

Manchester City Council: Private Rented Sector Consultation

ARLA Propertymark Response November 2019

About You

1. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents; representing over 9,500 members. ARLA Propertymark agents are professionals working at all levels of letting agency, from business owners to office employees.
2. 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.

Questions

Question 3. How many properties do you let out in Manchester?

3. For the purpose of responding to this consultation, ARLA Propertymark invited 18 member letting agents who manage properties in Manchester to take part in an online focus group. All of those who took part provide full management of properties. The members in the focus group for this consultation manage a total of 6759 properties across Manchester, with portfolios ranging in size from 15 to 3000 properties (mean average of 450 properties).¹

Question 4. What's important to you when considering possible tenants?

4. Whilst there were commonalities amongst the views in our consultation group there were also some differences in the approaches taken to considering possible tenants. The top two issues for agents when considering possible tenants is ability to pay rent on time and references including references from their current or previous landlord. The next two issues that agents consider are tenants' ability to pay the deposit and whether they are in work or not. Of least important to agents when considering possible tenants are their legal status and whether they are unemployed or the length of time they want to occupy the property.

¹ The online focus group took place from 4 November 2019 to 11 November 2019.

Tenancies

The government is considering ending the usual six month assured shorthold tenancies (AST) and introducing more open-ended tenancies or longer fixed term contracts.

An AST is the most common type of tenancy if: the original tenancy started on or after 28 February 1997 and the accommodation is not shared with the landlord

Question 5 - Would you welcome the opportunity to offer more flexible tenancies?²

5. No, only 28% of our focus group said they would welcome the ability to offer more flexible tenancies. To this end, ARLA PropertyMark believe there are three factors that contribute to why members would not welcome the opportunity to offer more flexible tenancies. Firstly, there is no appetite from tenants for landlords to provide longer initial tenancies. Secondly, flexible tenancies enjoyed by the AST regime, and rent prices driven by market forces have led to the success of the private rented sector in Manchester and across the UK. Thirdly, landlords and agents want long, well maintained tenancies as they are the most efficient way of generating rented income for landlords and fees for agents, and we believe that the current regime provides for this.

Question 6 - Would you let a property to a household who has been homeless?

6. Yes, 89% of our focus group said they would let a property to a household who has been homeless. Of those members who said they would let a property to a household who has been homeless three key factors are important. Firstly, the individuals would be subject to checks. Secondly, the background of households including previous inability to pay rent. Thirdly, the reason as to why the household became homeless. Agents who would not rent to a household who has been homeless are concerned about tenants not adequately maintaining the property.
7. Those who would let a property to a household who had been homeless all stated that this would be following the same checks anyone applying would be subject to. Where someone had been homeless, it was important for agents to ascertain the specific circumstances that led to the homelessness. Where homelessness was due

² We prefaced this question to ARLA members with: "The Ministry of Housing, Communities and Local Government is currently reviewing the responses submitted to their consultation "A New Deal for Renting Resetting the balance of rights and responsibilities between landlords and tenants". As indicated in their consultation documents, the government is considering ending the usual six month assured shorthold tenancies (AST) and introducing more open-ended tenancies (assured periodic tenancy) or longer fixed term contracts (fixed-term assured tenancies)."

to a landlord or mortgage provider regaining possession following a demonstrable inability to pay, then most agents who were prepared to consider the application wanted the support of the local authority to guarantee deposit and/ or rent payments. Homelessness can also be caused through no fault of an individual, and the focus group cited the example of an accidental housefire. In these circumstances there would be no additional concern compared to an applicant without a history of homelessness.

8. For members who said they would not let a property to a household who had been homeless it was a matter of landlord concern about the condition their property will be kept/ left in, and the additional expense involved in putting a house back to the original standard.

Question 7 - Have you received any reports of problems with a property in the last 6 months?

