Reappraising the place for private rental housing in the UK market: Why an unbalanced economy is at risk of becoming even worse...

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Abstract
There appears to be a current policy fascination with what rental provision from the private housing sector could offer to the UK’s housing market and to national and local economies. A plethora of reports from Parliamentary Committees, independent think-tanks, academic and professional bodies have promoted the benefits of new private rental supplies, but there seems little critical evaluation of whether this could make economic matters worse rather than better, nor of the potential negative impact upon local places. This Viewpoint tables a number of concerns on the nature of private rental supply and its problems. It notes the manner in which the rise in private renting is impacting upon other parts of the housing market, not least its growing influence on wider assessments of housing performance by the establishment of benchmarks that are based upon ‘open market’ conditions. Particular criticism is levelled at how private rental provision is increasing ‘social’ and economic divisions between those having settled and secure accommodation and those seeing their income lost to short-hold and limited residences. A critique is levelled against the promotion of the sector as some kind of a ‘value-neutral’ investment, since current rental and investment mechanisms represent an ideological framework to consolidate ever more resources with investors and property-owners that exclude increasing numbers of households from the potential benefits of their own owner-occupation. It is also argued that the ideological values underpinning a transfer of UK home ownership to the investment sector are going unreported, and that expansion of the private rental sector represents a real threat to future ‘affordable housing provision’. The piece concludes with some views for putting other frameworks and financial systems for a fairer basis of housing delivery into place.

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The growing prevalence of the UK’s private rental sector

Given the shocks administered to national and local economies by the recent (possibly enduring) global recession, there has been significant attention given to understand the multi-faceted connections that ‘housing-related’ activities and investments have with both macro- and micro-economic well-being. Central to such considerations has been a readiness to look critically at the potential to avoid repeats of disastrous ‘boom and bust’ patterns characteristic of speculative residential property markets, in particular by new patterns of housing provision such as that offered by modern aspects of new rental provision. A new publication from the World Bank (see Peppercorn and Taffin, 2013) provides a pertinent summary of the impact that new ideas for rental housing supply have been having on established economies in the ‘developed world’, and a provoking review of what place new rental provision might take in emerging economies. In the UK, it is fair it say that a focus on implementing corrections to perceived housing market ‘imbalances’, thereby underpinning more stable circumstances for 21st century growth, was in evidence prior to the 2007–2008 onset of the recession (for indicative policy positions see Barker, 2004; DCLG, 2011a; ODPM, 2003) though an increasingly important element of those considerations has been the weight put behind the promotion of new ‘private sector rental’ supply (PRS). This has been to meet perceived changes in housing and investment aspirations, and to be a source of new local provision in areas ostensively blighted by a downturn in local house values or by withdrawal of investment funds from established housing providers. The last few years, covering the crucial change in political administrations through the 2008–2013 period, has therefore seen a consistent groundswell of academic, professional and governmental reviews and investigations into what the PRS might provide, establishing a substantial intellectual foundation to support arguments for PRS expansion, and increasingly used to justify incentivising the application of resources for deliberately selective new housing investments and provisions (see summaries of these reviews by Field (2013), Pawson (2012) and Pawson et al. (2013)).

Such energy and conviction behind the current intellectual support for PRS expansion is not discernible in any other collected contemporary UK argument in support of other tenures, almost as if the need for PRS growth in the current climate of continuing uncertain economies is beyond doubt and has been sufficiently laid out. This ‘Viewpoint’ does not concur with that view, and instead takes as a starting point the conviction that rigorous examination of the deleterious impact that PRS provision is already having upon wider housing issues in the UK merits raising loud alarms about the local and national economic impacts of private rental expansion, the divisive nature of the actual changes happening in UK ‘home ownership’, and the ideological pressure that will increasingly press for further change in attitudinal support towards inclusive welfare and social frameworks.

