Supply of Private Rented Sector Accommodation in London

Summary Report

July 2023

This summary report is prepared by Savills and LSE Consulting for London Councils, Trust for London, Capital Letters and the London Housing Directors' Group. The researchers and report authors are Christine Whitehead, Kath Scanlon and Ellie Benton (LSE); and Abigail Davies, Jacqui Daly, Will Holford and Lucy Brown (Savills).

Savills Residential Research team is the largest of its kind in the UK, providing bespoke analysis to support clients with strategic decision making when it comes to building, developing and selling property. Savills Affordable Housing team is the market leading multi-disciplinary management and property consultancy advising on all aspects of regulation, development, funding, investment and valuation of affordable housing.

LSE Consulting was set up by The London School of Economics and Political Science to enable and facilitate the application of its academic expertise and intellectual resources.

Research funded by:

LONDON COUNCILS

Trust for London

CAPITAL LETTERS

London Housing Directors' Group

LSE Consulting

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Foreword

A warm, safe, secure and affordable home is the cornerstone of a healthy and successful life, and as London's political leaders, such a life is what we aspire to for all our residents. But the fact is that such a home is out of reach for far too many Londoners. This is a clear result of London's housing crisis, a crisis that has been developing over many decades but has now reached unprecedented levels.

At its root this is a crisis of affordability, with many Londoners denied either an affordable path to home ownership or a secure tenancy in social housing. As a result, London has become increasingly reliant on the private rented sector. Privately rented properties now account for 30% of homes in London, much higher than the national average of just over 20%, and our city is home to an estimated 2.7 million private renters. As such a reduction in the availability or privately rented properties has consequences that reverberate across London, but London boroughs have felt it most acutely in relation to homelessness.

London's severe shortage of socially rented homes also means that London boroughs have become reliant on the private rented sector as a means for the prevention and relief of homelessness. Since the pandemic we have faced growing homelessness pressures but at the same time boroughs have experienced a dwindling availability of suitable accommodation for homeless households. This experience has only been confirmed by the findings of this report which has identified a 41% reduction in the availability of homes to rent.

This reduction is unprecedented and is driving the deepening crisis in relation to homelessness, with rising demand and ever tougher challenges in securing and retaining suitable accommodation meaning London is increasingly unable to accommodate its homelessness crisis within the capital. With London accounting for almost two thirds of England's total number of homeless households, and a homeless population the size of Blackburn or Oxford, this crisis has national implications.

Without significant government intervention, all the indicators suggest that the current crisis will continue to worsen. We welcome the recommendations in this report, which, if implemented, would provide immediate relief to London's housing pressures. This is particularly the case for increasing Local Housing Allowance rates, which is the only effective tool available to the government to prevent and reduce homelessness in the short-term. That this report has found that only 2.3% of properties available to rent in 2022-23 were affordable on Local Housing Allowance is truly of grave concern and requires immediate redress by government.

But we recognise that these recommendations alone will not address the complex combination of structural issues and factors that have led to a shrinking availability of privately rented homes and increasing homelessness. The introduction of the Renters Reform Bill and the abolition of Section 21 evictions is welcome, but will have to be implemented as part of an overall package that does not lead to an even greater reduction in the availability of properties in a way that creates greater hardship for residents. To tackle the root causes of this crisis the government must go further and develop a long-term private rented sector strategy to ensure the provision of sufficient privately rented homes to meet demand.

In the long-run, the key to addressing homelessness and London's housing crisis is to build more homes, specifically more socially rented accommodation. London boroughs have made a good start but there is no doubt that there is much more to do. But building takes time, and regardless of how much we build, the private rented sector will always be a key part of London's housing market, that is why action on this issue can't wait and the government must step in to solve this crisis now.

Cllr Darren Rodwell

Leader of Barking & Dagenham and London Councils' Executive Member for Regeneration, Housing & Planning

1. Introduction

London's private rented sector (PRS) is a large and important part of the capital's housing provision. 30% of all London homes are rented from a private landlord, compared to the national average of 20%. Londoners are therefore disproportionately reliant on the sector and are especially impacted by changes in supply and costs.

In recent months local authorities, agents, tenants and landlord bodies have reported changes in the private rental market which are experienced as a reduction in the ability to access properties.

Comment has particularly been made about the effects felt in sub-markets for Temporary Accommodation (TA) or homelessness prevention lets and where households receive Local Housing Allowance (LHA) towards their rental payments.

In the absence of sufficient supply of sub-market social rented accommodation, London's PRS plays a vital role in providing accommodation to lower income households and people experiencing or at risk of homelessness. In fulfilling their statutory duties, local authorities and Capital Letters procure private rented accommodation by brokering tenancies between landlords and prospective tenants through short leases and nominations agreements, and they support individuals who hold, or want to hold, tenancies in the sector.

This research investigated the reasons behind the current challenges faced by tenants, local authorities and agents in securing properties in London's private rental market. It covered the whole mainstream London PRS, and focused particularly on what is happening in the most affordable section of the market because that has the greatest impact on low-income Londoners and boroughs' ability to prevent and relieve homelessness.

It provides a robust evidence base establishing the extent of the sharp reduction in new lettings across London, causal factors driving this reduction, and suggests possible responses to this. The research can be used to support the formulation of targeted policy proposals for the short and long term to address the undersupply of accommodation and meet the needs of lower income and vulnerably housed people in the city.

Research methodology

The research that informs this report was conducted by Savills and LSE Consulting between March and May 2023. The research used various sources of information and mixed research methods to complete the project. The research strands included:

- Review of recent literature
- Analysis of trends and patterns in listings, lettings, rental prices and affordability, and the size and structure of the PRS

- Review of rental market survey data (tenant demand and landlord instructions)
- Review of finance data on the buy-to-let mortgage market
- Analysis of rental and sales listings data at a London and borough level
- Analysis of data for properties that had been listed to rent that were later listed for sale
- Targeted surveys of existing landlords, with a focus on those supplying the most affordable section of the market
- Interviews and focus groups with landlords, letting agents who cater for these sub-sectors, local authorities, and non-profit facilitators of accommodation provision
- Analysis of online PRS landlord forums.

In adopting this mixed methods approach, the research attempted to offset the time lag in available public data with up to date insights into experiences and practices in the PRS. Whilst self-reported intentions expressed through surveys and focus groups should not be relied on in isolation, triangulation with multiple data sources and information from different types of participants helps to confirm where sentiment is being put into practice.

The work was supported by an advisory group comprising individuals with professional and lived experience of private rental accommodation, especially where it caters for lower income households or those at risk of and experiencing homelessness. Included in this group were representatives of landlords, tenants, lettings agents and local authorities. The research team would like to extend their thanks to advisory group members for their constructive contributions and generous assistance.

Key findings

London's PRS shows a complex picture with multiple factors driving the reduction in the availability of property for all Londoners. This has particularly impacted lower income households and local authorities when working to fulfil their homelessness prevention and relief duty.

Rental listings have fallen across all bedroom types in London. Listings for 1, 2 and 3 bed properties across London are down by around 36% on the Q1 2017-19 average, and there have been larger falls in listings of 4 bedroom properties.

More properties that were previously rented are being advertised for sale than before the pandemic, and the proportion is rising. The proportion of 3, 4 and 5+ bed properties listed for sale that were previously listed to rent doubled from 2018-19 to 2022, and for 1 and 2 bed properties the proportion increased by a factor of 2.5. It is not known what happens to these properties once they are sold but, even if some do remain in the PRS, the buyer expectation that they will be sold with vacant possession exacerbates demand pressure in the short term.

Asking rents in London are 20% above their pre-Covid level and weakness in new supply coming to the market indicates that further rental growth is likely in the short term, especially if earnings continue to rise.

Strong rental growth over the past 18 months and the freeze in LHA rates means that the proportion of listings affordable to LHA claimants is now back to pre-Covid levels, with the absolute number of available properties lower than pre-Covid levels. Without intervention to uprate LHA rates, both the proportion and the number of affordable new lettings will likely fall further as rents continue to rise. In 2022-23, the average across 1 to 4 beds was 2.3% of total listings – which is well below the 30th percentile. This figure is skewed upwards by 1 bedroom properties, with availability of 2, 3 and 4 bedroom properties much lower than this. This all reflects local authority and agent experience, who report that rents at the lower end of market have increased and that it is increasingly difficult to find properties within LHA rates.

