Local London renting under Covid

Effects of policy change and Covid on the lower end of the PRS

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Introduction

Over the last 20 years the housing system in England, and particularly in London, has come increasingly to rely on the private rented sector to house low-income households who cannot be accommodated in social housing. Over the same period, governments have enacted a set of new regulations and taxes affecting private landlords, most of whom are individuals with only one or two rental properties. This project aimed to explore the effects of these changes on the lower end of the London rental market, where tenants are least able to exercise choice. Our initial intention was to conduct in-depth local fieldwork with both tenants and landlords in three small neighbourhoods of London, but the advent of Covid precluded this approach. The final research methods included mapping, site visits, online surveys and a qualitative interviews.

The PRS in London

The PRS has more than doubled in size over the last 30 years to 29% of homes in London. The capital has always been the region with the highest proportion of PRS homes. As elsewhere, most landlords of London properties are private individuals or couples, and most live in London. Private tenants tend to be younger than other households, and are more likely to be from an ethnic minority and to have lower incomes. The PRS houses a growing number of families with children who are priced out of home ownership and cannot access social housing.

London's high rents reflect both its chronic housing supply shortage and the city's attractiveness to migrants from elsewhere in the country and rom the rest of the world. The average weekly PRS rent in London is £1475/month, and private tenants spend far more of their income on housing than owner-occupiers or social tenants. In London, one-third of households in the PRS receive housing benefit or universal credit.

Policy, regulation, tax and Covid

Some recent changes in policy and regulation are explicitly intended to affect behaviours and quality in the PRS; others come from entirely different policy areas. There is no overall strategic vision for the regulation of the sector. The changes fall into six categories:

- Tax rises for landlords, including changes to mortgage interest treatment, capital gains, Stamp Duty Land Tax and CGT (together aimed at reducing competition with first-time buyers and raising revenue)
- Property licensing and a strengthened regulatory regime (aimed at improving quality and rooting out poor landlords).
- Welfare reform affecting tenant benefits (not directed at the PRS, but affecting it);
- Building safety and energy efficiency requirements (as above);
- Requirement for landlords to check tenant's right to rent (aimed at deterring irregular migration);
- Promotion of institutional investment and purpose-built all-rental buildings (aimed at professionalising the sector)

Taken together, these changes have reduced economic incentives to enter or remain in the landlord business.

Licensing

Licensing is one of the market interventions of interest; in addition, the information from public licensing registers allowed us to identify PRS landlords and properties. Property licensing is not new—since April 2006, the Housing Act 2004 has allowed local authorities to license privately rented properties in certain areas—but the system has been in continual evolution since it was introduced 16 years ago. There are important differences in practice across boroughs with regard to licensing and enforcement—indeed, most London boroughs do not have licensing at all. Some authorities have selective schemes that license all private rented properties within a defined area. In London, landlords pay an average fee of £678 per property; the license lasts for up to five years.

Although one of licensing's aims is to improve conditions for tenants, the tenants who need support the most may not understand the system.

Case study neighbourhoods and surveys

We used the selective licensing public registers as the sampling frame for our fieldwork as they give contact details for landlords (otherwise difficult to obtain). We chose boroughs with small selective licensing areas rather than borough-wide schemes, as the PRS in small selective licensing areas arguably had worse-than-average conditions (and therefore might represent 'the lower end' of the sector); also the smaller areas allowed us to focus on particular neighbourhoods.

The neighbourhoods chosen were **Thamesmead East** (Bexley), an outer-London neighbourhood with 1970s single-family homes and a high proportion of Black African and Black Caribbean households; **Walworth Road and Old Kent Road** (Southwark), inner-London streets where most of the flats are above shops and a mix of ethnicities; and **Ilford** (Redbridge), a former industrial centre in outer London with Victorian houses and a high proportion of residents from the Indian subcontinent.

Using addresses from the registers, we posted survey invitations to landlords and tenants in each of the three case-study areas. Only landlord responses were analysed, as few tenants took part.

Findings

This research tested local authority registers' use as a research tool. This was not straightforward: even accessing the lists was difficult in some boroughs, despite their legal status as public documents, and those we did secure were structured in different formats and on different software.

This research focused on three small neighbourhoods of London--Thamesmead, Ilford and Walworth/Old Kent Road—that were covered by selective licensing. Although all three are selective-licensing areas, they are very different in terms of housing stock, market pressure, tenants and landlords. The general patterns of property types, tenants and rents confirmed our expectations: smaller, higher-cost properties in central areas catered mainly to smaller households and sharers, with cheaper family-sized properties in peripheral areas. Rents broadly reflected accessibility, with the lowest rents in Thamesmead where public transport is poor.

The registers themselves contain relatively limited information, but even so reveal interesting differences across the three areas. Landlord ethnicities reflect the demographics of the respective neighbourhoods: landlords in Thamesmead were more likely to be of Black African ethnicity, judging by their surnames, while those in Ilford were more likely to be of Asian ethnicity. Landlords tended to live in the same area as their rental properties except in Walworth/Old Kent Road, where the number of properties registered to letting agents may indicate a higher involvement of overseas investors.

Despite our society's growing albeit unintentional reliance on the PRS for housing lower-income households, relatively little is known about the landlords operating in the lower end of the market. Our survey gave us some indications, although many of the landlords who responded to the survey were not working in what we defined as the lower end of the market, because even in selective licensing areas there is often a mix of lower-end and more expensive properties (even luxury homes, in more central areas), as London's residential landscape is so mixed.

In each area, landlords were mainly local, and their ethnicities coincided to a great extent with the neighbourhood demographics. It seems then that South Asian landlords were likely to be housing south Asian tenants in Ilford, while Black African landlords might be housing Black African tenants in Thamesmead, but further research is needed to evidence this.

In both surveys, landlords identified the modified tax treatment of mortgage interest as the change that most affected their business plans, not then-prevailing Covid restrictions. Some landlords said tax changes could motivate them to sell up; others reported feeling trapped by the high level of capital gains tax. When the survey was taken, interest rates were very low but since then the macroeconomic situation has changed. Mortgage rates are likely to increase over the next year as the Bank of England raises rates to address dramatically higher inflation due to the war in Ukraine, and with increased mortgage payments but limited tax deductibility more landlords with mortgages may consider whether they want to remain in the business. Note, though, that only a minority of landlords in our survey, as in the UK-wide survey, reported having a mortgage.

On the evidence from this survey, only a minority of landlords saw their income affected during the pandemic when tenants, affected by the financial pressures occasioned by Covid, paid their rent late or in part—in some cases with the agreement of the landlord. There were similar findings from the 2021 survey of landlords across the country. Even at the height of the pandemic landlords reported that tax changes would have more effect on their businesses than Covid, again a finding that echoed the 2021 survey.

Policy and research recommendations

- The many taxes, regulations and incentives affecting the PRS do not form a coherent framework for the sector, and their goals are poorly understood by landlords. Policymakers should set out their vision for what part the PRS, and private landlords, should play the housing system, and review the various policy instruments in the round to ensure they contribute to achieving that vision.

- The PRS increasingly accommodates lower-income households and families with children, who benefit most from certainty about their housing. Government should work with tenants, landlords and other stakeholders to develop policies that incentivise small landlords to provide the tenure security they need.

- Government should reconsider the purposes of licensing and how best to achieve them—especially as it has announced that it will consult on introducing a national register (DLUHC 2022). Registers should be designed to enable local authorities to communicate with landlords more easily. The current regime is poorly targeted, if the goal is to improve the worst properties. Local authorities themselves decide whether to adopt licensing; that decision seems to relate as much to political control as to conditions in the PRS. In any case licensing alone cannot address poor-quality landlords or anti-social tenants; it must be coupled with well-informed, timely enforcement and routine inspection.

  <u>*Topics for future research*</u> include

  - How to monitor the changing composition of the PRS in local areas, and what this means for low-income tenants

  - Comparative research into the characteristics of the PRS in neighbourhoods with different ethnic profiles –are there culturally specific patterns of demand and supply?

  - The role of letting and managing agents in letting property to lower-income households

1 Introduction to the research

Our current housing system relies heavily on the private rented sector (PRS). The tenure now accounts for 20% of England's dwellings, and tenants range from the low income to the very wealthy. This report focuses on the sector's role in housing the former.

A generation ago, lower-income households were concentrated in social housing, but right to buy and the failure to re-invest in new social housing have driven the proportion of social homes in England from 33% in 1981 to 17% now. Turnover in social housing is low and waiting lists are long, so private renting is now the default tenure for lower-income households, especially in London. The PRS is also the main—indeed almost the only—source of temporary accommodation for London's statutorily homeless families. Compelled by the shortage of social homes, all boroughs place homeless households in the PRS. This reliance on the PRS came about almost accidentally, and there are plenty of criticisms of the sector, especially at the lower end.

Despite the increasing important role of the PRS in our housing system, the sector is notably opaque: it can be difficult or impossible to identify landlords, tenants, or individual rented properties, or to monitor how the sector is developing. Since 2006, there have been many changes in the way landlords are taxed and regulated. Taken together, these changes have (sometimes intentionally) made it more costly to operate as a small private landlord and reduced the incentives to enter or remain in the business. We wanted to explore landlords' responses to these changes and the effects on the lower end of the market, where tenants are least able to exercise choice.

We are interested not only in how landlords behave but also in how that might affect tenants and communities. London's neighbourhoods vary enormously in terms of their history, housing stock, demographics and political control. We posited that the changes might have different effects in different areas, so the project focuses on landlords with properties in small neighbourhoods in three London boroughs: Southwark (Walworth and the Old Kent Road), Redbridge (Ilford) and Bexley (Thamesmead East).

2 Research questions and methodology

Existing research on the lower end of the PRS focuses largely on the experiences of tenants (perhaps partly because of the difficulties of identifying landlords). This project was intended to provide a complementary perspective by looking at the behaviour of landlords and how it is conditioned by the tax and regulatory framework.

The project was conceived and designed in 2019, before the onset of the Covid pandemic. Our original research questions were

- How have changes in taxation, licensing, welfare and LHA affected conditions and availability at the lower end of London's PRS?
- Are the changes driving out bad landlords and/or leading to improvements in rental stock or services?
- Are landlords moving upmarket or selling to owner-occupiers, reducing availability of low-cost accommodation?

Due to the pandemic, which led to lockdown in March 2020, we added an additional research question:

- How did Covid affect landlords operating at the lower end of the PRS in London?

There is no official definition of the 'lower end' of the PRS. Some research focuses on conditions at the *bottom* of the sector, which is characterised by very poor conditions for tenants and where landlords may be involved in criminality[1] (Spencer et al 2020). Our research tried to look more broadly at the category of rented homes with lower rents, defined as within the bottom quartile. Across London in 2020 the average lower-quartile rent for a one-bedroom dwelling was £1050 (Trust for London 2020). This figure varies by borough, as rents are higher in central London and cheaper in outer London areas.

Research methods

Our initial intention was to look at private rented properties in three very small areas of London (each comprising as little as one or two streets), surveying both landlords and tenants and conducting external assessments of property condition. The research was to include a substantial ethnographic element, with fieldwork including face-to-face interviews (if necessary using translators or researchers with appropriate language skills) and repeated site visits.

The first Covid lockdown was imposed on 23 March 2020. The research fieldwork, which had been due to start in spring 2020, was postponed to autumn 2020 in the hope that restrictions would ease. In autumn 2020 the research team decided that the original approach would not be possible, and redesigned the methodology.

We used a mix of methods including

- Desk research;
- Analysis and mapping of secondary data on rents and household incomes;
- Socially-distanced site visits to case study areas;
- Online surveys of landlords and tenants; and
- Qualitative interviews of London stakeholders and of landlords in the case-study areas.

3 The profile of London private renting

In London, as in the rest of the UK, the private rented sector has grown strongly over the last 30 years. Having shrunk over the course of the 20th century, the PRS by the 1980s was regarded as a residual sector and some commentators expected that it might even disappear completely. But its trajectory was changed by a combination of events and policy changes in the late 1980s and 1990s: the removal of rent regulation, the invention of buy-to-let mortgages (an industry initiative rather than a policy change) and the introduction of Right to Buy all contributed to renewed growth of the PRS. In 2020, some 19% of dwellings in England were privately rented (up from 9% in 1991); the

[1] A recent Cambridge House report defines criminal landlords as 'those who wilfully breach housing and other related consumer legislation, irrespective of whether they have been convicted of those offences. These landlords have made a strategic decision to target vulnerable tenants.' (Spencer et al 2020 p. 13)

proportion was similar when measured as a percentage of households rather than of dwellings (MHCLG 2021).

In London the PRS has grown in dwelling terms from 13% of the stock in 1991 to 29% in 2020 (DLUHC live table 109), or 27% on a household basis. The capital has always had by far the highest proportion of PRS dwellings or households of any region.

Profile of landlords

Official data on landlords from the English Private Landlord Survey (MHCLG 2019) gives the profile of landlords for England as a whole, but little of the information is broken down regionally. In England, most private landlords are individuals or couples, and most are 'small' in the sense that they own few properties. Some 94% let their property as individuals compared to 4% as companies and 2% as part of some other organisation. The individual/company distinction is important for tax purposes, and many 'company' landlords are in fact operated by individuals or couples, as there are tax advantages to operating as a company. Due to tax changes it is likely that the proportion of company landlords is increasing. Only 4% of landlords regard property letting as their full-time business, while 44% see it as a form of pension. Most landlords own only a single property, but landlords owning five or more properties are responsible for 48% of tenancies in England.

The survey found that 59% of landlords were 55 or older, 89% were White and 56% had let their property for 10 years or less. 53% of landlords bought their property with the view to rent it out while a third bought it for themselves to live in. A third of landlords were retired and 56% were in employment (full-time, part-time or self-employed). Landlords' rental income on average makes up a substantial part of overall income: in 2018, their average income (excluding rental income) was £25,000, while average gross rental income before tax and other deductions was £15,000 (but £20,000 in London).

In all regions, most landlords tend to live near their rental properties. London landlords were somewhat less likely than those in the North of England to live in the same area; even so, 80% of London landlords responding to the MHCLG survey said the property they most recently let was also in London.

More recently, our research team carried out its own survey of 1,400 English landlords, focusing on the effects of recent tax changes, for a report funded by the National Residential Landlords Association (Scanlon et al 2021). The research showed that landlords were increasingly aware of the cumulative effect of tax changes on their business, particularly the change in the treatment of mortgage interest. Although the survey was carried out in the midst of the pandemic, landlords generally were less concerned about the effects on their business of Covid, seeing it as a temporary phenomenon.

Profile of tenants

Broadly speaking, private tenants tend to be younger than other households: 65% of private tenants are under 45, compared to 27% of owner occupiers and 32% of social renters (MHCLG 2021). They are also somewhat more likely to be from an ethnic minority (14%, vs 10% of all households). Some 30% of private tenant households have a dependent child or children—slightly more than the proportion of all households. Of these, some 10% are lone parents with dependent children.

In the country overall, the income profile of private tenants is slightly skewed towards the lower end, with 22% of private renters in the lowest income quintile and 23% in the second-lowest. Owner occupiers on average have higher incomes, and social tenants lower incomes. In London, the proportion of families receiving housing benefit or universal credit has grown from 25% in 2008 to about a third in 2016 (Tinson et al 2017).

Falling affordability

According to the 2020/21 English Housing Survey, the average weekly rent in London was £340 (£1475/month). London's Poverty Profile cites figures showing that London households not in poverty (who are more likely to be owner occupiers) spent an average of 13% of their net income on housing. For those who are in poverty (more likely to be renters) the figure is more than four times higher, at 56% of their net income (Trust for London 2021).

London's affordability challenges are due in part to the lack of supply response over decades. Since the late 1980s, after a long period of decline, the city's population has been growing, but housing supply has not increased commensurately. The current London Plan has a target figure of 52,000 new homes per year (Mayor of London 2021a), although this would still fall short of assessed housing need. According to the most recent figures, there were 41,718 net completions in London in 2019/20 (Mayor of London 2021b)—the most for many years but still some way below the target figure. The gap between the number of households and the number of homes continues to widen, and the resultant affordability pressures channel many young people into house shares.

London is the UK's most global city and attracts students, entrepreneurs, skilled workers and graduates from the rest of the UK and the rest of the world. For decades the capital has experienced large inflows of young people, both from elsewhere in the UK and from abroad. Historically this inflow has been offset by outflows of older households, often families. After the mid-2000s the pattern has changed somewhat, with outflows from London slowing. Because of these changes in internal migration and increased international flows (at least until recently), overall population has risen rapidly, from 8.2 million at the 2011 census to the current estimate of 9.2 million (an 12% increase). Population is projected to increase to 9.8 million by 2031, and 10.2 million in 2039 (GLA 2021a). The pandemic reversed these trends at least temporarily, as some households who could afford it relocated outside the capital. Covid-induced changes in demand led to a fall in private rents, particularly in inner and central London, although by early 2022 rents appeared to have risen again to pre-pandemic levels.