It is first worth being clear about the extent of the absolute increase in PRS provision within the UK market. Headline figures describe this as almost an 100% increase in its portion of the overall UK stock in the last 10 years – i.e. through the period of the ‘pre-crash’ market boom, and
during its immediate downturn – and indeed PRS provision has expanded from being 9.9% of total UK housing stock in 2002 to about 17.4% by 2011 (see Pawson and Wilcox, 2013) and now represents more stock than the social housing and council housing sectors together: in London the PRS represents approx 25% of all stock (GLA, 2013a). What is less often mentioned is that the growth in actual PRS numbers in this period represents more than all the ‘new’ property created or built across all those years put together: notwithstanding the year-on-year upturn in new housing construction through to the 2007 market height, more properties were consistently being turned into private rental tenancies both before, during and after the onset of the recent recession than the total of new ones built. As the comprehensive yearly reviews undertaken by Pawson and Wilcox demonstrate (see for example the 2013 Review) figures for the period 2002–2011 show that 1,429,000 new properties were created across the private and social sides of the UK market; however, the net change in the tenures of all properties shows a rise of 1,870,000 PRS properties in the same 10 years. The rise in PRS provision has not simply been from new numbers of such tenancies coming forward, it has also been occurring by removing UK stock from use for other tenures: fewer rental properties in the social and affordable sector – with increased pressures on the diminishing stock still in operation – and an absolute reduction in opportunities for owner-occupation, with all the likely impacts on squeezing dwelling prices up as overall supplies are reduced.

And such figures are still likely to be an under-assessment of *the people* in PRS properties, given that the reality on the ground is often a shared property rented between two, three or more people (with perhaps not even a single room for private use), or worse still, the unscrupulous cramming of people into dormitory-dwellings or inside garden sheds – see Twinch (2012) on the Government’s recent ‘task force’ to overturn such practices. Perry (2012) has highlighted the local extent to which the needs of migrant workers have boosted significant levels of ‘hostel’-type lettings or other properties in ‘multiple occupation’ (HMOs) – one example being in Thetford in Norfolk where the number of HMOs grew from 40 to over 400 in only four years in response to the demand from EU accession state workers in the farming and food processing industries. Contemporary statistics are notoriously inconsistent with regard to calculating the amount of properties being either subdivided, sub-let or ‘shared’. However, the last national Census did find evidence of an increase in shared dwellings at both national and regional level over the last decade, with returns from London pointing to a rise of 301% in the number of ‘shared’ dwellings between the 2001 and 2011 census returns (GLA, 2013b).

**The impact of private rental sector ‘costs’**

The rise in the use of PRS provision by households in and out of waged employment has registered with the current Government in that the projected impact from rising rental costs could present a catastrophically high future commitment from the public purse at current rates of inflation. Basic reasons for such rising costs are not hard to identify: the aggressive and inflationary pressures that markets routinely bring to bear on the price of acquiring restricted goods (which housing is consistently argued as being in the majority of local housing markets in the UK) thereby incorporating classic speculative approaches to rent-setting that seek to maximise landlords’ returns while they can be achieved; and the more mechanical
connection between how private landlords set rents at levels to cover their own investment or mortgages outlays, plus an additional element of profit to themselves – varying in accord with the nature of local places and their respective popularity, but certainly creating costs to rental households higher than mortgage redemptions alone.

Part of the justification for current welfare reforms has been to set new ceilings to the levels of rent that may be met by benefit entitlements as an attempt to help peg such inflation by signalling to private landlords that the state should not underwrite all rental aspirations. It remains to be seen whether the impact on rents is as positive as Government has hoped, and the PRS market is obviously not beholden to housing solely those households able to access benefit support. What is at odds with this overt concern for constraining rental inflation with a welfare benefit ‘tool’, is the concurrent acceptance of ‘open market’ costs being consolidated within the manner in which the state’s support for ‘affordable rental’ properties is no longer fixed at some absolute amount or percentage of household income, but has now been intimately connected with ‘open market rates’ – rent will be ‘up to 80% of open market rates’ where new ‘affordable’ properties have been supported by public grant, such as via the Homes & Community Agency. In effect the terms of contemporary PRS provision are becoming institutionalised as benchmarks by which the costs and returns of other tenures (rental and otherwise) are evaluated as appropriate, not least to adjudicate in instances where higher rents might be legitimately sought by the landlords concerned. A ‘benchmark’ taken from a movable ‘market’ rate will, however, clearly only amount to a very relative thing, and hardly offers much scope for constraining inflationary pressures – one could conclude that this is not its intended role, rather that the subvert intent is to raise rents deliberately towards the maximum levels that the household purse can afford in order to bring greater security to investors and their participations.