9. Yes, 72% of focus group stated they had dealt with problems at a property in the last six months.

Dealing with issues

Question 8 - Select any problems that have been reported to you in the past 6 months

10. All the problems specified in the consultation (Damp and leaks; Heating and hot water; Doors and windows; Structural issues; Gas and Electrical Safety; Fire safety; Drainage; Pests; and Other) have been experienced by ARLA PropertyMark members at some point in the last six months. The most frequent reported problem for agents in the group related to heating and hot water problems. Of those who had problems reported to them 85% had experienced dealing with such work. The second most experienced problems concerned damp and leaks (77% of those who had problems reported to them). Slightly less prevalent were problems relating to doors, windows and pests; these were reported to 54% of agents who experienced dealing with issues in the last six months. The fifth most reported issue was gas and electrical safety, and sixth was drainage. Very few members cited problems being reported with structural or fire safety matters. One member added that they had experienced neighbour disputes being reported to them. Members were keen to stress that anything can crop up with a property, "the list is endless".

Question 9 - Were tenants satisfied with your action to resolve the problem?

11. Yes, of those in our focus group who reported having to deal with a problem at a property, 85% told us that the tenants were satisfied with the action the agent took to resolve it. Where tenants were not satisfied it was due to the need to engage a block management company which took a significant length of time, frustrating the agent and landlord as well as the tenant. One member had also experienced difficulties engaging with the landlord.

Legal Action

Question 10 - Have you ever taken legal action against a tenant?

12. Yes, a significant majority (89%) of members had taken legal action against a tenant at some point. When exploring the causes for legal action against a tenant, every member who told us they had taken legal action against a client reported having to do so due to tenants' rent arrears. Over half (55%) of the members said they had taken actions as a result of damage against a property by a tenant. Less prominent reasons were anti-social behaviour, criminal activity in the property, running an unauthorised business from the property and failing to vacate at the end of a tenancy.
13. Members did not take formal legal action in some of these cases. Reasons given for not pursuing legal action in these cases were prohibitive costs, the issue resolving itself in another way, and legal action being disproportionate.

Being a Good Landlord

Question 11 - Do you think training for landlords or managing agents is a good idea?

Yes, why point, evidence and explain.

14. Ultimately Propertymark believe that full mandatory government regulation of the property industry, including both sales and lettings agents is the quickest and most effective method to eliminate unprofessional, unqualified and unethical agents from the property sector. It is our view that the Government cannot simply go on trying to legislate for every eventuality because this is unmanageable to enforce. We are concerned that there is no statutory regulation to ensure agents are suitably

qualified. Additionally, agents who are not members of a professional body do not have to meet minimum competency standards.

15. Alongside regulation must be a strong and efficient enforcement regime. Up to June 2015, there were 145 laws with over 400 regulations that landlords need to abide by to legally let property in England and Wales. However, in 2014 only 428 landlords in England were prosecuted for housing offences.³ Data provided by Manchester City Council clearly illustrates that laws are passed but not enforced. Since 2015 there have been 12 prosecutions of landlords by the City Council. In 2018 there were three prosecutions and in 2017 only one.⁴ There are not enough resources and enforcement is not a high enough priority for local authorities. We think it is essential that prosecuting bodies are given the powers to become revenue generators for local authorities rather than revenue drains. Fines collected by local authorities such as Manchester City Council as a result of housing breaches should be ring-fenced with the money going towards further enforcement.

Question 12 - Do you think landlord accreditation or other similar schemes help improve the standard of property conditions and property management?

