rented sector. These are people already struggling to get by and are now struggling even more as a result of the Shared Accommodation Rate changes.
- ❑ **Oliver Colvile MP** outlined concerns, based in his own constituency experiences, about provision for car parking for those living in HMOs where a number of people in the property might own a car. This is especially acute in city and town centres. He asked witnesses how they feel this could be addressed.
- ❑ **Alex Hilton** said that one of the problems is that build to rent schemes, such as the properties on the Olympic Park where he lives, has only a limited number of parking spaces which are not sufficient. This however is the advantage of larger schemes which can include parking, unlike individual properties where parking is simply on street.
- ❑ **Oliver Colvile MP** suggested that developers will want to include parking spaces for properties to make them more attractive to potential tenants. Many local authorities, he said, make clear that where developments occur, they should be able to contain any increase in car parking needs.



- ❑ **Ian Fletcher** gave the example of the Olympic Village where there were a lot of parking spaces made available but as they have not been used enough, a number of them have been converted to cycle storage areas. The Savills research he referred to earlier showed that the main criteria for where people wanted to rent was location, with 73% wanting to live within 10 minutes of public transport.
- ❑ **Oliver Colvile MP** asked if we knew where the split of housing for under-35s is in the country and if it could be demonstrated on a map.
- ❑ **Alex Hilton** said that this is work that Generation Rent could undertake by looking at Census data and mapping it. He said however that this will almost exactly match land prices, especially where there is greenbelt land around and economically attractive city such as Oxford or York. It isn't just a London problem he said but a problem where people simply cannot afford deposits for a home to buy which is disproportionately young people.
- ❑ **Oliver Colvile MP** asked to what extent Help to Buy has helped to address this problem.
- ❑ **Alan Ward** responded by saying that whilst it is too early to answer that question, Census figures show that an area that few people seem willing to address is the impact of immigration on housing demand. The data shows that those of nationalities other than British are ten times more likely to rent than to buy. Many of this group he said are transitory workers in, for example seasonal jobs.
- ❑ **Lord Tope of Sutton** asked if this was because of the transitory nature of such a group or if because where they come from the culture of a property owning democracy is not nearly so strong. He asked if the fundamental problem is the aspiration for many to own their own home.
- ❑ **Alan Ward** said that he doesn't see any reason why renting should not be a first choice rather than second best solution for people.
- ❑ **Lord Tope of Sutton** agreed with Alan Ward but asked how we achieve this.
- ❑ **Alan Ward** said that it is a cultural thing. Recalling the Census data, he said that those from the Indian sub-continent, very few are in rented accommodation with the majority of owner occupation, suggesting that there is a social driver towards this tenure for this group of people. Outside of London he said that people can afford to buy houses, but questioned whether the jobs were there to make them attractive places to live.
- ❑ Speaking from those visiting, **Sam**, a landlord who also represents the website spareroom.co.uk, the flat sharing website, said that on their system they map advertised rents which show that room rentals for an average double room with utility bills included have increase by 7% year on year with more significant increases in London.
- ❑ **Oliver Colvile MP** said that his understanding is that someone can rent out a room for around £4,800 before paying tax and asked if that was too low.
- ❑ **Sam** said that this is for those renting a room in their own homes and that the level is £4,250 without paying income tax which hasn't increased since 1997. She said that they are campaigning to raise this level to £7,000 to reflect the demand in the market.
- ❑ **Oliver Colvile MP** asked the witnesses if such a policy change would help relieve some of the pressures they had identified in the market.
- ❑ **Alex Hilton** responded by saying that this is a policy contained within Generation Rent's new manifesto published today. They also think that increasing the limit would create such publicity around making it easier to take a lodger in could in itself extend the number of rooms available.

He noted however that this would be a temporary measure and could not be seen as a panacea until the 7% year on year increase in prices had caught up.