The turnover of rental properties has decreased since 2009 for all bed sizes, with tenants remaining in rented homes for much longer periods. This is driven by the shortage of vacant homes and their cost, plus restricted access to home ownership, which has created an incentive for tenants to remain in existing properties for a longer period.

The number of properties being purchased with new buy-to-let mortgage loans has reduced, and there are now higher numbers of loans reaching maturity than new loans being taken out. DLUHC's private landlord survey from 2021 showed that 73% of buy-to-let lending was on an interest only basis. Maturation of loans presents an opportunity for landlords to leave the sector. The buy-to-let market is an important section of the private rental market that serves lower income households and provides local authorities with accommodation to prevent and respond to homelessness.

Primary research identified that more landlords are reducing their portfolios than growing them – but most are looking for stability. Qualitative research suggests that more current landlords are thinking of reducing their portfolio than did so in the last year, and that they plan to reinvest in sectors other than residential. Surveys and focus groups identified that the smaller, more accidental landlords are the ones leaving the market. These also appear to be the landlords that are more likely to let to a council, compared to career or portfolio landlords who appear less likely to let to the lower end of the market and less likely to sell at the moment.

Those landlords who are not selling tend to be moving away from catering for TA and homelessness prevention. Our survey shows 40% of landlords who had let to tenants with low incomes in the past have reduced their exposure in the last two years. Many said this was a recent decision rather than part of a long-term plan, and was influenced by rising costs, concerns about housing management requirements, and higher rents commanded elsewhere in the market.

Economic and some policy factors are increasing landlords' costs, impacting particularly those letting at lower rents, and generating consequences for lower income households and local authorities.

The changing regulatory and fiscal context, and the public narrative around poor landlord practices, causes anxiety and can negatively influence landlords' thinking around whether to remain in the sector and which parts of the sector they want to operate in. Higher taxes, the push for rent control and criticism of landlords can particularly affect those smaller landlords that tend to deal with local authorities.

Against the backdrop of increased operating costs due to inflation, mortgage interest rates, and some regulatory requirements, plus a policy environment that promises changes to tenancy law, landlords' fears around non-payment of rent and damage to property can make them less prepared to let in the lower end of the market.

Turbulence in the sector may be interpreted as the early stages of a decline in the size of the PRS. Recent changes in the market are experienced as very disruptive and a reduction in the availability of private rental property is evident. Data shortcomings meant we could not conclusively demonstrate (or disprove) that the PRS in London is shrinking. However, the current churn in ownership and use of properties that is being experienced in London is both evidenced and unprecedented.

The factors driving the reduction in availability of PRS homes and the changes in landlord behaviour and sentiment show no sign of abating. Because there are so many factors influencing the situation it is possible that any one of them may change and influence the patterns currently observed. However rental growth and higher mortgage rates will continue in the short term. These are both strong influencers of tenant turnover and landlord acquisition and sale behaviours.

2. Research findings

The dynamics of London's PRS are complex, with multiple factors driving the reduction in the availability of properties. This affects a huge proportion of Londoners due to the size of the sector in the city, and has a particularly strong impact on lower income households and for homelessness prevention and relief.

Quantitative and qualitative analysis highlights the key factors and gives some insight into how these interact and their likely durability. The analysis suggests that the lower end of the market, accessed by lower income households and councils with homelessness prevention and relief requirements, is subject to greater and distinct pressures compared to the overall private rental market.

Mainstream PRS market

The reduction in PRS listings and lettings observed in 2022 has continued

Savills undertook research for Capital Letters (published May 2022) that showed listings and lettings of PRS accommodation on a major online portal had declined from 2017 onwards. A further review of published data up to March 2023 shows that this reduction has continued.

- The volume of properties becoming available to let is now substantially lower than it was pre-Covid and during the pandemic, and demand is still exceeding the available supply. This has partly driven strong rental growth in London over the last 18 months.
- Listings data shows a clear decline in available homes, with 4 bedroom properties declining the most. Comparing Q1 2023 to the pre-Covid Q1 2017-19 average, listings of 4 bedroom properties are down by 41.6%.
- Properties are letting faster which is a consequence of a smaller pool of available properties coupled with very high demand.

Figure 1 – No. of properties available to rent on Rightmove in London vs Q1 2017-19 average

Source: Rightmove (Q1 2023 vs Q1 2017-19)

The reduction in PRS listings results from a combination of factors and looks set to worsen

Tenants are staying in properties for longer, with tenancy lengths broadly doubling, so fewer properties are becoming available to re-let. There is also a significant increase in the number of private rental properties being listed for sale.

Many commentators feel that a reduction in the overall size of the private rented sector is causing the reduction in availability of properties to rent. Data is not currently available to prove or disprove this hypothesis.

The decline in listings over time may also reflect a change in the way some landlords advertise properties, using alternative routes to market such as Gumtree, OpenRent or SpareRoom. Nevertheless it remains the case that local authorities and prospective tenants are finding it increasingly difficult to find properties.

Tenants staying for longer

The turnover of tenants in rental properties has decreased for all property sizes, with tenants remaining in rented homes for longer periods. All the data on tenancy lengths from Rightmove, the English Housing Survey (EHS) and Experian show tenancy lengths broadly doubling between 2009 and 2021. Stability is a stated policy goal and the ability to choose to stay is desirable for tenants. At the present time, with less stock on the market and higher rents for new lets, many tenants are extending their tenancies rather than moving. Increasing tenancy lengths and less churn among tenants then leads to fewer properties coming to the market.

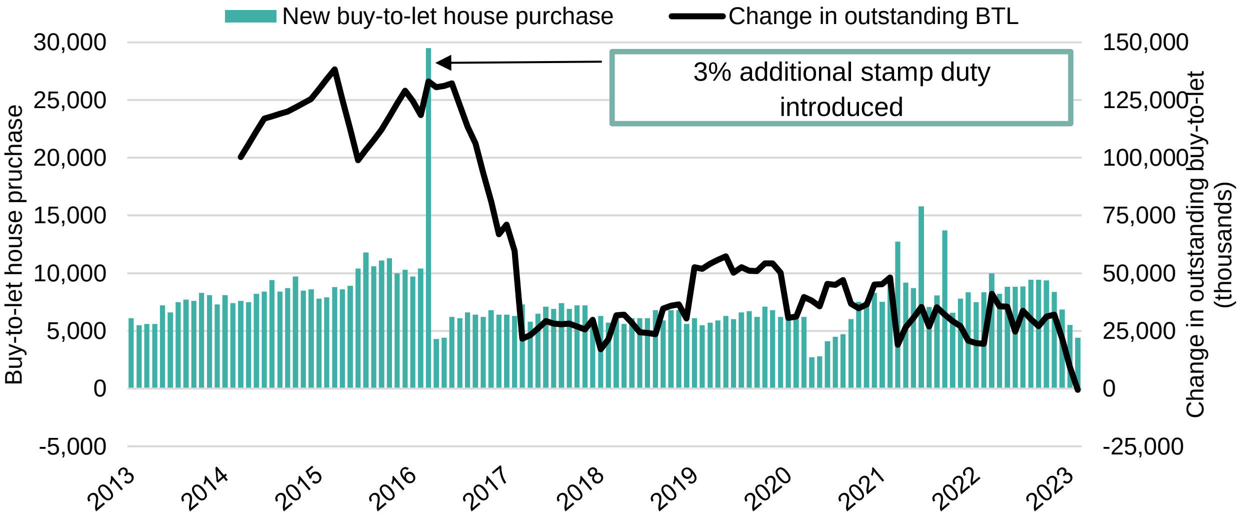
Access to home ownership has become more difficult because housing has become more expensive relative to people's household incomes. This means many households are renting in the PRS for longer and there are more families forming in rented homes who typically stay longer. Between 2001 and 2011 the proportion of renters aged 35-49 increased from 16% to 20%, and there has been a consequent rise in the number of young children living in the sector with those aged 0–9 increasing from 10% to 16%. With more families in the rental market, 3 bed properties in particular have seen an increase from an average tenancy length of 1.6 years in 2011 to 3.2 years in 2021.