3 The landscape: policy, regulation, tax and Covid

Recent changes in the policy landscape for the private rented sector respond to pressures and advocacy from within and without government. Conservative-controlled governments have seen the growth of the PRS as a threat to wider owner-occupation, saying competition from landlords means there are fewer homes for those who want to buy their own. Advocates for tenants criticise aspects of the regulatory framework, especially the fact that there is no tenure security beyond the term of the tenancy, and no limit to rent rises. Government and tenants alike are concerned with the quality of the housing provided, especially at the lower end, and with the behaviour of some landlords, especially so-called 'rogue or criminal landlords' who operate at the margins of legality, exploiting tenants by charging high rents for substandard or dangerous accommodation.

Over the last several years, successive national governments have introduced policies to address some of these concerns, as well as requirements that respond to policy objectives that are not specific to housing (e.g. improving the energy efficiency of buildings). Local governments in London have also used what powers they have (mostly licensing) to address problems in the PRS. Some of the policy changes directly affect tenants--welfare reform in particular--but most impacted initially on landlords. The policy changes affecting the PRS can be categorised into six main areas:

- Tax rises for landlords;
- Property licensing and a strengthened regulatory regime;
- Welfare reform affecting tenant benefits;
- Building safety and energy efficiency requirements;
- Requirement for landlords to check tenant's right to rent (as part of migration policy);
- Promotion of institutional investment and Build to Rent;

A seventh type of policy change, expected to take effect in 2023, is

- Changes in tenancy law, to abolish S21 'no-fault' eviction.

The National Audit Office, in its 2021 report on the regulation of private renting (NAO 2021), observed that the Department for Levelling Up, Homes and Communities (DLUHC, the government department responsible for housing policy) had 'in recent years taken a piecemeal approach to intervening in the private rented sector…(It) does not yet have a strategy for what the regulation of the sector (should) look like as a whole.' The report noted that the Department had not evaluated its recent interventions in the sector, and that the data on the effects of regulation were poor. Looking beyond DLUHC's own interventions, the report noted that Her Majesty's Revenue and Customs (HMRC), the Department for Business, Energy and Industrial Strategy (BEIS),and local authorities all intervened in important ways in the PRS, but that DLUHC had no formal arrangements to monitor the collective impact of these interventions.

Tax changes

There have been a number of changes in the taxation of landlords in the last six years, which broadly resulted in landlords paying higher taxes. The changes have been introduced piecemeal over a period of several years and do not seem to represent a coherent policy approach to the sector. Some changes were introduced without explicit expression of goals and seem to be mainly about revenue raising. Others are not specific to private renting but impact on incentives to invest and on potential returns.

The main changes are listed below. The first three affect all private landlords, whether they own as companies or individuals/couples.

- Maintaining the capital gains tax (CGT) for rented property at 28%, when it was reduced to 18% for other assets 'to provide an incentive for individuals to invest in companies over property' (HMRC 2016)
- Introduction of a 3% Stamp Duty Land Tax (SDLT) on purchases of residential property other than principal homes (2016) 'to try and redress the balance between those who are struggling to buy their first property and those who are able to invest in additional properties' (HM Treasury 2016)

- Requirement to pay CGT on residential property sales within 30 days of sale (previously payable by those submitting self-assessment tax returns [that is, non-company landlords] up to 22 months post-sale) (in the Finance Act 2019; introduced 2020).

Other changes affect only those who own their rental properties outside a company framework; the majority of UK private landlords are in this category. These include

- withdrawal of tax relief on mortgage interest at the landlord's marginal rate, and replacement with a 20% tax credit (phased in over four years from 2017)
- Rise in corporation tax from 19% to 25% from 2023, which will affect company landlords only (announced March 2021).

The effects of recent tax changes on landlords in England were explored in *Private landlords and tax changes,* a 2021 report sponsored by the National Residential Landlords Association and facilitated by the Tenancy Deposit Scheme (Scanlon et al 2021). Based on a survey of 1400 English landlords, the report found the change in the tax treatment of mortgage interest to have had the most effect on landlords' finances (33% said it would be significant to the operation of their businesses), followed by the 3% SDLT surcharge (27%). Overall, 26% of landlords said the tax changes cumulatively had a decisive or major impact on the future of their businesses, causing them to cancel or delay plans for future purchases or to leave the sector entirely. A further 26% said they had had some impact. Importantly, Covid was seen as much less important: only 10% of landlords thought it would have a major or decisive impact on their businesses.

Survey respondents also included some former landlords who had exited the sector in the past few years. Those who had left were a relatively experienced group, many of whom had invested before 2005. Their main reasons for leaving the sector were rising costs, tax changes and potential regulatory change—in particular the anticipated withdrawal of S21 (see below).

Property licensing

The licensing system is of interest both as part of the spectrum of regulation affecting the private rented sector, and because we used the selective licensing public registers as the sampling frame for our fieldwork.

Property licensing is not new—since April 2006, the Housing Act 2004 has allowed local authorities to license privately rented properties in certain areas—but the system has been in continual evolution since it was introduced 16 years ago. In England, there are three types of licensing: selective, additional and mandatory. A mandatory HMO (Housing in Multiple Occupation) licence is required for most properties rented to five or more people who form more than one household. Local authorities can choose to implement additional licensing schemes with wider criteria: for example, covering all HMOs occupied by three or more people.

Our research made use of data from selective licensing schemes. These schemes can be introduced by local authorities that want to license all private rented properties within a defined area. Selective licensing schemes last for up to five years. Local authorities must consult their residents and other stakeholders before introducing a selective scheme, and the Secretary of State's approval is required if the proposed selective-licensing area covers more than 20% of the geographical area, or if the scheme affects more than 20% of all their privately rented homes.

There are currently six permissible reasons for introducing a selective licensing scheme:

- Low housing demand;
- A significant and persistent problem caused by anti-social behaviour;
- Poor property conditions;
- High levels of migration (DLUHC guidance refers to 15% or more over a year, although the figure is not mentioned in legislation);
- High level of deprivation (including employment, income, health, education and housing);
- High levels of crime.

The last four only apply if the area contains a high proportion of private rented properties (above average when assessed against the latest English Housing Survey). When we began the research some selective-licensing regimes in London had been introduced under the previous rules, which recognised only anti-social behaviour and low demand as justifications. All those schemes would have since ended, or been renewed under the new criteria.

Landlords with rented properties in selective licensing areas must apply for a licence and demonstrate that they meet the criteria. Mandatory conditions for a selective licence include

- Annual gas safety certificates;
- Keeping electrical appliances and furniture (supplied under the tenancy) in a safe condition;
- Properly working smoke alarms;
- Supplying the occupier with a written statement of the terms of occupation; and
- Requiring references from persons wishing to occupy the house.

Lawrence and Wilson, in their 2019 review of the effectiveness of selective licensing for MHCLG, said

> Authorities are not permitted to include conditions on the licence that relate to property conditions, despite poor property conditions being one of the six conditions on which a decision to introduce licensing can be based. […] the presence of HHSRS [housing health and safety rating system] hazard does not of itself necessarily constitute a breach of a licence condition. (Lawrence and Wilson, 2019, p. 99)

So even though poor quality can be a reason listed to implement a scheme, it cannot legally be part of the licence conditions.

Landlords must also pay the appropriate fee. In London this ranges from £500 to £900, with an average of £678, according to London Property Licensing. Sometimes there is a discount for accredited landlords. In many schemes the fees do not reflect the remaining duration of the designation—that is, if a landlord purchased a property in a licensed area in 2018 but the designation expired in 2020, the landlord might still have to pay the full fee even if their licence would only be valid for two years[2]. Lawrence and Wilson (2019) suggested prorating the licence fee to remedy this problem.

The intention is that selective licensing schemes should be self-supporting—that is, that the fees charged to landlords should cover the additional administration and enforcement involved. Many authorities have found that there were far more PRS properties, and landlords, than they expected; the unanticipated number of applications put pressure on IT systems and administrative staff, delaying the issuing of licences. Lawrence and Wilson (2019) report that 'genuinely self-supporting (no subsidy) schemes are in the minority and typically have higher licence fees. The largest single

[2] This is a complex area of law but licences can, and often do, extend beyond the end date of the licensing scheme, following successful Tribunal appeals that have considered this issue.

cost of operating a scheme is staffing, therefore setting a fee too low to cover this cost adequately has significant consequences' (p. 10).

Licensing simplifies the local authority's enforcement duties by providing a clear distinction between licensed and unlicensed units. Moreover, it allows authorities to intervene more easily, as they do not have to give 24 hours' notice to inspect a property for an alleged licensing offence. Properties that require licences but do not have them can be hard to identify. Some authorities resort to door knocking, which presents its own challenges.

In its 2021 report on regulation of the private rented sector, the National Audit Office noted that there was considerable variation in the approach to regulation across local authorities, and that DLUHC had 'limited data on what tools and approaches are used by local authorities and therefore cannot meaningfully analyse which are more effective at improving compliance and protecting tenants' (NAO 2021 p. 9).

Welfare reform, building requirements and right to rent

In addition to tax changes, licensing and Covid (discussed below), other developments have affected the context in which landlords operate their rental businesses. These include

- *Welfare reform*, including the incorporation of housing benefit into Universal Credit for new applicants, the application of a benefit cap, and a series of changes to the way local housing allowance is calculated. These changes effectively reduced the amount of benefit that low-income tenants can claim to cover private-sector rents.
- Increased building *safety and energy efficiency requirements*. Flammable cladding still has not been removed from all tall buildings in the wake of the Grenfell Tower fire of 2017, and in many cases, there is no clarity yet about who will cover the associated costs. Since 2020, new energy efficiency regulations have made it unlawful to rent out a domestic property with a low energy-efficiency rating (EPC rating F or G).
- Landlords in England are required to verify that tenants have the *'right to rent'* (that is, that they are legally present in the UK). Landlords who rent a property to someone they knew or had 'reasonable cause to believe' did not have the right to rent in the UK could be subject to up to five years in prison.

Looking to the future, the government has announced its intention to *abolish so-called 'no fault' evictions* under S21 of the Housing Act 1988, which allows private landlords to require their tenants to leave at the end of the tenancy without giving a reason (Wilson & Barton 2021). The change will create an effectively indefinite default lease (as with the private residential tenancy introduced in 2017 in Scotland), with specific grounds for eviction such as where the property is needed for the landlord's own use. This proposal is broadly opposed by private landlords, and supported by tenant advocates.

Promotion of institutional investment and Build to Rent

Like previous governments, the current administration believes that the quality of the private rented sector would be improved were professional, institutional landlords to play a bigger role (DCLG 2017). Such landlords purchase or, more often, forward fund purpose-built all-rental housing, usually in the form of high-density blocks of flats. Institutional landlords are seen to perform better than small, 'amateur' landlords in several ways, including the quality and consistency of the rental units themselves and the management. In addition, many institutional landlords effectively offer indefinite leases, providing greater security of tenure. The mainstream product does not sit in the lower end of the PRS (rents tend to be in the upper quartile of local rents), although new-build schemes are usually required to provide some 'affordable private rent' units as a form of affordable housing.

Ten years ago, the Build to Rent sector did not exist in the UK. It has grown very rapidly in the last decade, with major investments by both overseas-based firms (many from the US and Canada, where so-called 'multifamily' housing is an established industry) and major UK investors such as Legal & General. To date most Build to Rent schemes are in London. They tend to be located around tube stations in zones 2 and 3, with fewer schemes in outer London or neighbourhoods with poor transport connections.

The effects of Covid

The Covid pandemic had pronounced effects on the private rented sector, as on most other types of business. The first lockdown was imposed in March 2020, and over the next two years there were several cycles of lockdown and relaxation of restrictions. Demand for rented property in London fell as students and some migrants returned home, and Londoners—many now working from home—relocated outside the capital. Despite the generous furlough scheme for most of those whose jobs were affected, many tenants lost income and could not pay their rent. To protect private tenants in England, the government instituted a ban on evictions and encouraged landlords to negotiate with tenants experiencing financial difficulties. Local Housing Allowance was also increased somewhat (although not back to pre-2011 levels) which meant that in London, about 20% of those whose housing support had previously been restricted saw those restrictions removed (Hatfield 2020). However there were no loans or grants for tenants, unlike in Scotland and Wales. Landlords with buy-to-let mortgages could apply to their lenders for a temporary suspension of mortgage payments, but were ineligible for government assistance extended to other types of business.

During the early part of the pandemic widespread fear of travel and exposure to crowds, combined with official restrictions on travel, meant that the market for short-term lets (Airbnb etc) evaporated. In London as elsewhere, there were anecdotal reports of landlords offering former Airbnb properties for longer-term tenancies and as temporary accommodation (TA) for statutorily homeless households.

4 Stakeholder interview findings and case-study selection

We conducted 20 interviews for this project, in two sets. In the first group we spoke to stakeholders with a good knowledge of private renting in the capital, including local-authority officers, landlord organisations, tenant advocates and academics. The second set was with landlords who had responded to the online survey and volunteered to be interviewed. To enable interviewees to speak freely we said we would not use their names in our reports.

The stakeholder interviews were mostly conducted shortly before the onset of Covid. At the time we were planning a more ethnographic research approach, including in-person interviews with tenants and landlords in tightly drawn neighbourhoods (a few streets) within selective-licensing areas. We had not yet identified the case-study areas, and one of the intentions of this set of interviews was to collect stakeholder views about potentially suitable areas. We also asked about their views of borough licensing systems and procedures, as we wanted to understand how the regime was seen to work, and about the effects of recent policy changes on landlords and tenants in London.

Findings from stakeholder interviews are reported below, organised by theme. Findings from the landlord interviews are reported together with the findings from the online survey, and appear later in this report.

The rationales for licensing

Stakeholders identified several rationales for licensing. Local authorities could determine how many landlords operated in their areas (they tended to underestimate the number, according to one interviewee). The better landlords tended to register, so 'rogue' landlords could be identified through a process of elimination—some boroughs had experimented with triangulating licences with information about benefit recipients and other administrative data to identify unlicensed landlords. This had been easier before the introduction of Universal Credit, as this had eliminated housing benefit with its direct link to housing costs.

Licensing could be an aid to enforcement, as one local-authority officer said:

> *Selective licensing has made enforcement easier in some areas. If landlords are not licenced, it is easier to penalise them. For example, if a landlord wants to use S21, it might not be valid if there is no licence.*

Effective enforcement relied on good intelligence, ideally from tenants. However not all tenants understood or trusted the system:

> *An environmental officer in (one London borough) said many people in bad rented accommodation came from Eastern European countries where there was a lot of local government corruption, and they assume they'll have to pay (a bribe) to get anything done. The officers have to assure them that it won't cost them anything. This is a problem because it is difficult to get people to report bad landlords.*

Local-authority interviewees said resources derived from licensing fees allowed boroughs to step up enforcement because they could afford to hire more staff. Some interviewees reported that landlords often took a cynical view, seeing licensing as purely a money-making exercise.

We heard that Harrow and Redbridge were combining immigration control with selective licensing enforcement. One interviewee said this was counter-productive:

> *This is a very short term fix because people will stop reporting and the enforcement team will lose all intelligence.*

Difference in practice across boroughs

Interviewees observed that there were important differences in practice across boroughs with regard to licensing and enforcement. *Licensing itself is only as strong as enforcement,* one interviewee said. A few boroughs routinely inspected licensed PRS properties, but most did not—one interviewee said, *Some like Newham are more proactive with enforcement, while others like Waltham Forest do almost nothing.* Even if inspections were standard, it could take years before a property was visited.

The licensing applications, and the public registers, also took different forms in different boroughs. One borough officer told us they were unable to send communications to all licensed landlords, or all landlords in a particular area, because to extract email addresses it was necessary to open each individual record in the register. Another interviewee said,

> *The names (of landlords) are hard to find, often you have to look for a PDF or a spreadsheet and it's a mess.*

The Greater London Authority (GLA) operates a PRS Partnership for boroughs to share best practice, but has no power over enforcement rules. The Mayor would like devolved power to approve selective licensing schemes, which would ensure more consistency of fees and enforcement.