Such changing rental demands illustrate how the economic impact of the housing sector is more than merely providing house-building employment or supplying suitable accommodation to keep workers interested in local jobs – as repeated by the Centre for Cities Outlook 2013 – since the costs of PRS tenancies to resident households merit review in themselves in terms of their impact upon household abilities to engage in wider economic activities. Informal information from personnel in the UK’s finance sector suggest household PRS outgoings are regularly exceeding the level of payments that would be otherwise sufficient to cover mortgage loans, and Shelter (2012) reported rental costs at an average of 125% of the income that investors require to cover their loans – a level of income that the banks say is required to minimise risk to the investors. Consequent rental levels are constraining savings for mortgage deposits – the consistent complaint of current campaign groups like ‘Priced Out’ (2013) – however, they will also be constraining the ability (and interest) of households from engaging with general local economies and local traders (especially those who appeal to owner-occupiers in the servicing of a multitude of ‘home improvements’). Surveys quoted in a recent report by the London Assembly (GLA, 2013a: 17–18) suggest that 47% of private renters in London have £100 or less disposable income each month after paying for essentials such as rent, fuel bills, food and council tax. The financial demands of current rental regimes are so monopolising their grip on household income this now echoes the concerns once voiced about the problems of high mortgage costs in the ‘pre-crash’ period constraining the participation of households in wider and local life.
All this has clearly been at odds with the holistic outcomes that local authority ‘community’ strategies were originally tasked to promote: the central policy aspirations summarised by O’Callaghan et al. (2012), and recorded by the Planning Advisory Service (2013), to secure a balanced mix of households and tenures in ‘sustainable neighbourhoods’ will be severely compromised by the growing economic tensions between the property-owning ‘haves’ and the ‘have-nots’, notwithstanding the recent strategic revisions instigated under the new National Planning Policy Framework in 2012 that could already be diluting that balance. As Lowe (2011) has noted, if the long-term security perspective of property-owning families is increasingly in that the assets represented in their house value are viewed as a savings base, then there will be clear concerns about how social inequalities will widen. Might a ‘levelling effect’ come into play if a local majority of new property was let through PRS provision – for example within one or more of the local ‘urban extensions’ that have received planning approval in recent times – and no households had such an asset set aside for ‘rainy days’? The author was informed from a local strategic planner in the South Midlands sub-region that it would be entirely acceptable if a whole new ‘extension’ for the county town of 1000+ homes was developed for private rent, if this would bring it speedily on-site. Perhaps this would help to meet the short-term need for more properties – beyond that one would wonder why such an extensive mono-tenure development, especially if subject to PRS cost inflations, would not come to be used more for immediate or transient reasons rather than a base for longer-term residence or a place that nurtured proper community ‘roots’. No contemporary UK local authority housing strategy would have recommended exploring such a possibility, nor envisaged this as being a route to social or cultural sustainability, so why permit such an outcome by default…?

