



CHARTERED INSTITUTE
OF HOUSING



OLDER HOUSING – THE CINDERELLA ISSUE?

Report of the
Chartered Institute
of Housing Private
Sector Working Group



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The Chartered Institute of Housing

The Chartered Institute of Housing is the professional organisation for all people who work in housing. Its purpose is to maximise the contribution that housing professionals make to the well-being of communities. The Institute has more than 17,000 members working in local authorities, housing associations, the private sector and educational institutions.

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Special thanks to Helen George, who co-ordinated the activities of the Private Sector Working Group while on secondment to CIH from Solihull MBC

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Foreword



This report has been produced at a critical time for the future of the Government's strategy on housing. Decisions taken in the next few weeks and months will have a major impact on thousands of people, homes and communities in areas of older, private housing in many parts of England and Wales.

The Government is committed to offering everyone the opportunity of a decent home in order to promote social cohesion, well-being and independence. While a clear target exists to bring all social housing up a decent standard in England, and significant progress is being made towards achieving this, no such objective exists for private housing. In Wales, on the other hand, targets have been articulated in the National Housing Strategy for improving the quality of both social and private housing.

Newspapers are full of stories of rapidly escalating house prices in the South of England, and images of streets of boarded up terraces and racial tension in rundown neighbourhoods in parts of the Midlands, the North of England and Wales. These extremes ignore the more mundane reality that half of the poor live in private housing and that large numbers of people may have fulfilled the dream of owning their own homes, but do not live in housing that warrants the label "decent".

Some progress has been made in reforming policies affecting private housing, some of which were included in the Housing Green Paper, the subsequent Housing Policy Statement and the Welsh Assembly Government's *National Housing Strategy for Wales*. But much more needs to be done. In many respects, private sector housing remains a Cinderella issue.

The Government has swept away many of the restrictions on how local councils can tackle **private sector renewal** through a new Regulatory Reform Order. But there are years of under-investment to tackle. Resources to improve private housing are now also under threat from other local demands for capital spending. So it may be that the old inflexibilities are simply being replaced by a new strait-jacket created by lack of resources.

Various initiatives to increase the size and quality of the **private rented sector** are having some success. The Buy to Let scheme has proved popular, membership of the National Approved Lettings Scheme is growing and measures to tackle poor management of private sector dwellings in low demand areas are being discussed. On the other hand, proposals for the licensing of Houses in Multiple Occupation (HMOs), designed to tackle conditions in some of the worst properties, have struggled to reach the statute books. Meanwhile the Commission on *Standards and Supply in Private Renting*, led by Shelter with the support of the Joseph Rowntree Foundation, has helped to move the debate forward. This has built on CIH's own work, together with the British Property Federation, reflected in the report *Chains or Challenges?* Discussions on the private rented sector are likely to be more inclusive in the future, drawing on the insights of all interested parties.

The Government is also beginning to address the issue of failing housing markets – for example, through the creation of pathfinder schemes to examine the best way of tackling **empty homes and abandonment** in nine areas of England. A strong case has been made for significant sums of money to be spent on these areas to rebalance housing markets through a combination of demolition, rehabilitation and new build. But it may not be clear until this summer's Spending Review whether or not the significant resources required to tackle these problems – between £5 and £8 billion over 10 years – will be made available. If this money is not forthcoming then can we really wait another three years before beginning to seriously address the problems of these areas?

It was to address these concerns that CIH convened a Private Sector Working Group (PSWG) of housing professionals from England and Wales with expertise on private sector housing

(see Appendix 1 for membership of the Group). The PSWG examined the issues, considered evidence, drew on good practice and came up with recommendations designed to assist the Government in carrying forward its policy agenda on private sector housing. I wish to thank each of them for their contribution. This report presents their findings.

As the professional body for people working in housing, and particularly given the renewed emphasis on the strategic housing role, CIH has a clear interest in seeking to shape national housing policy on private sector housing. We are also determined that housing professionals should have the skills and expertise they need to respond to the new agenda that may now be emerging. We believe that CIH has a major role to play in this, whether it is assisting housing professionals in forging a new, mature approach to understanding local housing markets, and engaging with private sector players, or in raising awareness of good practice in using the new freedoms for private sector renewal.

Paul Diggory

Chief Executive, North Wales Housing Association

Chair of the CIH Private Sector Working Group

*A more detailed analysis of the issues facing private housing in Wales is contained in the CIH Cymru publication *Private Matters: A Review of Private Housing in Wales* (Thomas, 2002).*

Executive summary



This is a critical time for the future of the Government's strategy on housing. A commitment has been made to offer everyone the opportunity of a decent home. Targets are in place for improving the quality of both social and private housing in Wales, but in England the decent homes target is limited to social housing.

Escalating house prices in the South of England, and images of boarded up terraces and racial tension in parts of the Midlands, the North of England and South Wales, ignore the more mundane reality that half of all poor people live in private housing, much of which could not be described as 'decent'. While the Government has made some progress on reforming policies affecting private housing, much more needs to be done. In many respects, private housing remains a Cinderella issue.

To address these concerns CIH convened a Private Sector Working Group (PSWG) of housing professionals with expertise on private sector housing to examine the issues and consider evidence. This report presents their findings.

Private sector – public issue: the rationale for intervention

The Right to Buy and other policies have encouraged more people to become home owners, but little has been done to make home ownership sustainable, especially for those on low incomes. The Government appears to be unsure about the extent to which social agencies should intervene in private sector housing, especially where public funds are required. But this hands off approach and a consequent lack of investment has been challenged by a number of emerging problems.

- Weak and failing housing markets in the late 1990s brought new problems of low demand and abandonment to many post-industrial parts of the North, the Midlands and South Wales.
- It is now recognized that half of all poor people are home owners, yet they receive just 8% of housing related financial benefits.
- Rundown and over-crowded privately owned housing has been identified as one of the underlying causes of the racial disturbances that occurred in some Northern towns in the summer of 2001.
- Housing does not last forever – at current rates of clearance existing private housing will need to last on average for 8,000 years.
- While much of the private rented sector is well managed, it is widely agreed that standards fall short of the ideal and that action is needed to improve the sector.

Where are we now?

The Government has started to take forward its policies on both owner occupied housing and the private rented sector.

Progress in tackling low demand – Around 520,000 private sector homes are affected by low demand and the Government has committed itself to “achieve a turn around in declining demand by 2010”. It has initiated nine pathfinder projects supported by £25 million of public funds to generate ideas, identify good practice and develop local strategies for tackling empty homes and abandonment. Expectations are high that the 2002 Spending Review will allocate at least a portion of the estimated £5-8 billion needed to carry out the kind of large scale market restructuring required.

Progress towards improving rundown private housing – A new Order under the Regulatory Reform Act 2001 will replace the current grant giving powers with a more flexible and wide ranging power “to provide assistance for housing renewal”. This increased flexibility could enable local authorities to support wider housing and community strategies and make better use of public money, but implementing the new power presents huge challenges. Decreasing public

expenditure on private housing and increased competition for resources under the 'single pot' will limit authorities' ability to make a significant impact on the sizeable core of private sector dwellings that are in a poor state of repair. Loans and equity release schemes, which could increase the contribution from home owners themselves, are in danger of being under utilized unless authorities can acquire the necessary financial skills and lenders concerns about getting involved can be overcome.

Raising standards in the private rented sector – The Government has prioritized high risk areas and property types for attention. It is considering allowing compulsory licensing in selected low demand areas, but its manifesto pledge to introduce licensing for HMOs has not yet been fulfilled. Less attention has been paid to high demand areas where tenants can still be found in poor quality accommodation. There are no targets for measuring progress towards the Green Paper objective of “securing a larger, better quality, better managed private rented sector”.

Prospects for the future

The rationale for seeking to influence housing markets and work with private sector players to improve private house conditions is now stronger than for many years. But the measures being taken forward on private sector housing by the Government are piecemeal and selective and progress towards their implementation has been patchy.

The PSWG considers that a comprehensive national strategy for private sector housing is now needed. This should seek to achieve the following goals:

Objective 1: Achieving sustainable housing markets

Much can be done at national, regional and local level to move gradually towards the creation of more sustainable housing markets.

- *Reshape housing markets* – the Government must provide significant levels of investment over the next ten years to reshape the housing markets in areas affected by empty homes and abandonment.
- *National strategy for regional economic growth* – a national strategy for regional economic growth is needed to address the underlying causes of failing housing markets in the North and unsustainable growth in the South, if similar problems are not to return in the future.
- *Understanding housing markets* – A good understanding of how local and regional housing markets function is needed to underpin comprehensive cross tenure housing strategies.