The effect of licensing on tenants

Some interviewees were sceptical about the utility of licensing for tenants—especially for those at the lower end of the sector. One borough officer said,

> *When applying for a new licence, the landlord has to give information on the tenant but by the time the file is processed by the council, a complete different set of tenants might have moved in… Tenants don't understand the licensing system. Those who don't need it might get it, in the more gentrified areas for example. The vulnerable tenants--those who really need it--do not understand the benefits of it.*

We heard that some boroughs were working on ensuring that tenants knew their rights and could be better supported, using management orders to take over the management of a property for a period of time, and/or making repayment orders to require landlords who had not followed the regulations to reimburse their tenants. One borough

> *…has a project through MHCLG's Controlling Migration Fund, which has two migration support officers. They go out with enforcement officers to engage with tenants and give housing advice and holistic support. This also funds a civil enforcement officer who works on rent repayment orders and a research officer who does work on rogue landlords and migration and rent-to-rent.*

How to identify 'the lower end' of the PRS

Interviewees observed that the existence of selective licensing in a local area, or across an entire borough, did not necessarily imply that licensed properties were in the lower end of the PRS. One local-authority interviewee said

> *It would be interesting to see a map combining selective licensing areas and deprivation areas to see if selective licensing is tackling the bottom of the PRS.*

In Hammersmith and Fulham, according to another interviewee, many of the properties were in the upper quartile; at the other end of the spectrum,

> *The lowest 5% of the PRS is very grim, with a lot of overcrowding. At the very bottom of the PRS we're really talking about slavery... At the very bottom, new policies don't change things much – these (tenants) don't claim benefits and they aren't properly paid so often they don't have any choice in accommodation.*

Another interviewee said,

> *People who would have gotten social housing years ago now live in the PRS. The most vulnerable groups are at risk of homelessness (if they lose their PRS tenancies)… The question of the bottom of the PRS is linked to immigration policy. Often people with irregular immigration status live in the worst accommodation, with lots of overcrowding—there are examples of this in Brent.*

Effects of other policies on the PRS

Interviewees said changes in welfare and legal policy, whilst not specific to housing, were affecting the lower end of the PRS. According to one local authority interviewee,

> *The biggest change in the PRS has been brought about by welfare reform, which has severely affected the purchasing power of tenants. In the future, the end of S21 will have a big impact.*

And a tenant advocate said

> *Access to justice is a joke—cuts in legal aid mean the agencies who relied on it have closed. Few lawyers will take on housing cases, and even if they do they won't work fast enough to forestall evictions*.

Interviewees' views of potential case-study areas

We planned to use borough selective-licensing registers to contact landlords. In addition, selective licensing itself was one of the policy interventions we wanted to explore in the research. Some 13 boroughs had selective licensing schemes in 2020, when the project fieldwork began (Figure 1). In three boroughs the schemes were very new, but in ten[3] they had been in operation long enough to expect some effects. We asked interviewees for their views as to suitable case-study areas in these ten boroughs, given that we wanted to look at conditions in the lower end of the PRS.

[3] These ten were Bexley, Brent, Croydon, Ealing, Hackney, Hammersmith and Fulham, Harrow, Redbridge, Southwark and Tower Hamlets.

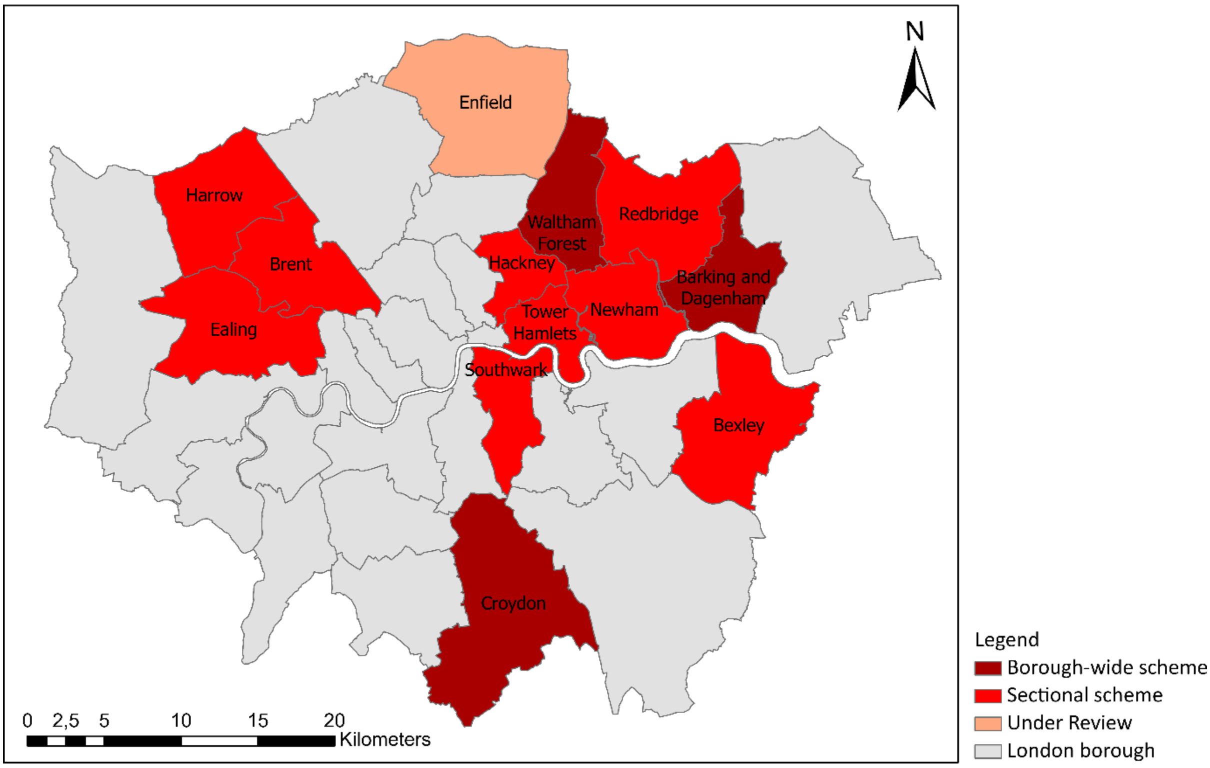

Figure 1: London boroughs with selective licensing schemes in 2020

Interviewees observed that the initial criteria for designation of a selective licensing area were low demand and anti-social behaviour (ASB) associated with the PRS; in London there were effectively no low-demand areas so only ASB was taken into account. One interviewee said,

> *Some authorities get the relationship the wrong way, and suggest that a high proportion of PRS causes bad conditions in the neighbouring area. Actually the causality was the other way around—if there are bad conditions in the neighbourhood then only people with no choice will want to live there.*

In Hammersmith and Fulham, the list of streets where selective licensing was required related to ASB complaints, which turn were strongly correlated with proximity to local pubs. Croydon was rather different: the entire borough was covered by a politically high-profile selective licensing scheme, but it could be a challenge to choose only a few streets for research. Barking and Dagenham was another authority with a borough-wide scheme, but generally lower rents. Tower Hamlets, with three selective licensing wards, presented a strong contrast between luxury new-build flats and older, dilapidated housing stock; there were many families in the PRS in Poplar, and a high concentration of Airbnb rentals around Brick Lane. Bexley was interesting because it was the only Conservative borough on the list. In Southwark the selective licensing system in place at the time (since replaced) covered individual streets that were characterised by retail/commercial on the ground floors and residential above. There was research to suggest that residential satisfaction was lower in such areas, and ASB was higher; there was an ASB hotspot around the Northern Line. In Newham, Little Ilford was the area that first had selective licensing—which originally covered fewer than 100 homes. Brent was said to be pro-active in terms of PRS enforcement, like Redbridge.

Final case-study selection

Our survey methodology was based on sending survey invitations to landlords and tenants in three areas of London; the contact information for the landlords, and the addresses of the rented properties, were to come from boroughs' selective licensing registers.

We decided to choose boroughs with small selective licensing areas rather than borough-wide schemes, for two reasons: first, the PRS in small selective licensing areas arguably had worse-than-average conditions (and therefore might represent 'the lower end' of the sector); second, the smaller areas allowed us to retain at least to some degree the limited spatial focus that we initially wanted for the project.

Our selection about case-study areas was conditioned by three main criteria. We were looking for

- a geographical spread across London, including selective-licensing areas in both inner and outer London boroughs
- case-study areas with contrasting housing stocks
- areas with a range of demographic characteristics

In practice, however, a fourth factor proved to be the deciding one: whether we could get the landlord registers in order to access the data. Some of the boroughs on our initial short list were ruled out for this reason—either the borough did not routinely make this data available (despite the legal requirement that it should be), or were unable to share data because of the format in which it was held.

The final case studies were as follows:

Table 1: Final case study areas

Borough	Selective licensing area(s)	Characteristics of the area
Bexley	Thamesmead East	Outer London Mostly 1970s single-family homes High % of Black African and Black Caribbean residents
Southwark	Walworth Road Old Kent Road	Streets rather than wards or neighbourhoods Mostly flats above shops Central/inner London High % of young adults Mix of ethnicities
Redbridge	Ilford	Outer London Former industrial centre Victorian and Edwardian terraced houses Very large PRS relative to the other areas High % of Indian, Pakistani and Bangladeshi residents

The next section contains pen portraits of each area.

5 The three case-study areas

Profile of Thamesmead East (LB Bexley)

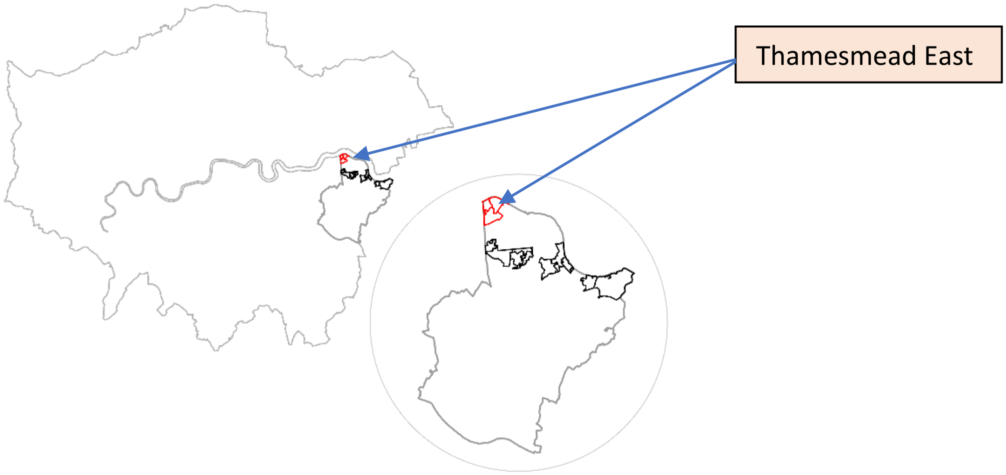

Figure 2: Location of Thamesmead East in London and the borough of Bexley

Bexley's Thamesmead East selective-licensing area sits in the northwest corner of the borough, abutting Greenwich to the west and the River Thames to the north[4]. It is a sector of the vast Thamesmead Estate, originally planned as an urban new town by the GLC in the 1960s. Thamesmead is best known for three brutalist concrete blocks of social rented flats in South Thamesmead that featured in the film *Clockwork Orange* and became a symbol of urban decay, but there is much more to this vast estate, which covers 525 hectares or more than two square miles. In our case-study area the housing, which is almost entirely private, was mostly built in the 1970s and comprises small single-family homes (mostly brick terraced houses) and three- and four-storey blocks of flats. The curved streets and cul de sacs weave around the man-made canals and water features that were part of the original 1960s layout of Thamesmead. Some of these areas are attractively landscaped, with mature trees, little bridges and riverside walks; others are fenced off and graffiti-covered.

The original design of the area was strongly focused on the private car, and the Thamesmead is bisected by a short length of dual-carriageway (meant to lead to a tunnel under the Thames, never built) feeding into an enormous, elevated roundabout. The neighbourhood is poorly served by public transport: the closest train station (Abbey Wood) is 2 ½ miles away, and most of the neighbourhood has a Public Transport Accessibility Level (PTAL) score of 2 (out of a possible 6). Residents clearly rely on their cars: most homes have one or two (or more) in their driveways, and the narrow streets are lined with parked vehicles.

Bexley instituted selective licensing in October 2018. The council charged £730 per property in 2021/21.

[4] See Annex B for further maps.

Figure 3: Typical housing stock in Thamesmead North selective licensing area

Figure 4: Canalside green area in Thamesmead selective licensing area

Like other parts of Thamesmead, the neighbourhood is striking for what it *doesn't* have: shops, pubs, churches, doctors' surgeries….in fact the only obvious local facilities are schools. Everything else is located in an American-style strip mall or a small retail concentration around Abbey Wood station.

There are no build-to-rent schemes within the Thamesmead East selective licensing area, but there are some blocks built as part of a major regeneration scheme in progress a few miles to the south around Abbey Wood Station, which will be served by the Elizabeth Line.

Demographics

The ward of Thamesmead East has a population of 13,500[5]. Compared to London as a whole, a higher proportion of its residents are children and a lower proportion are people in their 20s and 30s. This is broadly speaking a neighbourhood of families. There is a strong concentration of Black Africans, who make up 35% of residents—the second highest after White British at 40%. In terms of housing, 18% of households rent privately—about half the proportion that live in social rented housing (38%). 12% of households are overcrowded.

Profile of Walworth Road and the Old Kent Road (LB Southwark)

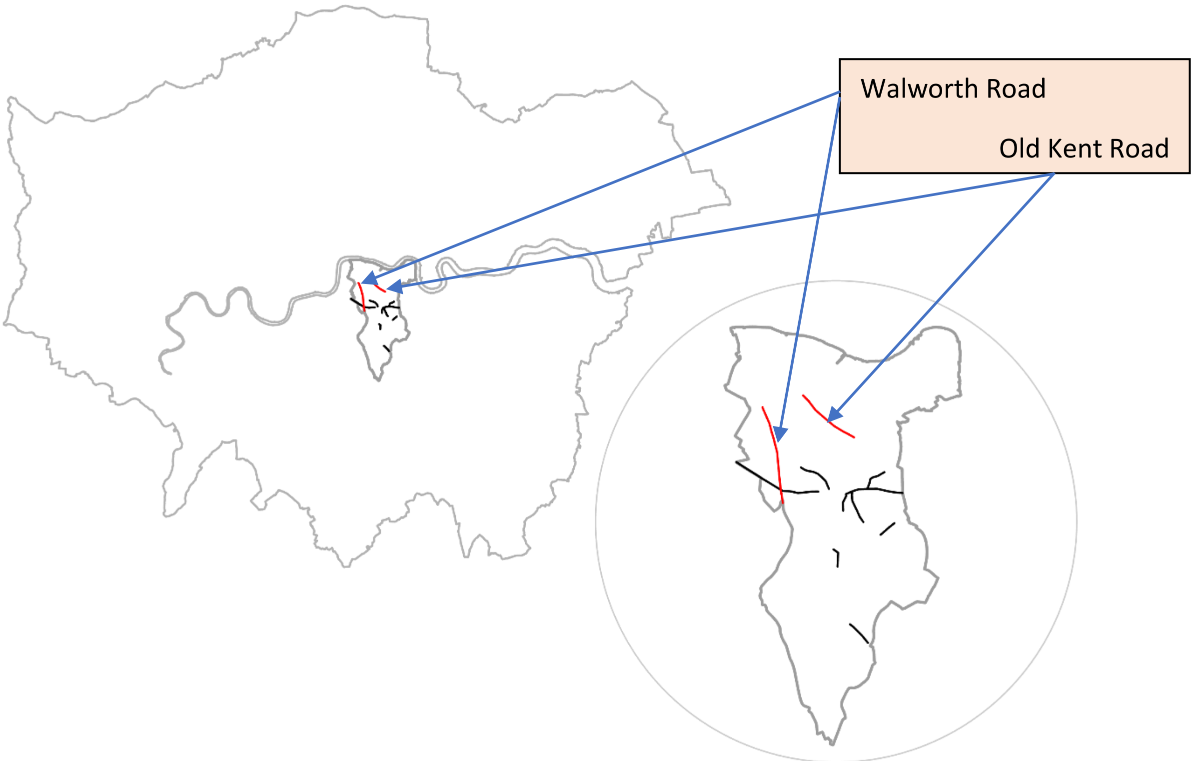

Figure 5: Location of Walworth Road and the Old Kent Road in Southwark

Until December 2020, Southwark's selective licensing areas were streets (mostly local high streets) rather than wards. Unlike the other two case-study areas, Walworth and the Old Kent Road are not a cohesive whole but arteries that run through several neighbourhoods. The two streets meet at Elephant and Castle, an important transport interchange and road junction in south London. See Annex B for further maps that show the case-study areas in borough context.