16. We do not believe that licensing schemes introduced by local authorities are an effective way of promoting higher quality accommodation. This is for three reasons. Firstly, most schemes fail as they are not adequately resourced to undertake the necessary enforcement activity. Secondly, the licensing regime becomes an administrative exercise, penalising those landlords who comply with the regulations whilst still allowing the landlords that the scheme was designed to target to continue operating under the radar. Thirdly, the costs of licensing are inconsistent and vary widely across local authorities and do not always provide discounts for agents who are members of professional bodies such as ARLA Propertymark. Instead of licensing local authorities should adopt a collaborative approach with letting agents, landlords, professional bodies and public services to tackle issues within the private rented sector.
17. Many licensing schemes fail due to the lack of adequate resources needed to undertake the necessary enforcement activity. Due to the EU Services Directive⁵, the fee to apply for a property licence cannot exceed the cost to process the application,

³ <https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/440/440.pdf>

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https://www.manchester.gov.uk/info/10084/private_landlords_information/7440/landlords_weve_prosecuted/2

⁵ <https://www.gov.uk/guidance/eu-services-directive>

this means that the cost of enforcing the schemes must come from elsewhere. Councils operating licensing schemes have often indicated that the schemes cost more to operate than the funding they receive from licence fees.

18. Licensing schemes heavily focus on the administration involved, often directing staff away from enforcement to process applications. Councils have indicated that processing a single application can take between 15 minutes and one hour. This can be incredibly time consuming and costly when thousands of properties require licensing. As a result, the rogue landlords and agents that the schemes are created to target continue to operate under the radar. Already compliant landlords and agents pay their licensing fees, funding the administration of the scheme while more than often those providing poor housing ignore their legal requirements.
19. The Housing and Planning Act 2016 allows civil penalty fines levied for offences in the private rented sector to be retained by the Local Authority for further enforcement. Research conducted by the Housing, Communities and Local Government Committee in April 2018 highlighted that Local Authorities overall rarely issue landlords and agents with penalties⁶. Existing licensing schemes have demonstrated that only a small number of prosecutions ever occur, with 50% of all prosecutions in 2016-17 coming from the London Borough of Newham Council out of 33 boroughs with licensing across all of England.
20. The licence fee is a controversial issue as it can only cover the costs involved in administering the scheme; not enforcing against those who do not get licensed. These charges vary between local authorities and are often passed on by landlords to their tenants, thus increasing costs for those who rent in an area. In Peterborough, for example, where a selective licensing scheme was introduced in September 2016 the fee for landlords is £900 for a single let property. Under Newham's proposal to renew their borough-wide licensing scheme they are proposing a standard application fee of £750 per property for a licence that lasts until the scheme ends in 2022. Early bird applications made before the scheme goes live will incur a fee of £450 per property.
21. To this end ARLA Propertymark believe that local authorities should adopt collaborative approaches to tackling issues within the private rented sector rather than introducing licensing schemes. As an example of such an approach, ARLA Propertymark was appointed by the Mayor of London to be one of the accrediting bodies for the London Rental Standard⁷. This was a voluntary minimum set of rules

⁶ <https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/440/440.pdf>

⁷ <https://www.londoncouncils.gov.uk/node/1591>

that landlords and letting agents must adhere to in order to operate within the private rented sector in London. The London Rental Standard separated out agents and landlords performing their duties to a high professional standard thus allowing local authorities to target their scarce resources on intelligence-led enforcement rather than the administrative burdens of a licensing scheme. Whilst discontinued by the current Mayor, we believe this scheme would have worked had the Mayor had powers to make it mandatory.

Question 14 - If you need advice and information about being a landlord or managing agent where would you generally go for this?

22. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents. We provide members of ARLA Propertymark with access to a free legal helpline, access to training courses, Fact Sheets, guides and legislative toolkits as well as a series of events including Regional Meetings and Conferences to provide letting agents with industry updates, best practice advice and information on recently-introduced and forthcoming legislation⁸. Members of ARLA Propertymark also receive regular newsletters and publications as well as access to key industry suppliers to assist them in their work. In addition to this, ARLA Propertymark members must be qualified to Level 3 in Lettings and Property Management, required to undertake 12 hours of Continued Professional Development each year as well as hold Client Money Protection and submit annual financial reports.⁹

Question 15 - What further assistance or initiatives would help landlords or managing agents?