Churn in the sector's properties

There has been an increase in the number of properties that were listed for rent on Zoopla's multiple listings website now appearing on the for sale side of their portal. Comparing the past 12 months with the pre-pandemic average shows that the proportion of 3, 4 and 5+ bed properties listed for sale that were previously listed to rent doubled from 2018-19 to 2022, and the proportion of 1 and 2 bed properties increased by a factor of 2.5.

Nationally, many buy-to-let loans have matured and reached the natural end of their mortgage term. Landlords on interest only mortgages are more likely to sell their investments to realise gains than landlords on repayment mortgage terms. DLUHC's England-wide private landlord survey from 2021 showed that 73% of buy-to-let lending was on an interest only basis. With higher numbers of loans reaching maturity than new lending, the total outstanding number of loans is declining. While this data does not present clear evidence that landlords are selling, it indicates that, because of the stage the market is at in the evolution of the buy-to-let sector (over 25 years from inception), many loans have matured which presents an opportunity for landlords to leave the sector.

Figure 2 – Change in outstanding buy-to-let mortgages and new buy-to-let house purchases



Source: CML, UK Finance

Whilst the quantitative analysis does not conclusively show that landlords are leaving the sector, it is indicative. However, the analysis points to reduced supply in the London rental market and suggests that this reduction in available supply is likely to continue at least in the short term.

During interviews, local authorities reported an increase in Section 21 (no fault) evictions, including when fixed term tenancies had come to an end and were not renewed when they could have been. An interview with an agent who focuses on procuring properties for councils reported challenges in finding properties in the market at the moment, despite having an attractive offer. They observe landlords leaving the market due to cost pressures.

What is clear is that in most cases rental properties will need to be vacated before they are listed for sale, which creates greater demand for the existing listings on the market. So, even if some of these properties remain in the PRS, it exacerbates demand pressure in the short term. Even if the pool is not changing, the group of people who can access it is.

Landlord focus groups and online forums cited a number of recent or planned economic and regulatory changes that have led more landlords to consider selling. These included the abolition of no fault evictions (Section 21), local licencing requirements and increased mortgage rates, and more demanding requirements for EPC ratings. The Renters (Reform) Bill was published in June but the draft is incomplete and many of its provisions are still uncertain. More of the landlords we spoke to have sold than acquired new rental property recently, and the qualitative evidence suggests that this trend may continue. Few of our respondents reported that they were growing their portfolios. More said they were taking money out to pay for their retirement or to invest in other asset classes, and many said this was a relatively recent decision.

The survey questions asked by the NRLA for this research showed that 25% of landlords with properties in London had recently made changes to their stock, and that more had sold than acquired properties. Similarly, of the NRLA respondents who were planning changes next year, four times more planned to sell than to acquire (40% vs 10%).

According to the LSE's own survey, of landlords that were making changes to their portfolios 2.5x more were reducing their holdings than increasing them. This tended to be a recent decision rather than part of a long term plan. Most sellers planned to use the funds for retirement or to invest in other assets. Only 13% said they would invest in another rental property.

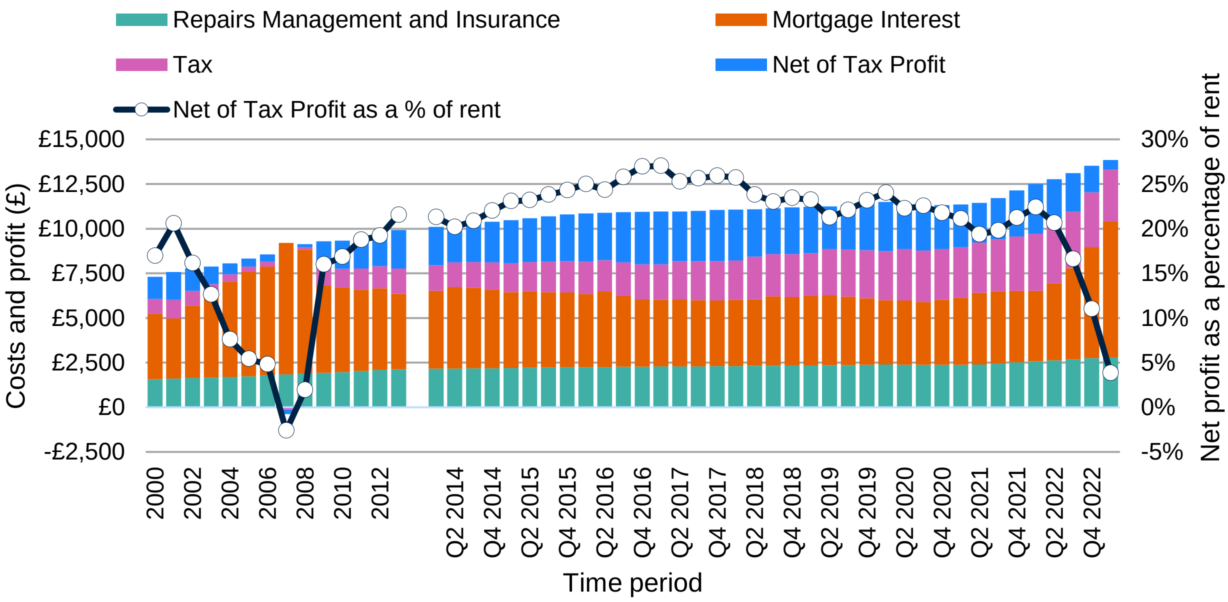
Only a small proportion of the landlords taking part in LSE focus groups felt certain they would still be landlords in 5 years' time. Many were selling or considering selling because they no longer saw their properties as good investments. Portfolio landlords were more likely than single-property owners to remain in the sector.

Not all landlords who were removing property from the rental market were selling: one had recently taken a family home off the rental market to live in himself, and some said they had heard of other landlords moving towards Airbnb and holiday rentals as they believed it to be more profitable and they could claim interest expenses against tax.

Profitability

There is evidence that it is less profitable to be a landlord than in previous years, for those using debt to fund property acquisition. The combination of the removal of mortgage interest tax relief with increasing interest rates has led to a significant increase in the cost of paying mortgage debt and driven profitability down steeply.

Figure 3 - Changing profitability for debt-funded investors



*Source: Savills Research, UK Finance, Nationwide *model assumes 70%* LTV on interest only mortgage*

Whilst exposure to tax can be reduced by holding property in a limited company, this approach is more usually taken by portfolio landlords with four or more homes. Landlords who already own properties as individuals (that is, not through a company) can incur significant costs in moving to a company structure, although landlords that are expanding may use a company structure for new purchases.

Operating costs net of mortgage interest have increased little until the recent spike in inflation, suggesting that the market for investment and continued operation favours cash buyers and those with lower levels of debt.

Landlords do consider leaving the market or changing their letting practices when operating profitability is, or is perceived to be, reduced. Interest rates are the biggest driver of costs and, were they to fall (as they are projected to do over the medium term), sentiment may change again.

Smaller landlords may not have the skills or the habit of formally assessing the performance of their assets – for example, comparing pensions and other financial investments to property investments; taking a long term view; and considering operating returns and capital returns in the round. This can mean that short term perceptions of profitability dominate.

Equally, many buy-to-let landlords rely on rental income to pay the mortgage and if there's a gap they may have no choice but to sell, even if the longer term financial analysis suggests it would be rational to remain invested.