The Old Kent Road has a long history of connecting the capital to the coast (hence 'Kent' in the name), having done so since the Roman times. The corridor was an important industrial location but most of the buildings developed through the 19th and early 20th centuries were destroyed during

[5] All data from GLA's London Area Profiles https://data.london.gov.uk/london-area-profiles/

the Second World War, as the road was a major bombing target. After the war, new council housing and storage and distribution centres were built, and one bombed area became Burgess Park.

In some senses this is central London: both streets are in Transport for London's Zone 1 (of six), and from their northern ends it is only a short bus or tube ride to Westminster or the City. Yet compared to equally accessible areas north of the river, Walworth and the Old Kent Road were for long left behind. When the British version of Monopoly came out in the 1930s, the Old Kent Road was the cheapest property on the board, and even now has a reputation for shabbiness. Its main landmark is a Tesco with a vast parking lot. Both streets are home to longstanding communities of white working-class Londoners, but recent decades have seen strong growth in particular ethnic communities. Elephant and Castle is a major centre for London's Latin American community.

The wave of densification and regeneration evident along the south bank of the Thames has now reached these case-study streets. Major schemes include the demolition of the Heygate and Aylesbury Estates and their replacement with mostly-private high-rise blocks, including several build-to-rent schemes; the planned replacement of the 'iconic' Elephant and Castle shopping centre with a new mixed-use town centre; and the construction of tower blocks such as Strata SE1 (the last two just outside the case-study area). These changes will have long-term impacts on the surrounding neighbourhoods and streets, and many local people have opposed them.

Purpose-built private rental block on the Old Kent Road, on former site of the Heygate Estate

The Old Kent Road may see even more radical change. The planned extension of the Bakerloo Line would, if undertaken, hugely improve transport accessibility to the central portion of the Old Kent Road. In anticipation, Southwark Council put together the ambitious Old Kent Road Area Action Plan for transport-oriented regeneration, which would see low-rise retail sheds swept away and replaced with high-density residential development. However, funding for the scheme has not been secured and since Covid the plans have been put on hold.

The Walworth Road, an important north-south artery, was largely developed in the 19th century by speculative builders with a mix of warehouses, factories and lower quality housing. Like the Old Kent

Road, this street was heavily affected by WWII bombing (around Elephant and Castle, a third of the buildings were destroyed), and was redeveloped in the following decades. The street is now a busy local high street, punctuated by one of London's biggest street markets. Much of the housing consists of flats above shops.

Figure 6: Flats over shops, Walworth Road

Demographic statistics are commonly reported by ward but unlike Thamesmead and Ilford, the selective licensing areas studied in Southwark did not align with ward boundaries but ran through several. The demographic profiles given here are for the wards of Newington and East Walworth: Walworth Road forms the border between the Newington and East Walworth[6] wards for much of its length, and East Walworth also encompasses the southern side of the Old Kent Road. The figures are thus indicative only, as some parts of the selective licensing areas lie outside these wards, and the wards also encompass areas that were not covered by selective licensing.

Newington, covering the western part of the area studied, has a population of 15,300. The age profile is young relative to London as a whole, with a markedly high proportion of 20- to 35-year olds. Ethnically the area is very diverse, with 36% white British and 13.5% 'other white' (presumably including many Latin Americans). 19% are of Black African ethnicity, and 10% Black Caribbean or other Black. Household incomes lie below the average for London overall. 20% of households live in the PRS, while more than half live in social rented housing. 17% of households are overcrowded.

East Walworth, with a population of 14,200, is similar in many ways: it has a high proportion of young adults, a mix of ethnicities including many Black Africans and Black Caribbeans, but relatively few Asians. About a quarter of households live in the private rented sector. 19% of homes are overcrowded, and crime is high with the entire area in the first decile for crime.

The selective licensing scheme in place in Southwark has been replaced with a new scheme since the research was carried out. The new scheme which covers five wards, rather than individual streets as

[6] Ward designations and boundaries in Southwark have since changed, but the demographic statistics are based on the ward boundaries as of the 2011 census.

before. The standard fee for a selective licence when we carried out the research fieldwork was £536, but under the new scheme, which started 1 March 2022, the fee is £900.

Portrait of Ilford (LB Redbridge)

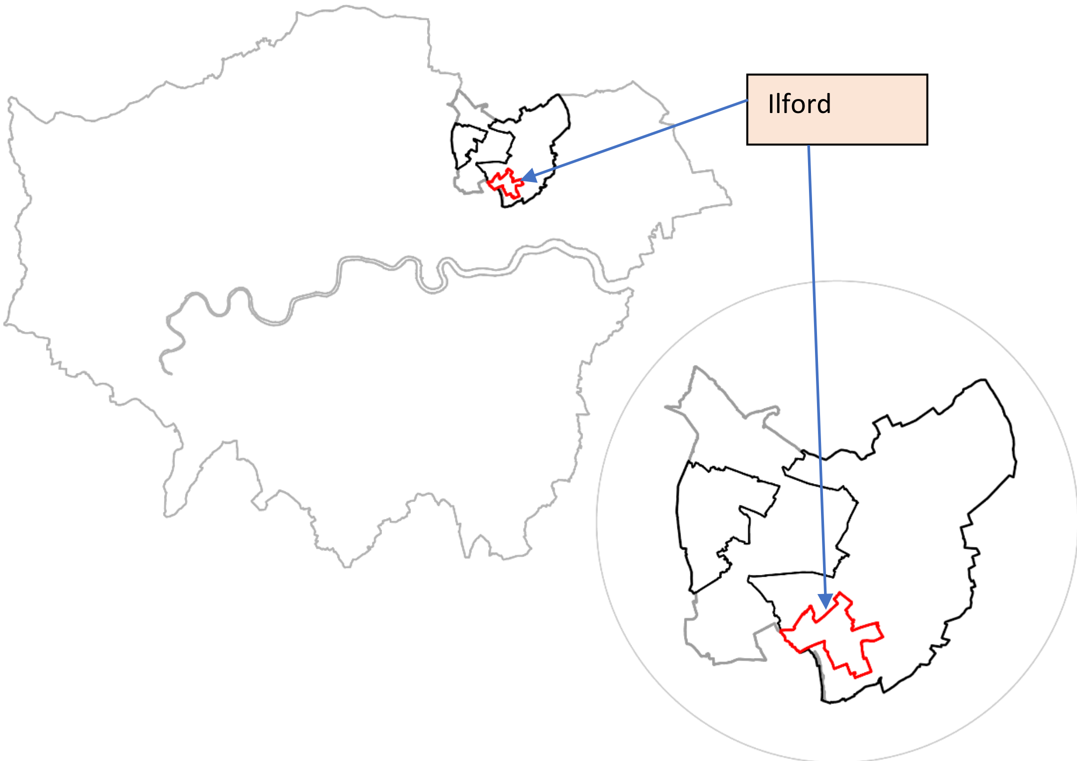

Figure 7: Location of Ilford in Redbridge

Ilford, formerly in the county of Essex (it does not have a London postcode) is the most important town centre in outer east London and the location of Redbridge Town Hall.[7] Originally a medieval settlement, the area was mostly settled after World War I. The town centre was redeveloped in the 1960s with the destruction of several historic buildings, and again in the 1980s. It was at one time a major London shopping centre but has been challenged by the competition from Lakeside Thurrock and Westfield Stratford. One London observer noted in 2013 noted that 'The Benetton store has been taken over by a pop-up fruit and veg shop. The elegant art deco department stores of the 1920s now house the Money Shop, Premier Work Support, Superdrug and Lidl' (John Rogers, quoted in Pope 2020, p. 493).

The selective licensing area was the first designated in Redbridge and acted as a pilot; later designations expanded the selective licensing zones to cover much of the borough. The Ilford zone encompasses the town centre around the railway station; Ilford Station is one of the stops on the Elizabeth Line (Crossrail), which was due to open in 2018 and is now expected for later this year. The zone is partly bordered on the west by the North Circular, and is bisected east-west by a railway line; a few hundred yards to the south runs a stretch of dual carriageway with a large roundabout. The

[7] See Annex B for further maps.

services depot for Bombardier trains occupies a large site next to the railway in the town centre, a rare survival of a major industrial facility in London.

Within the selective licensing zone, which extends north and south of the railway that bisects the town centre, much of the housing stock consists of early 20th-century houses on regimented ladders of streets, with some high-rise blocks around the station including build-to-rent.

The borough of Redbridge is one of the most ethnically diverse places in the UK—Ilford in particular (Travers 2019). Many of the substantial houses have been divided into HMOs, let mainly to migrants. Ben Judah in 2016 described the area thus:

> Down terrace after terrace, hundreds of bay windows glow. These were once desirable suburban addresses: on Henley, Windsor and Hampton Road. But today these are where you find the immigrant share rooms. The ones they advertise on Polish websites, or in little cards stuck in grubby windows of the Pakistani newsagents….today the white British population of these dingy streets south of Ilford station is around 10 per cent. (Judah 2016, quoted in Pope 2020 p. 494)

Ilford has a recognised problem of 'beds in sheds' (accommodation in sheds, garages or other structures in gardens), but our survey methodology was unlikely to capture landlords engaged in this mostly illegal activity.

Figure 8: High Road, Ilford—within the selective licensing zone

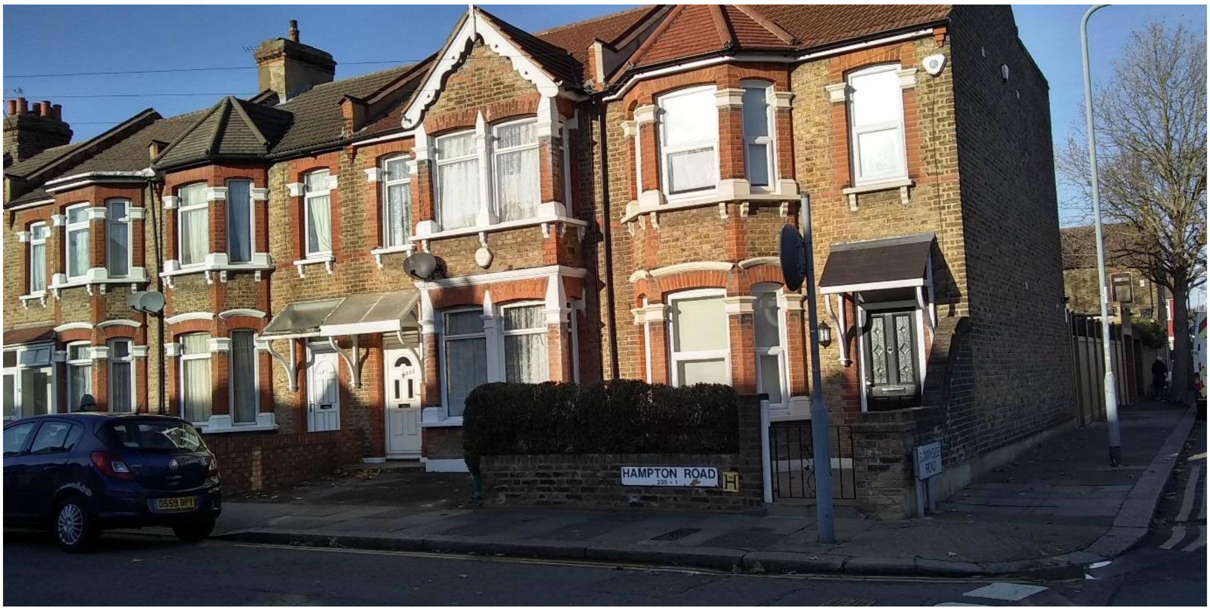

Figure 9: Hampton Road, Ilford—typical housing stock in the selective licensing zone

The Ilford selective licensing zone spans the wards of Valentines to the north and Clementswood to the south. Valentines has 15,800 people, and the age profile resembles that of Thamesmead, with relatively high numbers of small children and adults in their 30s. Ethnically the ward is distinctive in that 29% of residents are of Indian ethnicity and a further 35% are Pakistani or Bangladeshi. Compared to the other case-study neighbourhoods the dominance of the PRS is striking: 41% of households live in private rented housing compared to only 9% in social housing. Clementswood is similar in most respects.

The selective licensing scheme in Ilford came into force in 2017 and will last until July 2022. The fee in 2020, when the fieldwork was carried out, was £604.

6 Fieldwork: Registers and surveys

The information on the landlord registers allows an initial comparison of the boroughs where our three research areas are located. There is prescribed information the public register must contain, and all contained the same basic information, including the address of the licensed rental property; the name and address of the licence holder and the name and address of the person managing the property; and information about the licence itself including expiry date. Registers from Bexley (1,519 properties with selective licences) and Southwark (1,071) contained no further information, but the Redbridge register (7,572 properties) included some information about the rented property including the number of storeys, number of rooms and number of bedrooms. Annex C contains a more detailed comparison of the information available on each register.

It was clear from the Bexley register that there were some streets with high concentrations of PRS properties. Across the selective licensing areas in the borough there were eight streets with 25 or more licensed properties, including one (Frobisher Road in Erith—not in our case-study area) with 86.[8]

The information from the registers enables this spatial analysis of rented properties, and provides some limited evidence about landlord characteristics (see below). However, as a research tool for identifying and contacting landlords, the registers are useful but far from ideal. On a purely technical level, even if the registers held the same information, it was not always in the same format: postcodes appeared in separate cells on the Southwark register (making mapping easier) but were part of the address block in the other two registers. The most convenient method for researchers (or indeed local authorities) to contact landlords is by email, but the registers as published did not contain email addresses[9].

More fundamentally, although we refer to the documents as 'landlord registers', in fact they record information about licence holders—who may or may not be the owners of the property. The registers give information about property managers, where these are different from the licence holder. In all three areas, most records listed no managing agent, suggesting that the licence-holders themselves were managing the homes. Specialist rental property agents appear on all three registers, including one agent based near Tower Bridge who was listed as manager of 120 properties as well as licence holder for a further 64.

The survey procedure

Using Qualtrics, an online survey software, we designed separate questionnaires for landlords and tenants[10]. The questions drew on previous LSE London research and on standard surveys of landlords and tenants.

The sample comprised up to 300 landlords and 300 tenant addresses in each borough, which encompassed all or almost all of the licensed properties for each case-study neighbourhood. We expected to email landlords' survey invitations and hand-deliver tenants' survey invitations. However we found that landlord registers did not contain email addresses and the pandemic precluded hand delivery. We therefore posted specially-designed survey invitation postcards to licence holders of properties on the selective-licensing register in our three case study neighbourhoods. In many cases these were agents, not the ultimate owners, as noted above. At the same time we sent invitations to the tenant survey to the corresponding rented properties, with reminders to both groups two weeks later. In all we posted 1789 initial invitations and the same number of reminders.

The overall response rate was 6% for landlords, with 55 respondents across the three neighbourhoods (14 from Thamesmead, 28 from Ilford and 13 from Walworth and the Old Kent Road)[11]. Disappointingly, the response rate was much lower for tenants at just 1%. On the basis of

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[8] In Southwark the properties are by definition concentrated in certain streets as until 2020 that was how the borough's licensing system worked. In Redbridge the format of the register made it difficult to extract addresses in bulk.

[9] Local authorities do generally collect email addresses where available but they are not usually provided in public versions of the registers.

[10] The full texts of the questionnaires are available on request.

[11] We also produced a survey for any landlord with property in London, which was distributed through several online landlord forums, with the idea that responses would serve as a benchmark for the neighbourhoods. However there were few responses and we have not used the data in this report.

previous research we anticipated a low response from tenants, especially in areas with a concentration of households whose first language is not English. We had intended to follow the survey invitations up with door-to-door approaches to tenants, using researchers with language skills appropriate to the demographics of each neighbourhood, but again Covid ruled this out.

Many of the survey questions related to a single rental property. Respondents who only owned one property were asked about that one; multi-unit landlords were asked about the property they had most recently acquired.

7 Findings: landlords and properties

Profile of landlords in the three neighbourhoods

This section looks at the profile of landlords in the three case-study areas. Figures should be regarded as indicative, as the sample sizes are small.

Survey respondents from the three case-study neighbourhoods were all landlords except for two agents in Ilford. 89% owned the properties as individuals or couples, rather than through a company—in line with national figures.

All major surveys of UK landlords (and indeed those in other comparable countries) indicate that most landlords own only one or two rental dwellings, and this was the pattern in these neighbourhoods as well. Across our surveyed landlords, about half (47%) owned a single property, and most (71%) owned 3 or less. At the other end of the spectrum, 9% owned more than 10 properties. (Note that their other rental units were not necessarily located in the case-study neighbourhoods.) Southwark landlords were most likely to own a single unit, while landlords in Ilford were more likely to have larger portfolios (37% had 4 or more properties). More than half of Ilford and Thamesmead landlords said they had more than one rental unit in those areas—confirming other evidence that landlords' portfolios tend to be spatially concentrated, often in neighbourhoods where they themselves live or that they know well.

