

Cambridge Centre for Housing & Planning Research – Using incentives to improve the private rented sector for people living in poverty

ARLA Propertymark

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Background

1. ARLA Propertymark (Association of Residential Letting Agents) is the UK's foremost professional and regulatory body for letting agents; representing over 9,000 members. Our members operate to professional standards far higher than the law demands, hold Client Money Protection and we campaign for greater regulation in this growing and increasingly important sector of the property market. By using an ARLA Propertymark agent, consumers have the peace of mind that they are protected and their money is safe.

Feedback

How to improve the English private rented sector as a source of accommodation for people in poverty.

2. ARLA Propertymark believes that any measures to improve the English private rented sector as a source of accommodation for people in poverty must be considered in the context of a shortage of social rented housing, a lack of supply, recent tax changes and the financial inability for people to purchase property.
3. We are concerned about wider economic factors, such as income growth affecting people's ability to pay rents, deposits and save to get onto the housing ladder. For instance, in November 2016, the Resolution Foundation said that real weekly earnings are forecast to grow by just 1.6% over the decade, compared to 12.7% in the 2000s and over 20% in every other decade since the 1920s.¹
4. Furthermore, since the 1980s England has been building up to 40% fewer homes than what is needed annually and the number of local authority and housing association homes for rent has fallen from 5.5 million in 1981 to 4 million in 2015.² As a result the private rented market has become increasingly competitive.
5. As the private rented sector is left to house the nation an increasing number of tenants now rely on housing benefit to pay their rent. However, problems in how Universal Credit is being delivered is creating rent arrears and forcing landlords to evict as their only option.

¹ <http://www.bbc.co.uk/news/business-38089190>

² <https://www.nao.org.uk/wp-content/uploads/2017/01/Housing-in-England-overview.pdf>

6. In particular the impact of waiting periods and other delays causing rent arrears are having an impact on landlord's attitudes to low income households. We know of one landlord who has 49 tenants on Universal Credit (20 were on the Alternative Payment Arrangement whereas 29 were not) all with rent arrears and the landlord was owed £22,000.
7. In February 2017, 34% of ARLA Propertymark letting agents who we surveyed told us that they had seen a reduction in landlords renting to Universal Credit claimants compared to 21% who said they had not.
8. Furthermore, from the same survey, 45% of ARLA Propertymark letting agents said that offering tenants in the private rented sector who are in receipt of Universal Credit the option of direct payment of their housing costs to their landlord would help. Whereas 22% said it would not help. Popularity for this option was particularly high from ARLA Propertymark letting agents working in Yorkshire and Humberside (71%), the North East (89%) and North West (67%).
9. To this end, we believe that Tenants should have choice over whether their housing element is paid direct to their landlord.
10. However, fundamentally, the main incentive for landlords is the ability for them to get their property back if things go wrong. For example, a tax reduction will not reimburse them for a long period of rent arrears. There needs to be a better rationalisation of dispute resolution for housing and property disputes because the ability for landlords to access a swift, efficient and cost effective justice system is a key component of a successful lettings industry.
11. We believe that by establishing a new housing court or tribunal to deal with all matters concerning housing and property will speed up the system, increase expertise in the decision making process and ensure greater consistency with reduced costs.

Aim of project to explore whether taxation could be used to incentivise private landlords to improve

1. Affordability of accommodation

12. Whilst the housing shortage continues with not enough homes being built each year, landlords are becoming increasingly important to those who need a safe and secure place to live. As a consequence the Government need to do more to help landlords prepare the housing market for an increase in rental demand.
13. ARLA Propertymark's strong recommendation would be to ease the burden on tenants by scrapping both the recent 3% surcharge on Stamp Duty Land Tax (SDLT) for

landlords and revoke the Mortgage Interest Relief changes brought about in Section 24 of the Finance Act 2015.

14. Landlord's inability to offset finance costs against tax liabilities combined with increased mortgage regulation in the Buy-to-Let sector may deter small investors reliant on Buy-to-Let finance from entering the market. Furthermore, in order for individual landlords to be able to afford a Buy-to-Let property, tenants may begin to see these additional costs passed on to them; which means they could see less money spent on maintaining their property and also an increase in rents.

2. Housing quality

15. It is important that existing landlords who want to expand and improve their property portfolios have new investment channels to tap into. For instance, the Government should reduce VAT on the purchase of materials and labour to improve older property brought onto the rental market and allow improvements to be offset against rental income rather than Capital Gains Tax. This will both improve property conditions for tenants whilst limiting rent increases resulting from the improvements to the property (as landlords will be able to offset the costs against their income tax in the year the work took place) and also assist the Government in meeting its international climate change commitments by reducing the carbon footprint of the UK's private rented housing stock.
16. With the collapse of the Green Deal, the only Government scheme ever designed to overcome the "Split Incentive" (the landlord pays for the energy efficiency improvements and the tenants benefits from the reduced bills), the Government must act to ensure landlords can comply with the Minimum Energy Performance Standards (MEPS) regulations for the private rented sector due to come into force in April 2018.
17. ARLA Propertymark believes the Government should reintroduce the Landlord's Energy Saving Allowance (LESA) and extend it to include anything contained within the Recommendations Report of an Energy Performance Certificate (EPC) to help landlords with the cost of energy efficiency improvements to their properties in advance of 2018.

3. Security of tenure

18. The Government needs to decide whether or not letting property in the private rented sector is a business. More and more legislative change from various Government departments and devolved administrations are attempting to professionalise the industry. Yet letting property is not treated as a business for tax purposes and instead classed as unearned income.
19. If the Government wants the whole private rented sector to provide professional services to their tenant customers, then by taxing landlords as businesses, the

Government is making a clear statement that letting property is a business activity. Landlords should be able to take advantage of the same level of roll-over relief available to other businesses when reinvesting in the private rented sector and the Government should reduce the rate of Capital Gains Tax (CGT) for selling residential property to the same 20 percent rate as CGT on all other gains.

Further comments - Support for tenants and helping with costs

20. Deposit Bond Schemes can help those who are unable to afford the deposit to be able to rent a home in the private rented sector. The Bond is an agreement between a local authority, the landlord or letting agent and the incoming tenant. It is not a transfer of cash, but a written guarantee issued to the landlord on behalf of the tenant to cover the deposit for the property they wish to rent. The maximum value of the Deposit Bond is normally the monthly rent of the tenancy. It could cover the tenant's deposit for a certain period of time, for example two years, in which time the tenant can save to cover their own deposit.
21. Through the Deposit Bond Scheme the landlord or letting agent has the benefit of knowing the deposit is backed up by the local authority, they have access to the advice should they need it and the local authority can be more proactive in working with landlords and tenants to ensure that the condition of property is maintained. Furthermore, it can often mean that the tenant is more likely to be able to stay in a tenancy for a longer period of time.
22. ARLA Propertymark recognises that tenants can have a shortfall in funds due to a delay in receiving their previous deposit back and having to pay another deposit for a new property they wish to let. To help tenants we believe that a system that would allow them to passport their deposit can only take place if there is a bridging loan to guarantee the remaining part of the deposit should the tenant default. The Government should act as the guarantor where they pay the difference.
23. We believe that the Government should be doing more to encourage employers to offer staff an interest free loan to pay for their deposit when moving into private rented property. Repayments can be made in instalments via deductions from their monthly salary, over a period of time; such as twelve months. Such a scheme can help staff secure a property without incurring financial difficulty leading to debt and it can also help companies recruit and retain staff.