Finding tenants without listing through major platforms

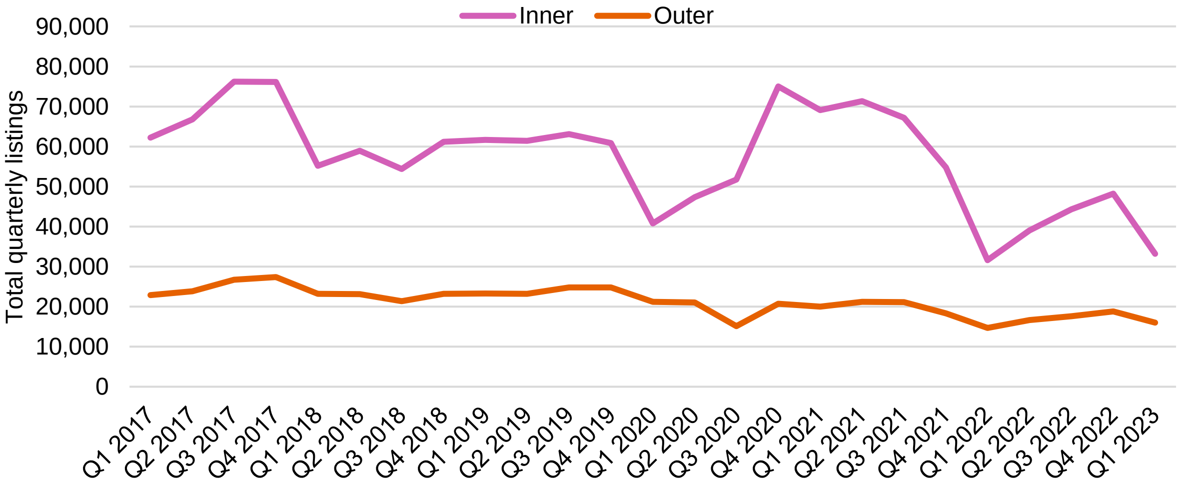
The LSE and NRLA survey confirms that many landlords rent through avenues such as SpareRoom, OpenRent, Gumtree and word of mouth rather than or in addition to major portals like Rightmove and Zoopla. This suggests that the quantitative analysis captures only one part of the market – albeit an important one.

The reduction in availability varies by location

Listings have been declining across both inner and outer London since 2017 but have fluctuated substantially more in inner London. The number of properties listed as available to rent has also fallen more in inner than outer London. In Inner London boroughs there are also more properties for sale that had previously been listed to rent.

New rental listings fell from Q4 2022 to Q1 2023. The fall is mostly seasonal, but the number is almost the lowest it has ever been in a first quarter. In inner London the number of listings fell by -30.8% and by -14.9% in outer London. With rental demand falling substantially in inner London during Covid, some of this demand shifted to outer London.

Figure 4 – Quarterly rental listings in inner vs outer London



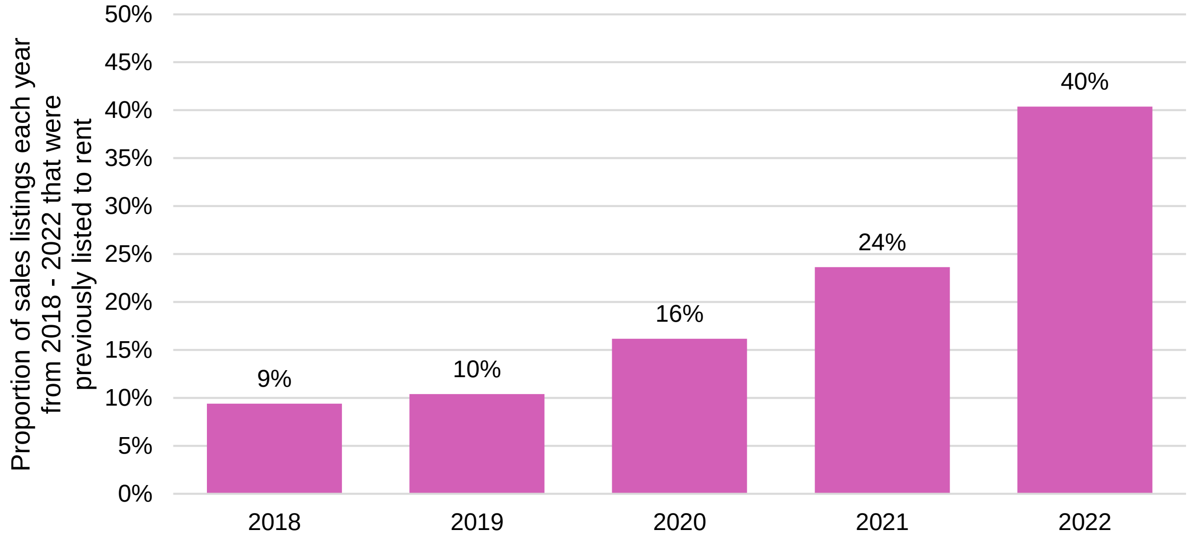
Source: Rightmove

More recently, when comparing listings for different property sizes in Q1 2023 with the pre-Covid average, there is little variation in the fall between inner and outer London for 1, 2 and 3 bed properties. All are down by around 36% on the Q1 2017-19 average. However, there were considerably fewer 4 bed listings in inner London compared to outer London in Q1 2023.

The increase in sales of formerly rented properties varies by location and rent level

A substantially greater proportion of properties formerly available to rent have switched to sales listings. In addition, areas with greater amounts of PRS accommodation (inner London) have seen more formerly listed rental homes listed for sale even though the proportions coming to the market are similar (this is because the rental market in inner London has historically been larger). This will shape how local authority and other staff responsible for procurement and brokering access to accommodation perceive and experience changes in the market, especially in the highest need areas.

Figure 5 – Total London sales listings that were previously listed to rent

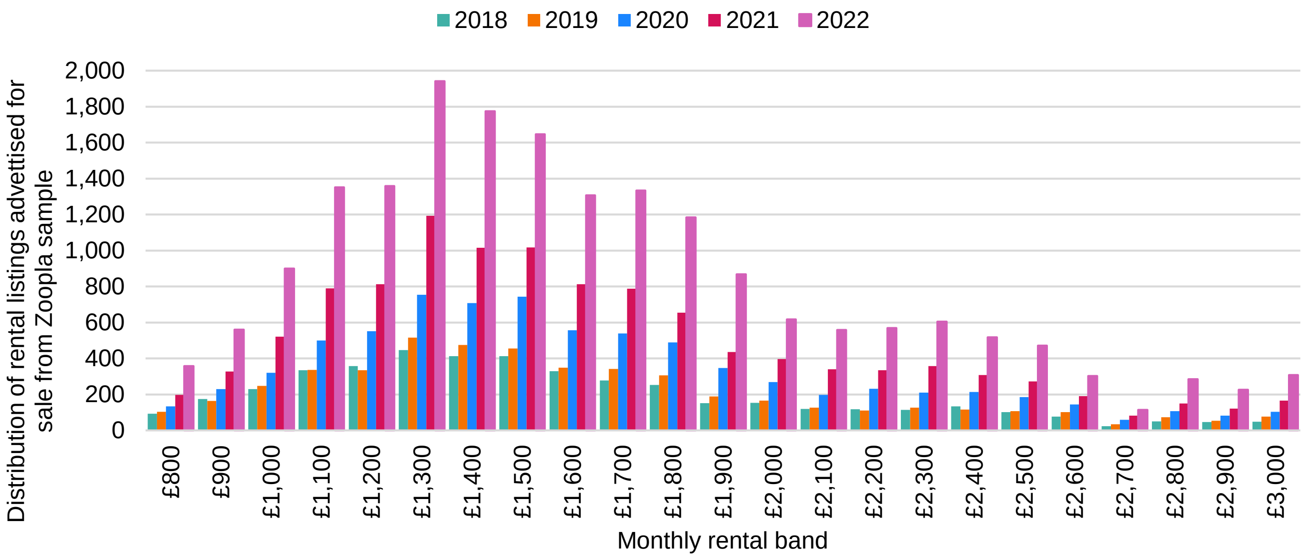


Source: Zoopla Powered by Hometrack

Increase in sales by rent level

For 1, 2 and 3 bed properties there is a discernible trend, particularly at the lower end of the market, of properties switching from rental listings to sales listings in 2022.