Objective 2: A clear target for bringing private housing up to a decent standard

A target for improving private housing in England is now needed. Such a target could be progressive and conditional, for example, by specifying a fixed proportion of private housing to reach certain minimum standards and focusing on the most disadvantaged home owners or neighbourhoods first. This approach would be in line with existing housing related targets.

Objective 3: Better regulation to create a larger, more professional private rented sector

There is considerable scope for taking action to encourage the development of a larger and better run private rented sector:

- *A target to increase investment* – achieving such a target will require dialogue with institutional investors and a commitment to working to remove the barriers that currently discourage investment.
- *A new approach to enforcement* – the enforcement regime should be reviewed since many of the problems between landlords and local authorities stem from a reactive or even adversarial approach to enforcement.
- *An action plan for speeding up housing benefit administration* – to reduce the chronic delays that are causing some landlords to withdraw from the sector.
- *Promoting good practice through literature, training and local strategies* – to help increase landlords' knowledge, and to enable local authorities to work with landlords and tenants to establish strategies for improving the sector in their area.

The challenges ahead

The task ahead is as big as ever if the Government is to achieve its target to turn around low demand, and give everyone the opportunity of a decent home.

Low demand – Additional specific resources will be needed sooner rather than later to carry out the level of market restructuring required. Lower risk as well as high risk areas of low demand will need to be tackled both within and after the 10 year period.

Strategic framework – Private sector renewal strategies must fit within the emerging strategic framework that includes Community Plans, local housing strategies and the neighbourhood renewal and Communities First agendas.

Taking forward the new 'power to give assistance' – CIH believes it can assist in the task of equipping the housing profession with the skills they need for the challenges presented by the new regime for private sector renewal. The potential impact of the new regime will be lost, however, if it is not underpinned by adequate resources.

The role of lenders is crucial and their concerns need to be overcome if they are to be persuaded to lend significant sums to low income households. These issues could be addressed by:

- Allowing local authorities to use the new prudential borrowing freedoms proposed by the Government to take *en bloc* loans from private lenders for lending on to poorer home owners.
- Setting up a national body to give specialist advice and training to enable local authorities to develop loans packages and negotiate with lenders.
- Setting up a number of bodies to act as intermediaries between local authorities and lenders.

New ways of raising resources for improving private sector housing – Mechanisms for capturing a small proportion of the large capital gains being made by some home owners should be considered. This could be used to assist poorer owners of run down housing or those suffering from negative equity.

Realising the potential of the private rented sector – The CIH Private Sector Working Group embraces many of the Shelter/JRF Commission's recommendations. In addition, it believes that local authorities' enforcement activities need to be modernized by making them more relevant, strategic and proportionate. A simple requirement for private managers and properties to be registered with the local council would help local authorities to take a more strategic approach to enforcement and better target their private rented sector activities by enabling them to build up a profile of managers and dwellings.

Recommendations

The PSWG puts forward a range of recommendations to help achieve the Government's objective of offering everyone the chance of living in a decent home. These are listed in the final section of this report.

Private sector – public issue: the rationale for intervention



So why does older, private sector housing remain a Cinderella issue?

To begin with, there still appears to be a question mark in the background of the Government's thinking about the extent to which public authorities should be seeking to intervene in private housing – especially where this requires the use of public funds. But this assumption is increasingly under challenge as understanding grows of the impact of rapidly changing housing markets and an ageing housing stock.

Hands off approach

For almost 30 years, Government policy and investment in housing has been driven by the belief that those who can take responsibility for meeting their own housing needs through the housing market should be encouraged to do so. Home ownership is often associated with being self-dependent and “standing on your own two feet”. It was promoted by various direct and indirect subsidies and Government policies. For example, until recently, financial support was available in the form of tax relief on mortgage interest; each year the Right to Buy continues to result in 50,000 sales of former council homes at considerable discounts; economic policy favours low and stable interest rates and therefore cheap mortgages.

To add to this, the spectre of ‘negative equity’ has faded since the early 90s. Soaring house prices in London, the South and other hot spots has resulted in huge capital gains – at least for some. Negative equity still exists, of course, but now it tends to be highly localized and so is easier to ignore. The future is hard to predict, but some analysts are concerned that the market may crash if the current rates of increase continue unchecked. According to a recent survey by the credit protection company, the CPP Group, a quarter of home-owners aged between 25 and 44 fear they will be unable to meet their mortgage repayments in the near future.

Home ownership is consistently the preferred tenure in Britain and, of course, most people who own their homes are comfortable and well housed. But while successive Governments have been keen to invest in encouraging people to become home owners, they have been less active in ensuring that home ownership is sustainable in the long term. For many years, money has been made available to low income home owners and landlords for various types of improvement works. The belief that home owners should be responsible for the upkeep of their homes coupled with pressure to keep public spending down, has however, over time, led to a steady reduction in funding. For example, total expenditure on improvement grants in the UK was just £326m in 1998 which was little more than half the level of investment achieved four years earlier.

The decline in public investment has coincided with increased levels of home ownership – often to more marginal home owners who find it harder to maintain their homes. This hands-off approach has been challenged by a number of emerging problems facing the sector. These have revealed that the housing market is not self-sustaining and that these problems cannot always be tackled by individuals alone. In many areas, and for many people, public intervention is required for home ownership to be sustainable.

Failing housing markets

The emergence of weak and failing housing markets in the late 1990s in some parts of the country brought new problems for the private housing sector that had not been experienced in the recent past. Low demand and abandonment in many post-industrial parts of South Wales and the North and Midlands of England has forced the Government to reassess its involvement in private housing. It is now accepted that economic factors can impact hugely on house prices and can

even lead to market failure and widespread abandonment. In some areas, such factors can make housing obsolete even where it is in good condition. In this situation, traditional approaches such as funding for improvements will not solve the problem. Other forms of intervention such as purchase and demolition may be required.

Half the poor are home owners

A study undertaken by the Centre for Housing Policy at York University for the Council of Mortgage Lenders – *Half the Poor: Home Owners with Low Incomes* – also threw down a challenge to current policy (Burrows and Wilcox, 2000). This showed that the increase in the number of low income households owning their own home means that half of all poor people are now home owners. It also calculated that public spending to support home ownership is disproportionately low. While low income home owners constitute half the poor in England, they get just 8% of the housing related financial benefits. The same report also highlighted that by 2021 there will be 2.4 million home owners aged over 75 – this is a 70 % increase compared with 2000. This will create predictable problems for home maintenance unless we start taking action now. The problems associated with the increasing numbers of low income households being accommodated in the private sector have been overlooked for too long.

Other developments have added greater urgency to the need to address the problems of our older areas of private housing. The Government's Community Cohesion Review Team identified rundown, over-crowded privately owned housing as one of the underlying causes of the racial disturbances that occurred in some Northern towns in the summer of 2001 (Home Office, 2001).

Housing cannot last forever

Another very strong argument for public intervention in private housing is that housing does not last forever. Even with huge levels of investment, all housing will reach its useful life in the end. As well as physical decay, changing aspirations can also make housing obsolete. In many areas, traditional on-street terraces that, in the past, would have been a sought after family home are now rejected, even by single people or couples, in favour of larger housing with more modern facilities.

But current rates of private house clearance – at around 1,000 dwellings per year – have not kept pace either with physical decay or changing expectations. If this clearance rate continues, existing private housing will need to last on average for around 8,000 years. The extent to which problems in the private sector can realistically be seen as being solely the concern of individual home owners, is clearly limited.

Back to the future?

But despite the more laissez-faire approach to private housing that prevailed through the late 80s and 90s, we do not have to go back too far to find examples of public intervention in private sector housing that had a hugely positive impact on many of our large towns and cities. The large scale private sector housing renewal programmes of the 60s, 70s and early 80s improved housing conditions – and therefore offered better health and improved life chances – for many people, including families, older people and black and minority ethnic communities. The fact that the large majority of these areas continue to thrive today, is testimony to the success of these earlier programmes.

This large scale intervention in local housing markets fell from favour in the mid 70s. There were many reasons for this – including cut backs in public expenditure and a feeling that earlier clearance programmes had broken up established communities. Much of the skills, expertise and self-confidence that local agencies had built up has been dissipated over the years. There is a need to learn from the mistakes of this era, but also to rediscover these lost skills and expertise and reapply them in new circumstances.