- ❑ **Alan Ward** noted that this is a very specialised 'Rigsby' type market where the landlord lives in the property. He noted however there is a danger that it opens up the rent-to-rent market where there are a number of scams going on. Under this, tenants sub-let their properties, a group which are unlikely to subscribe to tax returns. He noted therefore that the rent-a-room scheme isn't really a landlord scheme, and that tenants don't have such protections as an Assured Shorthold Tenancy
- ❑ **Alex Hilton** noted however that it is a tenant scheme.
- ❑ A guest to the meeting intervened to say that she is a small landlord who has used the rent-a-room scheme. She said that the £4,250 is simply too low a level to be viable and called for the levels to increase.
- ❑ **Ian Fletcher** came back on the comments concerning rents and said the country desperately needs better rental statistics. He noted that there is a Valuation Office Agency project in hand to achieve this. He never the less criticised the figures given by spareroom.co.uk as they only include advertised, rather than actual rents and because they only included properties coming to the market rather than those where tenancies are renewed and rents aren't increased.
- ❑ **Alan Ward** noted that he and Ian Fletcher are sitting on the advisory panel the VOA and ONS have created to look at developing private rent statistics. That said he noted that the VOA data is the most accurate data available, containing half a million property records. He said that it is a far bigger sample than the commercial agents which, he said, they admit they extrapolate the figures to reflect the whole country.
- ❑ **Oliver Colvile MP** asked if the country has the right split of properties.
- ❑ **Teresa Pearce MP** said that in her constituency there is a serve lack of small properties available. She has also seen a spike in the number of domestic violence cases which is seeing males having to stay in cramped conditions with parents because they cannot find anywhere else to live. The demographic in need of housing in her constituency is single men.
- ❑ **Oliver Colvile MP** noted that the changes that are needed in the types of accommodation the country needs have been known for a while but that this hasn't properly been addressed.
- ❑ **Teresa Pearce MP** noted that the reason that people want to buy is because it provides control and an asset but it also provides stability. The PRS does not, she noted, provide the kind of security of tenure available in the social rented sector. She noted that families in her constituency have seen children having to move school several times because of the lack of security causing problems in creating community cohesion.
- ❑ **Alan Ward** said that the RLA has proposals for longer tenancies and called for landlords and letting agents to have a bigger library of tenancy options. He noted however that many under-35s do not want longer tenancies and warned that we have to tread carefully before making them the norm in the sector. He also suggested that six month probationary periods within three year tenancies as an example could end up with a cycle of six month probationary periods.
- ❑ **Alex Hilton** disagreed, showing that there is an imbalance between supply and demand which means prices increase. This leads to increased overcrowding, poorer conditions, people living at home for longer, slow speeds in responding to requests for repairs to properties and generally landlords not having to be good because there is no market need pushing them in that direction. A market problem such as this will not be fixed by the market, including Help to Buy and institutional investment. He noted that where landlords and property owners are



making huge amounts of money for little risk this is becoming a one way street, meaning many tenants are unable to accumulate their own capital to buy a home of their own.

- ❑ **Oliver Colvile MP** argued that for many however, property is becoming a better long term investment than pension funds.
- ❑ Whilst **Alex Hilton** agreed that this would be a rational decision for many for under-35s they are unable to access the capital that is the lifeline for pensioners now, meaning ballooning demands on the state.
- ❑ **Ian Fletcher** cited research by Richard Donnell of Hometrack showing the mismatch in the supply and demand of various differing types of property. He said that we are a nation of 3 bed terraces and 3 bed semis. There remains a significant shortage of 1 and 2 bedroom properties. This means, he said, that HMOs fill the void that this lack of supply produces.
- ❑ **Alan Ward** said that over the last 20 years landlords have invested heavily in old stock, converting into use which families haven't wanted to move to. This provides, he said housing for those unable to access it elsewhere. He challenged also Alex Hilton's assertion that landlords are making 16.3% returns. He cited figures from Professor Michael Ball at Reading University from 2011 showing that the real return for landlords is less than 1% when all costs are included. This is why, he said, corporate investors are struggling to make the sums add up. Alan Ward noted that an individual landlord's time and labour cannot be charged which is treated as unearned income.
- ❑ **Oliver Colvile MP** asked how tenants can be made more aware of the energy and utility costs associated with a property they are moving into, alongside their rents.
- ❑ **Alan Ward** said that whilst landlords are required to provide an Energy Performance Certificate, these are not really very meaningful. Tenants, he said, very rarely ask for EPCs, utility costs and electrical safety certificates and other such documentation. Tenants, he said, rarely ask the questions they should often taking properties simply on the basis of location and rent levels. There is, he said, a 'desperate need for better tenant education.'
- ❑ **Alex Hilton** said that whilst tenant education is a good thing, it's not the answer. People's expectations of what they will get, he argued, are so low that they don't ask for things on the basis that the entire market is now set up to get tenants into properties as quickly as possible. He raised concerns especially about letting agent practices which put many tenants under pressure to move into a property quickly.
- ❑ **Sam** from spareroom.co.uk said a majority of tenants look for properties where rent is inclusive of utility bills. Tenants are, she said, very aware of their outgoings.
- ❑ A landlord in attendance agreed with the concerns raised by Alan Ward about tenants being charged Council Tax for a room in a shared house which is often a lot of money.
- ❑ **Alex Hilton** suggested that whilst he didn't agree that Council Tax shouldn't be payable on rooms in shared homes, he suggested that there should be an increase in the number of Bands to reflect the size of these rooms – both higher and lower bands. Band A, he said, is still too high.
- ❑ **Oliver Colvile MP** suggested that landlords of HMO properties should potentially pay Business Rates to local authorities as a possible solution.
- ❑ **Ian Fletcher** said that the history of students not having to pay Council Tax because it was matched with not being able to claim housing benefits. Purpose built providers of rental properties he said do pay business rates on the business side of their operations.