Figure 6 – Total number of sales listings that were previously listed to rent in London (All bed sizes)



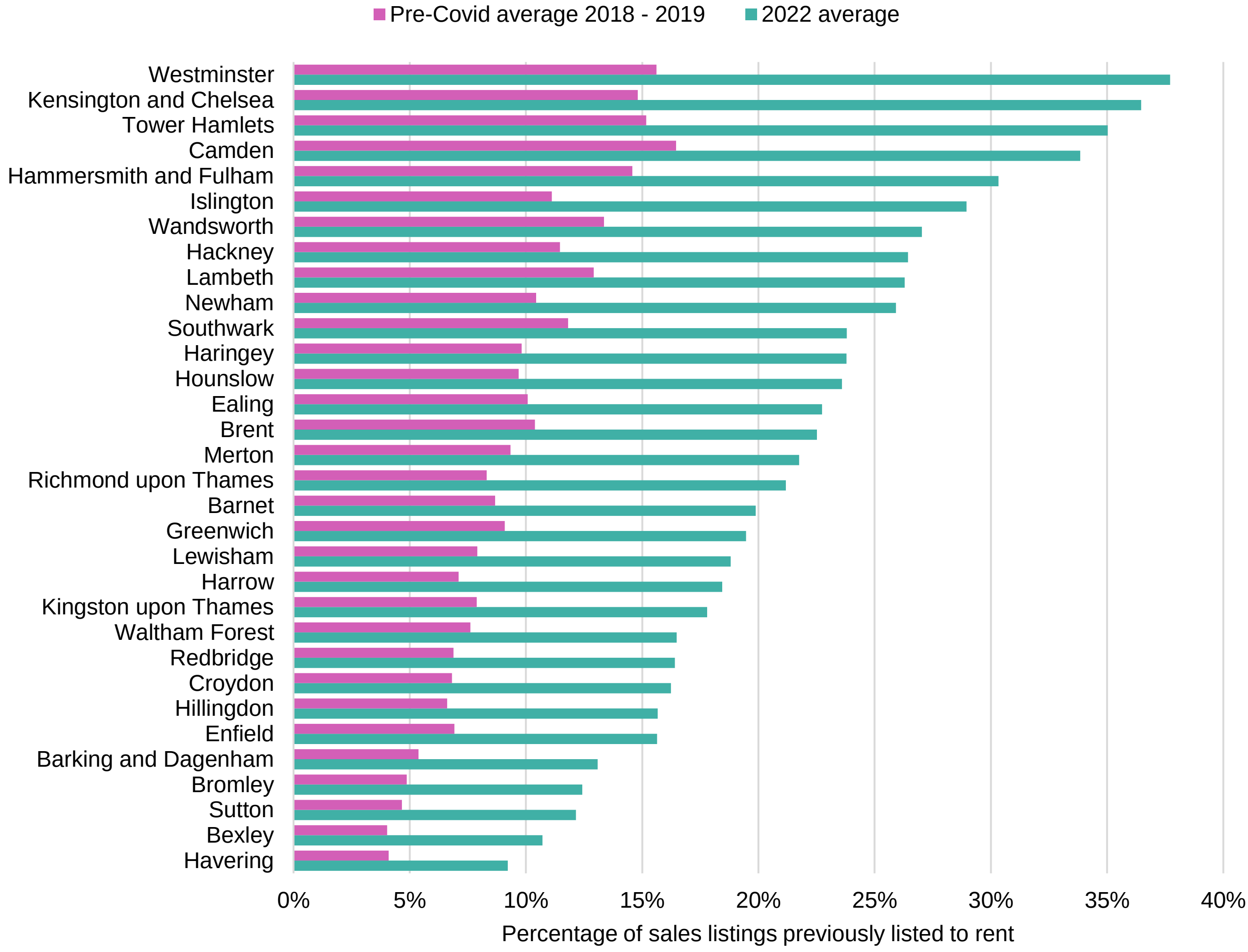
Source: Zoopla Powered by Hometrack

Increase in sales by location

The proportion of properties for sale that were previously listed to rent has more than doubled in every London borough from the pre-Covid average to the average for 2022. Inner London boroughs have seen the highest rates of sales listings that had previously been listed to rent, while in outer London rates are lower. These are the boroughs that have always had higher levels of owner occupation – a trend that has continued from prior to the pandemic.

Existing rental supply is falling at similar rates across boroughs, but the number of homes leaving is greater in areas with more PRS properties such as Westminster, Tower Hamlets and Kensington and Chelsea. Local authority interviews support the above, for example Westminster said they were not only concerned with finding affordable PRS housing but any PRS housing at all.

Figure 7 – Proportion of sales listings that were previously listed to rent (2018-19 vs 2022 averages)



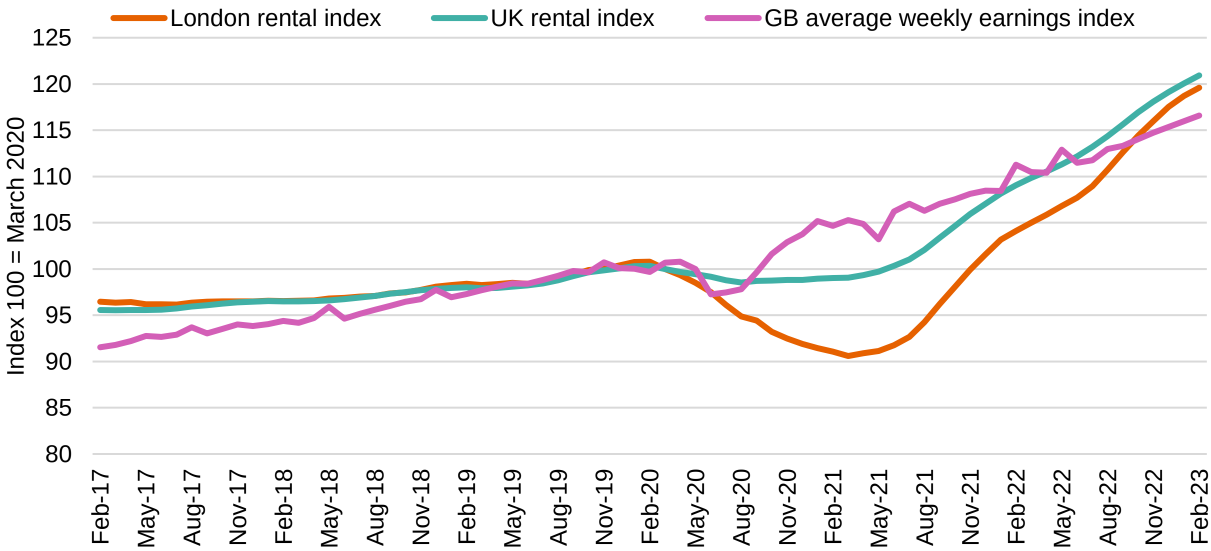
Source: Zoopla Powered by Hometrack

Rents have risen with demand, and look set to keep rising in the short term

Annual rental growth over the 12 months to February 2023 was 15% in London, and (in February 2023) asking rents were close to 20% higher than they were in March 2020. Inner and outer London boroughs have experienced different trends in rents over that time, but all have seen strong overall growth. The weakness in new supply coming to the market indicates that further rental growth is likely in the short to medium term, especially if earnings continue to rise and the population continues to grow. This particularly affects local authorities who procure accommodation in this market and benefit-claiming households, who have not had an equivalent increase in income.

Tenant demand continues to outstrip new supply in London, according to RICS letting agents. Following the lifting of all Covid restrictions in summer 2021, the gap between tenant demand and new supply opened up and has been maintained. This imbalance has contributed to the strong rental growth for new lettings that London has experienced since restrictions were lifted in July 2021. Earnings growth has also been a factor in pushing up rents. Average earnings (in Great Britain) are now 18% above pre-Covid levels, according to Oxford Economics.

Figure 8 - Asking rents compared to earnings growth



Source: Zoopla Powered by Hometrack, ONS

During the height of the pandemic, some outer London boroughs saw rents continue to increase while rents in inner London boroughs fell. Bexley, Havering and Sutton experienced the strongest rental growth between February 2020 and August 2021 at 5.4%, 4.4% and 3.6%, respectively. These areas experienced lower rental growth after the trough, but rents grew by more than 10% in all outer London boroughs between August 2021 - November 2022.