Ethnicities and locations of landlords

We classified the 300 shortlisted landlords in each area by ethnic origin based on the names of licence holders as they appear on the register. The ethnicities of landlords differed markedly across the three areas: In Ilford (Redbridge), 233 of the 300 shortlisted landlords (78%) had names indicating south Asian ethnicity or national origin. This reflected the demographic characteristics of the borough as a whole, where 53% of the population are BME and the largest migrant population by country of birth is from India (Trust for London 2021). Our survey responses broadly reflected these patterns. Across the three case-study areas, of the landlords who answered the question on ethnicity 21% were Asian or British Asian and 16% were Black/African/Caribbean/Black British.

The licence holders' addresses suggested that they were primarily local. Looking at the Ilford sample, 191 of 300 (64%) had addresses in Ilford or neighbouring Romford, and almost all of rest were elsewhere in greater London. Only four had overseas addresses. Generally, most councils do not issue licences to overseas landlords but require them to appoint UK-based licence holders, often the managing agents. In Ilford there were only eight clearly identifiable letting agents amongst the licence holders, although it is possible there were others who could not be identified by their name or postal address.

In Walworth and the Old Kent Road (Southwark) our shortlist was 294 licence holders of which 29 (10%) were obviously agents, although again there could have been more. Of those who were not obviously lettingletting agents, 58 (22%) had surnames indicating south Asian ethnicity or national origin and there was a wide range of other apparent ethnicities or national origins. While in Ilford 64% of licence holders lived locally, Southwark licence holders were less likely to be from the area: only about a third lived in the borough. There were just two overseas addresses in Southwark sample, although it seems likely that some of the properties in letting agents' names could belong to investors from abroad.

In Thamesmead, 32 of 300 properties (10%) were listed under the names of letting agentletting agents. Some 79 of the 268 licence holders who were not clearly letting agents (29%) had names that appeared to indicate African origin or ethnicity. Again this corresponds with the pattern in the borough: according to GLA figures, 21% of the population of Bexley is BME, and the largest migrant population by country of birth is Nigeria. Exactly half had addresses in the local area, and there were no overseas addresses in this sample from the register.

Interviews with landlords confirmed that they saw advantages to operating in familiar territory. One Thamesmead landlord said

> *Well, I live (here) myself. So I thought it was good to be fairly local initially, and if I'm perfectly honest, the properties were compared to other areas still very cheap.*

Asked why they had purchased in Ilford, another landlord said

> *I've got family here. All of my family: my siblings my parents--everyone lives in Ilford. It just makes sense for me to stay within the vicinity and nearby. One, we can help each other out and number two you know it's just easy to sort of get together if God forbid, if there's any problem or anything.*

Financial and management arrangements

Across all three neighbourhoods, about 40% of the rental properties we asked about were mortgaged. Most of our respondents managed their properties themselves, without the assistance of an agent (58%). Landlords in Ilford were noticeably more likely to manage their properties themselves, with 70% saying they did so. Many landlords had regular dealings with their tenants and some came to know them well (for better or worse), as indicated by remarks such as

> *The tenant in Thamesmead, she's a very highly qualified nurse, so I'm sure she's incredibly busy and working.*
>
> *(A)lmost the first few days that [the tenant] had been in there, they had a problem turning the oven on or off.… The son is very, well, you know, very polite, very nice.*
>
> *I rent the house to the person who sold the house to me (but) I didn't realize he's a kind of hoarder who accumulates anything and everything and the whole house has become an accumulation of things.*

I know every one of (my tenants) personally. I actively manage my properties. I've got … medical students in one (property) so that's the whole house is taken by them. And one is an HMO, rented room by room. They're all young couples, primarily East European and European actually Italians as well, Spanish as well. They are just working people.

<u>Property acquisition: when and why</u>

There was a fairly even spread in terms of length of ownership: about 1/3 of units had been acquired before 2005, while at the other end of the spectrum about 20% had been acquired in 2015 or later. The median date of acquisition was between 2005 and 2009, suggesting most properties had been in the landlords' ownership for at least 11 years. If anything this understates the average time that landlords had owned their properties, since multi-unit landlords told us about their *most recent* acquisition, so any other property/ies would have been acquired earlier.

Three-fifths of properties had been acquired as rental properties, while 39% were originally the landlords' own homes. Ilford landlords were most likely to be renting out their former homes, with 47% saying they had acquired their most recent property in order to live in it themselves.

Profile of rented properties in the three neighbourhoods: the lower end of the PRS?

Our goal for this research was to look at the behaviour and incentives of landlords serving the ***lower end of the private rented sector.*** Using selective licensing areas seemed to offer a good way of doing this: these areas have identified problems related to the private rented sector, and the licensing system itself provided a way to identify and contact the landlords. Official data on rents are not granular enough to compare figures at neighbourhood level, or across property sizes, but figures for lower-quartile rents by borough appear in Table 2 (updated to 2021 prices). For the purposes of the research, we classified properties renting for less than or equal to this as being in the lower end of the PRS.

Table 2: Lower-quartile rents in case study boroughs

Case-study borough	Average lower-quartile rent 2020
Bexley (Thamesmead)	£893
Redbridge (Ilford)	£1072
Southwark (Walworth & Old Kent Road)	£1327

Source: Authors' calculations based on VOA rents data and ONS index of private rents

Some 41% of units for which we had information (one per landlord) fell into this admittedly basic definition of the lower end of the PRS (26% in Ilford, 57% in Thamesmead and 45% in Southwark). Across the three areas rents clustered between £1001 and £1500. Rents broadly related to the size of the property: all the homes renting for less than £1000/month were smaller properties, with one or two bedrooms, while the largest properties (5+ bedrooms) had the highest rents. Rents also varied by neighbourhood and proximity to central London. There were no units in Southwark renting for less than £1000, but some in Southwark and Ilford with rents over £2000/month. Judging by rent levels alone, then, the fact that the property was located in a selective licensing area did not of itself mean that it was at the lower end of the PRS.

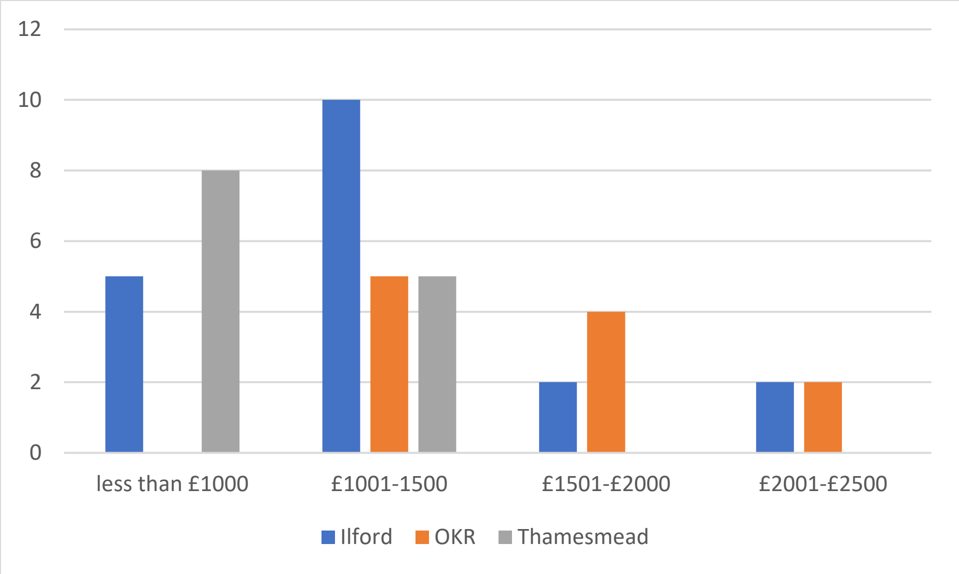

Figure 10: Distribution of reported rents by area

Interestingly, a high proportion of landlords in all the neighbourhoods perceived their rents as low, with 38% saying their rents were 'much lower' or 'somewhat lower' than rents for comparable units in those neighbourhoods, while only 4% said they were 'somewhat higher'. One Thamesmead landlord explained that she charged less than market rent to keep a good tenant:

> *I probably increased the rent once or twice right at the beginning and I've never increased it again. The money coming in, is not what it's about now and I just pay tax on that anyway at the moment, so I'd rather keep a happy tenant. And if I started putting the rent up she might think well I'll go and look for another flat, because it would be comparable, but at the moment she's paying very low rent for the flat that she's got.*

Most of the rental units were flats (62%) and tended to be relatively small: In all three areas, the most common size of rental unit was one or two bedrooms (79%). Houses were more commonly rented in Thamesmead and Ilford, but rarer in the inner-London neighbourhoods of Southwark.

About 18% of the properties were houses in multiple occupation (HMOs). This was most common in Southwark, where 31% of the units were HMOs. Almost all the properties were rented directly to the tenants, with only three rented through the local authorities, one of which (in Thamesmead) was used as temporary accommodation for a homeless family. Across the three neighbourhoods most of the renting households were small, with 56% having one or two people. Southwark had the highest proportion of small households while Ilford housed larger ones--40% of the units surveyed in Ilford had four or more residents.

8 Findings: the effects of tax changes, Covid and regulation

The effects of tax changes

This section looks at the effects of tax changes on landlords in the three case-study neighbourhoods. As described above, since 2016 the following tax increases or changes have come into effect:

- Mortgage interest tax relief changed to 20% credit (phased in from 2016)
- Capital gains tax rate on rented property higher than for other assets (28% vs 10/20%) (2016)
- Change in treatment of wear and tear (2016)
- SDLT surcharge of 3% for purchase of buy-to-let properties (2016)

We asked respondents to rank these tax changes in order of the effects they had on their businesses. Figure 11 presents the results aggregated across all three case-study neighbourhoods. The change to mortgage tax relief was seen as having the most impact by 58% of landlords, and it received the most first-place votes in each of the three neighbourhoods. Second was the change to the capital gains tax regime: only 15% of respondents said this had the most impact, while nearly 40% said it was the second most important change. In third place was the change in treatment of wear and tear. The 3% SDLT surcharge for buy-to-let investment was ranked as most important by 10% of respondents (presumably those with plans to increase their portfolios) but as least important by almost half. Responses from London landlords overall (reported in Scanlon et al., 2021) were broadly similar, with changes to mortgage interest tax relief seen to have the most impact overall, whilst the increase to SDLT made it more likely that landlords would scale back purchase plans.

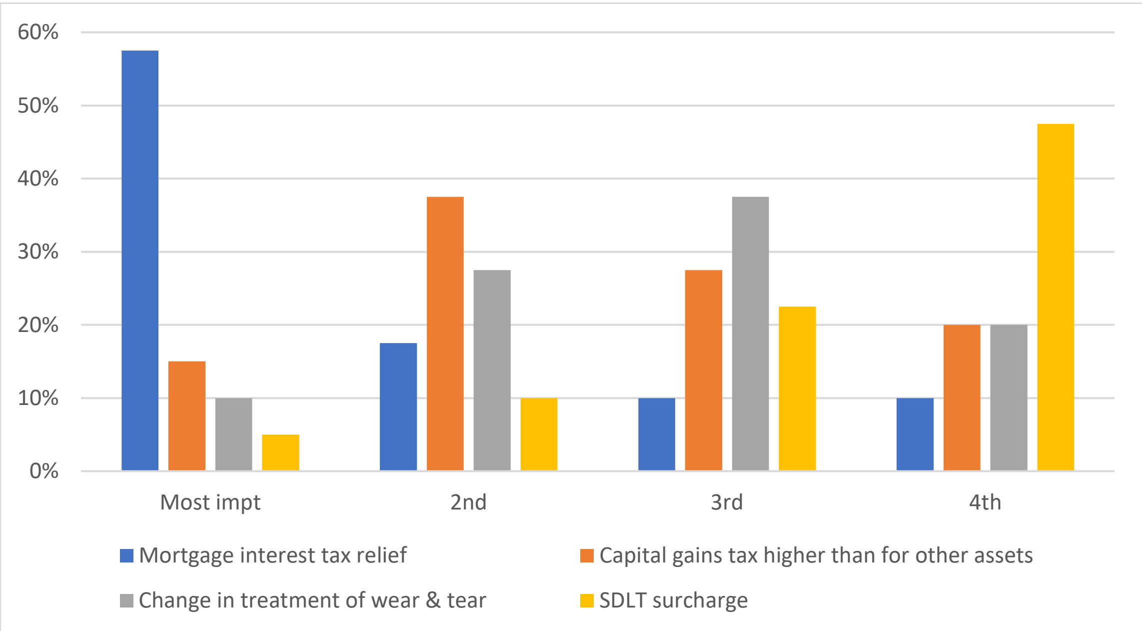

Figure 11: Relative importance of recent tax changes to landlords in 3 London neighbourhoods

Not all landlords surveyed were able to answer these questions; one said simply

Living in Ireland and not aware of landlord tax changes.

The effects of Covid

This research was conceived before the Covid pandemic, in part with a view to exploring the effects of various recent tax changes on the business model of landlords operating at the lower end of the PRS. Our survey was administered in December 2020—that is, nine months into the pandemic. The advent of Covid not only made the research process more difficult, but also complicated the research question. The Covid pandemic had become the main driver of economic, social and behavioural changes across the country, many of which could affect the PRS. We therefore supplemented the original research focus by adding questions about the impact of Covid.

Some landlords were little affected by the pandemic. One said

> *I can't think of any way Covid-19 has affected me at all, really.*

Most survey respondents said that their tenants had stayed in the rental unit since the pandemic began; those who had left had mostly done so after giving notice. One HMO landlord reported that several of his tenants who were non-UK nationals had left the country:

> *I have six rooms in one of my properties and I let it room by room as an HMO and three rooms they just left (during Covid). One was a Canadian couple, one was Dutch couple, one was an Italian couple. They just left the country altogether, never to come back.*

In terms of rent payments the picture was mixed: in the Southwark neighbourhoods 92% of landlords said the rent had been paid in full and on time during the pandemic, but this was reported by markedly fewer landlords in Ilford and Thamesmead (61% and 57% respectively). Overall, 5% of respondents said their tenants had paid no rent at all for the preceding nine months, while about 10% said they had made some late payments or paid only a proportion of the rent. This broadly reflected the pattern seen for London landlords overall in the 2021 survey (Scanlon et al 2021).

Across all three neighbourhoods, about a quarter of respondents said they had discussed modifying rent payments because of Covid-19. The most common option was to reduce rent payments for a period, with no repayments of the missed rent. One Thamesmead landlord said,

> *I contacted (my tenants) very early on in the first lockdown and said hope everything's fine, but if you have any problems, please do contact me. It'd be much better for us to come to an agreement, rather than you not pay anything.*

Another landlord had agreed to a rent reduction but later feared the impact on their own financial situation:

> *I agreed to a reduction in rent (but) I'm in a continuous fear that they might like to hold the rent under the pretence of coronavirus. If that's the case that will actually cause a lot of financial difficulty for myself.*

An HMO landlord said he had to reduce rents to find tenants during Covid:

> *I've taken a nearly 20% cut (in the rent), because I have to let the rooms out. It was difficult to find tenants otherwise, if you had kept the rent the same, because some of my rooms used to go £900 a month. And for 900, you could get a get a decent studio or a one bedroom flat somewhere. And because of Covid people were also hesitant to enter a six bedroom property… but if the price was right, people were willing to come in.*

More than a third of responding landlords with buy-to-let mortgages said they were concerned about their ability to make payments on those mortgages. This was higher than the proportion saying their rental income was affected, and may indicate that landlords were relying additionally on other income (eg from employment) to cover their buy-to-let mortgages. Even so, only a single landlord reported taking advantage of the payment holiday for buy-to-let landlords.

The survey was conducted nine months after the onset of the Covid pandemic, while the series of landlord tax changes had taken effect within the preceding five years. Both Covid and tax changes would have affected the business models and cashflow of many landlords: Covid by reducing or delaying receipt of rental income, and the tax changes by increasing tax liabilities. To get a sense of the relative importance of these changes, we asked landlords which had most affected their plans over the next year: Covid or tax changes. The most common response in all three areas, selected by 39% of landlords overall, was that tax changes had had much more impact than Covid (Figure 12).