23. HomeStamp in the West Midlands is an example of where statutory and industry bodies work closely on enforcement and sector regulation to improve the supply of good quality private rented homes. The organisation is a multi-agency partnership comprising of local authorities, private rented sector bodies, universities, Police and Fire services¹⁰. HomeStamp also consider and respond to regional and national issues affecting the private rented sector in addition to providing information and training for landlords. This approach should be encouraged as it will help to resolve issues before problems arise. We believe that collaborative working is more important than ever within the private rented sector; particularly as a result of new measures such

⁸ <https://www.arla.co.uk/events/>

⁹ <https://www.arla.co.uk/>

¹⁰ <https://homestamp.com/>

as the Right to Rent checks and the need to determine the identity of potential tenants.

Question 16 - Do you regularly plan a programme of improvement works or repairs to your properties?

20. Yes, an overwhelming number (89%) of members we engaged with said they did regularly plan a programme of improvement works or repairs to properties. This is because letting agents want well-maintained tenancies as void periods and renewals reduce agent's fees. Where landlords use a letting agent, landlords will either pay a flat-fee upfront or a percentage of the rent each month for the agent to manage the tenancy. Where a flat fee is paid upfront it is in the letting agents' interest to ensure the tenancy is well-maintained over a long period time because they are not receiving a monthly income from managing the property. Where a letting agent is receiving a percentage of the rent each month it is also in the letting agent's interest to actively promote longer tenancies to ensure the monthly income from managing the property continues as they will receive no income from void periods.

Question 17 - If yes, what is the type of work you look at?

24. Some members reported regular, seasonal inspections with the purpose of alerting landlords to the need for future work in addition to inspections after any works had been undertaken. Complete works on tenant turnover are common, with some suggesting in-tenancy renovation every three to five years if the tenant is still in the property.

25. Common items on improvement and repair programmes include refurbishments (flooring, walls, general décor, furniture if included), replacement kitchens and bathrooms, and also electrical work and safety checks.

Question 18 - As a landlord or letting agent what energy efficiency/ low carbon measures are you considering assisting with the city's target of becoming carbon neutral by 2038?

26. Yes, sixty-six per cent of members surveyed said they are aware of Manchester City Council's target of becoming carbon neutral by 2038.

27. In addition, we provided consultees with suggestions of ways they could contribute to meeting this target and recorded those who were already doing or considering

these ideas. The measure that most members (72%) said they were already doing or would consider doing is providing energy efficiency advice to tenants e.g. use of LED/low energy lighting; draughtproofing. Half of the focus group said they were already promoting renewable energy suppliers, closely followed by those looking at upgrading insulation of their residential rental properties (44%). Over a quarter (28%) of the agents told us they travel to viewings/appointments by bicycle, public transport, or electric car. By far the least considered measures we suggested were installing low carbon alternatives when replacing heating systems and installing renewable generation technologies (both 11%). One of the agents had signed up to the Net Zero Carbon Buildings Commitment as referenced in the '5-Year Environment Plan for Greater Manchester'¹¹

Your Views

Question 19 - What are the challenges of the private rented sector?

28. All of the agents in the focus group provided feedback on the challenges of the private rented sector. They are a broad reflection of the national picture. Responses can be grouped into five areas: reduced stock in the sector, especially affordable accommodation; changing legislation affecting landlords' confidence to invest; increased costs faced by landlords; legislative proposals notably the uncertainty around Section 21 evictions; and the role of Manchester City Council and enforcement measures.

Reduced stock

29. One third of agents reported concerns over the reduced levels of stock in Manchester's private rented sector. Two issues are affecting the reduction of stock in Manchester. Firstly, landlords reducing the size of their portfolios, and landlords exiting the market. Secondly, several larger properties being converted into Houses in Multiple Occupation, leaving families struggling to find homes with enough space.

