

A RENTAL MARKET THAT WORKS FOR ALL

A Manifesto for the Private Rented Sector

1.0 ABOUT THE RESIDENTIAL LANDLORDS ASSOCIATION

- 1.1 The Residential Landlords Association (RLA) represents the interests of landlords in the private rented sector (PRS) across England and Wales. With over 30,000 subscribing members and an additional 20,000 registered guests who engage regularly with the association, the RLA is the leading voice of private landlords. Combined, they manage over a quarter of a million properties.
- 1.2 The RLA provides support and advice to members, and seeks to raise standards in the PRS through our code of conduct, training and accreditation and the provision of guidance and updates on legislation affecting the sector. Many of the RLA's resources are available free to non-member landlords and tenants.
- 1.3 The association campaigns to improve the PRS for both landlords and tenants, engaging with policymakers at all levels of Government, to support our mission of making renting better.

THE RLA'S 6 ACHIEVABLE PRIORITIES FOR MAKING RENTING BETTER

1. Boost the supply of new homes by bringing unused land and empty properties into use for private rental homes, coupled with positive taxation policies that promote growth.
2. Establish a new specialist housing court to deliver quick and cost effective justice to help landlords and tenants to enforce their rights.
3. A fairer approach to welfare reform for landlords and tenants, giving tenants claiming Universal Credit the choice of having rent paid direct to their landlord, and speeding up the claim process.
4. Effective enforcement against criminal landlords through guaranteed long-term funding for local authorities, backed by a system of co-regulation for the majority of law-abiding landlords.
5. Support landlords to improve energy efficiency in private rental homes for the benefit of tenants and the environment.
6. Create a new deposit trust for tenants enabling them to transfer deposits seamlessly between tenancies.

2.0 EXECUTIVE SUMMARY

- 2.1 The private rented sector now accounts for 4.5 million households, 20% of the total, making it larger than the social rented sector at 17%. The RICS predicts that 1.8 million new homes to rent will be needed to meet growing demand by 2025.
- 2.2 The average length that a tenant has been in their current private rented home is increasing and currently stands at 4.3 years according to the English Housing Survey.
- 2.3 Contrary to popular perception, the National Audit Office has noted that *“since 2006, the cost of private rented accommodation has broadly followed changes in earnings across England”*, whilst social rents have *“increased faster than earnings since 2001-02.”*
- 2.4 The last time that the English Housing Survey asked the question, in 2014/15, 82% of private sector tenants were satisfied with their accommodation compared to 80% in the social rented sector.
- 2.5 Building on this success, the RLA is calling on all parties in the next parliament to work with what is now a mature market to implement a set of practical reforms that will ensure the sector is fit for the 21st century.
- 2.6 The RLA has put forward six key evidence-based policy proposals that will help make renting better for all.
- 2.7 Boosting the supply of homes to rent is key to giving tenants more choice and addressing issues of affordability. However welcome institutional investment might be, the large majority of rented housing will continue to be supplied by individuals and small companies.
- 2.8 We call on all parties to commit to **boosting the supply of new homes by bringing unused land and empty property into use for private rental homes, coupled with positive taxation policies to promote growth**. This needs to include:
- Freeing up small plots of unused land, unattractive to corporate investors, for use for private rented sector housing.
 - Not applying the 3% stamp duty surcharge where a landlord invests in housing adding to the net supply of homes, including bringing empty homes back into use.
 - Reversing, or at the very least only applying to new borrowing for new housing, recent changes to mortgage interest relief.
- 2.9 **The establishment of a new specialist housing court to deliver quick and cost effective justice to help landlords and tenants enforce their rights.** Evidence shows that landlords are happy to provide longer tenancies without the need for heavy-handed legislation. What is needed is a framework in which they have the confidence to deliver them, ensuring that they are quickly and easily able to reclaim possession of a property where a tenant is not paying their rent or committing anti-social behaviour. According to Ministry of Justice statistics, it now takes an average of 43 weeks for a landlord to regain possession of a property.
- 2.10 With the private rented sector being expected to house growing numbers of welfare claimants, we ask that **tenants claiming Universal Credit (UC) have the choice of direct payment of rent to their landlord and overall speeding up the UC claim process.**
- 2.11 We call on the next Government to focus on **effective enforcement against criminal landlords through guaranteed long-term funding for local authorities, backed by a system of co-regulation for the majority of law abiding landlords.** This needs to include Alternative Dispute Resolution to protect tenants. Whilst there are many powers available to tackle them, tenants and good landlords are being let down by poor enforcement against the crooks.