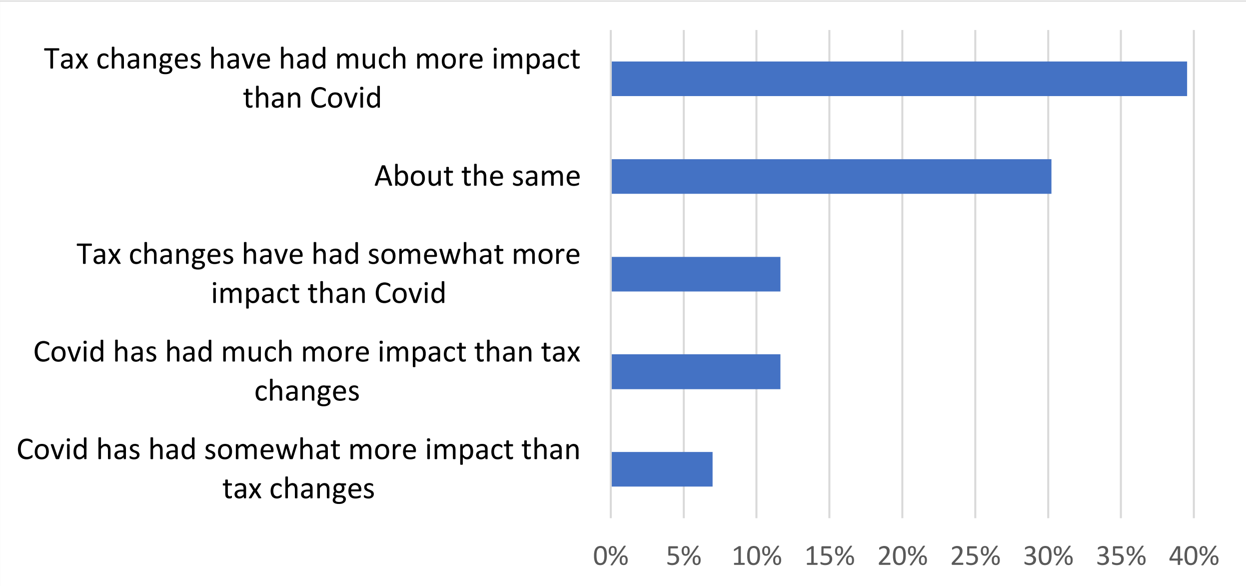

Figure 12: Relative importance of Covid and tax changes on plans of landlords in 3 London neighbourhoods

A landlord from the Old Kent Road said

> *Tax changes will have lasting impact, Covid won't. Small hobby landlords will be driven out. While interest rates are low (likely for a while yet) the 20% tax credit for mortgage relief will have minimal impact. Once interest rates rise then landlords are likely to pass on increases in tax to tenants. This particular tax is ill thought through and manifestly punitive to private landlords.*

Another said

> *In the short to medium term coronavirus has impacted me big time, because I'm having to take a hit on the rent and I can't get rid of the tenant … But in the long term, the changes in tax have impacted me big time.*

Looking to the future, 48% of neighbourhood landlords said Covid had had no impact on their plans for their rental business over the next year, while 84% said tax changes had affected those plans. One landlord, who currently owns four rental units, said

(P)roperty has kind of lost its charm. Now unless and until the government makes some … tax changes in favour of the private rental sector I … would diversify to put money into some other kind of investments. I'm not going to go and buy more properties.

The effects of changing regulation: licensing, cladding and abolition of s21

Many landlords identified other factors besides Covid and tax changes that were affecting their business models, including property licensing, cladding and the proposed abolition of S21.

Officially, the purpose of selective property licensing is to address the impact of poor quality private landlords and anti-social tenants (Wilson 2019). However some landlords inferred there were other rationales such as quality assuring the property, ensuring good tenant behaviour or creating a communications channel with the local authority. One said

If the licensing is to say that the property is good and fit-for-purpose to live in, and that the tenant will abide by the rules and the landlord will as well, then great.

Some were dissatisfied with the schemes in practice. Communications between the council and landlords had not been improved by licensing, one said:

Things I would expect the council to share with me, like upcoming changes to section 21 and things like these, I never heard anything from them and it's just amazing. I get to know more about it by reading on the Internet than actually hearing anything from the council. If you pay a fee especially such a massive amount (like) 500 to 700 pounds you do expect some sort of service in return as well.

Some surveyed landlords said that licensing was an ineffective way to improve conditions at the bottom of the sector because those who complied with the regulations were more likely to be better landlords, and because inspections were rare. One Thamesmead landlord said,

I don't really see what difference (licensing) makes. I mean, I know there are a lot of unscrupulous landlords out there and obviously I'm going to say to you I'm not one of them … I don't believe they've inspected the property. So it's just I'm paying money but for what?

Another said licensing ultimately benefited licensed landlords because it enabled them to raise rents:

A lot of the cowboy landlords have been forced out because the management companies won't touch you without a licence. So that means there are fewer properties available to let, which means the rates have gone right up. So that has been efficient and it's benefited all the rest of the landlords alright.

For those with flats in high-rise buildings, the impact of the post-Grenfell cladding crisis was important. One Ilford landlord said,

(T)he greatest issue for myself and fellow leaseholders/landlords in [name of building] is the ACM[12] cladding issue and the burden of not knowing if the government or the freeholder will meet any of the cost of replacement, which runs into millions of pounds. … We have no option to sell and while Covid and tax changes are an issue we have the added pressure and

[12] Aluminium composite material, which was used on Grenfell Tower.

burden of investments that are valued at zero … over the next 2 years these are the issues that matter.

The government's proposed elimination of S21 'no-fault' eviction was also cited by some as a change that might cause them to leave the sector. A Thamesmead landlord said,

If the government continues to penalise landlords with more tax and laws withdrawing section 21 evictions then I'll start to sell up.

On the other hand, some landlords said tax changes—particularly the higher rate of capital gains tax for residential property--strengthened the incentives to keep their properties rather than sell them. A Thamesmead landlord said

However, because of capital gains tax and everything probably when I retire, I will keep the properties and that will be my income… (O)riginally I was looking to buy two or three and the idea would have been to eventually sell one and hopefully pay off both … mortgages. But with capital gains I'm not sure that that's realistic.

Another said

If I could sell the property once these tenants moved out and not get hit with capital gains tax, I would.

Because of the pace of change in regulation, some landlords used managing agents so they did not have to keep up with the rules themselves. One said they used an agent

for laziness, practicality from the law point of view (and) peace of mind as well. They tell me when the laws are changing. If the management agent says, actually, you need a new electrical certificate, because that is law, I say ok I'll get that then.

9 Discussion and conclusions

The timing of this project was in some ways unfortunate: because the empirical work took place under Covid restrictions, we were unable to follow our original research methodology. The restrictions on interactions ultimately meant that the focus of the project shifted, and we learned a great deal about the practical uses of licensing and about landlords but much less about tenants and their experience than we had hoped.

This research tested the technique of using local authority registers as a research tool. In principle, registers offer a channel for researchers to identify and contact landlords. In practice however it was not straightforward to use the registers in this way. Even accessing the lists was difficult in some boroughs, despite their legal status as public documents, and the registers we did secure were structured in different formats and on different software.

Most landlords operate at a very small scale in a single local area, and many struggle to keep track of changes in regulations and tax. Licensing could provide a channel for local authorities to communicate with landlords operating in their area about their responsibilities, and several landlords told us they thought the licensing system ought to enable this. Despite the clear benefits, register-based dissemination of information does not seem to happen much, possibly because the data gathered and the registers themselves were not designed with this function in mind.

This research focused on three small neighbourhoods of London—Thamesmead, Ilford and Walworth/Old Kent Road—that were covered by selective licensing. Although all three are selective-licensing areas, they are very different in terms of housing stock, market pressure, tenants and landlords. The general patterns of property types, tenants and rents confirmed our expectations: smaller, higher-cost properties in central areas catered mainly to smaller households and sharers, with cheaper family-sized properties in peripheral areas. Rents broadly reflected accessibility, with the lowest rents in Thamesmead where public transport is poor.

The registers themselves contain relatively limited information, but even so reveal interesting differences across the three areas. Landlord ethnicities reflect the demographics of the respective neighbourhoods: landlords in Thamesmead were more likely to be of Black African ethnicity, judging by their surnames, while those in Ilford were more likely to be of Asian ethnicity. Landlords tended to live in the same area as their rental properties except in Walworth/Old Kent Road, where the number of properties registered to letting agents may indicate a higher involvement of overseas investors. Overseas investment in London property was of policy interest even before the current concern with Russian buyers (see e.g. Scanlon et al 2017), but because the registers do not necessarily contain details of the ultimate owners they are of limited use in understanding the scope of this investment.

Despite our society's growing albeit unintentional reliance on the PRS for housing lower-income households, relatively little is known about the landlords operating in the lower end of the market. Our survey gave us some indications, although many of the landlords who responded to the survey were not working in what we defined as the lower end of the market: even in selective licensing areas there can be a mix of lower-end and more expensive properties (even luxury homes in central areas), as London's residential landscape is so mixed. Landlords of higher-end units may also be more likely to get their rental properties licensed. Certainly those exploiting tenants in substandard properties at the very bottom of the market are less likely to comply with that duty.

In each area, landlords were mainly local, and their ethnicities coincided to a great extent with the neighbourhood demographics. It seems then that South Asian landlords were likely to be housing south Asian tenants in Ilford, while Black African landlords might be housing Black African tenants in Thamesmead, but further research is needed to evidence this. We know little about the operation of the PRS in these ethno-spatial concentrations including whether there are culturally specific patterns of demand and supply.

On the evidence from this survey, only a minority of landlords saw their incomes affected during the pandemic when tenants, affected by the financial pressures occasioned by Covid, paid their rent late or in part—in some cases with the agreement of the landlord. There were similar findings from the 2021 survey of landlords across the country. Even at the height of the pandemic landlords reported that tax changes would have more effect on their businesses than Covid, again a finding that echoed the 2021 survey.

In both surveys, landlords identified the modified tax treatment of mortgage interest as the change that most affected their business plans, not then-prevailing Covid restrictions. Some landlords said tax changes could motivate them to sell up; others reported feeling trapped by the high level of capital gains tax. When the survey was taken, interest rates were very low but since then the macroeconomic situation has changed. Mortgage rates are likely to increase over the next year as the Bank of England raises rates to address dramatically higher inflation due to the war in Ukraine, and with increased mortgage payments but limited tax deductibility more landlords with mortgages may consider whether they want to remain in the business. Note, though, that only a minority of landlords in our survey, as in the UK-wide survey, reported having a mortgage.

All three of these neighbourhoods have build-to-rent schemes within the licensing zone or nearby. These purpose-built blocks are usually new (if somewhat generic) and professionally managed, and offer greater tenure security than the homes rented out by our survey respondents. They also tend to have rents in the upper quartile of local rents so do not serve the lower end of the PRS, except for any affordable units they contain. By comparison, small landlords more often have a personal relationship with their tenants, and may offer properties (including houses) that are more suited to local demand patterns. Tenants who value these features may not perceive build to rent to be a good substitute.

Policy and research recommendations

- The many taxes, regulations and incentives affecting the PRS do not form a coherent framework for the sector, and their goals are poorly understood by landlords. Policymakers should set out their vision for what part the PRS, and private landlords, should play the housing system, and review the various policy instruments in the round to ensure they contribute to achieving that vision.

- The PRS increasingly accommodates lower-income households and families with children, who benefit most from certainty about their housing. Government should work with tenants, landlords and other stakeholders to develop policies that incentivise small landlords to provide the tenure security they need.

- Government should reconsider the purposes of licensing and how best to achieve them—especially as it has announced that it will consult on introducing a national register (DLUHC 2022). Registers should be designed to enable local authorities to communicate with landlords more easily. The current regime is poorly targeted, if the goal is to improve the worst properties. Local authorities themselves decide whether to adopt licensing; that decision seems to relate as much to political control as to conditions in the PRS. In any case licensing alone cannot address poor-quality landlords or anti-social tenants; it must be coupled with well-informed, timely enforcement and routine inspection.

  <u>*Topics for future research*</u> include

  - How to monitor the changing composition of the PRS in local areas, and what this means for low-income tenants

  - Comparative research into the characteristics of the PRS in neighbourhoods with different ethnic profiles –are there culturally specific patterns of demand and supply?

  - The role of letting and managing agents in letting property to lower-income households

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Annex A: Excerpts from relevant legislation

The Licensing and Management of Houses in Multiple Occupation and Other Houses (Miscellaneous Provisions) (England) Regulations 2006 SI 373 / 2006[13]

Registers of Licences

11.—(1) The following particulars are prescribed for each entry in a register established and maintained under section 232(1)(a) of the Act in respect of a licence granted under Part 2 (HMOs) or 3 (selective licensing) of the Act which is in force—

(a) the name and address of the licence holder;
(b) the name and address of the person managing the licensed HMO or house;
(c) the address of the licensed HMO or house;
(d) a short description of the licensed HMO or house;
(e) a summary of the conditions of the licence;
(f) the commencement date and duration of the licence;
(g) summary information of any matter concerning the licensing of the HMO or house that has been referred to a residential property tribunal or to the Lands Tribunal; and
(h) summary information of any decision of the tribunals referred to in sub-paragraph (g) that relate to the licensed HMO or house, together with the reference number allocated to the case by the tribunal.

Section 232 of the Housing Act 2004[14]

232 Register of licences and management orders

(1) Every local housing authority must establish and maintain a register of—
  (a) all licences granted by them under Part 2 or 3 which are in force;
  (b) all temporary exemption notices served by them under section 62 or section 86 which are in force; and
  (c) all management orders made by them under Chapter 1 or 2 of Part 4 which are in force.
(2) The register may, subject to any requirements that may be prescribed, be in such form as the authority consider appropriate.
(3) Each entry in the register is to contain such particulars as may be prescribed.
(4) The authority must ensure that the contents of the register are available at the authority's head office for inspection by members of the public at all reasonable times.
(5) If requested by a person to do so and subject to payment of such reasonable fee (if any) as the authority may determine, a local housing authority must supply the person with a copy (certified to be true) of the register or of an extract from it.
(6) A copy so certified is prima facie evidence of the matters mentioned in it.
(7) In this section "prescribed" means prescribed by regulations made by the appropriate national authority.

[13] http://www.legislation.gov.uk/uksi/2006/373/regulation/11/made
[14] http://www.legislation.gov.uk/ukpga/2004/34/section/232

Annex B: Data maps of case-study areas

Mapping statistical data about incomes and deprivation against the boundaries of selective-licensing areas can give an indication of whether these areas represent 'the lower end' of the PRS.

For each case-study area we produced four[15] small-area maps for the entire case-study borough, showing

1. Deprivation (from ONS/MHCLG): https://www.gov.uk/government/statistics/english-indices-of-deprivation-2019
2. Average incomes (from ONS):
3. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/smallareaincomeestimatesformiddlelayersuperoutputareasenglandandwales
4. Geodemographic profiles (from ONS: Pen Portraits) https://www.ons.gov.uk/methodology/geography/geographicalproducts/areaclassifications/2011areaclassifications/penportraitsandradialplots
5. Mean monthly rents for two-bedroom flats (from ONS): https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/privaterentalmarketsummarystatisticsinengland/october2020toseptember2021#:~:text=1.-,Main%20points,monthly%20rent%20at%20%C2%A3500

The maps used the most granular breakdowns available from the ONS, and variously show Lower Layer Super Output Areas (LSOAs), with an average population of 1500 people; Middle Layer Super Output Areas (MSOAs), with an average population of 8200; and Output Areas (OAs), the smallest areas with an average population of 309. Rental data are mapped by postal district.

Incomes are defined as

> The sum of the disposable (net) income of every member of the household, that is, all income (from wages and salaries, self-employment, pensions, investments, benefits) minus Income Tax, National Insurance, rates or Council Tax, maintenance or child payments deducted through pay, contribution to students living away, contributions to occupational pensions. (ONS 2020)

Our hypothesis was that areas with high levels of deprivation and low average incomes would also be characterised by a concentration of properties in the lower end of the PRS. For rents the relationship is not necessarily straightforward: on the one hand lower-income households can afford to pay less in rent, suggesting that areas with low rents will have higher concentrations of low-income households; on the other hand there is evidence that many low-income households live in overcrowded accommodation, which could be a way of coping financially with high rents.