Private rented housing: diverse issues facing a diverse sector

The private rented sector is hugely diverse in character. Many landlords own just one or two properties but there are companies owning hundreds, and even some that own in excess of 15,000 properties. In England more than 50% of privately rented dwellings were built prior to 1919, but there are also new blocks, built specifically for the purpose of private renting. The sector houses an equally diverse range of tenants, including homeless families, young people and highly paid professionals, all for differing lengths of time.

This diversity poses challenges to public agencies seeking to improve standards and entrenched attitudes from both landlords and local councils have made progress difficult in the past. There are signs, however, that well targeted regulation could be acceptable to the key stakeholders and lead to real benefits for the users and potential users of this small, but nonetheless key sector.

At the top end of the market, a degree of self-regulation already operates. Landlords that maintain high standards are able to charge higher rents, so tenants who can afford it have more options available to them. Lenders that participate in the Buy to Let scheme also have some expectations of landlords.

At the opposite end of the private renting market, high levels of unfit and disrepair continue to be a problem. Conditions are generally worse, compared to other tenures, partly due to the older average age of the stock. Houses in Multiple Occupation (HMOs) have been identified as a particularly poor quality part of the sector and yet the measures needed to improve standards are still not in place.

Management standards also vary considerably at this end of the market. While much poor management is related to lack of knowledge or information on the part of landlords, disinterested and sometimes unprincipled landlords are also part of the picture. Most attention has focussed on the problems in low demand areas, but poor standards also exist in areas where the sheer demand for accommodation means that dissatisfied tenants can quickly be replaced. In low demand areas, tough eviction policies from some social landlords are driving anti-social households into the private rented sector which adds to the existing difficulties faced by such neighbourhoods.

This poorer quality part of the sector is dominated by more vulnerable tenants, including less well-off households, students, homeless families and housing benefit recipients. It is this part of the sector that local authorities' have most contact with through their enforcement duties. Many of the sector's problems cannot be dealt with by a reactive enforcement regime and the shorthold nature of most private sector tenancies mitigates against effective legal remedies. A more strategic approach to public intervention is required.

It is widely agreed that standards of operation in the private rented sector fall short of the ideal and that action is needed to bring about improvements. The argument for better regulation is clearly made in the joint Chartered Institute of Housing and British Property Federation report *Chains or Challenges: Prospects for Better Regulation of the Private Rented Sector* (Rhodes and Rugg, 2001). Comparison of the situation against the Government's guidelines for better regulation suggests that current approaches are not adequate and that forms of regulation are required that better reflect the diverse nature of the sector and address its real problems.

Developments in Scotland

The Scottish Parliament has recognised the importance of understanding the problems and issues facing home owners and private renters and the need to take effective action to tackle them. The Chartered Institute of Housing in Scotland helped to set this agenda, for example, through its work leading up to the publication of *Private Renewal or Public Problems?* (CIHS, 2001). In March 2001, the Housing Improvement Task Force was set up to undertake a comprehensive examination of the issues affecting the condition and quality of private sector housing and the

process of buying and selling homes in Scotland. In the foreword of the Task Force's first report, former Social Justice Minister, Iain Gray, argues that the condition of private sector homes and the arrangements for its long term maintenance will have a critical impact on the health, life chances and comfort and security of Scotland's citizens (Scottish Executive, 2002).

The first stage of the Task Force's work has helped to identify the legal, administrative and financial elements currently in place which prevent or encourage the maintenance and improvement of private housing. This has identified issues relating to shared and common repairs and maintenance obligations, particularly in tenement flats; a lack of flexibility in the current framework for tackling private sector disrepair in Scotland ; the lack of information on house conditions available to home owners and insufficient market incentives for keeping homes in good repair, especially in areas with static or declining property values. The second report of the Task Force's project will focus on developing recommendations for action by the Scottish Executive.

To what extent should public agencies intervene?

In both the Housing Green Paper and the subsequent Housing Policy Statement, the Government make it clear that they expect home owners to maintain their homes from their own resources. They do allow, however, that "there are exceptions, such as cases where a household's income is inadequate to maintain their home or where the cumulative effect of a number of badly maintained houses reduces significantly the quality of the neighbourhood. In these circumstances some support from public money may be sensible" (DETR/DSS, 2000).

The Private Sector Working Group welcomes this tentative acceptance by Government that bodies such as local authorities and RSLs have a role to play in tackling the poor conditions affecting private housing. But this report argues that intervention by local councils and their partners must be more ambitious and strategic in seeking to understand and influence housing markets in order to tackle the problems facing private housing.



Where are we now?

The issues facing private housing are changing and new approaches are needed if the Government's intention to offer everyone the opportunity of a decent home is to be realized. The case for strategic action by local authorities and their partners in seeking to influence housing markets and tackle the problems facing the sector is now stronger than for many years.

Conscious of these changes, the Government has started to review its policy on both owner occupied housing and the private rented sector in the light of recent trends. Its long-term objectives for the sectors, however, remain vague. Stated aims set out in the Housing Green Paper: *Quality and Choice, a Decent Home for All* are to "support sustainable home ownership" and to "secure a larger, better quality, better managed private rented sector" (DETR, 2000). The National Strategy for Wales *Better Homes for People in Wales*, also contains policy objectives for sustaining home ownership, reducing disrepair in private housing, and improving the private rented sector (NAfW, 2001).

Progress in tackling low demand

Awareness of the scale and nature of the problem

Awareness of the problem of 'low demand' has grown from a few whispers in the mid 90s to an increasingly sophisticated awareness of the issue backed up by national and sub-regional studies. The emergence of low demand and the speed at which it developed is currently the highest profile single issue affecting private sector stock. This phenomenon ranges from market instability and faltering house prices through to large scale abandonment and market collapse. Low demand could be described as a problem waiting to happen, but it is one that few foresaw. It is the logical outcome of a number of complex factors that often combine and reinforce one another. Key causes are the decline of traditional industries, and higher living standards and expectations coupled with the availability of relatively cheap market housing due to cheap land and low mortgage rates. Low demand can be compounded by factors such as crime and anti-social behaviour leading to a spiral of decline.

Severe problems of large scale abandonment are limited to particular parts of a relatively small number of towns and cities. There are, though, more widespread areas of market instability where symptoms of low demand are evident. Research studies into low demand describe these areas as 'at risk' and without appropriate intervention, these areas could rapidly decline. The latest figures available from the Government suggest that 60 % of dwellings in low demand areas – 520,000 homes – are in the private sector (DTLR, 2002).

Targeting low demand

As part of its National Strategy for Neighbourhood Renewal, the Government has committed itself to "achieve a turn around in declining demand by 2010", although it has not made clear how it will assess that this target has been met (Cabinet Office, 2001). It is clear, however, that the high incidence of neighbourhoods that are 'at risk' will mean that achieving the target will require both remedial action to deal with existing abandonment, and preventative action to arrest decline in areas at risk of low demand.

In March 2002, the Government announced nine pathfinder projects in parts of the Midlands and North of England which will generate ideas and produce strategies to tackle empty homes and abandonment. Start up funding of £25 million has been made available, but it is still unclear whether or not the significant level of resources needed to implement their findings will be forthcoming. Expectations are high for the 2002 Spending Review to allocate at least a portion of the estimated £5-8 billion required to carry out large scale market restructuring to meet the target in full (CIH/NHF/LGA, 2001).

Tax measures

A series of tax measures were introduced in the 2001 budget with the aim of reducing the number of empty homes, including:

- abolition of stamp duty in the most disadvantaged communities;
- 100% capital allowances for the conversion of space above shops into flats;
- a reduction of VAT from 17.5% to 5% for the conversion of residential properties into a different number of dwellings;
- a reduction of VAT to 5% on refurbishment costs for properties empty for over three years;
- a zero VAT rate for sale of properties that have been empty for ten years or more.

The Government has also consulted on changing the Council Tax rules such that the full rate (rather than the current 50% rate) is payable on empty homes.

These tax measures may help to bring some empty properties back into use, but their impact is expected to be highest in areas where there is already significant demand for housing. Abolishing stamp duty, for example, will have no impact at all in many low demand areas where property prices are well below the £60,000 threshold.