- 2.12 **Support landlords to improve energy efficiency in private rental homes for the benefit of tenants and the environment.** A framework is urgently needed within which to deliver on regulations around the energy efficiency of rented housing following the ending of the Green Deal and the upcoming legal requirements placed upon the PRS to reach a minimum 'E' standard by 2018 and possibly higher in the future.
- 2.13 We call for the **creation of a new deposit trust for tenants, enabling them to transfer deposits seamlessly between tenancies.** This would end the need for tenants to raise new deposits every time they move property.

3.0 BOOSTING THE SUPPLY OF HOMES TO RENT

- 3.1 20% of all households were in the private rented sector in 2015-16 having doubled in size since 2000 according to the English Housing Survey. According to the Royal Institution of Chartered Surveyors, 1.8 million new homes to rent will be needed by 2025 to meet growing demand.
- 3.2 To date, the Government has focused on encouraging institutional investors to develop new rental properties using mechanisms such as loan guarantees and the Build to Rent Fund. Whilst we welcome all efforts to boost housing supply, institutional investors are simply not providing the homes at the pace and scale that the Government had hoped. In a report last year, the London School of Economics noted that *“even if institutional investors enthusiastically enter the market, individual landlords will remain dominant – as they are across Europe.”*
- 3.3 Institutional investment, where it happens, is also largely focussed on major cities, neglecting the need for more homes to rent in small towns and rural areas.
- 3.4 The private rented sector has a proven record at meeting the expanding demand for housing. Between 1996 and 2013, it accounted for 2.5 million of the 3 million new dwellings created according to the English Housing Survey.
- 3.5 **We call on the next Government to work with the country’s individual landlords to develop a clear strategy to boost the supply of new homes by bringing unused land and empty properties into use for private rental homes, coupled with positive taxation policies that promote growth.**

3.6 Bringing Small Plots of Land Back into Use

- 3.6.1 Small plots of unused land owned by the public sector. These plots are too small to be of interest to corporate developers and they are often left empty, becoming unsightly and magnets for anti-social behaviour in a community. Smaller developments can often be more appropriate and accepted by local residents, while large developments are more likely to receive greater objections.
- 3.6.2 The need to focus on small plots of land in this way was highlighted most clearly in the recent joint report on the subject by the Local Government Information Unit and the Federation of Master Builders, which noted that *“we will not build the homes we need in the UK on large sites alone.”*
- 3.6.3 The housing white paper only refers to plots being made available for self-builders to build a single home for their own use. The RLA believes that this scheme should be extended to allow landlords to access plots to self-build houses to rent.
- 3.6.4 **The RLA is calling on the next Government to encourage local authorities and public bodies, such as the Ministry of Defence and the NHS, to identify small plots of unused public sector land for development by the private rented sector.** This would support small and medium sized builders whom landlords will most often use for such developments.

3.6.5 Data compiled by DJS Research for the RLA found that 46% of landlords would be interested in developing on small brownfield sites, of which 52% would be interested in developing up to 10 homes on a site.

3.7 Pro-Growth Taxation

3.7.1 Since 2015 a number of tax increases have been levied on the private rented sector including the phased limiting of mortgage interest relief to the basic rate of income tax and a 3% surcharge has been added to Stamp Duty for the purchase of homes to rent. The 2016 Budget announced a new Capital Gains Tax rate of 20% but specifically excluded residential landlords.