Looking at inner London, rents fell most from February 2020 to August 2021, due to sharp falls in tenant demand. Asking rents fell by -10.2% in Kensington and Chelsea, -9.9% in Tower Hamlets and -9.1% in Westminster. However, from August 2021 to November 2022 these boroughs experienced a rebound, with rents increasing in Kensington and Chelsea by 30.0%, Westminster by 28.5% and Tower Hamlets by 26.7%. Boroughs that had shallower rental falls during the pandemic grew at a slower rate back to the peak.

Asking rents do not give the whole picture. In a rising market, competition for rental homes pushes up rents, whereas in a falling market properties may not achieve the asking rent - currently London properties are being let above their asking rent. One landlord who took part in our focus group recently received 35 enquires in 24 hours about a vacant property. For the first time, they had asked people to give their best offers and received £350 over asking price, with people offering a deposit without even viewing the property. Local authorities and others seeking to procure properties confirm this practice has become more common.

No clear evidence about the ultimate tenure of PRS accommodation that is sold

Landlords do not often set out to sell with a tenancy in place, nor do they intentionally seek to sell to other landlords. They look for the best price. Their knowledge of what happens to a property they sell is limited.

Of 51 respondents to the LSE survey who had sold a property, only 8 said they had sold or expected to sell to another landlord. Of these 8, half said they had sold or planned to sell with tenants in situ, and only a single landlord said they had deliberately set out to sell the property to another landlord.

Similarly, in the NRLA survey, 76% of those who had sold London properties had either not sold them to another landlord, or did not know who bought the property. 9 landlords (24% of those selling) had sold to another landlord, and only one said this was intentional.

The reduction in available supply has been felt most strongly in London

The reduction in PRS accommodation available to rent is not unique to London, but it is felt more strongly in the city.

Rightmove data shows that since 2017 open market rental listings have been in decline across both Great Britain and London, with a similar reduction evident in other major cities including Manchester, Birmingham and Edinburgh.

The average number of quarterly listings in 2022 was -41.1% below the 2017 average in London and -33.1% below the average in Great Britain over the same period, so the decline has been steeper in the capital.

The market accessed by low-income households and councils

Whilst there has been a reduction across the whole PRS in the number of properties available to rent, there is a particular downward trajectory of availability in the part of the market that caters for lower income households, TA and homelessness prevention. LHA levels, reduced turnover of tenants, higher landlord costs and increased landlord anxiety have a strong bearing on the amount of property in this sub-sector of the market.

Less property is affordable to benefit-claiming households

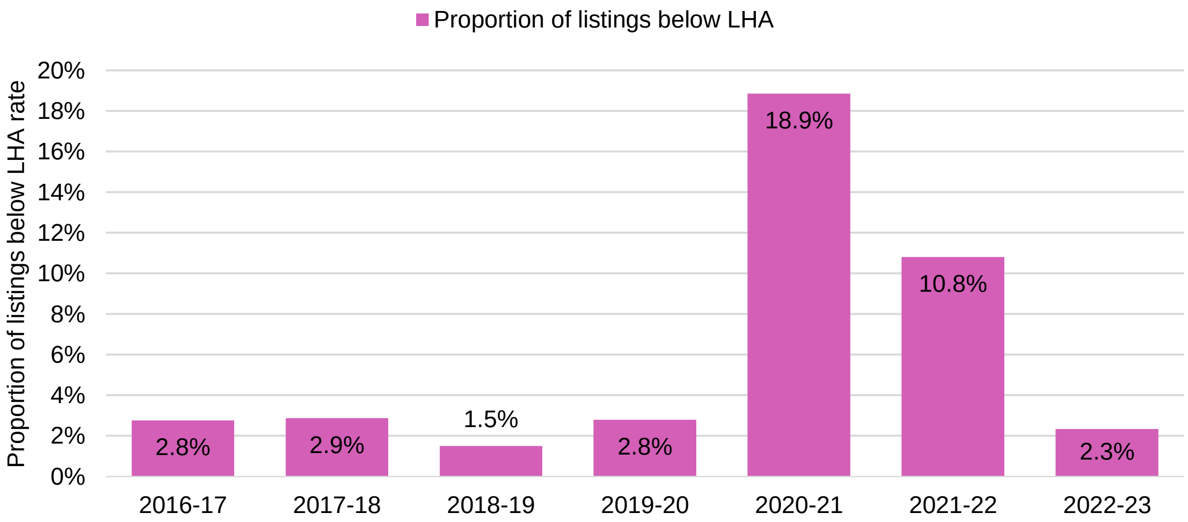
Although asking rents in London are 20% above their pre-Covid level, LHA rates have been fixed since April 2020 and will remain at these levels until at least March 2024. The proportion of quarterly listings affordable to those claiming Local Housing Allowance gradually fell throughout 2022-23 for all bed sizes and is now back to pre-Covid levels of 2.3%. The proportion of listings affordable to LHA claimants will fall further if rents continue to climb.

The relevant literature suggests that greater reliance on the PRS to house lower income households and increasingly limited housing benefits are making accommodation less affordable and available. Our research and the most up to date data confirms this.

In 2018-19, only 0.1% of listings were affordable to LHA claimants across 2, 3 and 4 bed properties, and 4.5% of 1 bed homes were affordable. The increase in LHA during the early stages of the pandemic combined with rental falls in parts of London meant that the availability of properties affordable to LHA claimants increased dramatically for all bed sizes in 2020-21, and was most significant for 3 and 4 bedroom properties. By July 2022, annual rental growth in London reached 17.7% which led to the proportion of listings on Rightmove below LHA rates falling to 1.6% of total listings by Q3 2022. The availability of 4 beds fell to 1.8% of listings affordable to those who claim LHA in Q3 from 3.0% in Q2. As of Q1 2023, the average across 1 to 4 beds was 1.9% of total listings – which is well below the 30th percentile.

2022-23 data shows a greater proportion of 1 bed listings below current LHA rates than properties with 2 or more bedrooms. Many who claim LHA and housing benefit are families and require multiple bedrooms rather than 1 beds.

Figure 9 - Proportion of listings affordable to LHA claimants



Source: Valuation Office Agency, Rightmove

Although a marginally higher proportion of listings are affordable to non-benefit capped LHA claimants than during the years prior to the pandemic, the number of listings is lower. This reflects the local authority and agent experience, who report that rents at the lower end of the market have increased and that it is increasingly difficult to find properties within LHA rates.

Although LHA rates are based on the 30th percentile of rents, the inputs used to calculate these rates are rent levels paid for existing tenancies, not rents advertised for new lettings. As inflation in new rents is greater than in existing rents, claimants looking to access a new home with the support of LHA will always be at a disadvantage.

The growth in wages and rents is stark compared to the freeze in LHA. People in receipt of benefits or needing to procure at benefit levels are at a significant disadvantage compared to others in the market.

Local authorities that lease property for use as TA also face a disadvantage, because the Housing Benefit rebate payable to them by government (to fund LHA paid to tenants living in TA) is held at 90% of January 2011 rates. The gap between what councils must spend to ensure accommodation is provided and what they can recover from central government widens as real rents pull away from these historic figures.

Half of landlords surveyed report setting rents at market levels, with only 8% basing rents on LHA rates. This undermines the sometimes stated theory that reducing LHA rates would encourage landlords to reduce rents. All landlords attending our focus groups reported having to increase rents, even at the lower end of the market. As open market rents move further away from frozen LHA rates, the supply of properties that can cater for particular sub-sectors is further squeezed.

Reduced access to home ownership and social rent keeps households in the PRS

The operation of owner occupation markets and social housing provision impacts directly on people who need to access lower cost private rented homes.

The tenancy length is increasing for Aspiring Homemakers and Transient Renters – if these groups at the top end of the PRS market are not able to leave, homes are not freed up for people in the groups below, so access for lower income people is constrained. The profile of sub-sectors of the market is changing as landlords are letting to different cohorts.