Reform of the compulsory purchase laws

Refurbishment or improvement of the housing stock will not work in the worst affected areas where housing markets have collapsed because of an absence of demand. In some cases, the best remedy may be to demolish particular types of properties altogether and either redevelop the land or landscape it. Households in these areas are often willing to co-operate with councils to find remedies for their communities, but it is also important that authorities have the powers to enable them to compulsorily purchase properties that are obsolete, where owners are unwilling to sell. Currently, a certain level of unfitness is required to exercise a compulsory purchase order, even in renewal areas where more powers are available. Substantial levels of negative equity are also making it difficult for home owners whose properties are compulsorily purchased to acquire suitable alternative accommodation.

The Government has consulted on proposed changes to the laws and procedures governing compulsory purchase (DTLR, 2001). One of their key proposals is to change the law to embrace a wider range of allowable purposes for compulsory purchase, including halting physical, economic and/or social decline. A change of this nature should enable local authorities to compulsorily purchase obsolete properties in rundown areas, which will be essential to carry out the kind of market restructuring that the pathfinder schemes will seek to implement. There are no plans to reform compensation law, although it is argued that new flexibilities for local authorities will enable them to assist people with negative equity.

Progress towards improving rundown private housing

The scale of the problem

The Joseph Rowntree Foundation's report *Crumbling Castles: Helping Owners to Repair and Maintain their Homes* reveals that for 80% of England's private dwellings, repair costs are relatively small – costing less than 5% of the value of the property (Leather, 2000). According to the then National Assembly for Wales, repair costs in Wales have reduced between 1986 and 1998 (CIH, 2000).

However, analysis shows that there is a sizeable core of problem properties that do not seem to improve over the years. Particular dwelling types consistently host poor conditions with older pre-1919 properties being affected disproportionately. This presents a particular problem in Wales where 32% of the stock is pre-1919, compared with 26% for England. At 72%, levels of owner occupation are also higher in Wales, and incomes are relatively low.

In 1996, the total aggregate cost for dealing with the backlog of disrepair in the private sector in England was estimated to be just over £60 billion (Leather, 2000). This would cover the cost of comprehensive repairs – including work likely to be required in the next ten years. In any likely improvement programme, most of this cost would be met from private sources, leaving only a small proportion to come from public investment.

Certain types of people are more likely to be exposed to poor conditions, either because of their inability to organize works or pay for them. Older people often tolerate poorer standards, as do many black and ethnic minority households (particularly Pakistani and Bangladeshi families), young people, lone parents, unemployed people or those working part time or in full time education. Conditions are significantly worse in the private rented sector than in the other tenures.

Home Improvement Agencies (also known as Care and Repair agencies) aim to help older and disabled people to organize repairs and improvements so that they can continue to live in their own homes. Their success has been recognized by the Government which has increased financial support to enable an expansion in their coverage and the range of services provided.

From 2003/4, the Welsh Assembly Government will provide sufficient resources to entirely fund Care and Repair agencies in all 22 local authorities in Wales. It is also looking at how Care and Repair agencies can contribute to other cross-cutting agendas and is funding a rapid response adaptations programme to support hospital release programmes. In England, the Government has instigated a major policy review of home improvement agencies, having regard to the introduction of the Supporting People budget, the private sector renewal reforms and wider health and regeneration objectives.

The Regulatory Reform Order

One of the key proposals in the Housing Green Paper was to reform local authorities' grant giving powers, to give them more flexibility in providing assistance for home improvements.

The necessary legislative changes are being progressed through an Order under the Regulatory Reform Act 2001 giving local authorities a power "to provide assistance for housing renewal". This power must be exercised in line with a published policy. Local authorities will have a period of grace of 12 months from the date the power comes into force within which to publish their policy.

These changes present significant opportunities to local authorities to improve the way they undertake housing renewal. The new framework will enable them to:

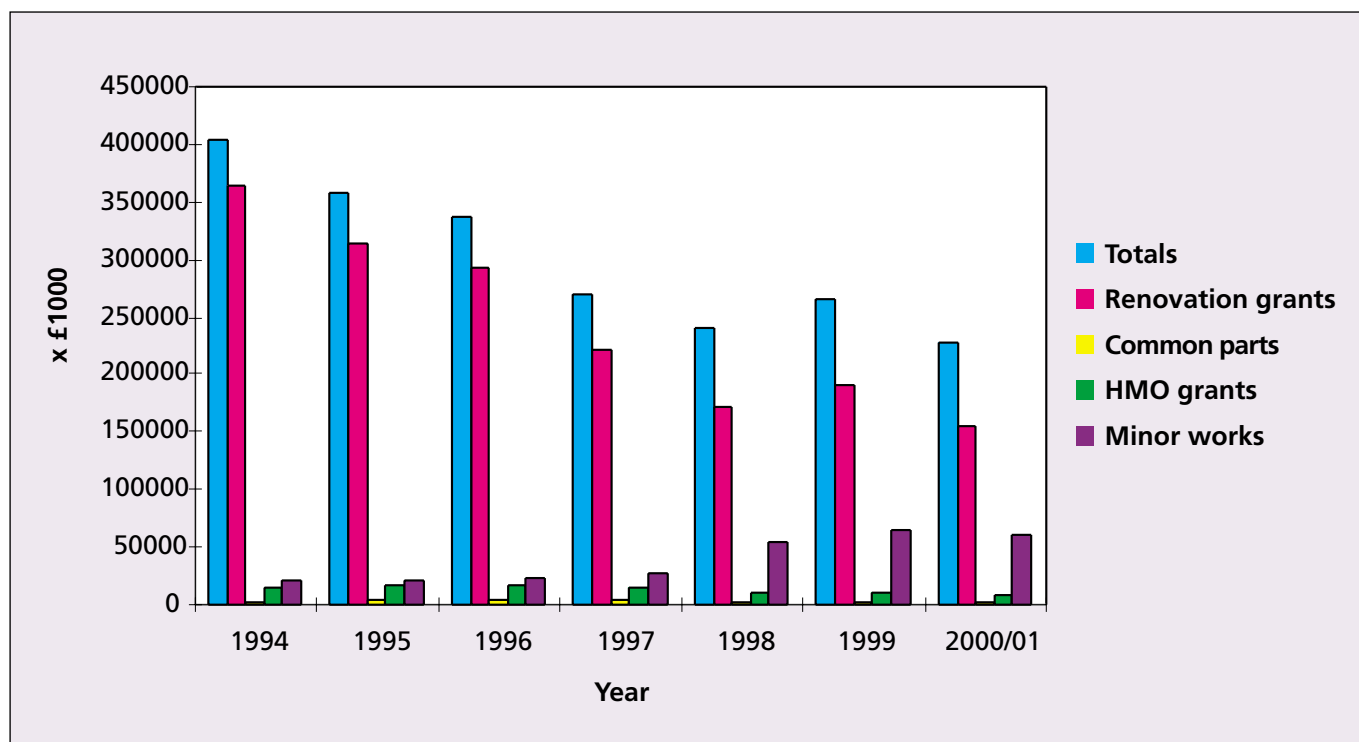
- be much more strategic about how they invest in private housing;
- make better use of public money by using it as an incentive to persuade individuals to invest in their own housing;
- make a larger contribution towards wider strategic community and housing objectives;
- support the Neighbourhood Renewal and Communities First agendas;
- perform better against performance indicators on tackling unfit private sector dwellings.

The impact of the new power will, however, be critically affected by the level of public resources that are made available to underpin local authorities' activities.

Public investment in private sector renewal

Public expenditure for private sector renewal has been channeled to local authorities in the form of a specific grant for funding home improvements, renewal, enforcement activities and work with private landlords. The table below shows that public investment in private sector renovation grants in England has fallen by almost two thirds since 1994. In real terms the reduction has been even more dramatic with renovation grants worth less than a quarter of their mid 1980s level. Expenditure in Wales shows a similar reduction throughout the 1990s.

Expenditure on Private Sector Renewal (not including Disabled Facilities Grants) – England



Source: DTLR Housing and Construction Statistics and Housing Statistics

The introduction of the 'single pot' for local authority capital expenditure in 2001/02 has increased competition for resources, providing further threats to spending on private sector renewal. The decent homes target for social housing together with the ring-fenced Major Repairs Allowance for repairs to council housing, has fixed local authorities' spending priorities on housing firmly on their own stock. In contrast, the specific grant previously available for private sector renewal has ended.

Increasing the contribution of individual home owners

The Government is keen to increase the contribution that owners make to the maintenance of their homes in the belief that this is essentially their responsibility. Many low income owner occupiers own a significant asset, but are unable to access the equity in their homes that would enable them to undertake repairs and improvements. This is particularly true of elderly home owners who have often paid off their mortgage. For others, subsidised loans supplemented with a partial grant may provide a means for securing the necessary improvements to their homes, and make public money go further. Some home owners have very low equity, or are even suffering from negative equity, and those on low incomes may find it difficult to contribute to renovation or even maintenance works.