- **Zoe**, a work experience student with Oliver Colvile MP said that she is a year student at Plymouth University. In her first year she paid £130 a week for accommodation which included bills but now pays £85 and is 20 minutes away from the University. Her concern is that she has to pay around £400 a month, but that that will include paying rent over the Summer months when she is not living in the property. She said that this situation is 'somewhat crazy.' She noted also that she works as well.
  
- **Alex Hilton** also pointed out that in that period students would be liable for Bills in this period as well which indicates another symptom of a market imbalance and the supply-demand problem. He argued that it amounted to discriminating against an economically important group of people.

## ORAL EVIDENCE SESSION 2: Access to Private Rented Housing for Under-35s

Tuesday 8<sup>th</sup> July 2014, 12pm – Committee Room 19

### Members in Attendance

- ❑ Oliver Colvile MP (Conservative, Plymouth Sutton and Devonport) – Chairman – declared an interest that Martin Bellinger was a client of his when he was involved in the property industry and retains an interest as a shareholder of the consultancy he ran, Polity Communications Ltd,. He states that does ‘very little’ for it now. He also declared an interest in having a large university and student population within his community as well as having sat on the Statutory Instrument Committee that looked at Article 4 Directions in their current form.
- ❑ Karen Buck MP (Labour, Westminster North) – Vice Chair
- ❑ David Ward MP (Liberal Democrat, Bradford East) – Vice Chair
- ❑ Mark Prisk MP (Conservative, Hertford and Stortford) – declared an interest having recently been appointed to provide strategic advice to Essential Living.
- ❑ Jeremy Corbyn MP (Labour, Islington North)

### Witnesses

- ❑ **Martin Bellinger** – Chief Operating Officer, Essential Living
- ❑ **Colum McGuire** – Vice President (Welfare), National Union of Students
- ❑ **Katharine Sacks-Jones** – Head of Policy and Campaigns, Crisis

### Opening Remarks

- ❑ **Martin Bellinger**
  - Outlined at the start that he intended to focus on the difficulties and trends in relations to the under 35s market, especially concerning lack of supply which he said was highlighted in the background note prepared by the APPG for the inquiry.
  - Demographics, house prices, mortgage rates etc have contributed to a surge in demand for rental properties across all ages, but particularly for those under the age of 35.
  - In his view quality large scale rental stock can be a cost effective, long term solution to this housing shortage and this can be achieved by establish a professionally managed, purpose built private rented sector so that it becomes a lifestyle choice rather than just a stop gap tenure.
  - The rental market is ‘huge’ with over £1.5 billion paid in rent each month in London alone and less than 1% of this is managed and owned by institutions. It is, he said, a very ‘electric’ and ‘disparate’ market.
  - Those under the age of 35 tend to be highly mobile, moving jobs and locations roughly twice as frequently as those aged over 35.
  - A number of this group share. There is, he said, a much greater pre-disposition towards sharing in this age group.
  - At the moment, there is a paucity of purpose build accommodation for sharers and stock that has been designed for sharing. Most of the available stock has resulted from conversions of existing properties, or are simply open market properties that have been taken and let.