The ideological returns from promoting private rental sector provision

In looking at the potential ideological values that could lie behind debate about contemporary PRS provision in the UK, it is furthermore important to recognise two particular issues to which the current PRS expansion represents a substantial ideological challenge – the first is perception about the future role of ‘home ownership’, and the other is to the future supply of ‘affordable housing’. Addressing either of these ‘challenges’ requires clarity, though this has arguably been lacking in precision. To look at ‘home ownership’ first: notwithstanding the uncertain and punitive costs of some contemporary mortgage requirements, and even if household outlays for their PRS provision or other mutual or communal provisions might represent a lower cost than servicing a mortgage, the preference of UK households for ‘home ownership’ does not show itself to be on a substantial wane. IPSOS MORI poll returns (e.g. April 2013) consistently show that in the region of 85% of respondents still prioritise owner-occupation as their choice and as the tenure most strongly associated with building ‘a home’ and creating a stable family environment. For many UK households in PRS tenancies, their PRS tenancy is not a meaningful ‘home’ – Shelter (2012, 2013) reported that at least 40% of PRS renters did not consider their tenure or property to be sufficient as ‘a home’. As the concerns expressed in media articles can attest, there is a growing cohort of households described as now ‘stuck’ in contemporary PRS provision – the term ‘generation rent’ is increasingly applied here, although it seems a less than sensitive noun given the reports of households desperate to move away from what they view as...
completely inadequate circumstances. Being currently unable to access the purchase of a property should not be interpreted as a drop ‘in demand’ and neither is it appropriate to couple growth in the UK’s PRS provision with a fall in ‘home ownership’ – as expressed for example by the Smith Institute (2011: 3) ‘home ownership is now on a downward trend, as a result of various social, economic, political and demographic changes’. Such a statement does not do justice to capturing what is actually taking place, neither to household aspiration, nor to understanding the real nature of contemporary ‘ownership’. All properties are owned: changes in PRS provision do not change levels of actual UK ownership, although they do relate to salient changes in who owns the UK’s housing stock. The ongoing increase in PRS provision represents a consistent transfer of ownership from one owning class to another, a significant re-engineering of property ownership away from individual private owner-occupation and in favour of increased institutional or investment ownership, ostensibly for the stability such longer-term returns could provide to the new agents in the UK residential market and its key investors. Headlines about ‘declining home-ownership’ are misleading, as they do not sufficiently focus on the intent of investment-focused strategies to raise that ownership ahead of other UK aspirations or traditions. And returns for private investors can be achieved without the properties being in the investors’ ownership – it is a standard element of mainstream capital investment markets. Financial routes such as ‘Investment Bonds’ can generate options for harnessing capital towards the creation of new tenancies, even though the created dwellings remain in the ownership and control of parties outlined as the basis for long-term residential operations and stock management. There is no economic necessity that UK domestic dwellings require ownership by investors, though there could be other ideological pressures, as noted above. If ever there is a need for the kinds of community-centred innovation created by local housing initiatives – like the new ‘mutual ownership’ neighbourhood development successfully completed in Leeds (see www.lilac.coop) – it is now.

The question could also be raised on the extent to which the encouragement given to private sector investment in order to help stabilise UK housing provisions could destabilise wider elements of other welfare traditions or patterns of housing provision. A particular case here would be how local ‘planning’ powers have been used to provide local ‘affordable housing’ to meeting identified needs. Local planning authorities in England have an established system for being able to plan for the provision of such housing to meet the medium- to longer-term requirements of ‘households in need’. A key element of such planning is that this is for households ‘whose needs are not met through the market’ (DCLG, 2011b: 25), i.e. that housing needs will be met through housing provided at a reduced (or ‘subsidised’) cost in relation to other local market prices. A change to this stance (i.e. a weakening of it) began under the previous New Labour administration, when local authorities were permitted to accept PRS provision as sufficient to satisfy local ‘affordable housing’ policy where, it was argued, there could be cogent grounds for this. Coalition policy has since permitted the use of PRS properties at PRS rates for meeting the immediate needs of homeless households – under the 2011 Localism Act local authorities can now discharge their duty to ‘persons with priority need who are not intentionally homeless’ into the private rented sector. In other words, open market housing provision and costs are being increasingly accepted as suitable and sufficient grounds for meeting household
‘need’. Hodkinson and Robbins (2013) have examined the extent to which current Coalition policies are seeking to complete an ideological drive to eradicate key welfare provisions from UK society began under Margaret Thatcher’s Tory regimes, and one has to wonder how long local planning and housing policies will be able to stipulate grounds for securing ‘affordable housing’ provision at below ‘open market’ costs. Given the tenure of other current debate to minimise affordable housing obligations where these might threaten the ‘viability’ of contemporary development, it can be easily imagined that arguments will be made that open market provisions – like PRS provision – are more than capable of meeting modern housing need and will erode justifications for any separate ‘affordable’ supply at lower costs, and for the regulatory framework that once sat behind it.