The reforms to grant giving powers also enable local authorities to offer assistance in a form that requires owners themselves to make a financial contribution or repayment, although they must have regard to the person's ability to afford to make the contribution. In order to make this happen, authorities will be expected to develop approaches to giving loans for improvement works, either themselves or through third parties.

Significant barriers remain, and currently only a small number of loan schemes are in operation and the amount of money brought in through this route is very low. Most local authorities lack the financial skills necessary to negotiate with lenders and offer loans, and lenders have expressed considerable caution about getting involved. Unless lenders' concerns are understood and addressed the perceived risks for them may remain too high and the returns too low. There also remains a strong culture of grant dependency amongst home owners in many areas.

Raising standards in the private rented sector

A growing sector?

The latest figures show that the modest annual increases in the number of privately rented homes between 1994 and 2000 have recently been reversed. In 2000/01, the size of the sector fell to 2.2 million homes and is now smaller than in 1994/5 (Roof, 2002). The Buy to Let scheme has contributed to the steady rise over the previous five years. Although precise figures are not known, the levels of borrowing suggest that additions to the sector were of the order of 100 to 150,000 properties, but could have been as high as 200,000.

The majority of Buy to Let landlords own only a few properties. Institutional investors must be persuaded to invest more if the sector is to grow significantly, but most of them remain reluctant to take risks with a sector that is still perceived to be poorly regulated. Current policies to increase the number of privately rented properties are clearly not working.

A more strategic approach

There remains a considerable degree of mutual suspicion between private landlords and local councils. Many landlords see councils as interfering or unhelpful at best, or downright “anti-landlord” at worst. Problems with housing benefit administration have encouraged many landlords to cease renting to housing benefit claimants altogether. Councils, on the other hand, have often only had contact with the worst landlords through their enforcement duties, and may not, therefore, realize the potential that could be achieved by working positively with landlords.

Through the development of local councils’ strategic role this is beginning to change, though progress is slow. Many authorities are now building up good relationships with private landlords, establishing forums and accreditation schemes, and starting to provide much needed information and support. Awareness is growing of the important role that privately rented housing can play in enhancing labour mobility and so boost local economies, and the part that private sector leasing can play in providing short term solutions to homelessness and reducing the use of bed and breakfast accommodation. As more people are priced out of home ownership in high demand areas then a wider range of people will turn to private landlords for housing.

Initial action from the Government

While acknowledging the important role played by private landlords, the Government clearly has concerns about the standards of management and conditions in some parts of this diverse sector. Despite these concerns, the private rented sector has received little of the Government’s attention. There are no specific targets in place against which to measure progress towards the Government’s objective of “securing a larger, better quality, better managed private rented sector” (DETR, 2000). A number of measures designed to improve the sector have been, or are currently being developed, but they are piecemeal, focussing only on certain property types or areas. For example, the Government wishes to allow local authorities to introduce licensing of privately rented housing in selected low demand areas, where the actions of unprofessional landlords and their tenants are threatening regeneration efforts (DTLR, 2001b).

It has, so far, been unsuccessful in fulfilling its manifesto pledge to introduce licensing for HMOs, where some of the worst problems of poor conditions and management exist. Des Turner MP introduced a private members bill, the Home Energy Conservation Bill, which contained provisions for HMOs. While the bill itself was ‘talked out’ of the House, there is still hope that a shorter HMO bill could be successful. This would strengthen the current provisions by redefining which properties are and which are not HMOs, and would make licensing compulsory for specified HMOs.

Other measures that continue to be considered include changes to the rules governing the payment of housing benefit, initially put forward in the Green Paper. Restricting housing benefit where physical standards are poor and stopping direct payments to private landlords in certain circumstances have not yet been ruled out. Restricting housing benefit payments to anti-social

tenants is the subject of a private members bill from Frank Field MP which has received some Government support.

Some of the new measures that are being considered for improving the private rented sector are applicable to all areas, however, most of these rely on encouragement and incentives to join voluntary schemes. For example, the Government has undertaken research and produced guidance to local authorities on approaches to voluntary accreditation (DETR, 2001c). This is intended to encourage more local authorities to set up accreditation schemes with the hope of raising standards amongst landlords that are concerned about providing a good quality service. Pilots of the Government's Tenancy Deposit Scheme are continuing, but there are as yet no plans to make the scheme compulsory across the sector.

In high demand areas where housing to rent is in short supply, there are few incentives for landlords to keep their properties in good condition since tenants are plentiful and are willing to pay high prices, even for poor condition housing.



Prospects for the future

The rationale for the Government, regional agencies and local councils to seek to influence the housing market and work with private sector players to improve private sector housing conditions is now stronger than for many years. Local authorities have a clear power to promote or improve the economic, social and environmental well-being in their areas, and a duty to develop a Community Strategy to facilitate this. Private housing makes up four fifths of all housing in the UK, yet there is little clarity as to what the aims for the sector should be.

A clear and comprehensive national strategy for private housing

Private sector housing has suffered for many years from a lack of goals and a clear national strategy designed to achieve them. The measures on private sector housing set out in the Housing Green Paper are piecemeal and selective and progress towards their implementation has been patchy. The Welsh Assembly Government has already made some progress in this area, developing a National Housing Strategy that includes the private sector.

In March 2000, the Joseph Rowntree Foundation pointed out the need for a National Housing Renewal Strategy in its report *Crumbling Castles?* (Leather, 2000). The CIH Private Sector Working Group is of the same mind believing that a comprehensive national strategy that covers both owner occupied and private rented housing is now needed. A national strategy would have a range of benefits, it would:

- Help to firm up local councils' responsibilities towards private sector housing as part of their developing strategic role, and set them within a regional context.
- Give local authorities more focus for the new flexibilities they will enjoy in private sector renewal activities.
- Provide a broader framework for the work of the pathfinder schemes seeking to tackle the problem of empty and abandoned housing in the Midlands and the North.
- Aim to gather intelligence and encourage preventative action to avoid housing market failure in the future.
- Encourage initiatives by private landlords and other stakeholders to help promote the sustained growth of this sector, while effectively tackling the minority of poor quality landlords that currently blight its progress.

The Private Sector Working Group believes that the national strategy should seek to achieve the following objectives.

Objective 1: Achieving sustainable housing markets

In many parts of England and Wales, housing markets are wildly out of balance. Soaring house prices that squeeze out all but the wealthy in parts of the South of England contrast with housing that, for a variety of reasons, nobody wants in parts of the North and Midlands, and South Wales. There is much that can be done to improve the current situation by action at national, regional and local level to move gradually towards the creation of more sustainable housing markets.

Reshape housing markets

At national level, the Government must address the current problems of empty homes and abandonment through the provision of significant levels of resources over the next ten years to reshape the housing markets in those areas. Action would consist of a variety of strategic interventions to improve properties and environments as well as demolishing properties where necessary. This would fulfill the expectations that have been created by the establishment of the nine pathfinder schemes.

National strategy for regional economic growth

In its Housing Policy Statement, the Government stated that its main contribution to making home ownership sustainable was a robust economy in all parts of the country (DETR / DSS, 2000). The Private Sector Working Group believes that the Government must address the underlying causes of failing housing markets in the North and Midlands and unsustainable growth in the South by developing a national strategy for regional economic growth. Such a strategy could then be implemented on the ground through regional agencies. The Regional Governance White Paper provides an excellent opportunity to discuss how this can be achieved in practice. This kind of forward thinking is needed if the same problems created by unsustainable housing markets are not to be repeated in years to come.

Understanding housing markets

Action at local level to achieve sustainable housing markets will require a sound analysis of how housing markets are functioning. This should include an understanding of:

- the influence of the local and regional economy on housing markets and the role housing could potentially play within the economy;
- the interactions between the social and private housing sectors;
- the aspirations of different households and factors that are currently enabling or preventing these aspirations from being met;
- the needs of different cultural groups, including black and minority ethnic groups;
- how economic, social and demographic trends are likely to impact on housing markets in years to come.

Cross-tenure housing strategies

Based on this analysis, local housing strategies should be developed that embrace all housing tenures and are co-ordinated with plans for neighbourhood renewal. These strategies must lead to specific actions that will include:

- ongoing strategic removal of housing that is no longer required (whether or not it is in good condition);
- replacement and addition of the right amount of the right type of housing in the right places to meet needs and aspirations;
- conversions of one type of property into another (eg. bedsits into flats or houses);
- strategies for preventive action designed to avoid unsustainable housing markets from developing in future;
- increasing the level of private rented accommodation where it is needed.