- Ways to deliver a PRS solution to these problems need to focus on the needs of these tenants; it's about designing a bespoke product with associated facilities for them; and an all-inclusive rental package that includes household bills and council tax as well rents.
- Attention needs to be focussed also on the management side of such accommodation with quick responses to tenant needs and issues. At the moment, the management of the private rented housing is "very disjointed" and "very variable." A larger number of landlords are absentees or overseas landlords relying on agents in the UK to manage their properties. The service from these agencies vary drastically.
- There is a need for transparent leasing arrangements and standardised tenancy agreements.
- Essential Living also believe that there should be a financial incentive to tenants to take out longer tenancies in the form of restricted rent increases.
- Longer tenancies, he said, provide greater benefits to communities as it enables tenants to become properly embedded within them.
- The most critical thing that developers can do it to increase supply through the use of an institutionally backed private rented sector.
- Whilst at the moment there are some new institutions entering the market, a previous barrier to entry has been the ability to invest to scale. The fact is, he said, that a number of institutions are interested in buying end products rather than investing in land and development. In that respect, there is a market which could be opened up more.
- He concluded by saying that his emphasis was on scale, on supply and a design to rent product rather than seeking to make another product fit the needs of the under 35 market.

#### □ Colum McGuire

- Started by saying he would be focussing on two key areas – the importance of the rental market for students and the use of Article 4 Directions.
- The private rented market is essential for students made up of private rented properties and purpose built student accommodation. There has, he said been a huge growth in purpose built accommodation as the solution to the housing needs of students.
- Whilst the NUS believe purpose built accommodation has its part to play, it is not always suitable or the right solution.
- NUS research has shown that the cost of purpose built accommodation have doubled over the past 10 years. It can also, he said, be quite an unaffordable option for students.
- Similarly, some students don't want to live in high end student accommodation, preferring to live within communities on residential streets.
- The purpose build sector cannot accommodate all students, placing greater importance on private rented housing that works for students.
- Many students enjoy living within communities and there is no need to split them off from communities through high rise student accommodation. This is also important to help community relations.
- A large number of students will rely on private rented housing for many years after they graduate.
- Turning to Article 4 Directions he outlined why they considered them a bad idea, stating that they are "unfair, impractical and not effective".
- In terms of them being unfair, he said that the Directions are discriminatory, making blanket assumptions about students and young people, the way that they live and how they conduct themselves. It is best, he said, to address any problems associated with students within communities head on rather than through the use of a blanket policy which is unfair.
- Houses of Multiple Occupation are vital for many people, not just students, and placing caps on where such properties can be affects many non-students adversely such as young professionals and migrant workers.
- Article 4 Directions have unintended consequences in penalising good landlords, rather than the bad.
- Lastly, Article 4 Directions have, he said, been about securing balanced communities. Having done a fair of work around this issue for the past few years however, he said that no one had been able to explain what a balanced community actually looks like or what it does

- in practical terms. Balanced communities, he said, are only really spoken about in certain communities and not those such as Kensington or Chelsea as an example.
- Article 4 Directions are also difficult to impose as a policy. For example, finding out about the status of a property is difficult, unless extensive work is undertaken to look at council tax records which isn't necessarily the best method.
  - It is also an expensive and time consuming policy for councils to enforce, raising questions about whether it is cost effective for what it brings.
  - Article 4 Directions are not an effective tool for addressing student behaviour that causes problems for communities, such as noise, litter or anti-social behaviour. The policy, he said, is largely around politics, to tackle so called "studentification", which he said is unfair to students and residents.
  - He outlined his concerns also that the Directions are quite divisive, pitting sections of communities against each other which, he said, was wrong.
  - The policy has also had unintended consequences. He referred to a study referenced in the NUS' written evidence from Leeds showing that the policy has led to empty homes rather than families moving into different areas.
  - To sum up, the NUS are calling for more work between students unions, universities and communities to ensure the private rented sector is responsive to student needs and ensures that students feel part of their communities.
  - The NUS has recently begun work with the Home Office around issues concerning students and alcohol as it relates to crime and disorder in local communities. Citing some "great work" being undertaken by students unions he referenced Leeds again with its 'Leave Leeds Tidy' campaign which works with the local authority each year to minimise the disruption and litter left at the end of each academic year when students go home.
  - The NUS is also about to launch a campaign to educate students on their rights and responsibilities as tenants which, he said, will have great consequences for students being able to navigate the market, negotiate a fairer deal and better understand their place within communities.
  - Targeted enforcement on issues such as anti-social behaviour is a better way of address such problems rather than the use of Article 4 Directions. He therefore called for the use of Article 4 Directions to be abolished altogether.