3.7.2 According to the most recent figures from the Council of Mortgage Lenders (CML), since the stamp duty changes came into effect last year, *“buy-to-let house purchase activity is still down sharply on a year earlier.”* Despite the Government’s arguments that this would help house buyers, the CML notes that average monthly house purchase approvals over the last five months are around 3,000 less than the same period a year ago. In February 2017 mortgage approvals were down by 1.2% on the previous month and 5.6% down on a year ago. As the House of Commons Library notes, *“There were 68,315 mortgage approvals in February 2017, compared with 72,367 in February 2016.”*

3.7.3 This slow-down further highlights the difficulties caused by tax hikes on the private rented sector a policy which is not evidence-based. Paul Johnson, Director of the IFS has previously noted that: *“The tax system is not, and was not, even before the recent changes, more generous to people buying to let.”* The London School of Economics meanwhile noted last year: *“The (very limited) research into direct competition between investors and private owner-occupiers has found that nationwide only a minority of sales to landlords involved bids from both types of buyer.”*

3.7.4 The RLA has long raised concerns about the likely impact of these changes, with its research last year finding that:

- 66% of landlords do not plan on purchasing any additional properties for their portfolio.
- 58% of landlords have considered reducing investment in their portfolio because of finance and tax changes.
- 66% of landlords plan to increase rents to offset the impact of taxation changes.

3.7.5 A number of other studies have since found supporting results. This includes a paper by David Miles, Professor of Financial Economics at Imperial College London and a former member of the Bank of England’s Monetary Policy Committee, that warns that rents would need to rise between 20% and 30% for landlords to cope with the tax rises they are about to face.

3.7.6 In light of the desperate need for new homes to rent, the RLA believes the following targeted tax changes are needed to encourage supply, which would have the added benefit of boosting Treasury revenue:

- **The mortgage interest relief changes should be reversed. At the very least they should only be applied to new borrowing, excluding re-mortgages. Measures should also be put in place to ensure that no landlord is moved into a higher rate of income tax where their income has not increased.**
- **New build rented housing and homes adding to the net supply of housing, such as conversions, or bringing empty homes back into use, should be exempt from the Stamp Duty surcharge. 39% of landlords have reported to the RLA that they would then be more likely to invest in new build, rented housing.**

- **Landlords should have the lower 20% Capital Gains Tax rate applied where they sell a property to a sitting tenant. Protections could be put in place to prevent abuse.**

3.7.7 The money to finance many of these measures could come from the unexpected extra revenue the Government has so far received from its Stamp Duty surcharge on additional properties. The Office for Budget Responsibility has forecast that the Treasury will receive £3.1 billion more than expected from this measure by 2021.

4.0 SECURITY FOR TENANTS AND LANDLORDS

4.1 Both landlords and tenants benefit from longer tenancies. Contrary to popular opinion, tenants in the private sector have been in their current property on average for 4.3 years according to the English Housing Survey. Emerging findings from research being conducted by the RLA identifies that nearly 2 in 3 landlords would be willing to offer tenancies of longer than a year if this was asked for by their tenant.

4.2 These findings suggest that longer tenancies do not need to be imposed on the sector. Rather, greater encouragement is needed to support the provision of longer tenancies, whilst retaining the vital flexibility that the private sector provides.

4.3 A New Housing Court

4.3.1 Crucial to encouraging landlords to providing longer tenancies is giving them the confidence that a property can be recovered promptly where a tenant is committing anti-social behaviour or is not paying rent. RLA research has identified that in the past 12 months 63% of landlords sought to regain possession of their property because their tenant had fallen into rent arrears. A further 24% of landlords indicated that possession was sought due to anti-social behaviour or criminal activity by the tenant.

4.3.2 According to Ministry of Justice statistics, it now takes an average of 43 weeks for a landlord to regain possession of a property in such circumstances. Such a length of time, during which a landlord might not be receiving rent, is unsustainable.