Changing legislative landscape

30. Half of the agents in our focus group referenced items of legislation in the feedback on the challenges to the private rented sector; both in terms of the ever-changing legislative environment and the volume of changes felt to be having a detrimental

¹¹ https://www.greatermanchester-ca.gov.uk/media/1986/5-year-plan-branded_3.pdf

impact. Recent changes include the introduction of the Tenant Fees Act on 1 June 2019. Evidence from ARLA PropertyMark's monthly PRS report in August showed that two-thirds of agents reported landlords raising rents, which is a significant increase when compared with the two-fifths of agents who witnessed rises in August last year.¹² In order to remain profitable, landlords will increase rents to cover the additional fees they are now faced with and as a result tenants will continue paying what they did before the Tenant Fees Act came into force. This is important because if supply of rental accommodation falls further, tenants will only be faced with more competition for properties, pushing up rent prices on good-quality, well managed accommodation and decreasing tenants' ability to negotiate rent reductions.

Increased costs faced by landlords

31. Investment in the private rented sector is falling and this is a direct result of increasing levels of legislation that is putting even more pressure on the industry. In April 2019, we reported a spike in landlords exiting the rental market¹³. Furthermore, feedback from members outlined that the number of tenants experiencing rent increases rose with the number of tenants negotiating rent reductions falling. This is significant because in April the Government announced plans to scrap Section 21 and the restrictions on Mortgage Interest Relief (MIR) are making it more difficult for landlords to remain profitable.

Role of Manchester City Council

32. Agents in Manchester are concerned about the City Council having limited knowledge of the private rented sector and becoming involved in ways which unintentionally lead to private landlords reducing their stock. The feeling amongst the group was that regulation was increasing but it was not enforceable within current mechanisms. Not all regulation was perceived as negative by the group. Where a need for regulation can be evidenced, it is developed in partnership with those affected, suitable resourcing is provided for enforcement and stakeholders are fully informed, it can be an effective means to promote safe, good quality accommodation in the sector. This would include (but not be limited to) a profile of private renters in Manchester, housing costs and affordability, housing history and future housing aspirations, dwelling conditions and energy efficiency. On the supply side it would also consider where in the city privately renting households are located, and the type of property they are renting.

¹² <https://www.arla.co.uk/lobbying/private-rented-sector-reports/august-2019/>

¹³ <https://www.arla.co.uk/lobbying/private-rented-sector-reports/april-2019/>

Question 20 - What are the positives of the Private Rented Sector?

33. We believe there are three main positives of the private rented sector. Firstly, the sector is expanding. Secondly, renting allows for flexibility of individuals and families to meet the demands of the labour market. Thirdly, the private rented sector's economic contribution. The importance of the private rented sector in Manchester cannot be underestimated in terms of its contribution to the economy as well as the social fabric of the city and the local authority should look to introduce policies that support those professional landlords and agents who are doing the right thing.

An Expanding Private Rented Sector

34. The private rented sector continues to expand, with official data putting the net increase in the number of privately renting households in 2017/2018 at 99,000.¹⁴ Nationally, the number of households in the private rented sector have overtaken the number of social renters to be second only to owner occupiers. Demand in the local Private Rented Sector is above the average for that of the North West region, and it is growing.¹⁵

Flexibility to meet the demands of the labour market

35. Because of their flexibility, private tenancies can be accessed at relatively low cost and with greater ease than purchasing a property or applying for a home through a registered social landlord. This makes the private rented sector more accessible to those who need to move around more quickly or who do not need to permanently reside somewhere.

36. A healthy private rented sector is vitally important to maintaining an agile workforce able to meet the demands of the economy. As well as those in or seeking employment, this is also true for those in education and training.