#### □ Katharine Sacks-Jones

- Wanted to focus on access to rented accommodation for a different group of young people, namely those on low incomes and those restricted to the Shared Accommodation Rate (SAR) of housing benefit. This is, she said, the lowest rate of housing benefit based on a room in a shared property rather than a self-contained apartment. This was recently extended from under 25 year olds to under 35 year olds in 2011.
- Crisis' interest in this is twofold. As the national charity for homelessness issues there are very close links between benefit level and access to housing. Secondly, Crisis works with local community based organisations that support those on low incomes to access private rented accommodation. They help these people overcome the barriers they might face to finding and accessing accommodation such as landlords willing to accept them, not having a deposit or not having rent in advance as an example.
- The changes to the Shared Accommodation Rate have been a real cause for concern in recent years. The extension came into force in 2011. In the same year, she said, rough sleeping among those under 35 increased by 17% in London. Amongst the 35 to 44 age group it increased by 10%. Research commissioned by Crisis has pointed the finger of blame at changes to housing benefits, especially to the Shared Accommodation Rate.
- It is worth noting, she said, that even before the extension of the rate, it previously caused substantial problems for the under 25s, a group that is also restricted to a lower level of Job Seekers Allowance as well. They only get just under £57 a week rather than £71 a week in jobseekers allowance. This group experience far larger shortfalls than other age groups. Before the changes nearly 70% of SAR claimants faced a shortfall between their housing benefit and rents. The average was £29 a week.

- Extending the SAR rate has served only to increase pressure on the limited supply of shared accommodation.
- Landlords prefer, where they have an option, not to rent to those on benefits.
- There has been a 50% increase in the number of people on the SAR since the extension came into force. However, there has been a decrease in the number of under 25 year olds claiming the rate (a 15% drop).
- Growing numbers of those on the rate have been unable to find alternative housing solutions, such as living with parents, and are being further squeezed out of the market and ending up on the streets, as seen in the rough sleeping figures.
- There is a general problem concerning a lack of supply at the same time as benefit rates being set at a level that aren't reflective of market rents.
- It is an issue that Crisis have been mentioning to the DWP and the Valuation Office Agency.
- Crisis' research on the availability of shared accommodation within the range of the published SAR rates in various areas found that less than 13% of shared properties advertised online were affordable within SAR levels. Less than 2% were affordable and available to those on the SAR when properties that wouldn't accept housing benefit claimants were stripped out.
- Crisis are hearing that this is a problem across the country from the community organisations they work with. In areas such as London there is much greater competition for shared accommodation from young professionals not on benefits. In some areas of the country such as rural areas and market towns there is very little shared accommodation. On both fronts it causes problems for young people in receipt of benefits.
- Crisis reported that they are consistently, hearing that the biggest problem is the inability of those on the lowest rate of housing benefit to access suitable accommodation.
- She raised concerns that for those with mental health difficulties or drug and alcohol problems, even if they could afford a room in a shared house, it might not necessarily be appropriate for them to be doing so.
- The other group she mentioned was non-resident parents who don't have custody of their children, typically fathers, who may be on the SAR but as a result are unable to house their child when they come to visit because they don't have the room to do so.
- She concluded by calling for a review of the Shared Accommodation Rate so that at a minimum the rates are adjusted to reflect actual rental levels. She did say however the Crisis felt also that the whole system of the SAR needs to be reconsidered.