The Government should develop a better and more consistent method for assessing the efficacy of housing strategies with more emphasis on the actual outcomes achieved. The Welsh Assembly Government has already started a review of the Local Housing Strategy process in Wales.

Objective 2: A clear target for bringing private housing up to a decent standard

Clear targets for bringing all social housing up to a decent standard by 2010 in England and 2012 in Wales are already in place and a target for improving private sector housing in Wales has also been established. This has galvanized action at local and national level to identify strategies and resources to achieve these targets. As deprived neighbourhoods are increasingly of mixed tenure, and with many more home owners on low incomes, the case for developing a specific target for private sector housing in England is growing in strength.

As with the existing housing targets in England and Wales, this new target could be progressive and conditional. For example, it could initially aim to bring a fixed proportion of private housing up to a decent standard by a set date, or to reduce the number of homes in disrepair by a certain percentage, focusing on the most disadvantaged home owners first.

Achieving such a target would require:

- Co-ordinated national and local preventative strategies aimed at encouraging all home owners to invest in their properties to prevent them falling into disrepair. For example, the idea of the 'sellers pack' seems to have been put to one side for the moment, but this is one such measure that could help to achieve this.
- A planned program for implementing the new flexibilities for private sector renewal which would include:
 - systems for collecting and disseminating emerging good practice relating to local policies for giving assistance;
 - establishing a number of workable models for delivering low cost loans and equity release schemes;
 - means for local authorities to gain straightforward access to private finance;
 - training for staff in the areas of strategy and policy development, financial skills, advice and advocacy and fraud detection.
- Sufficient revenue funding to be made available to enable local authorities to deliver the program.
- Investment of sufficient public capital resources to subsidise improvements in poor areas.
- Improvements to properties in certain areas as part of a wider strategy for regeneration to secure comprehensive improvements to the area.

Objective 3: A larger, more professional private rented sector

Being such a diverse sector, there is no single model of regulation that could be applied across the whole private rented sector. There is, though, considerable scope for taking action on a range of fronts to encourage the development of a larger and better run sector.

A target to increase investment

As well as a clear target for bringing private rented housing up to standard, national and regional targets should be set to increase the level of investment coming into the sector. Ongoing dialogue with institutional investors will be required to establish their views on the sector and the type of interventions and regulation that are required to give them confidence to invest. Achieving such a target is also likely to require an appropriate tax-transparent vehicle for indirect investment in the sector.

A new approach to enforcement

Many of the problems between landlords and local authorities stem from the reactive and sometimes adversarial nature of enforcement activities that apply to the private rented sector as well as the owner occupied sector. Action is usually only taken when things between have already gone wrong between landlords and tenants.

Currently there is a plethora of laws that relate to the private rented sector covering physical standards, landlord and tenant relations, housing management, accountancy, health and safety, food hygiene, pest control, fair trading, fire safety, gas and electrical safety, protection from harassment, social security, race relations and debt recovery. Many of the laws are out of date and enforcing them in a consistent manner raises some difficulties. There has tended to be an *ad hoc* approach that is reliant on a complaint first being raised.

In the interests of creating a larger and more professional sector, the enforcement regime should be reviewed. This would include a review of the legislation itself, as well as the role of environmental health officers in enforcing the law. The aim would be to make enforcement more strategic and proportionate to the quality of accommodation and management. Local authorities need to see their enforcement role as part of their strategic housing role, making sure it helps to deliver their local housing strategy.

An action plan for speeding up housing benefit administration

The chronic delays in the administration of housing benefit in some parts of the country are causing landlords to withdraw from the sector because of cash flow problems. However, it is not merely inefficiencies in administration but also the complexity of the system that is causing the problems. An action plan is needed for deciding on and implementing reforms to the housing benefit system that will result in a faster system for administering new housing benefit claims and changes in circumstances.

Promoting good practice through literature, training and local strategies

Many landlords are performing at less than optimum levels and this is often through lack of knowledge and incentives to improve, rather than purposeful poor performance. Making good practice information widely available to landlords and offering appropriate training would help to increase the level of knowledge.

Local authorities should be required, as part of their strategic housing role, to work with private landlords to establish strategies for improving the sector in their area. These strategies should link with other parts of the housing strategy, such as providing housing for homeless households. Some authorities have already developed schemes that provide incentives to landlords for providing a quality service.



The challenges ahead

Over the years, local authorities and their partners have done much to improve the quality of life in areas of older private housing. Yet the task ahead is as big as ever, if the Government is to meet its target to turn around low demand by 2010 and give everyone the opportunity of a decent home.

Tackling low demand

Clarifying the target

A target has been set to “achieve a turn around in declining demand by 2010” as part of the Government’s National Strategy for Neighbourhood Renewal (Cabinet Office, 2001). Progress towards this target is hampered by a lack of clarity about what the target actually means in practice; uncertainty about whether or not the resources required will be made available, and a lack of practical examples of the kind of large scale housing market renewal that is required to tackle low demand and abandonment.

The Government first needs to articulate more specifically what the ‘low demand’ target means in practice. For example, does it mean a turn around overall at national level leading to a reduction in the numbers of empty and ‘at risk’ homes? If so, what level of reduction constitutes a “turn around”? Or does it refer to a turn around only in the most severely affected areas? Once the exact nature of the target has been clarified the Government then needs to specify how it intends to measure progress towards it.

A well resourced and targeted private sector renewal programme could potentially play an important role in helping to prevent problems of low demand from occurring in the future. Modest levels of investment in some areas that are ‘at risk’ may prevent the need for much higher levels of spending at a later date. It is clear, however, that in order to tackle the existing problems of empty homes and abandonment that blight communities in parts of the Midlands, North of England and South Wales, significant investment over a prolonged period will be required. In their joint submission to the Spending Review 2002, CIH together with the National Housing Federation and Local Government Association called for a Housing Market Renewal Fund to bring in investment of £500 million per annum over a period of 10 years to restore confidence in the housing markets in these areas (CIH/NHF/LGA, 2001).

The establishment of the nine pathfinder schemes has raised expectations that resources will be made available to put the strategies they will devise into effect. The Private Sector Working Group expects that the Treasury and the Office of the Deputy Prime Minister will wish to see a clear link made between this investment and measurable results on the ground. This could mean the development of a specific Public Service Agreement target on Market Renewal, perhaps based on a clarification of the existing target on “low demand”.

Finding the tools to do the job

The nine pathfinders projects should help to develop some widely applicable approaches to market restructuring to build on existing knowledge. Lessons from the pathfinders, together with other initiatives such as the Housing Corporation’s acquisition for demolition pilots, and the Salford Homeswap scheme, need to be systematically collated, evaluated and disseminated.

The pathfinders should also test the adequacy of the available legal tools and, in particular, whether or not the laws governing compulsory purchase are adequate. The findings from this should feed into the current review of the compulsory purchase laws.

It is important that market restructuring is tackled within the overall housing strategy for an area, ensuring that:

- Effort is not just focused on the worst affected areas, but also on those where problems are emerging to prevent further decline;
- The whole range of options is considered, not just clearance and redevelopment;
- Local authorities work together to tackle problems that straddle administrative boundaries.

Preventing market failure in the future

Perhaps understandably, the initial focus of attention has been on those neighbourhoods already experiencing severe problems of empty homes and abandonment. Preventing low demand occurring in the future will require a more far sighted approach and the use of 'early warning systems'. Local authorities will need to be able to recognise early signs of neighbourhood decline and put in place interventions to prevent decline before it fully takes hold. This could mean taking action that directly affects the housing stock, for example, addressing physical decline, or other measures such as boosting local employment or tackling environmental issues. Some local authorities have developed Neighbourhood Sustainability Indices to enable them to predict which areas may be in danger of decline in the future. Such an approach can include asking residents questions like "where do you see yourself living in 10 years time?"

Taking a preventative approach will require local agencies to undertake effective risk assessments to ensure that both neighbourhoods of high and lower risk of experiencing empty homes and abandonment receive appropriate treatment. This will be necessary during and even after the 10 year period covered by the Government's low demand target to prevent housing market failure from recurring.