**Finding alternatives to long-term private rental sector provision**

The foregoing points clearly argue for critical attention to be given to how the explicit economic policy goals of stimulating greater PRS investment risk creating spatial consequences of rental-dominated local housing provision that will be as economically vulnerable as other speculation-based housing ‘growth’, as well as putting at risk, if not completely overriding, previously agreed place-based planning ideals. The additional irony concerning households meeting their housing costs at PRS rates, rather than at the costs of another tenure they would prefer, is that they clearly have the income to cover the costs of other tenures, if such other opportunities were available to them. It is not that they must be satisfied with residing within the PRS because their income somehow requires this, but because practical UK alternatives are so lacking. Households have access to funds that could cover the costs of alternatives to PRS costs (even PRS prices that are above equivalent mortgage costs), since many are paying such costs from their ‘disposable’ income (as distinct from through state benefit). Unfortunately, it is this income of PRS households that is being siphoned away to meet PRS rents before the renters have a chance to put funds towards other more sustainable long-term housing solutions – whether that is via communally commissioned provision within a ‘mutual’ or charitable framework, or via low cost private housing on a ‘partial’-ownership model or through ‘affordable’ mortgage costs: see Field (2009) and NaSBA (2011) for further discussion of such options.

The rental outlays households pay to private owners (the landlords) represents the ability to meet the future housing costs that other tenures would require, if the systems to embark on other tenures were accessible and supportive to them. There is an argument here that mainstream regulatory frameworks in the financial sector be used to generate a means to frame a supportive ‘cash flow’ mechanism that could guarantee how households move from an high-risk (insecure) form of accommodation into a more secure residency in the future. It is after all already the case that market bodies provide support to ‘mainstream’ parties in the wider market – witness the government guarantees, deferred purchases and tax concessions to housing developers, social landlords and others which are routinely justified as de-risking how the housebuilding and development industries weather a current crisis.

Like so many aspects of contemporary political and social life, the dominant attitudes within the UK’s housing market focus are those focused upon achieving immediate results, or at the very least upon achieving significant financial returns in a reasonable ‘short-term’ period. The dominant role given to PRS provision is accepting that those people providing the ‘raw material’
for the investment and income streams demanded by PRS providers are the appropriate means whereby such investment horizons can be realised (it can be argued here that views on what investors look for in the ‘long-term’ are still supereceded by ideological views on what support for them can achieve in the short term). It is as though any residency of households under another’s roof is considered in itself a sufficient end. This is a hugely divisive approach to adopt, and the economic and social problems associated with this are no more ‘necessary’ an approach than they are sufficient for achieving long-term market or spatial stability. This piece argues that interventions are required to implement significant alternatives – we should be vigorously debating putting ceilings on house values as a means to contain speculation; undertake new rental controls to limit the drain on household income; provide more flexible tenancies to respond to changes in household capacities and stimulate alternative supplies and suppliers of new buildings and new finances. There may be some agreement with the World Bank’s perspective that there are multi-dimensional roles for private rental housing in local markets that are being thoughtfully prepared to combine the best of spatial-based economics with that of spatial planning. The UK’s current fascination with its PRS provision seems a world away from such an approach. Its focus is on justifying the dubious benefits that could accrue from squeezing an increasing number of households into the investment vehicles created by and for a fortunate few, instead of increasing the number of places where households might thrive, economically and socially, regardless of their residential tenure. The drive to increase the prevalence and impact of current PRS provision is at its heart predicated upon supporting the first of these positions, and will do nothing to address the real ills of what has imbalanced so much of the UK’s housing markets for some considerable time.

References