4.3.3 Given the increased cost and delays in the court process, **we are calling on the next Government to develop a new housing court enabling swifter access to justice for both landlords and tenants alike. This would speed up decisions where landlords seek to regain possession of a property for tenant rent arrears and provide swifter access to justice for tenants where landlords seek to regain possession of a property illegally or without following due process or where landlords are not fulfilling their repairing obligations.**

4.4 Tackling Mortgage Lenders Preventing Longer Tenancies

4.4.1 **The next Government should work with the industry to identify and address the barriers preventing landlords from offering longer tenancies, especially mortgage lenders.**

4.4.2 Research by the RLA has found that of the 2,883 landlords, nearly 1 in 4 landlords identified that they had mortgage conditions that stipulate the maximum tenancy length. Despite promises from lenders little progress has been made on this issue.

5.0 SUPPORTING VULNERABLE TENANTS

5.1 There are a growing number of tenants in receipt of benefits now living in the PRS. The most recent English Housing Survey found that 24% of private sector tenants now receive housing benefit. This figure looks set to grow as increasing numbers of councils turn to the sector to house the homeless and other vulnerable tenants.

- 5.2 Whilst the RLA support the principles behind Universal Credit (UC), namely making the system less complex, research shows that as it is currently designed, UC is causing considerable problems for tenants and landlords.
- 5.3 According to research carried out last year by Sheffield Hallam University, supported by the RLA, 68% of private sector landlords are less likely to rent to those in receipt of benefit because tenants are not able to choose to have payments made directly to their landlord, even when the tenant would much prefer this.
- 5.4 Research by the RLA into landlord's experiences of letting to tenants on Universal Credit in 2016 found:
- Of those landlords with tenants in receipt of UC, 24% said that they were in arrears.
 - As a result of UC claimants being in arrears, 33% of landlords said that they had requested that payment to cover rents be made directly to them (known as Alternative Payment Arrangements or Landlord Managed Payments) which can be put in place where a tenant gets into two months of rent arrears. Just 38% of these said that they had been successful in achieving this.
 - In seeking such arrangements, 61% of landlords found the process either "tricky" or "very difficult".
 - The removal of the housing element of UC from being paid to 18-21 year olds has made 76% of landlords less likely to rent to those in this age group because of worries about whether the rent will be paid or not.
- 5.5 **One of the key problems for landlords and tenants is that the first payment of Universal Credit to a tenant can take 7 weeks including a 1 week period that those claiming have to wait before they can apply for the credit. This automatically leaves tenants in rent arrears where they cannot afford the rent. We call on the next Government to abolish the 1 week waiting period required before a tenant can apply for Universal Credit and to continue to work on making the whole system more efficient.**
- 5.6 **Trusting Tenants – Give them a Choice**
- 5.6.1 **Tenants receiving Universal Credit should be allowed to choose, where they feel it is best for them, to have payments made directly to their landlord to provide assurances that the rent is paid.** This is a position shared with tenant groups, such as Shelter.
- 5.7 **Reclaiming Rent Arrears**
- 5.7.1 **Landlords face particular problems given the lack of a clear route to reclaim rent arrears from tenants receiving UC who subsequently move home. We call on the next Government to come up measures for landlords to be able to recoup such arrears.**
- 5.8 **Positive Support From Mortgage Lenders**
- 5.8.1 Research by the RLA's mortgage consultants, 3mc, has found that two thirds of the largest buy-to-let mortgage lenders do not allow landlords to rent property to tenants receiving housing benefit.
- 5.8.2 3mc interviewed lenders representing around 90% of all such mortgages. Out of the 58 contacted:
- 38 (66%) do not allow properties to be rented out to those in receipt of housing benefit.

- 10 (17%) do allow properties to be rented out to those receiving housing benefit, although one of these is with the caveat that properties cannot be rented to “vulnerable tenants.”

5.8.3 Some of the reasons given for not lending to those renting to claimants include concerns about rent not being paid and historic data which calculates the risk of tenants falling into arrears or facing repossession.

