Whose Home?

Understanding landlords and their effect on public policy

THE STRATEGIC SOCIETY CENTRE
ANALYSIS • EVIDENCE • POLICY

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This policy discussion paper presents independent policy analysis of research on private landlords using the Wealth and Assets Survey published by the Strategic Society Centre, called Understanding Landlords.

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Understanding Landlords comprises analysis of data from Waves 2 of the Wealth and Assets Survey (WAS). The principal investigator of the Wealth and Assets Survey is the Office for National Statistics, and its sponsors are: Department for Work and Pensions; Department for Business, Innovation and Skills; HM Revenue and Customs; Department for Communities and Local Government; the Scottish Government; and the Financial Services Authority.

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Executive Summary

According to government figures, the number of households renting privately increased from around 2 million in 2000 to 3.6 million in 2010-11. However, the social science evidence base on landlords in the private rented sector (PRS) has always been limited in scope and detail. This absence of evidence has had significant implications for both:

- The regulation of the PRS at the micro level;
- Wider public and political debate on the macro implications of the expansion of the PRS for tenants, public policy and society.

To address this gap in evidence, the Strategic Society Centre designed and published research into the characteristics of private landlords in the UK, entitled 'Understanding Landlords', using:

- The British Household Panel Survey (BHPS) for the years 1991-2008;
- The Wealth and Assets Survey (WAS), Wave 2, which covers the period 2008-2010.

This discussion paper provides accompanying policy analysis of the findings of Understanding Landlords, and recommendations for policymakers.

The findings of Understanding Landlords show that despite representing around 2% of the adult population, private landlords are in a privileged position compared to other social groups (including tenants) whether in relation to education, earnings, wealth or the size of their homes.

Most private landlords have only one other property beside their main home. The median total net property wealth of private landlords is £333,999 and the mean is £479,598. The mean financial wealth of private landlords is £75,103 and the median is £20,500. Around one in three private landlords live in London and the South East.

In addition to being significantly wealthier than private tenants, most private landlords are strongly attached to letting as an activity, are financially secure and many (62%) report they would be able to cope permanently with a 25% reduction in their income without any difficulty.

As such, it appears that most private landlords could absorb a significant strengthening of tenant rights - for example, in relation to minimum secure periods – that might reduce the profitability of their letting activity. Indeed, the findings of Understanding Landlords suggest that any changes to the regulation of private letting that favour tenants over landlords would not result in significant numbers of private landlords either leaving the PRS or struggling financially.

There are strong policy arguments to maximise sustainable rates of owner-occupation across the population relating to: fiscal policy, pension policy, the role of housing wealth in funding

retirement, social capital and community bonds, mental health and wellbeing, as well as use of long-term care.

Despite these policy arguments, the reality is the proportion of households living in the PRS has increased steadily over the last decade, and analysis of BHPS data for Understanding Landlords found the number of private landlords as a proportion of the population more than doubled between 1991 and 2008.

Although the government is attempting to improve the affordability of home-ownership for first-time buyers by boosting the supply of new homes, this strategy is likely to be undermined by differences in wealth between private landlords and tenants - what could be termed the 'equity advantage' of private landlords - in the absence of restrictions on private landlords buying new-build homes. For these reasons, the government should:

- Implement a 'new-build buy-to-let mortgage moratorium', preventing the purchase of new-build homes with buy-to-let mortgages for the foreseeable future;
- Implement a 'three-year rule', such that short-term tenancy agreements cannot be drawn up in relation to homes that are less than three years old;
- Implement a 'buy-to-let lending cap' on the proportion of mortgage lending by banks that can be distributed as buy-to-let mortgages for purchasing owner-occupied housing;
- Review the wider financial incentives and investment returns available to private landlords via the rental sector.

What are the macro-economic and societal implications of the growth of the PRS? The transfer of money from taxpayers to private landlords via Housing Benefit has caused concern among politicians about landlords "getting rich off the state". In fact, only around one in five private tenants receive Housing Benefit: for the majority of private tenants, the functioning of the PRS effectively transfers the private income and wealth of one group – private tenants – to another, i.e. private landlords. Most private landlords are not "getting rich off the taxpayer", but instead are receiving transfers of income and wealth from tenants, who are significantly poorer than they are. In this way, it would appear that the PRS increases wealth inequality in society.

