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‘Shaping Housing and Community Agendas’
1. The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities. We are a registered charity and not-for-profit organisation. We have a diverse and growing membership of over 22,000 people – both in the public and private sectors – living and working in over 20 countries on five continents across the world. We exist to maximise the contribution that housing professionals make to the wellbeing of communities.

2. General comments

2.1 Recent volatility across UK housing markets is nothing new. Over the last forty years the UK has experienced seen several cycles of boom and bust, yet despite efforts to avoid the painful impact on families and communities, we have been unable to prevent or mitigate for the next period of market instability.

2.2 However, the severity of the current economic downturn, and the central role of housing within it, provides opportunity to secure lasting change in how we think about housing. Over the last few years there has been a comprehensive overhaul of the government regulatory structures and framework which has fundamentally reshaped the way public policy influences housing markets and provision. However unless there is a shared vision about what is trying to be achieved, then the potential for real and lasting change is unlikely to be realised.

2.3 Last year CIH published *Rethinking Housing* to help inform the expected rented housing reform green paper. It argued that “reforms must look at all tenures and should consider how change in one tenure can support or enable change in another.” A failure to recognise that different market sectors are interdependent risks undermining the effectiveness of interventions designed to address pressing problems and further fragment an already problematic approach to housing provision. Current efforts to rebalance housing markets have focused on a renewed interest in growing the private rented market.

3. Composition of the private rented market

3.1 The private rented sector is a very diverse sector with landlords ranging from large property companies managing hundreds of properties to a person renting out a single property.
3.2 Today around one in 10 households in England rent their accommodation from a private landlord. This is a significant decline from its peak at the turn of the last century when some 90% of stock was private rental accommodation. Despite its relatively small size in comparison to other tenures the private rented sector has been growing and is increasingly recognised as playing an important role in both national and local housing markets – notably because of its almost unique ability to provide both flexibility and choice.

3.3 Despite the Government's wish to draw large-scale company landlords and institutional investment into the private rented sector as a means of guaranteeing better standards of management and maintenance, the number of company and large-scale landlords appears to have been declining in recent years. Instead the sector has been increasingly dominated by small-scale private individual landlords renting property as a sideline activity.

3.4 Nearly two thirds (65%) of privately rented dwellings are owned by private individuals. Private individual landlords typically have other paid employment (65%) and rarely (39%) derive more than a quarter of their income from rent. Most, however, see their property as an investment (73%). Dwellings let by companies and other organisations account for less than one third (30%) of privately rented dwellings. Many company and organisational landlords have small portfolios of properties (26% have less than 10) and only two fifths (41%) derive more than half their income from rent.

3.5 Over the past decade there has been a big increase in the proportion of dwellings owned by 'side-line investor' landlords - individuals and companies for whom renting property is not a primary occupation or source of income, but who, nevertheless, see their property as an investment (whether for income, capital growth or both).

4. The role of the private rented sector in housing markets and changing demand

4.1 A well managed, well maintained, affordable private rented housing can play an important role in balancing housing markets. The sector already makes significant contribution towards meeting short term housing need and offering greater flexibility, and responsiveness (such as improved resident mobility) than other tenures. In recent years, as affordability and supply issues have become more pronounced, the private rented sector has taken a more prominent role in providing a positive housing option. However, it is important to recognise that the
private rented sector is a housing option that can be determined by constrained choice. Some tenants may be waiting for social housing or are unable to gain access to social housing; others may be finding it increasingly difficult to secure or afford a mortgage. With mortgages likely to remain constrained for some time, demand for private rented homes looks set to continue.

5. **Growing the private rented sector**

5.1 Interest in growing and developing a more sustainable private rented housing market is not new. Efforts to attract sustained, substantial investment following deregulation were kick-started by the Business Expansion Scheme (BES). Although the BES had some success in attracting corporate investors, its overall impact was limited. Similarly, it was also hoped that Housing Investment Trusts (HITs) and Real Estate Investment Trusts (REITs) would attract more institutional investment by making it possible to invest through shares (and therefore avoiding the need for direct ownership). In turn, it was hoped that the flexibility of investing through shares (with greater liquidity and without the management responsibilities of direct ownerships) would attract corporate landlords who could help professionalise the sector. Complex operating rules and low predicted returns have however meant that these vehicles have not achieved their aims.