5.8.4 **The RLA is calling on the next Government to undertake an urgent review of the extent of lenders preventing landlords from renting to benefit claimants and to take action to ensure lenders are not preventing claimants from accessing homes to rent.**

5.9 Supporting the Homeless into the Private Rented Sector

5.9.1 **We support calls for a new Help to Rent Fund and a Deposit Guarantee Scheme to support the homeless into the private rented sector.**

6.0 BETTER FUNDED ENFORCEMENT TO TACKLING CRIMINAL LANDLORDS

6.1 RLA research has shown there to be over 150 Acts of Parliament containing over 400 regulations affecting the sector. The problem in the market is not lack of regulation, it is a lack of proper enforcement. Regulation without enforcement lets down tenants and good landlords.

6.2 Evidence shows that enforcement against rogue or criminal landlords varies widely across the country. Research conducted by the Residential Landlords Association, with Freedom of Information responses from 241 councils in England and Wales, has shown that between 2010 and 2015:

- 126 brought no prosecutions at all;
- 109 brought between 1 and 25 prosecutions; and
- Just 6 brought between 26 and 100 prosecutions.

6.3 At the heart of the problem is that regulatory bodies do not have the resources to properly enforce the powers they already have to find and root out the minority of landlords who have no place in the sector. The most recent data from the Chartered Institute of Environmental Health found that the average budget for environmental health services fell in real terms by 6.8% between 2013-14 and 2014-15 and that those authorities that were able to estimate their budget for 2015-16 expected a further fall in real terms of 30%. This survey identified an almost 11% reduction in qualified environmental health professionals with an overall reduction of 12% in all environmental health staff.

6.4 Although welcome, one-off funding from central government for councils to tackle rogue landlords and new powers for councils to use civil penalties to punish landlords who are not meeting their legal requirements, does not provide the long-term funding that local authorities need to plan and execute an effective enforcement strategy.

6.5 **We are calling on the next Government to work with councils and stakeholders to develop long-term and sustainable funding to ensure councils have the resources they need to proactively find and root out criminal landlords. Central to this should be a clear commitment to the ‘polluter pays’ principle. Those who break the law should pay for enforcement. The majority of landlords providing a good service to their tenants should not, as happens at present, be subsidising action against criminals through costly and ineffective licensing schemes.**

6.6 A System that Gives Tenants and Landlords Proper Support – Co-Regulation

6.6.1 Coupled with long term funding, the framework in which regulations in the private rented sector are enforced is in desperate need of reform.

- 6.6.2 There is little evidence that licensing achieves what many local authorities want. As an example, an analysis of the period between 2011 and 2014 by London Property Licensing found that of the 10 boroughs with the highest rates of prosecutions against landlords, just two operated any form of licensing scheme.
- 6.6.3 **We call upon the next Government to work with the industry to develop plans for co-regulation which would enable the mature elements of the sector to regulate itself, with the provision of dispute resolution to provide greater protection to tenants. This would free councils up to root out criminal landlords.**
- 6.6.4 The RLA's proposal for 'co-regulation' would enable councils to hive off the low risk elements to self-regulating bodies in schemes operated under Government contracts similar to tenancy deposit protection or codes for student housing.
- 6.6.5 Landlords would benefit from co-regulation because they would be accountable to a single body - not several councils with separate costs to each.
- 6.6.6 Crucially, in the event of a dispute, the tenant would seek redress through alternative dispute resolution which is not provided for by existing licensing schemes. If the landlord defaults on the recommendation of the ADR scheme, the council would then take enforcement action saving time and resources in investigation and detection.
- 6.6.7 Tenants would have the re-assurance of a kitemark for participating landlords to identify properties that are safe, legal and secure. Landlords would still be required to comply with all national and local regulations.