Local authorities said they had generally very limited capacity to move people into social housing, so households are getting stuck in TA for long periods – which in turn increases councils' PRS procurement requirements and costs. Whilst many councils want to increase their owned portfolios for social rent and TA, few are managing to purchase properties at scale, and certainly not at amounts that are commensurate with their need for accommodation.

Higher borrowing and operating costs put upward pressure on rents

Higher mortgage interest rates, regulatory costs and taxes have a stronger impact on landlords with low rental incomes because there is less headroom between operating costs and income.

Most landlords with mortgages have interest only mortgages and are therefore very exposed to changes in interest rates.

Landlords reported significant increases in costs, such as higher mortgage interest rates (exacerbated by the removal of mortgage interest tax relief) and costs linked to licensing – including in some cases required alterations to properties. Some were increasing rents accordingly.

Local authorities reported that costs for landlords have increased to a point where they often cannot justify letting in this part of the market any longer.

Landlords are moving away from letting to low-income households or local authorities

Many landlords who had previously let to lower income households are choosing to let to a different segment of the market. Landlords who have moved away from providing accommodation for TA and homelessness prevention cited tenant and council behaviour and the benefit system as well as increased costs as push factors shaping their behaviour. Where landlords retain ownership, the proportion of landlords letting to councils has reduced.

The LSE survey shows 40% of landlords who had let to tenants with low incomes have reduced their exposure in the last two years. In the NRLA survey, the proportion reducing their lets to this part of the market was smaller, at 18%. Most landlords said they let the same number of properties to low-income tenants now as they had done before.

The LSE survey suggested that half of landlords that let properties as TA were now letting fewer properties into this part of the market than they had previously.

Of the landlords currently letting on assured shorthold tenancies (ASTs) through London local authorities or Capital Letters for people threatened with homelessness, or who had done so in the last two years, some 38% were now letting fewer such properties in this market than previously. Almost all of them still owned and let out the relevant property or properties. This confirms findings from LSE's review of Capital Letters' scheme, published in 2001. The number of properties in the scheme was expected to grow at the time but, instead, procurement thereafter became far more difficult at LHA levels.

Landlords are switching from letting properties as HMOs to family homes so they do not have to deal with licensing, which will reduce the availability properties suitable for sharers. Proactive procurement of properties to accommodate people seeking asylum in the United Kingdom, along with removal of HMO licensing requirements for properties let to the Home Office and its contractors will likely further reduce supply of properties for sharers available on the open market and to local authorities.

The literature review suggests the availability of TA is also affected by increasing demand from other bodies looking to procure accommodation, particularly from the Home Office. Local authorities shared this sentiment in focus groups and interviews.

Landlord focus groups suggest there is a shift from letting at the lower end of the market to letting at higher rents given that the mainstream market is so strong.

The landlords most likely to let to councils are those considering leaving the market

Surveys and focus groups identified that the smaller, more accidental landlords are the ones leaving the market. From landlord and local authority comments, these also appear to be the landlords that are more likely to let to a council, compared to career or portfolio landlords who appear less likely to let to the lower end of the market and less likely to sell at the moment.

- Local authorities were aware that such landlords felt attacked by the government narrative about poor quality accommodation and management. In the landlord focus groups, participants said landlords were characterised in public discourse as exploitative despite trying to provide a good service. Some were considering leaving the business for this reason.
- Landlords cite the need for income as a key business driver, so threats to net income or the existence of a better alternative for generating income are likely to influence behaviour. Landlords letting in the lower end of the PRS are experiencing both.
- This is supported by findings from evidence to the DLHUC Select Committee for its "Reforming the Private Rented Sector" inquiry, which suggested that the tax changes and other changes would push smaller landlords out of the sector.

Some 27% of landlords surveyed by LSE said realising a lump sum was a key driver in their decision to sell. The aspiration to grow is a much smaller driver in comparison.

Multiple push factors are driving landlords to stop letting for TA and homelessness prevention

Many landlords regard renting to the lower end of the market as risky. Given the rental market is so strong, they said it was illogical to let properties to councils or directly to tenants at lower rents than they could command elsewhere. Currently it appears that supply side factors – taxation, higher interest rates and current and future regulation – are key drivers reducing availability at the lower end of the PRS. The mood music around landlords and quality of property and management is also an important factor for some. Perceptions of short term risk and return are important drivers of landlord behaviour, and levels of landlord financial anxiety may be intensified by the recent experience of Covid restrictions where landlords could neither let their properties, nor regain possession of them.

Reasons given by landlords for reducing exposure to the TA market include increased costs, poor experience with councils and concerns about reliability of tenants. Those who had actually disposed of properties that were previously let as TA cited a shift by councils from private sector leasing to directly let ASTs, tax changes, the cost and time of meeting tighter standards including licensing and, most frequently, the anticipated abolition of no-fault eviction (Section 21 notices) as factors that had pushed them away from the sub-sector.

Landlords gave similar, but not identical reasons for reducing exposure to the homelessness prevention part of the market. They cited increased costs that were not sufficiently covered by rent and LHA rates, and commented that local authority rates and incentives were no longer meeting their expected return for the property. Concerns about the reliability of tenants were also frequently cited, along with concerns about the lack of Universal Credit direct payments leading to an increased risk of arrears. This echoes literature that suggests 40% of all benefit claimants living in London do not have enough income to pay their rent. There is a perception, rightly or wrongly, of more risk of damage to property in this sub-sector and a concern about not being able to gain possession of the property if tenancy conditions were breached. Tighter standards including proposed changes to required Energy Performance Certificate (EPC) ratings and licensing were also mentioned.

Perhaps the strongest theme to emerge from the qualitative research was around anti-landlord sentiment, which was attributed to governments at all levels and to the media. Landlords reported feeling bewildered, insulted and even affected physically by what they saw as continued attacks. Several landlords said anti-landlord rhetoric from government reflected political expedience, and was a way of shifting blame for the public sector's own failure to provide enough affordable housing.

3. Conclusions

Data from Zoopla and Rightmove along with a range of interviews and discussions with agents and other experts all suggest that the flow of properties coming on to the market – therefore, available for households to rent – has been falling for some time. Does this inherently mean landlords are exiting the market and supply is declining? There are three groups of possibilities: (i) properties are actually still in the market; (ii) landlords are selling or transferring to other owners and (iii) landlords are keeping the property but not reletting.

Under (i), the two main possibilities are that tenants are staying longer (which is in line with evidence) and that landlords are listing through other more general platforms or informally (again, there is plenty of qualitative evidence). In this group, there is no overall loss.

Under (ii), if the landlord sells to another landlord there is no net loss in supply of PRS properties but if they sell to owner-occupation, short lets, second homes or to people who leave it empty there are losses.

Under (iii), where the landlord retains the property, the most usual possibility seems to be that they are keeping it for family or friends – which may also reduce demand – but they may also transfer it to student accommodation or indeed to the short-let market in which case there are losses.

We have seen examples of all these possibilities. Overall, while Rightmove and Zoopla evidence might overstate the decline, mainly because of the growth of other channels, the qualitative evidence shows that landlords are pulling out, especially in the lower part of the market.

As such, while we cannot definitively say whether London's PRS is shrinking or not, we do know the following:

- Rental listings are falling and it's problematic for all households, particularly lower income households;
- More rental properties are being sold by landlords, particularly at the lower end of the market;
- The number of homes affordable under LHA is almost non-existent.

Some of the impact may be short lived in the current uncertain circumstances but there are also clear long term trends. The complex combination of factors driving change in the market mean that we cannot say whether the changes identified are a long term shift. However the factors driving the reduction in availability of PRS homes and the changes in landlord behaviour shows no sign of abating.

4. Recommendations

The PRS caters for a range of people, in some cases because other parts of the housing market do not. Local authorities and others working to meet immediate housing needs in London emphasise that they need a well-functioning PRS in the absence of other tenure types. On the other hand, some tenant groups, housing charities and other stakeholders in the PRS market want, longer term, to see less reliance on mediated access to a sector in which affordability and availability will always be unfavourable for people who have less purchasing power than others.