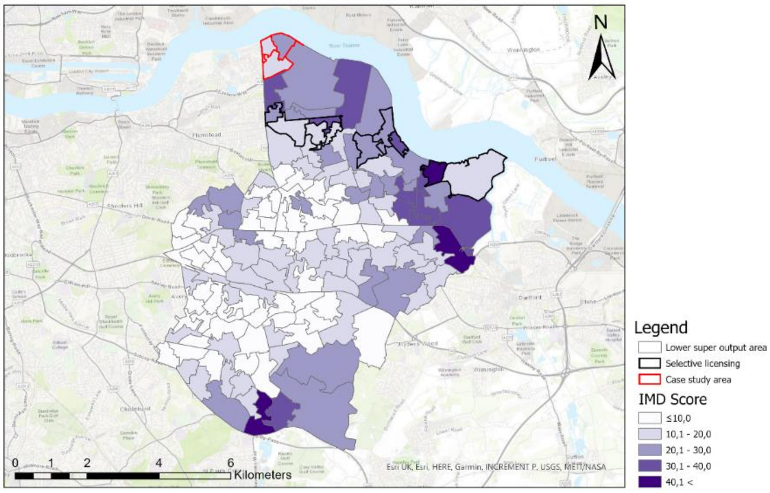
The mapping suggests that the case-study neighbourhoods were not necessarily the most deprived in absolute terms, or relative to neighbouring areas. There was no clear pattern of rents—in Thamesmead East the rents were higher than in immediately adjacent areas, but in Southwark and Ilford the rents were lower. In all three boroughs, selective-licensing zones were in areas whose geodemographic profiles emphasised their ethnic mix; the Southwark streets were also characterised by 'aspirational techies.'

[15] We also mapped average house prices to see whether this showed a similar pattern to local rents, but the house-price bands were too wide to be useful.

BEXLEY (Thamesmead East)

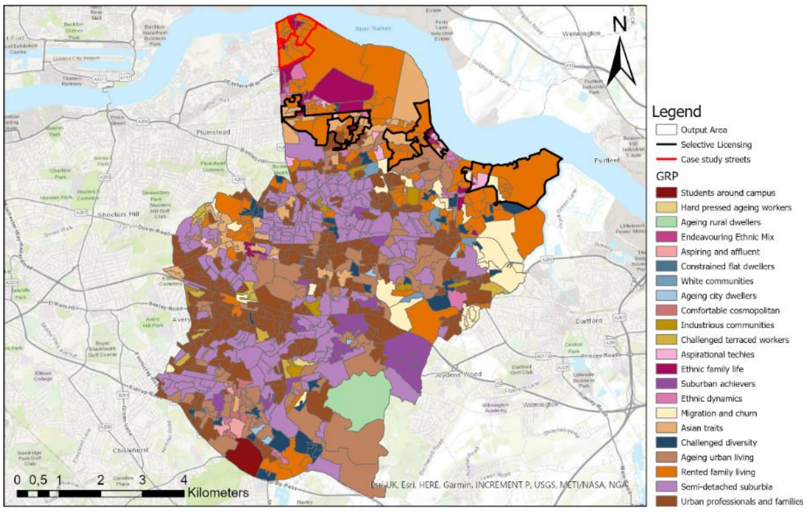
The case-study neighbourhood is situated at the NW extreme of the borough of Bexley and are outlined in red. Other selective-licensing zones in Bexley are outlined in black.

Bexley
Index of Multiple Deprivation (IMD) Score by LSOA



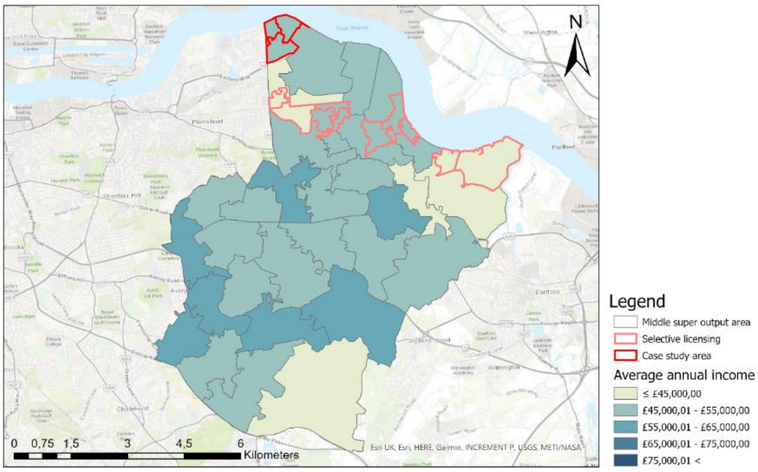
Map 1: Deprivation (darker colours = more deprived) The Thamesmead East selective licensing zone has moderate levels of deprivation, similar to other selective-licensing areas in the borough. There are areas with higher deprivation where selective licensing was not in place in late 2020.

Bexley
Geodemographic Classification by OA



Map 2: Geodemographic classification Similar to other selective-licensing areas in Bexley, the case-study area is dominated by households in the 'rented family living' or 'ethnic family life' classifications. 'Rented family living' is a subgroup of the wider ONS supergroup of multicultural metropolitans, while 'ethnic family life' belongs to the supergroup of 'Ethnicity central', which is concentrated in London (https://www.ons.gov.uk/file?uri=/methodology/geography/geographicalproducts/areaclassifications/2011areaclassifications/penportraitsandradialplots/penportraits.pdf).

Bexley
Average Annual Income by MSOA

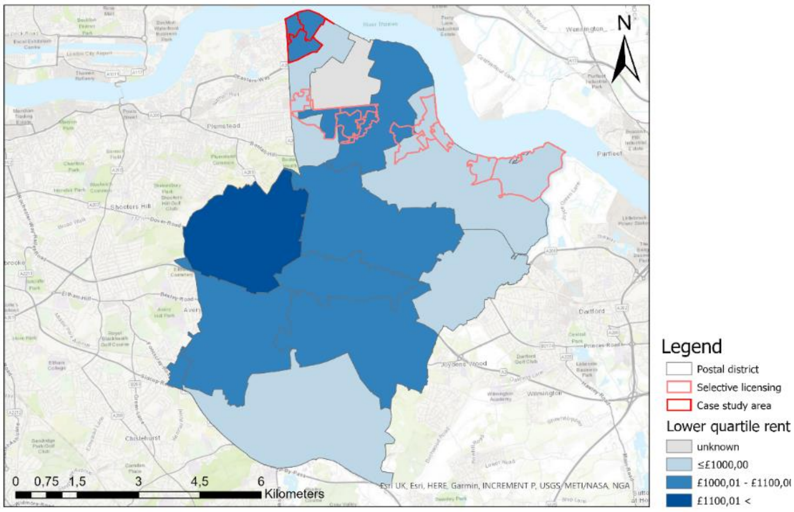


Map 3: Incomes

The average household income in the Thamesmead East selective licensing area was between £45 and £55,000 in 2020. Other selective-licensing areas in Bexley had similar or lower incomes.

R

Bexley
Mean Monthly Rent (LQ - Two Bedroom Properties)

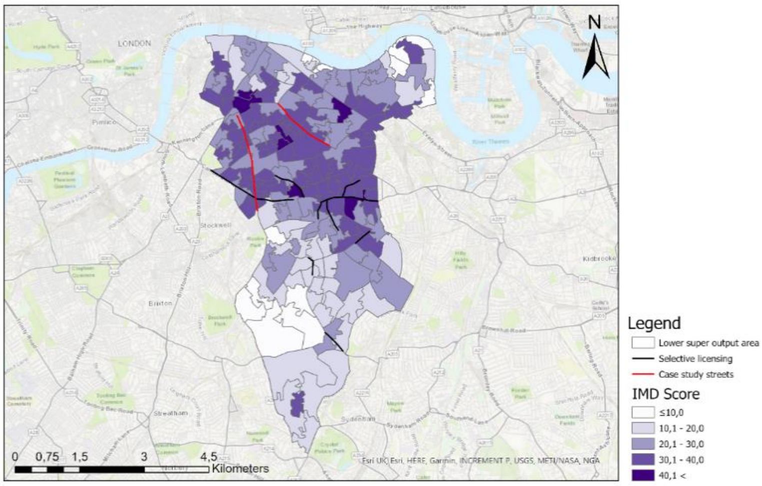


Map 4: Median rent for 2-bed property

For the year to September 21, the mean rent for a two-bedroom home in the Thamesmead East selective licensing area was between £1000 and £1100/month. This was in line with much of the rest of the borough, although higher than in immediately adjacent neighbourhoods. Other selective-licensing areas in Bexley mostly had lower rents.

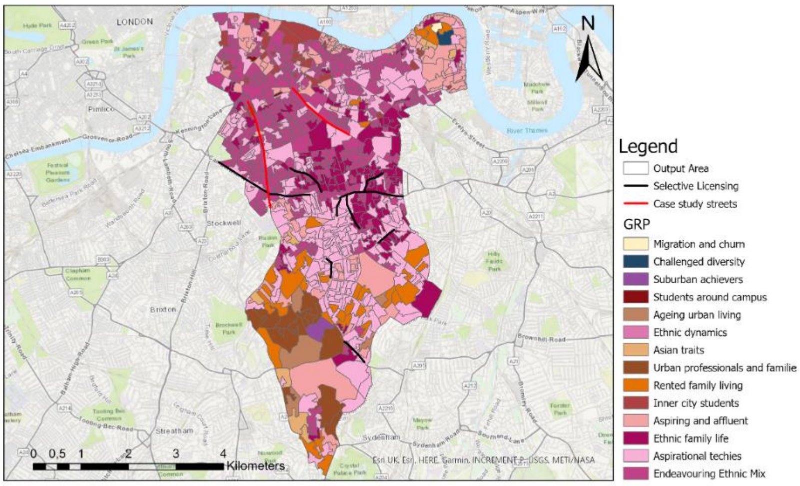
SOUTHWARK (Old Kent Road & Walworth Road) The case-study streets run roughly north-south in the northern half of Southwark and are shown in red. Other selective-licensing streets in Southwark are shown in black.

Southwark
Index of Multiple Deprivation (IMD) Score by LSOA



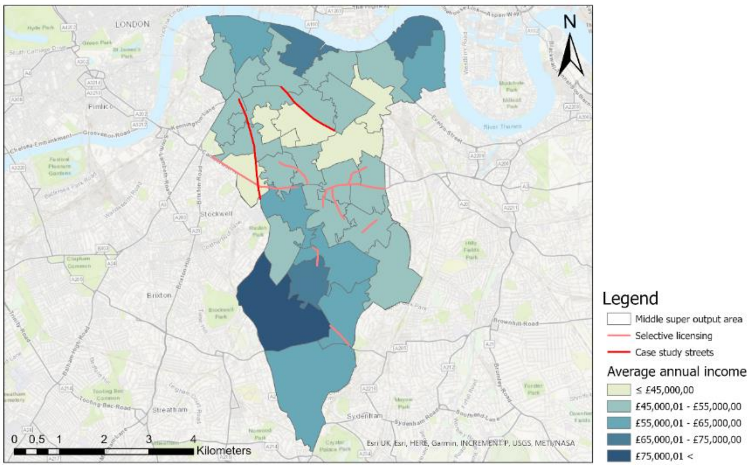
Map 1: Deprivation (darker colours = more deprived) These streets are in the northern half of the borough, which has markedly higher deprivation levels than the southern half. Some selective-licensing streets were in generally more affluent neighbourhoods.

Southwark
Geodemographic Classification by OA



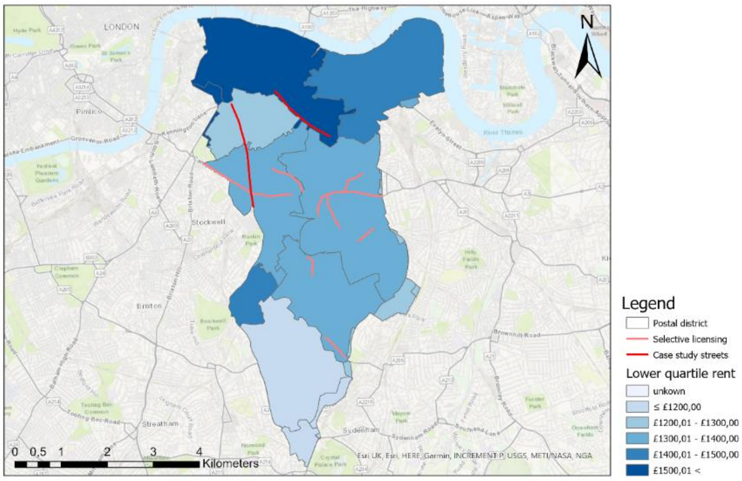
Map 2: Geodemographic classification The case-study selective licensing streets run through areas profiled as 'endeavouring ethnic mix' and 'aspirational techies,' as well as 'ethnic family life.' https://www.ons.gov.uk/file?uri=/methodology/geography/geographicalproducts/areaclassifications/2011areaclassifications/penportraitsandradialplots/penportraits.pdf

Southwark
Average Annual Income by MSOA



Map 3: Income The Southwark case-study streets have a mix of income levels, including under £45,000 (lightest colour), £45-£55,000, and one MSOA with average incomes of £55-65,000. Incomes in the northern half of the borough, where these streets lie, are lower than in the southern half.

Southwark
Mean Monthly Rent (LQ - Two Bedroom Properties)

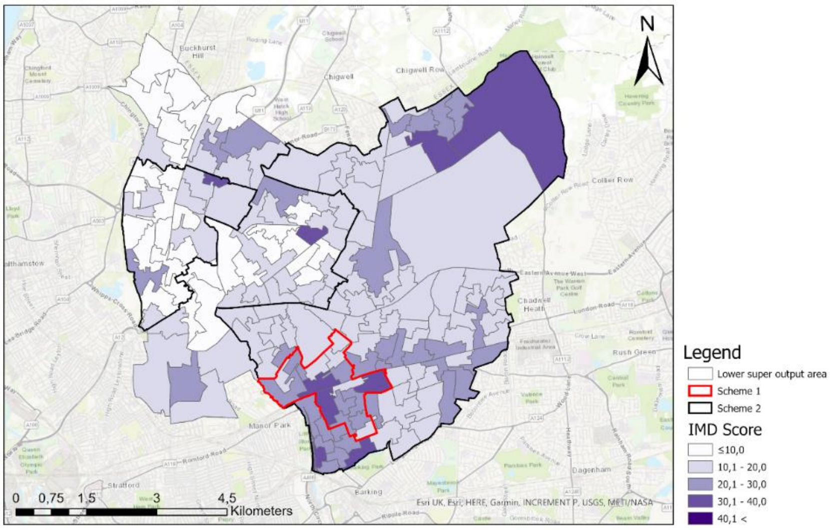


Map 4: Mean rent for 2-bed property

Although incomes are lower and deprivation higher in the northern half of Southwark, rents tend to be higher in the north, reflecting greater accessibility. Even so, the case study streets run through an area of relatively lower rents. For the year to September 21, mean monthly rents in these streets were £1200 - £1300 for a two-bedroom home.

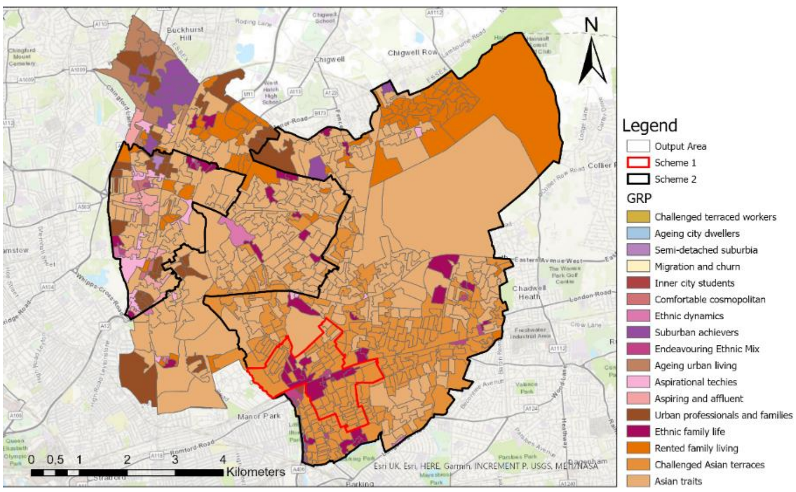
REDBRIDGE (Ilford) The case-study neighbourhood is situated at the southwest corner of Redbridge and is outlined in red. Other selective-licensing zones in Redbridge are outlined in black.