Raising the profile of private sector renewal

One of the biggest challenges currently facing practitioners involved in private sector renewal is the knock on effect of the Government's focus on the public sector housing stock. The target to bring all social housing up to a decent standard by 2010, coupled with the Major Repairs Allowance that sets aside money for ongoing repairs and maintenance to council stock, means that council housing is taking most of the attention and resources in the majority of local authorities.

At the same time, the removal of the rigid grant regime is causing some councils to consider scaling down human resources for private sector activities, on the mistaken assumption that less, rather than more, people will be required to administer the system. In fact, the reforms will place greater pressure on the profession.

A national target relating to the quality of private housing would ensure that private housing is given a higher profile. The Welsh Assembly Government has already said that it aims to "halve the number of Welsh homes in a state of serious disrepair by 2005" (National Assembly for Wales, 2001). Such targets need to be linked into a system for monitoring progress that should include assessment through House Condition Surveys.

Implementing and monitoring a national target for improving standards in private sector housing could emerge from the kind of "top down – bottom up" approach shown below.

Top down

- A target is put in place to work towards improving housing conditions to a set standard over the next 10 to 20 years.
- The level of resources for bringing about improvements to the sector is calculated.
- Decisions are made about how much of this should be publicly funded and how much privately funded.
- Phased delivery of the public sector resources required.
- English and Welsh House Condition Surveys assess the scale of the problem in each country and check progress toward the target.
- Periodic reviews would allow adjustments to be made to the programme, if necessary.

Bottom up

- Housing market assessments and condition surveys inform local housing strategies.
- Long term private sector strategies form an integral part of local housing strategies.
- Targets and monitoring mechanisms are put in place.
- Action plans for implementing the strategies are developed, including identification of both human and monetary resources.
- The strategy and progress against it is reviewed annually.

Integrating renewal with broader strategies

Research for the report *Understanding Local Housing Markets* (Blackaby, 2000) published jointly by the Chartered Institute of Housing and the Council of Mortgage Lenders concluded that very few local housing strategies had meaningful coverage of private sector matters. Local authorities are now, however, expected to undertake sophisticated analyses of housing markets that include all tenures and examine the interactions between them.

The information gained from these housing market analyses can be used widely to inform authorities' work. The growing importance of the local authority strategic housing role, together with the introduction of the broad Community Plan and the emergence of the neighbourhood renewal agenda in England and Communities First in Wales have set in place a new strategic context for private sector renewal. This demands a more proactive approach to bringing about improvements in neighbourhoods where there may be a mix of social and private housing, and requires co-ordination of a wide range of activities including education, health, employment and housing programmes. Good quality, well managed housing and congenial environments remain a crucial element of successful regeneration. Local plans for housing renewal must be discussed with Local Strategic Partnerships where these exist, and endorsed by them.

Taking forward the new "power to give assistance"

Strategy and policy skills

In recent years, the analytical and strategic skills required to give grants and undertake renewal have been limited. Grants were given in accordance with detailed provisions contained in the Housing Grants, Construction and Regeneration Act 1996 and other acts that predated this. Small-scale neighbourhood assessments underpinned decisions to declare renewal areas. Under the new reforms, local authorities will have to make many more decisions about how to spend the money available and will have to justify their decisions through published policies and strategies.

Within the local housing strategy, they will need a clear strategy embracing area renewal and client-based improvements that sets out where they intend to carry out private housing renewal and the types of intervention proposed. This will need to show how the planned activities will contribute to the Community Plan and strategy for neighbourhood renewal. They will need to marry up this strategy with a policy for means-testing and access to loans that facilitates the renewal of individual properties and areas. To be successful, practitioners will need to develop the skills to enable them to keep the big picture in view, whilst at the same time making the system work for individual clients.

Access to loans and equity release schemes

Development of loan packages is still at a very early stage. The amount of money local authorities can themselves lend is clearly limited by the size of their allocation within the local authority 'single pot' and private lenders remain cautious. So far, only a handful of authorities have engaged in work to develop loan packages with lenders, and this is, in the main, small scale. A forthcoming report by the Joseph Rowntree Foundation will look in detail at the issues for local authorities and lenders and at how loans for repairs and improvements can be made accessible.

The role of lenders will be critical to the success of this new approach. There are, however, a number of concerns that need to be overcome if lenders are to feel confident lending significant amounts to low income households for home improvements, particularly in areas of generally low property values. These concerns include:

- **Whether lenders will get a sufficient return for their investment** – Interest rates must be sufficiently low for low income home owners to afford but lenders cannot be expected to subsidise this. They will expect to get a sufficiently high return to make it worthwhile.
- **Protection from the possibility of default** – Lenders will want to be sufficiently protected from the possibility of default on repayments. This could involve either the local authority or central Government guaranteeing the loans.
- **Confidence they are making a secure investment** – Lenders want to be reassured that investment in property in an area is secure, particularly for products where the lender is reliant on a significant increase in the value of the property for a return (for example, shared equity products). This concern will be best addressed by local authorities developing and implementing convincing strategies for area improvements, linked to wider economic regeneration. Sufficient public resources will be required, and in some areas where house prices are very low, it may not be possible to engage lenders at all. Local authorities may need to provide the capital for loans in these areas and sometimes grants may remain the only option for securing improvements.
- **Avoiding excessive administration costs** – There is an administrative cost associated with setting up loans, which does not change significantly with the size of the loan. As many loans for home improvements are small (typically less than £5,000), this administrative cost is disproportionately high, compared, for example, to the average mortgage. The requirements of the Consumer Credit Act also provide a deterrent to lending under £25,000. Lenders would be more likely to lend if this administrative burden could be reduced. One way of doing this would be for local authorities or a third party to package a number of individual applications for loans into a single portfolio that would be passed *en bloc* to the lender.

Various ways must be explored of harnessing the resources of the public and private sectors to make the necessary funding available to replace traditional improvement grants. One way might be for local authorities to be able to use the new prudential borrowing freedom proposed by Government to take *en bloc* loans from private lenders for on-lending to poorer home owners. Such arrangements would address some of the difficulties noted above.

Financial and negotiating skills

Making loan schemes work takes a good deal of effort and negotiation. To be successful, local authorities need to have an understanding of lenders' requirements and reservations, good negotiating skills and financial know-how. Most local authorities are starting from a very low skills base in this respect as staff with relevant skills have often left or been redeployed.

One way of bridging this gap would be to set up specialist intermediary bodies that would have the necessary expertise. There are at least two ways in which this might work:

- A national body could be established that gives specialist advice and training to enable local authorities to acquire the skills necessary to develop internal loans packages and to negotiate with lenders. A model for this might be the Community Housing Task Force that gives advice and assistance to local authorities on options for investment in the council stock.
- There could be a number of bodies that act as intermediaries between local authorities and lenders. These bodies might advise authorities on loan options and assist them in putting together loan portfolios. They would be the first port of call for lenders and would negotiate with them to lend against portfolios.

New ways of raising resources

As well as using a variety of approaches to maximize the impact of public and private resources to improve conditions in rundown private sector housing, innovative ways of raising funds should also be considered. For example, a small proportion of the large capital gains being made by some home owners in parts of the country could be captured and used to assist home owners in less

favoured areas living in rundown housing or in negative equity. The detail of such a measure would need careful consideration, but even a small proportion of, say, 1-2% of capital gains could make a significant difference. It could also help to end the 'post code lottery' and make a reality of the Prime Minister's pledge that no-one should be seriously disadvantaged by where they live.

Realising the potential of the private rented sector

Creating a larger, more professional private rented sector presents a challenge to all parties concerned.

Building a new consensus

Chains and Challenges showed that long established mutual distrust between private landlords, local councils and policy makers has provided a barrier to effective dialogue that has resulted in the lack of a clear policy direction for the sector (Rhodes and Rugg, 2001). This study provided the first attempt to unpack some of the concerns of the different interest groups and to establish a way forward that takes on board these concerns, rather than arbitrating between them.

The Shelter/JRF *Commission on Private Renting* has moved this process on a stage further, with a wide range of interest groups that include representation from small and large scale landlords, letting agents, tenants' rights groups, local authority practitioners, etc. all signing up to an extensive list of recommendations for increasing the supply and improving standards in the sector.

The Private Sector Working Group embraces many of the Commission's recommendations. However, the effectiveness of the laws and practice governing local authority enforcement were not given detailed consideration by the Commission. This area of activity provides a good deal of contention and is a considerable source of dispute between landlords and local authorities. The Private Sector Working Group believes that enforcement could be modernized by making it more relevant, strategic and proportionate, so that it supports positive attempts to improve the sector.