## Questions

- ❑ **Oliver Colvile MP** argued that it is recognised that there needs to be growth in the private rented sector to provide greater capacity. He asked witnesses if they agreed with this point.
- ❑ **Katharine Sacks-Jones** agreed with this point and others on the panel indicated support for this as well.
- ❑ **Oliver Colvile MP** followed up by saying that in so doing efforts were needed to encourage growth in the sector, especially shared accommodation. Citing the rent-a-room allowance he asked if it would be helpful if this allowance were to increase given that it has remained static for some time.
- ❑ **Katharine Sacks-Jones** said it was certainly something that could be looked at. The idea of people taking in lodgers she said has the potential to work for this younger age group, although she said she did not know how much appetite there would be for it. She said that she was aware of some small scale schemes that encourage such living arrangements although she said that there is reticence among those who are older to do so. The taxation issue would therefore need to form part of a wider review of why people are reluctant to take on lodgers.



- **Martin Bellinger** noted that the common thread in all the evidence provided was a lack of supply. If supply is increased, he said, existing supply could be recycled elsewhere as well. He reiterated his concerns about the lack of purposed built accommodation for sharers. Most of it, he said, comes from a sub division of existing stock which is compromised as a result. He said that the industry hasn't yet tackled the problem head on before. It is about, as an example, giving people generous sized rooms and providing access to adequate bathroom accommodation and adequate shortage. Housing, therefore, has to get slightly less efficient in terms of density, ending the mind set of 'pack them high and pack them in' in respect of shared accommodation. There needs also to be a dramatic improvement in the quality of the stock available as well since that would benefit all sectors of the private rented market.
- **Colum McGuire** said that a proportion of students do live with live in landlords for cost reasons and said that whilst boosting the supply of such accommodation would help but wouldn't be a panacea.
- **Mark Prisk MP** turned to HMOs, arguing that it is a sub-sector of the market that tends to cause MPs most aggravation which he said was as much about the landlords and the quality of accommodation. Turning to Article 4 Directions, he asked what alternative there is to regulate HMOs to address genuine anxieties around this part of the sector. He pointed the question to the NUS.
- **Colum McGuire** responded by calling for information and databases on landlords. He mentioned also that in University towns there tend of be around three or four letting agents that monopolise the student market and are often aware of their responsibilities. A proportion of landlords he said with one or two houses often don't understand their responsibilities about the management of their properties. He mentioned that there are problems around landlords and tenants not having sufficient access to each other. On additional and selective licensing he says that these focus more on standards, which Article 4 Directions don't. He also said that many assumptions about students and how they live aren't necessarily true, noting that many students are victims of crime themselves. Evidence also points, in some cases, to Article 4 Directions reducing the value of house prices in a given area leaving some residents being stuck where they are, even when they might want to move.
- **Katharine Sacks-Jones** said that in respect of Article 4 Directions it is something Crisis has heard raised, specially mentioning concerns raised about how they are working in Southampton as the Directions are restricting the growth of and access to shared housing.
- **Jeremy Corbyn MP** raised a constituency concern regarding Essential Living. Citing the Archway Tower development which he said they are developing into 120 units for rent, he said that Essential Living had refused requests from the local authority for a social/ social rented housing contribution within the development because, he said, it would have made the scheme unviable. He questioned how Essential Living were making a social and community contribution when flats are being built for those on over £80,000 a year whilst there are 13,000 people on the local authority housing waiting list. Because of changes made to regulations concerning conversions from office to housing use the local authority has no powers to enforce a social obligation on Essential Living.
- **Martin Bellinger** explained that the regulation in question was about permitted development rights. Planning permission in respect of the scheme, he said, was granted under these rights from office to residential use. Archway Tower, he said is a 1960s, unattractive office block that had been empty for many years. The rights did not require section 106 contributions or other similar social contributions to the local community which, he said, was an embedded part of the policy. He said that this was, as he understood it, to bring empty buildings into use as residential buildings as swiftly as possible. That said however, he explained that the current planning structure in terms of section 106 or CIL as it arranged at the moment is correct or flexible enough for the different challenges faced by private rented sector developments. PRS developments don't yield huge capital receipts on sale of the units as in respect of housing for

sale developments. Profits, such as they are, accrue over many years, especially when taking an institutionally backed long term view as Essential Living seeks to do. All its properties and schemes are looked at on a 20 plus year time frame. There needs, he said to be an overhaul of planning policy pertaining to the private rented sector including how it could provide a community benefit is a “slightly different way”. As an example, Essential Living are speaking with some local authorities about providing a discounted market rent product that restricts the rents to a proportion of open market rents locally and covenants that for a significant period of time, between 10 and 15 years. That enables them to manage the properties themselves, it means it doesn’t have a running argument with conventional affordable housing manager over issues such as estate management and service charges because a high level of communal tenant amenities are being built into developments which conventional affordable housing providers don’t necessarily want to subsidise. It is also a way of securing units for those on lower incomes for a covenanted, significant period before the homes revert back to private sector tenure. Martin Bellinger said that he sees this as a genuine alternative to current intimidate options.