37. The English Housing Survey identifies that of people moving within the private rented sector, the previous tenure for the significant majority was private rent. Of all private renters who moved from a private rented home in 2012017-18, the main reasons for moving were job-related reasons (18%) and wanting a larger house or flat (13%). This was particularly pronounced for young people age 16 to 24 years.¹⁶

¹⁴ <https://www.gov.uk/government/statistics/english-housing-survey-2017-to-2018-private-rented-sector>

¹⁵ <https://commonslibrary.parliament.uk/social-policy/housing/home-ownership/constituency-data-housing-tenure/>

¹⁶

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817630/EHS_2017-18_PRS_Report.pdf

38. Research has found that rates of internal migration are highest for young adults, a substantial proportion of whom are students or graduates, associated with participation in post-compulsory education and first jobs.¹⁷
39. Manchester is home to five universities and numerous other universities and higher education institutions are in the surrounding areas. The 2011 Census recorded over 12,000 students in student-only occupied accommodation in Manchester. Whilst some of these will be housed in specialist student accommodation blocks, many will be in the wider private rented sector.
40. Manchester has been listed as the second most popular city for new graduates. It is among the best at both attracting and retaining recent graduates. A study in 2017 found that the city gained nearly 20,000 16 to 21-year olds between 2009 and 2017. Over half of students from Manchester’s universities choose to remain in the city after graduation, second only behind London. Graduates need flexible accommodation to meet the flexibility required for progressing their careers and this is the strength of the private rented sector. Data from the same 2017 study found that after the age of 30 graduates are more likely to leave the city – mostly to nearby parts of the North West.¹⁸

Economic Contribution

41. Official statistics are not readily available on the scale of residential letting activities. The Office for National Statistics produces statistics on ‘real estate activities’, which is a wide and diverse sector including residential and commercial lettings and sales, surveyor activities and property management activities. To fill this void ARLA Propertymark commissioned Capital Economics to research and compile a report specifically considering the economics of the private rented sector in the UK.¹⁹
42. The report by Capital Economics illustrated that residential lettings activity undertaken by agents in England and Wales turns over around £4 billion each year and adds £2 billion to the economy. Residential lettings activity alone provides 58,000 jobs in England and Wales, which generate employee taxes in the order of £400

¹⁷ https://blog.bham.ac.uk/cityredi/wp-content/uploads/sites/15/2017/11/Chapter-2_Pre-published-AG-understanding-drivers-of-internal-migration-3.pdf

¹⁸ <https://www.centreforcities.org/publication/the-great-british-brain-drain-an-analysis-of-migration-to-and-from-manchester/>

¹⁹ <https://www.arla.co.uk/media/1045728/letting-the-market-down-assessing-the-economic-impacts-of-the-proposed-ban-on-letting-agents-fees.pdf>

million for the exchequer each year. We estimate that residential lettings activity creates 6,800 jobs in the North West.

43. The economic value of the residential lettings sector does not stop at its direct activities; it supports other industries through its purchases of goods and services in the supply chain. Letting agents spend around £1.4 billion annually on goods and services such as accountancy and legal fees, building supplies and government services. This stimulates further economic activity in the upstream supply chain. It supports jobs and generates value added at the firms at which the money is spent, who then also spend a proportion of the income on their own suppliers where similar benefits accrue. This continues through the supply chain until the amount re-spent on suppliers diminishes. Overall, the spending on suppliers supports around 17,000 jobs indirectly across the United Kingdom and £1.1 billion of value added.²⁰
44. Employees within the sector also go out and spend their wages and contribute further to the economy. Their total spend is somewhere in the region of £1.4 billion. This translates to around 20,000 jobs being supported across the United Kingdom and around £1.0 billion in gross value added. With 6,800 jobs in the residential lettings sector across the North West of England, the spend by lettings staff in the northwest is over £154 million per annum.²¹

²⁰ <https://www.arla.co.uk/media/1045728/letting-the-market-down-assessing-the-economic-impacts-of-the-proposed-ban-on-letting-agents-fees.pdf>

²¹ *ibid.*