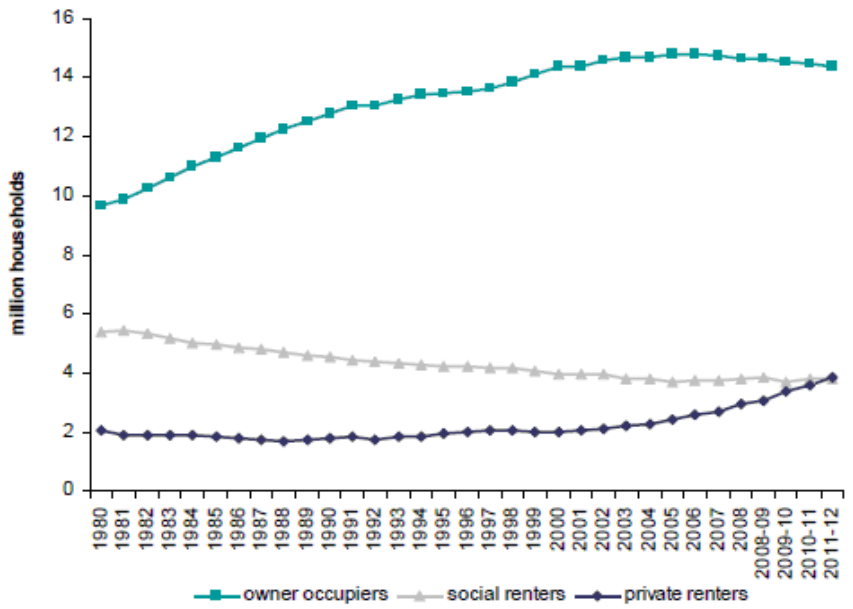
It also appears that the functioning of the PRS serves to reduce levels of social mobility. Although private tenants were more likely to have grown up in an owner-owner occupied home as a teenager than the population average (60% compared to 40%), they were still less likely to have grown up in an owner-occupied home than private landlords (75%). Although some tenants in the PRS may expect to subsequently become homeowners, long-term projections are for declining rates of owner-occupation.

The government should therefore lead a public debate about the future of the PRS and its impact on society, including radical measures to transfer more households out of the PRS and into home-ownership.

1. Introduction

The private rented sector in the UK has steadily grown over the last decade.

According to government figures, the number of households renting privately increased from around 2 million in 2000 to 3.6 million in 2010/11.



Number of households by tenure, 1980-20011/12

Source: DCLG, 2013[1]

Although the growth of the private rented sector (PRS) is usually framed in terms of the increasing number of tenants in the PRS, another aspect of this trend is the rising number of private landlords.

The social science evidence base on private landlords has always been limited in detail and scope. This absence of evidence has had significant implications for both:

- The regulation of the PRS at the micro level;
- Wider public and political debate on the macro implications of the expansion of the PRS for tenants, public policy and society.

Understanding Landlords

To address this gap in evidence, the Strategic Society Centre designed and published research into the characteristics of private landlords in the UK, entitled 'Understanding Landlords'.[2]

Understanding Landlords comprises quantitative analysis of:

- The British Household Panel Survey (BHPS) for the years 1991-2008;
- The Wealth and Assets Survey (WAS), Wave 2, which covers the period 2008-2010.

Understanding Landlords for Public Policy

The purpose of this report is to provide accompanying policy analysis and discussion of the findings of Understanding Landlords, and recommendations for policymakers.

In **Chapter 2**, this report reviews the findings of Understanding Landlords to build up a picture of who private landlords in the UK are.

Chapter 3 explores the implications of Understanding Landlords for the regulation of private landlords and letting.

Chapter 4 considers what the research suggests for the future of government aims around home-ownership and aspiration, and **Chapter 5** takes a similar look at social mobility and inequality.

Chapter 6 concludes with key messages for policymakers.