- ❑ **Oliver Colvile MP** asked the NUS for its views about how the PRS could be making a better contribution to communities in terms of facilities for community use and the like.
- ❑ **Colum McGuire** said that as he understands, private providers of student accommodation aren’t eligible to pay an affordability rate to provide a certain amount of affordable housing as part of developments. The NUS have been working with the London Academic Forum in the capital to call for requirements to be placed on such providers to make a contribution to the local community and provide some affordable housing where they develop. On the community issue, the landlord, letting agent, tenant relationship is important in terms of the flow of information about how tenants should live within the community e.g. better information on when bins are emptied. The issue is about the responsibilities and rights of landlords and tenants working together properly to encourage cohesive community living. He called also for voluntary accreditation schemes which he said provides benefits to landlords and increases qualities. He cited examples in areas such as Canterbury, Sheffield and Manchester.
- ❑ **Katharine Sacks-Jones** said that there is a need for more affordable housing at rates that people in local communities can afford which, she said, developers have a responsibility to power. Local authorities, she said, need the power to negotiate with developers to provide a proportion of affordable accommodation where they are build new homes. She mentioned also that some local authorities aren’t using the powers they already have properly.
- ❑ **Oliver Colvile MP** raised thought about the need for landlords to let tenants know the full cost of their properties in terms of both rents and utility bills and how environmentally-friendly a property is in respect of energy efficiency.
- ❑ **Mark Prisk MP** asked Katherine Sacks-Jones in respect of the SAR and the Shared Solutions programme run by Crisis. He asked if there were examples from this work that could be utilised and better understood.
- ❑ **Katharine Sacks-Jones** responded by saying that there is definitely some material to learn from coming out of this programme in respect of different models of shared accommodation. For example, one scheme pairs up two fathers together to ensure they have sufficient space to be able to have their children over to stay with them for periods of time. All the schemes, she said, however have highlighted the problem of affordability within the SAR.
- ❑ **Oliver Colvile MP** asked what proportion of under 35s in the rented sector are students.
- ❑ **Colum McGuire** said the NUS doesn’t necessarily have the information on a national scale. It is something they could look at, he said.



- ❑ **Martin Bellinger** said that the 2011 Census showed that the PRS accounted for around 21% of all households in the UK. The expectation, from experts in the market, he said, is that it will grow over the next two decades and plateau at around a third of UK homes.
- ❑ **Oliver Colvile MP** highlighted also the increasing need for single room accommodation as a result of challenges such as growing divorce rates. He said that there has been a collective failure on the part of the industry and government to address this.
- ❑ **Katharine Sacks-Jones** said that around 70% in the growth of households has been single person households.

## APPENDIX 1: WRITTEN EVIDENCE

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The Group received 19 individual items of written evidence to assist with the inquiry, all of which can be found online at [http://rla.org.uk/policyhub/wp-content/uploads/2014/10/PRS-access-for-U35s\\_Full-Written-Evidence\\_Oct.14.pdf](http://rla.org.uk/policyhub/wp-content/uploads/2014/10/PRS-access-for-U35s_Full-Written-Evidence_Oct.14.pdf). A list of those who provided evidence can be found below:

1. Terry Lucking - Belvoir Peterborough & Cambridge
2. Generation Rent
3. National Union of Students
4. South West Landlords Association
5. YMCA
6. Homeless Link
7. Tony Athill Portsmouth and District Property District Landlord Association
8. Centrepoint
9. Residential Landlords Association
10. Nottingham University Students Union
11. Essential Living
12. Crisis
13. British Property Federation
14. Nottingham City Council
15. The Bond Board
16. North West Landlords Association
17. Ruby Fox Property Management, Manchester
18. Citizens Advice Bureau
19. Firemark