The Government's role

All parties need to play their part in creating a larger, more professional private rented sector. For Government this means driving through the necessary reforms, including:

- Simplifying the housing benefit system and improving its administration. This is urgently needed if landlords are to be convinced that their concerns are being taken seriously by the Government.
- Creation of an appropriate tax transparent vehicle to enable investors to invest indirectly in the sector, without having to get involved in managing it.
- Review of the laws governing the private rented sector and the enforcement role of environmental health officers.
- Requiring all managers to be 'fit and proper', as recommended in both *Chains and Challenges* and by the *Commission on Private Renting*.

A strategic approach to the sector

The challenge for local authorities is to develop strategies for improving the sector as part of their wider strategic role. This will involve dialogue and joint working with landlords, letting agents and tenants to respond to their concerns and suggestions, and finding ways of driving up standards through a variety of positive means, such as specially designed accreditation schemes and tenancy support initiatives. For many local authorities, building trust and improving relationships with landlords and tenants will involve developing new skills. It requires an open approach that seeks consensus and focuses on achieving positive outcomes.

Strategies could go much wider than this and link with other aspects of the housing strategy. For example, the private rented sector can provide a good source of accommodation for some homeless households where social housing is in short supply. This will involve local authorities drawing up agreements with private landlords (or owners of empty properties) with landlords

guaranteeing to let for a fixed period. Brent LBC has adopted a number of schemes that offer incentives to landlords that comply with set requirements and which help the council in achieving their statutory and strategic objectives. These schemes include:

- Home-Finder – landlords’ properties are advertised on a web-site;
- Housing Benefit Guarantees – given to private landlords, together with free insurance, in return for allowing the council to make nominations to their properties;
- Housing Enforcement Concordat – landlords that comply get preferential status.

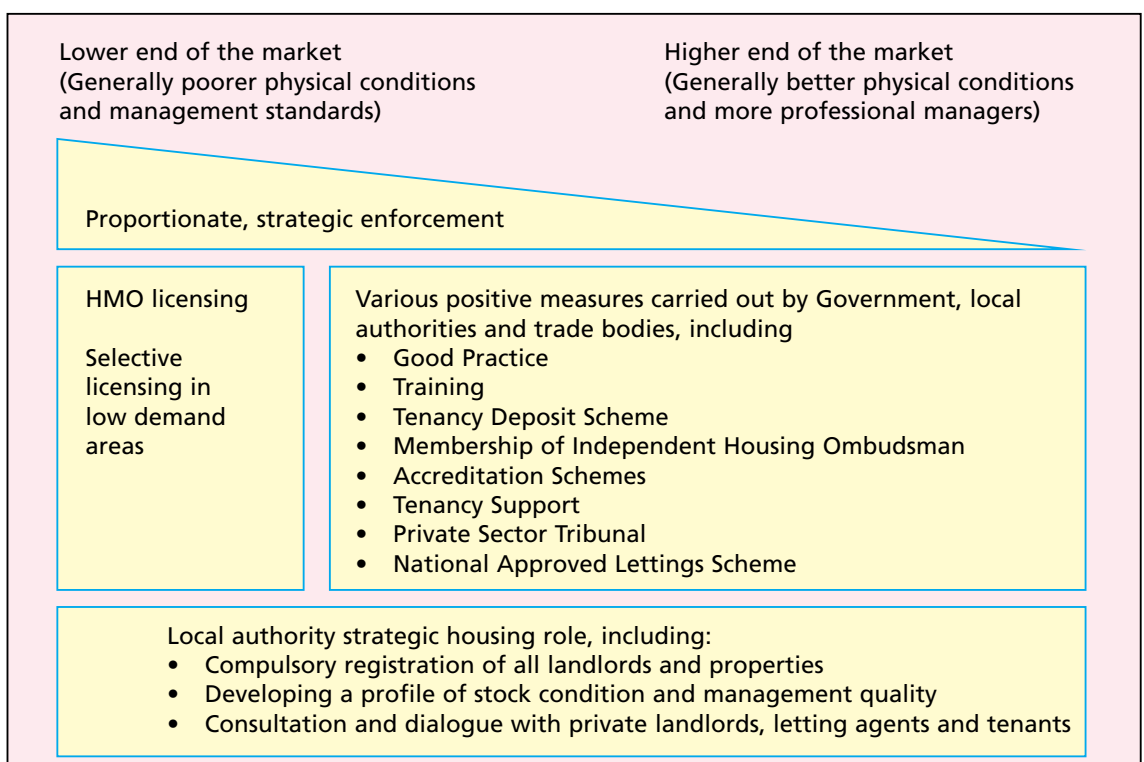
Local authorities considering selective licensing in low demand areas will need to have a good grasp of the local housing market and the neighbourhood in question. They will need to design the licensing scheme to support the strategy for the area and assess the likely outcomes of licensing.

A more strategic approach will also require councils to consider how they can ensure that their enforcement activities support the overall strategy. This will mean, for example, working with landlords and letting agents, giving them advice to help them improve in the first instance, even when standards are very poor. It will mean reserving the most severe actions for the worst properties and most uncooperative landlords, when other measures have failed.

Local authorities would be greatly assisted in their strategic responsibilities towards the sector if registration of private managers and properties was made compulsory. This would help them to keep track of the sector in their areas and to build up a profile of each manager and each property. The aim would not be to ‘check up’ on managers, but to gain information to help them more effectively target a range of activities, and enabling them to take a proportionate, strategic approach to enforcement.

Many representative and trade bodies are already assisting this process by providing information, good practice, training and services for managers. This includes, for example, the National Federation of Residential Landlords’ Certificate of Competence, the National Approved Lettings Scheme and the Tenancy Deposit Scheme. CIH, together with the Royal Institution of Chartered Surveyors, published a good practice guide – *Managing Private Rented Housing* (Trott, 1998). There is also scope for greater levels of tenancy support and private sector tribunals to settle disputes.

The diagram below shows how the various activities relating to this diverse sector could fit together.



Recommendations

The CIH Private Sector Working Party believes that action is required on a range of fronts in order to achieve the Government's objective of offering everyone the chance of living in a decent home.

A strategic approach

- A national strategy for private housing that sets out the main objectives and targets for central, regional and local government and provides a framework for monitoring progress
- A national strategy for regional economic growth
- A legal duty for local authorities to produce a local housing strategy that embraces all tenures

Targets

- A target for bringing private housing in England up to a decent standard
- A target to increase private investment in the private rented sector

Resources

- Market renewal fund of £5-8 billion – an initial tranche of which to be made available in the Spending Review 2002
- Sufficient revenue funding to enable local authorities to deliver the new powers to give assistance for home improvements
- Investment of sufficient ongoing public capital resources to subsidise improvements for poor owners in poor areas
- Use of prudential borrowing freedoms to enable local authorities to access private funds for loans to poor home owners
- Consideration of new ways of raising funds to assist renewal and tackle negative equity such as recycling a proportion of capital gains on house sales

Legislation

- Introduce a bill on HMO licensing as a matter of urgency
- Review and modernize the laws governing the private rented sector and enforcement
- Changes to the compulsory purchase legislation to ensure local councils can purchase obsolete housing where necessary
- Compulsory registration of all private managers and properties to assist local authorities in their strategic housing role

A programme for implementation

- A planned program for implementing the private sector renewal reforms
- Fundamental review of the role of enforcement officers
- National and/or regional bodies to give specialist advice and training to enable local authorities to develop loans packages, and/or to act as intermediaries between local authorities and lenders
- Reform housing benefit to reduce its complexity and improve administration

Equipping the profession

- Collect and disseminate good practice to private sector renewal practitioners reflecting the new framework
- Training on matters relating to developing private sector strategy as part of the wider housing strategy
- Disseminating good practice and information on legal obligations to private landlords

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Appendix 1 – Membership of CIH’s Private Sector Working Group

Paul Diggory, <i>Chair of the CIH Private Sector Working Group</i>	North Wales Housing Association
Wendy Bourton	Care and Repair Cymru
Peter Butlin	Hutchin and Butlin Ltd
Martin Cheeseman	London Borough of Brent
Richard Clark	Prime Focus
John Cornwell	Bradford City Council
Colin Greenwood	Oldham MBC
Phillip Leather	Centre for Urban and Regional Studies University of Birmingham
Ian Richardson	Two Castles Housing Association (and member of CIH’s Policy Board)
Phil Roberts	Swansea City and County Council
Phil Toms	Newport Housing Trust
Bernard Williams	Hartlepool BC
Debra Wright	Sandwell MBC