In drawing recommendations from the research findings we have identified some shorter term interventions that could address the current landlord, tenant and local authority neuralgia. These interventions may help to protect access to PRS properties for lower income households and those experiencing or at risk of homelessness. While the majority of the recommendations set out in this report are essential measures to address the immediate problems faced by local authorities and tenants in accessing affordable PRS properties in London, we recognise that they will not address the complex mix of factors and structural issues that have led to the current crisis.

There have been clear calls for a more strategic approach and less piecemeal policy making for the PRS since at least 2018; and the limited potential impact offered by short term measures suggested here simply underlines the relevance of these calls.

An urgent cross-departmental review of PRS supply and development of a long-term PRS strategy

We recommend that the government conducts an urgent cross-departmental review into the supply of PRS accommodation, including an assessment of the collective impact of recent government PRS policy (the Renters Reform Bill, extending the Decent Homes Standard to the PRS etc.) and economic factors (increasing interest rates, maturation of the buy to let market) on the supply of PRS accommodation. On the basis of this review the government should develop a long-term PRS strategy to ensure a regulatory approach to the provision of sufficient good quality PRS homes to meet demand.

Improve the purchasing power of lower income households and local authorities

The strongest immediate recommendation is to improve the ability of low-income households to access PRS accommodation by increasing LHA rates to reflect current market rents. The Housing Benefit rebate payable to councils that accommodate households in leased temporary accommodation should also be raised from January 2011 LHA rates. Both actions would reduce costs that are currently borne by local authorities and would improve purchasing power of individuals and councils.

This should be a rebasing to the 30th percentile of current market rents using 2022-23 rental data which would improve the number of properties affordable to lower income households to a third of the market.

This would undoubtedly help many lower income households, especially those who are in work or with disabled family members. Two key factors mitigate the potential impact of such an intervention.

Firstly, households subject to the Benefit Cap are unable to gain from increased LHA rates, and could find their circumstances further worsened if their rent rose to the new level. In addition, higher LHA rates would, as was seen in 2020-21, draw more households into the Benefit Cap.

Secondly. LHA is set according to rents that are charged for current tenancies but rents for new lettings are currently noticeably higher than rents for tenancies that have run for a while. A rebase to the 30th percentile of existing rents would still not align purchasing power with cost for available properties. This suggests the need for government to review the existing methodology for calculating the 30th percentile.

Reduce competition between public sector bodies

The London boroughs have implemented the Inter-Borough Accommodation Agreement (IBAA), a pan-London agreement to reduce competition and create better value for public spending between themselves as they seek to procure accommodation for TA and homelessness prevention. A wider public sector agreement could be implemented to limit competition between councils and government departments, in particular the Home Office, so that they do not skew the market and drive up prices through their own procurement practices.

Develop fiscal incentives for landlords to participate in the lower end of the market

Local authorities already offer cash incentives to attract and retain landlords. Government could offer or financially support incentives that would be more effective in the current market and help save public money spent on homelessness overall.

At a local level, landlords could get help to fund the cost of zero carbon works, licencing fees, in return for long term letting at a lower price point and/or to lower income households. This kind of incentive has been used when bringing empty properties back into the market, and there will be learning points from this.

Nationally, landlords who agree to let to the lower end of the market for a reasonable length of time could be offered tax reliefs or other financial incentives. The fiscal policy pursued in Germany contains supply-side features to encourage investment and stability in the private rental market (mortgage interest relief, and capital gains tax relief when properties are let for longer than 10 years), may offer lessons. Evaluation of potential for a UK/English version of this approach should be considered.

Enable public acquisition of properties leaving the LHA or TA sub-sectors

Where landlords currently letting to LHA claimants (whether or not let as a consequence of a council's homelessness responsibility) or leasing to local authorities are looking to sell, local authorities may wish to ensure that the tenants can continue in occupation and the property continues to be used for its existing purpose. Comparison of cost to acquire property with cost to provide TA could help to inform investment decisions. Councils themselves have very limited capital funding for acquisitions. Government could provide grants or other capital funding so that these properties can be purchased by local authorities or their partners. The Greater London Authority's current Right to Buy-Back scheme may offer useful insights on possible approaches.

Actively seek to address landlord anxiety

Promotion of opportunities to attend forums and other networking channels run by local authorities and other landlord bodies can expand the number of landlords who are able to get factual information. When run at a local level – where landlords' properties are located – these activities can cover matters that have a direct bearing on landlords' perceptions and decisions, such as insights into the local market, demand from different cohorts and council priorities for local regulation, alongside more general advice on operation of Universal Credit, government's legislative intentions, and licencing schemes.

A pan-London PRS network, involving all councils and drawing on knowledge from members' activities and forums, could work to develop joint initiatives and pilot schemes, and make the case for change with the weight of the whole network behind it.

Investment in refining councils' approaches to enforcement activity may also help to reduce landlord anxiety. If landlords are reassured that there will be clear and consistent enforcement of health and safety rules, then they can have certainty around the requirements on them and their own ability to operate under the regulation without intervention or reputational risk.

Mitigate landlord fears regarding the risk of rent arrears, anti-social behaviour (ASB) and property damage

Local authorities and DWP could explore ways to reduce landlords' exposure to rent arrears or poor tenant behaviour, as well as giving more publicity to measures such as deposit guarantee schemes that are already in place. For example, Capital Letters and some councils offer an FCA registered insurance product specifically designed for landlords letting to tenants claiming benefits, which protects against rent arrears, property damage and also covers legal costs if they need to evict a tenant. This could be promoted proactively as part of a campaign to encourage landlords to continue operating in this part of the market.

Support services such as those offered by Kineara, St Mungos (for Real Lettings) and Capital Letters can help to allay fears of both landlord and tenant about the possible behaviours of the other party and enable landlords to have confidence to let to low income households.

Improve understanding of how regulatory costs fall on different types of landlord

Local authorities and national government should ensure they have a full understanding of likely impacts of further regulation on different types of landlords. Government should assess the potential impact of the Renters Reform Bill on supply of PRS accommodation, and take steps to ensure supply is maintained whilst pursuing the aims of the legislation. With a better understanding, councils and national government can explore ways to smooth out risk and reward (for example, by enabling cost of works to be deferred), without easing up on quality expectations or unreasonably underpinning landlord profit.

5. Glossary of terms

PRS	The Private Rented Sector (PRS) includes property that is privately owned and being rented out as housing.
TA	Temporary Accommodation (TA) is housing offered by councils to people at risk of homelessness.
LHA	Local Housing Allowance (LHA) rates are determined by Valuation Office Agency Rent Officers and used to calculate housing benefit for tenants renting from private landlords.
NRLA	The National Residential Landlords Association (NRLA) is the UK's largest membership organisation for private residential landlords, supporting and representing over 85,000 members.
RICS	The Royal Institution of Chartered Surveyors (RICS) develops and enforces leading international standards to protect consumers and businesses.
DLUHC	The Department for Levelling Up, Housing and Communities (DLUHC) is the government department responsible for housing, communities, the levelling up agenda and local government in England.
EHS	The English Housing Survey (EHS) is a continuous national survey commissioned by the Department for Levelling Up, Housing and Communities. It collects information about people's housing circumstances and the condition and energy efficiency of housing in England.
ONS	The Office for National Statistics (ONS) is the executive office of the UK Statistics Authority, a non-ministerial department which reports directly to the UK Parliament.
Nomis	Nomis is a service provided by Office for National Statistics, the UK's largest independent producer of official statistics.
AST	An Assured Shorthold Tenancy (AST) is currently the most common tenancy when renting from a private landlord or letting agent.
HMO	A House for Multiple Occupation (HMO) is a residential property occupied by three or more people sharing facilities, such as a bathroom or kitchen.
DWP	The Department for Work and Pensions (DWP) is the government department responsible for welfare, pensions and child maintenance policy.
ASB	Anti-Social Behaviour (ASB) is behaviour by a person which causes, or is likely to cause, harassment, alarm or distress to persons not of the same household as the person.