5.2 Instead, the vast majority of new investment in the sector since the mid-1990s has been by buy-to-let landlords. Although this has helped provide rented housing to meet growing demand, it was principally delivered by individuals operating on a local level. Since these individuals largely operate outside of any wider investment and regulatory framework, it has raised a number of concerns around: its impact on local housing markets and mix in communities, the quality of housing management and, since the onset of tighter lending practices, the wider sustainability of the business model itself.

5.3 With capital growth dominating the investment model at the expense of a strong rental yield, there have also been restraints on entrants in to the market. While this approach may have appealed to some smaller investors, it was not attractive for institutional investors who are trying to match investments against liabilities, often pension payments, and hence prefer a steady and reliable income stream.
6. HCA Private Rented Sector Initiative

6.1 The latest attempt to reinvigorate the private rented sector is the Homes and Communities Agency’s Private Rented Sector Initiative (PRSI). The HCA is working with institutional investors to develop a long-term funding model for new private renting. At the same time it will be hoping that a new approach could help kick-start schemes that have stalled as a result of the downturn. The PRSI aim is to deliver a significant increase in high quality new homes for rent, managed in a consumer focused way, so as to help make private renting a positive choice for consumers and help relieve pressure within the housing market.

6.2 The funding model works by separating the investment in assets from their management. The investment vehicle is exclusively focused on buying homes for rent from developers and house builders, and owning the assets solely for investment purposes. The homes themselves are managed either by professional housing management companies or registered providers such as housing associations. It is hoped that this separation of functions will help attract institutional investors who do not wish to be burdened with responsibility for day-to-day management of the stock.

6.3 The fund will be able to leverage its buying power to acquire homes in entire schemes or to buy up rental elements within schemes. Large-scale build-to-let elements within PRSI funded projects will create new scope for different approaches to pricing within blocks which could support a different approach to securing mixed-tenure communities.

6.4 This new approach to investment could help reposition the private rented market away from its current narrow emphasis on short-term gains towards the long-term approaches more evident in the commercial property sector by shifting the focus of the return on investment away from the capital appreciation to rental yield. The prospect of a secure income stream combined with longer term capital appreciation may also appeal to buy to let type investors looking for a more stable approach to investing in housing.

6.5 If it is successful (and early interest from non-traditional investors has been encouraging) the PRSI could represent the first step towards growing a private rented market more akin to that found elsewhere in Europe. More importantly it could help deliver much needed new supply, transform the private rented market into a positive choice for
consumers and rebalance the housing market away from its current heavy bias towards owner occupation.

7. Some caveats

7.1 As a first step the PRSI provides a clear shift in thinking about the positive role that private renting can play. However, what is less clear is how this rebalancing of the market will affect the other two dominant tenures – social renting and home ownership.

7.2 Home ownership remains, rightly or wrongly, the tenure of aspiration and choice for the majority of the population and in recent years considerable investment of both time and effort has focused on supporting people in to home ownership through low cost home ownership options. If this is still the ambition then can an expanded private rented market help provide a stepping stone towards ownership, for example by increasing the choice of flexible tenure offers? Or is it an acknowledgement that home ownership is not achievable or indeed sustainable for a growing proportion of the population and an expanded, and different, rented sector is needed to cater for these needs?

7.3 In a similar vein, social rented housing is under supplied. What isn’t clear from the PRSI is how new government programmes designed to encourage investment in private rented housing will sit alongside ongoing (and increasingly squeezed) investment in affordable rented housing.

7.4 The difficult question is not around the investment model but around the wider public policy aims of government intervention in expanding the private rented sector. In particular, what remains unclear is the particular niche market that the expanded sector is designed to fill given that the social rented market already caters for some of these consumers. As it stands social housing offers greater security of tenure, sub-market rents, high space and quality standards, and a well regulated, highly professional management service. Any government backed private rented initiative needs to be able to offer a product that is sufficiently differentiated and complementary to this social offer. In particular, there should be distinction around what the different rented products offer consumers and how movement (in both directions) between the tenures could better be supported.
7.5 The CIH discussion paper *Future directions in intermediate renting* (April 2010) considers if it possible to develop more variation and flexibility in the forms of tenancies available and rents charged in order to develop a more fluid and dynamic affordable rented sector. This would allow for further developments whereby social tenancies change to offer a wider range of options.

7.6 The CIH would be happy to discuss in further detail any comments made within our response.

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