7.0 IMPROVING ENERGY EFFICIENCY

- 7.1 As of the 1st April 2018, there will be a new legal requirement for new tenancies in the private rented sector to have an energy performance rating of 'E' or above on an Energy Performance Certificate (EPC). All existing tenancies will need to meet these standards by 1st April 2020.
- 7.2 According to the English Housing Survey for 2015/16, 6.3% of all private rented properties are rated on an EPC as either an 'F' or 'G', down from 26.9% in 2005.
- 7.3 In 2014, the UK Green Building Council estimated that it would cost an average of £1,500 to bring rented properties rated F or G to the required standards. It noted also that bringing a rented property up to a band E would save tenants an average of over £400 a year.
- 7.4 The private rented sector faces a challenge in meeting the energy efficiency requirements given the age of much of its stock. The English Housing Survey notes that 34% of all homes in the sector were built before 1919 representing a higher proportion than both the owner occupied and social rented sectors. Properties that are this old tend to have solid walls, making insulation much more difficult.
- 7.5 **Inaccurate Energy Performance Certificates**
- 7.5.1 In order to meet the current targets it is crucial that landlords can have confidence in the ratings provided for a given property on their energy performance certificates. It is therefore worrying that the Building Research Establishment has warned that 100,000 properties have been given incorrect F and G classifications as a result of understating the energy efficiency of homes with solid walls and uninsulated cavity walls.
- 7.5.2 **We are concerned that the process of consulting on changes to the methodology, followed by a response from the Government will not give sufficient time for landlords to get their houses re-assessed before the April 2018 deadline. It should therefore be delayed to allow sufficient time to address these crucial issues.**

7.6 Financing Energy Improvements

- 7.6.1 A key difficulty is the funding required for landlords to meet the energy efficiency targets. Nearly, 2 in 3 landlords aspire to keep their properties as energy efficient as possible. However, RLA research has found that of those landlords with properties with an Energy Efficiency Rating of F or G, more than 1 in 3 said that they could not afford the required work to bring them up to a rating of E or above. If the government wishes to meet its aspirational targets of a C rating by 2030 more needs to be done to help private landlords to deliver on their ambitions.
- 7.6.2 The Energy Act 2011 made clear that landlords would not have to spend more on energy efficiency improvements than the costs that could be covered for such work under the Green Deal. We are concerned about the potential for this principle to be abandoned as a result of the decision to end the Green Deal. This would sever the link between the amount of savings generated by the work that is required and the cost of that work. Given that much of the PRS stock is hard to treat, this makes energy efficiency work expensive, with the pay back in energy savings taking many years, if at all.
- 7.6.3 **To support the delivery of current energy efficiency targets we believe that any work that a landlord carries out to implement recommendations on an Energy Performance Certificate should be tax deductible.**
- 7.6.4 This would be self-policing, as the recommendations are made by a qualified energy performance assessor and would also have a directly measurable cost-benefit, as each recommendation comes with an estimate of its contribution to any reduction in energy bills. It would also support landlords wanting to ensure that their properties are as energy efficient as possible and not just meeting the minimum required standards. Nearly, 2 in 3 landlords have ambitions to ensure their property is as energy efficient as possible.
- 7.6.5 In September 2015, DJS Research carried out for the RLA found that 88% of landlords would be more likely to invest in energy efficiency measures if they could be considered a tax deductible repair.

8.0 A NEW DEPOSIT TRUST FOR TENANTS

- 8.1 The RLA recognises that for many tenants the upfront costs of renting can be significant, with the biggest cost being that for the tenancy deposit. This is especially the case given that when a tenant moves from one property to another they need to raise new funds to pay the deposit on the new house, whilst waiting to be repaid the deposit from the previous house.
- 8.2 **We call on the Government to work with the industry to develop a new insurance-based scheme that would enable a tenant to transfer a deposit on one rental property to another while protecting the new landlord from a reduced deposit caused by deductions for the previous tenancy.**
- 8.3 This could include a tenant being able to top this up or claim some of the deposit back depending on the level of the deposit required on their next rental home allowing tenants to save a larger deposit as they move through the sector.
- 8.4 The existing ADR mechanisms which deal effectively with deposit disputes would be maintained under this system.

**For further information, please contact the RLA Policy Team on 03330 142 998
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