Redbridge
Index of Multiple Deprivation (IMD) Score by LSOA



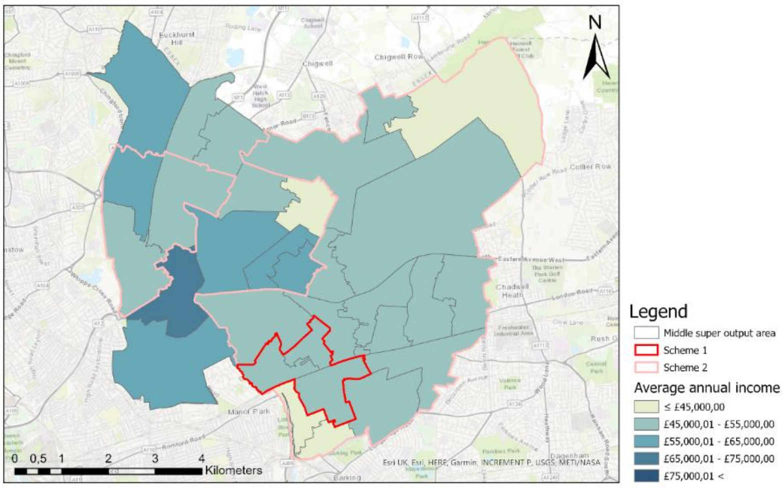
Map 1: Deprivation (darker colours = more deprived) The Ilford selective licensing area has medium to high levels of deprivation. Much of Redbridge is covered by selective-licensing zones, which include other areas with similar levels of deprivation to Ilford as well as some low-deprivation neighbourhoods in the west of the borough.

Redbridge
Geodemographic Classification by OA



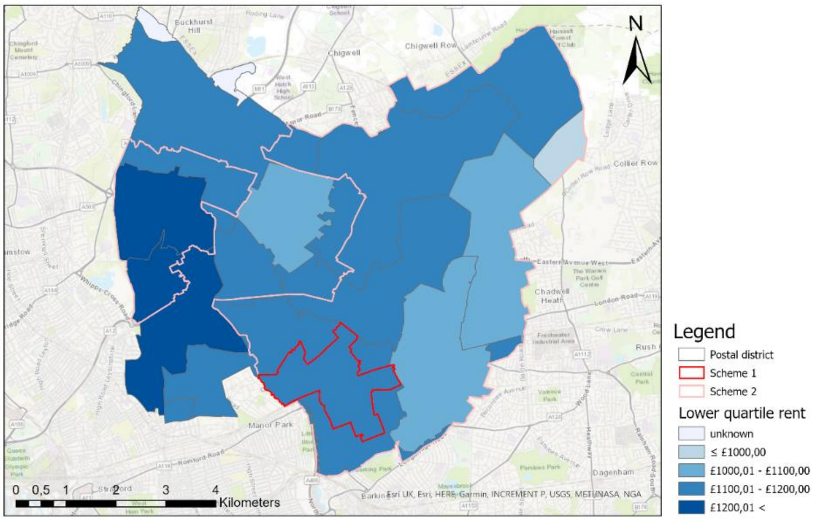
Map 2: Geodemographic classification Like much of the rest of Redbridge, the case-study area is dominated by households in the 'challenged Asian terraces', 'ethnic family life' or 'Asian traits' (https://www.ons.gov.uk/file?uri=/methodology/geography/geographicalproducts/areaclassifications/2011areaclassifications/penportraitsandradialplots/penportraits.pdf).

Redbridge
Average Annual Income by MSOA



Map 3: Income Average household incomes in the case-study area are £45,000 - £55,000, similar to much of the rest of the borough.

Redbridge
Mean Monthly Rent (LQ - Two Bedroom Properties)



Map 4: Mean monthly rent for 2-bed property

The mean monthly rent for a two-bedroom home in Ilford was £1100-£1200, as for much of the rest of the borough.

Annex C: Comparing information from landlord registers of 3 London boroughs

<table>
<tr><th></th><th>Bexley (Thamesmead)</th><th>Southwark (Walworth and OKR)</th><th>Redbridge (Ilford)</th></tr>
<tr><td>Number of entries</td><td>1519 selective (only selective supplied)</td><td>1071 selective
2398 additional
750 mandatory</td><td>305 additional
291 mandatory
7572 selective</td></tr>
<tr><td>Format</td><td>Excel spreadsheet supplied by borough</td><td>Excel spreadsheet supplied by borough</td><td>Online pdf</td></tr>
<tr><td>Headings</td><td>Address of the property
LICNTYPE (all selective in this case)
Status (all ‘issued)
Name and address of the licence holder
Name and address of the person managing the property
Date Licence Issued
Date Licence Expires</td><td>APPId (registration number)
Licence Type (additional, selective, mandatory)
Licence Holder Name
Licence Holder Address
Licence Holder Post Code
Manager Name
Manager Address
Manager Post Code
Licence Address
Licence Post Code
Expiry Date</td><td>Licence Holder Name
Licence Holder Address
Manager Name
Manager Address
Property Address
Property Description
Storeys
Bedrooms
Flats Self-Contained
Flats Not Self-Contained
Shared Amenities
Households
Occupants
Licence Date</td></tr>
<tr><td>Data issues</td><td>The full addresses for the rented properties occupy one cell—that is, there is no separate column for postcodes.</td><td>Postcodes in their own column</td><td>Postcodes do not have their own column.</td></tr>
<tr><td>Streets with concentrations of licensed properties (shaded in case-study area)</td><td><table><tr><th>Street</th><th>Number of licensed properties</th></tr><tr><td>Chandlers Drive, Erith</td><td>74</td></tr><tr><td>Columbus Square, Erith</td><td>26</td></tr><tr><td>Frobisher Road, Erith</td><td>86</td></tr><tr><td>Overton Road, SE2</td><td>25</td></tr><tr><td>Redbourne Drive, SE28</td><td>30</td></tr><tr><td>Riverdale Road, Erith</td><td>30</td></tr></table></td><td>By definition they are concentrated in certain streets as that is how Southwark licensing system worked</td><td>Data supplied as pdf file so street addresses could not be easily extracted in bulk.</td></tr>
</table>

<table>
<tr><td></td><td><table><tr><td>Shortlands Close, Belvedere</td><td>30</td></tr><tr><td>Upper Abbey Road, Belvedere</td><td>25</td></tr></table></td><td></td><td></td></tr>
<tr><td>Landlords</td><td>Some obvious company names but mostly individuals. Company names much more likely to have multiple properties (eg one firm is registered landlord for 67 properties), whereas individuals more often have a single one, though a few with up to 16. Most seem to be relatively local, with addresses in Dartford, Kent, London; furthest were from Cumbria and Glasgow, but no foreign addresses.</td><td>Fewer obvious company names than Bexley. One agent based near Tower Bridge is registered as licence holder for 64 properties. More than half of landlords have south London postcodes, only three non-UK addresses</td><td>A mix of company names and individuals.</td></tr>
<tr><td>Agents</td><td>1306 of the 1519 listed no agent, suggesting they were managing the properties themselves (though some of these were companies). About 40 different agents listed.</td><td>At least 600 properties are in the register as managed by the owner. The Tower Bridge agent is listed as manager of 120 properties (in addition to the 64 for which they are licence holder).</td><td>Several local agents are well represented.</td></tr>
</table>

Annex D: Detailed survey responses from three case-study neighbourhoods, and London-wide for comparison

Aggregate figures from the three neighbourhoods appear in the green-shaded columns; where available, figures from London landlords overall (from the 2021 survey reported in Scanlon et al 2021) appear in the columns shaded orange.

Table D1: Number of rental properties owned by responding landlords

	Ilford	Wth OKR	Thamesmead	Aggregate figures for three neighbourhoods	London landlords overall
1	47%	67%	29%	47%	45%
2	5%	8%	36%	16%	19%
3	11%	8%	7%	9%	10%
4-10	32%	8%	14%	20%	17%
11-25	5%	8%	14%	9%	6%

Table D2: Year of acquisition of rental unit (most recently acquired, for landlords owing >1)

	Ilford	Wth OKR	Thamesmead	3 areas	London landlords overall
Before 2005	40%	8%	38%	31%	28%
between 2005 and 2009	10%	42%	15%	20%	15%
between 2010 and 2014	30%	33%	23%	29%	18%
between 2015 and 2019	20%	17%	23%	20%	31%
2020/2021	N/A	N/A	N/A	N/A	9%

Table D3: Landlords' intention when acquiring dwelling (most recently acquired, for landlords owning >1)

	Ilford	Wth OKR	Thamesmead	3 areas	London landlords overall
To rent out	53%	75%	62%	61%	63%
To live in myself/ourselves	47%	25%	38%	39%	31%
Acquired it for some other reason	N/A	N/A	N/A	N/A	4%
Inherited	N/A	N/A	N/A	N/A	2%

Table D4: Whether rental property is mortgaged (most recently acquired, for landlords owning >1)

	Ilford	Walworth OKR	Thamesmead	3 areas
Mortgaged	53%	25%	31%	39%
Unmortgaged	47%	75%	69%	61%

Table D5: Who manages the property (most recently acquired, for landlords owning >1)

	Ilford	Wth OKR	Thamesmead	3 areas
Landlord manages	70%	58%	54%	58%
Agent manages	15%	42%	54%	33%
Part landlord, part agent	15%	0%	54%	9%

Table D6: Type of dwelling (most recently acquired, for landlords owning >1)

	Ilford	Wth OKR	Thamesmead	3 areas	London landlords overall
Purpose-built flat or apartment	27%	83%	46%	47%	47%
Terraced house	41%	17%	46%	36%	18%
Flat in converted house	32%	0%	0%	15%	17%
Semi-detached house	0%	0%	8%	2%	10%
Other	5%	8%	0%	4%	3%
Flat above shop	N/A	N/A	N/A	N/A	2%
Detached house	N/A	N/A	N/A	N/A	1%

Table D7: Is an HMO (most recently acquired unit, if landlord owns >1)

	Ilford	Wth OKR	Thamesmead	3 areas	London landlords overall
HMO	87%	69%	85%	82%	91%
Not an HMO	13%	31%	15%	18%	9%

Table D8: Type of lease (most recently acquired unit, if landlord owns >1)

	Ilford	Wth OKR	Thamesmead	3 areas
12-month AST	54%	62%	57%	56%
6-month Assured Shorthold Tenancy (AST)	11%	23%	7%	13%
Month-to-month	11%	8%	14%	11%
Other (please specify	7%	8%	14%	9%

Table D9: Monthly rent (most recently acquired unit, if landlord owns >1)

	Ilford	Wth OKR	Thamesmead	3 areas	London landlords overall
less than £1000	26%	0%	62%	30%	10%
£1001-1500	53%	45%	38%	47%	41%
£1501-£2000	11%	36%	0%	14%	46%
£2001-£2500	11%	18%	0%	9%	

Table D10: Degree of impact of Covid and tax changes on landlords' plans for rental business over the next few years

	3 areas		London landlords overall	
	Covid	**Tax changes**	**Covid**	**Tax changes**
No impact—plans have not changed	48%	16%	43%	22%
Little impact	24%	23%	16%	10%
Some impact	12%	42%	23%	29%
Major impact	12%	7%	11%	21%
Decisive impact	2%	12%	5%	14%
Don't know	2%		2%	5%
Total saying 'some' to 'decisive' impact	**26%**	**60%**	**49%**	**64%**

Table D11: Number of tenants in the unit (most recently acquired, if landlord owns >1)

	Ilford	Wth OKR	Thamesmead	3 areas
1	15%	36%	20%	22%
2	25%	36%	50%	34%
3	20%	18%	10%	17%
4	20%	0%	10%	12%
5	10%	9%	10%	10%
6	10%	0%	0%	5%

Table D12: Landlords' perception of the rent they charge compared to local rents for similar units (for most recently acquired unit, if landlord owns >1)

My/our rents are…	Ilford	Wth OKR	Thamesmead	3 areas
Much lower than average	9%	0%	0%	4%
Somewhat lower than average	45%	15%	31%	33%
About the same	41%	77%	69%	58%
Somewhat higher than average	5%	8%	0%	4%

Table D13: Plans for rental unit over next year (most recently acquired, if landlord owns >1)

	Ilford	Wth OKR	Thamesmead	3 areas
Keep unit and rent unchanged and aim to retain existing tenants	53%	75%	64%	63%
Sell it	12%	8%	27%	15%
Improve the rental unit, increase rent and aim to get new tenants	12%	8%	0%	8%
Other	12%	0%	0%	5%
Rent it as temporary accommodation	6%	0%	9%	5%
Keep unit and rent unchanged and aim to get new tenants	0%	8%	0%	3%
Move into it my/ourselves	6%	0%	0%	3%

Table D14: Percentage of household income made up by rent (from most recently acquired* unit, if landlord owns >1)

	Ilford	Wth OKR	Thamesmead	3 areas	London landlords overall
0-9	22%	25%	38%	28%	40%
10-19	17%	17%	31%	21%	11%
20-29	11%	25%	23%	19%	12%
30-39	28%	17%	8%	19%	4%
40-49	6%	8%	0%	5%	3%
50-59	17%	8%	0%	9%	6%
60-69					2%
70-79					2%
80-89					3%
90-100					16%*

**Note:* *London landlords overall %s relate to income from* *<u>all</u>* *rental properties, not just most recently acquired*

Table D15: Other sources of household income for landlords

Multiple responses permitted

	Ilford	Wth OKR	Thamesmead	3 areas
Employment	39%	85%	71%	58%
Other rental units	21%	38%	57%	35%
Pensions	21%	15%	29%	22%
Investments	4%	23%	21%	13%
Other benefits	4%	0%	0%	2%

Table D16: Whether tenants stayed in unit since pandemic began

	Ilford	Wth OKR	Thamesmead	3 areas
Yes they stayed throughout	82%	78%	91%	84%
some/all tenants moved out permanently (with notice)	12%	22%	9%	14%
some/all tenants moved out permanently (without notice)	6%	0%	0%	3%

Table D17: Situation with rents during lockdown

Multiple responses permitted

	Ilford	Wth OKR	Thamesmead	3 areas	London landlords overall
Rent has been paid in full and on time	61%	92%	57%	67%	61%
Tenants have made some late payments	4%	0%	29%	9%	10%
Tenants have not paid 100% of rent	11%	15%	7%	11%	16%
Tenants have not paid any rent	7%	0%	7%	5%	2%

Table D18: Whether landlord and tenant discussed modifying rents since start of Covid

	Ilford	Wth OKR	Thamesmead	3 areas
No	77%	67%	85%	77%
Yes	23%	33%	15%	23%

Table D19: Options discussed for modifying rent

Multiple responses permitted

	Ilford	Wth OKR	Thamesmead	3 areas
Suspending rent payments for a period ('rent holiday), with a repayment plan	20%	25%	0%	18%
Reducing rent payments for a period, with a repayment plan	20%	25%	0%	18%
Reducing rent payments for a period with no repayments of the missed rent	60%	75%	0%	55%
Other (please specify)*	0%	25%	100%	27%

** other from Thamesmead: 'I asked the tenants to contact me if they had any issues and we could make arrangements as necessary'; 'recovery payment programme'*
Other from OKR: 'Reducing rent for one of the three tenants with a repayment plan'

Table D20: Whether landlord had taken advantage of payment holiday for buy-to-let landlords

	Ilford	Wth OKR	Thamesmead	3 areas
No	88%	100%	100%	96%
Yes	13%	0%	0%	4%

Table D21: Relative effect on landlord business of Covid and tax changes

	Ilford	Wth OKR	Thamesmead	3 areas
About the same	33%	17%	38%	30%
Covid has had much more impact than tax changes	6%	17%	15%	12%
Covid has had somewhat more impact than tax changes	11%	8%	0%	7%
Tax changes have had much more impact than Covid	33%	42%	46%	40%
Tax changes have had somewhat more impact than Covid	17%	17%	0%	12%

Table D22: Plans for rental unit over next year, given Covid and tax changes

	Ilford	Wth OKR	Thamesmead	3 areas
Improve the rental unit, increase rent and aim to get new tenants	12%	8%	0%	8%
Keep unit and rent unchanged and aim to get new tenants	0%	8%	0%	3%
Keep unit and rent unchanged and aim to retain existing tenants	53%	75%	64%	63%
Move into it my/ourselves	6%	0%	0%	3%
Other (please specify)	12%	0%	0%	5%
Rent it as temporary accommodation	6%	0%	9%	5%
Sell it	12%	8%	27%	15%

Table D23: Effect of Covid on plans for rental unit over next year

	Ilford	Wth OKR	Thamesmead	3 areas	London landlords overall
Decisive impact	0%	0%	8%	2%	5%
Don't know	6%	0%	0%	2%	2%
Little impact	29%	17%	23%	24%	16%
Major impact	24%	0%	8%	12%	11%
No impact—plans have not changed	35%	67%	46%	48%	43%
Some impact	6%	17%	15%	12%	23%

Table D24: Effect of tax changes on plans for rental unit over next year

	Ilford	Wth OKR	Thamesmead	3 areas	London landlords overall
Decisive impact	17%	8%	8%	12%	14%
Little impact	17%	25%	31%	23%	10%
Major impact	11%	0%	8%	7%	21%
No impact—plans have not changed	6%	25%	23%	16%	22%
Some impact	50%	42%	31%	42%	29%
Don’t know	N/A	N/A	N/A	N/A	5%