2. Who are Private Landlords?

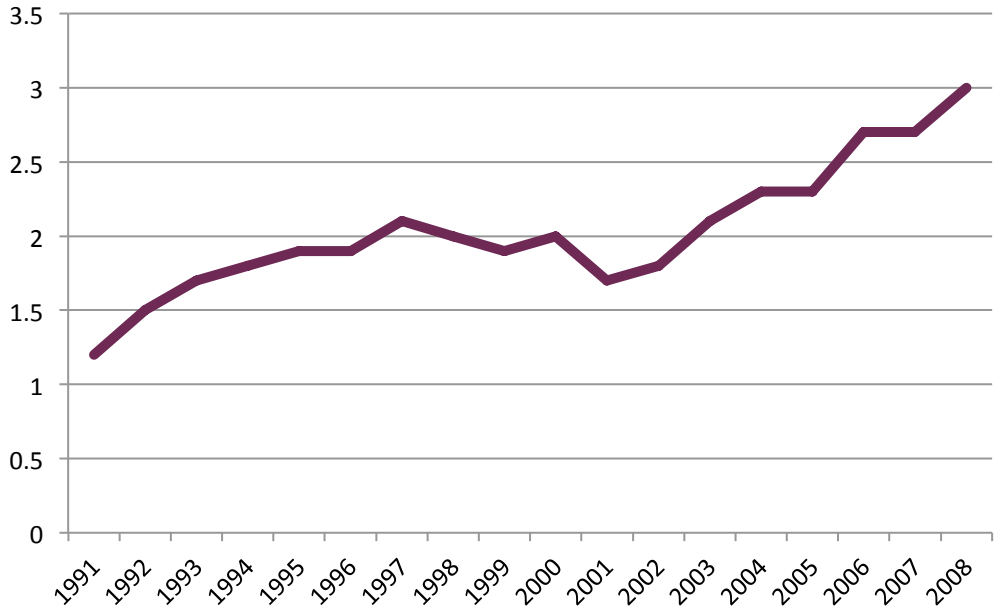
This chapter reviews key findings from Understanding Landlords to provide an overview of the social, demographic, economic and other characteristics of landlords.

Understanding Landlords defined different groups of owners and renters as follows:

- Private Rental Sector Landlords – those receiving rent from second homes or buy-to-let properties in the UK (or both), excluding those receiving rent from lodgers in their home;
- Non-landlord homeowners – those who are head of household[1] and whose housing tenure is 'owned outright' or 'owned with mortgage', but are not Private Rental Sector Landlords;
- Private Rental Sector Tenants – those who pay rent to a Private Rental Sector Landlord, i.e. they are paying rent to a private individual – excluding tenants who are also landlords;
- Tenants of non-Private Rental Sector landlords – those renting from someone who is not a private landlord, for example renting from an employer or an organisation.
- Social renters – those renting from the council or from a housing association.
- All adults aged 16 and over – i.e. the general population.

DEMOGRAPHIC CHARACTERISTICS

Using 17 waves of the British Household Panel Survey (BHPS), Understanding Landlords was able to track the steady growth in private landlords as a proportion of the population between 1991 and 2008:

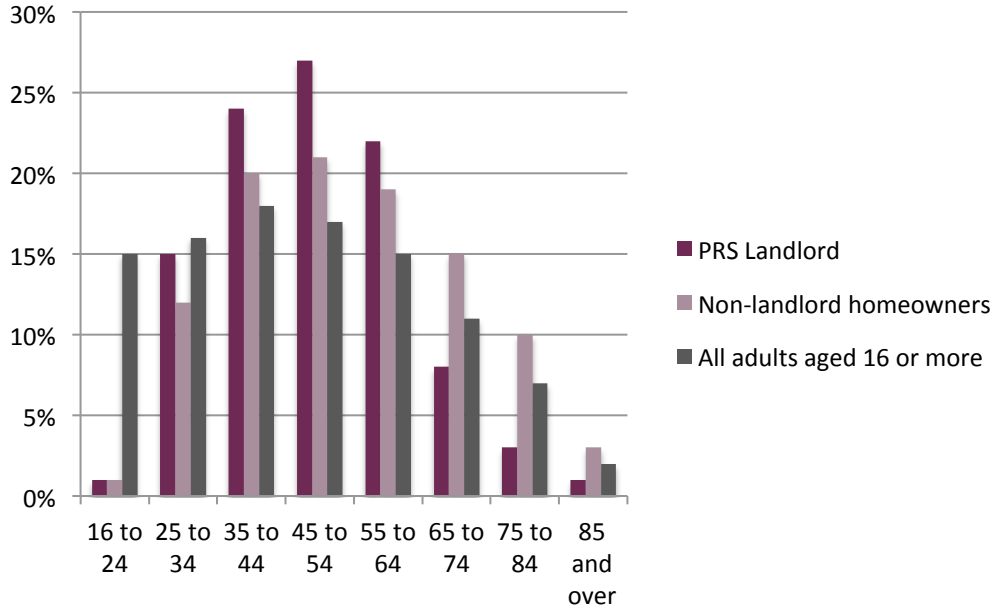


PRS landlords as percentage of 16+ population, (BHPS: Waves 1-16)

Source: Understanding Landlords (2013)

[1] This is defined as the person in whose name the accommodation is owned or rented. If this is more than one person then the one with the higher income is chosen.

Analysis of the Wealth and Assets Survey (WAS) – which has a different sample to the BHPS, found that around 2% of the UK adult population are private landlords, of whom around three-quarters are aged between 35 and 64:



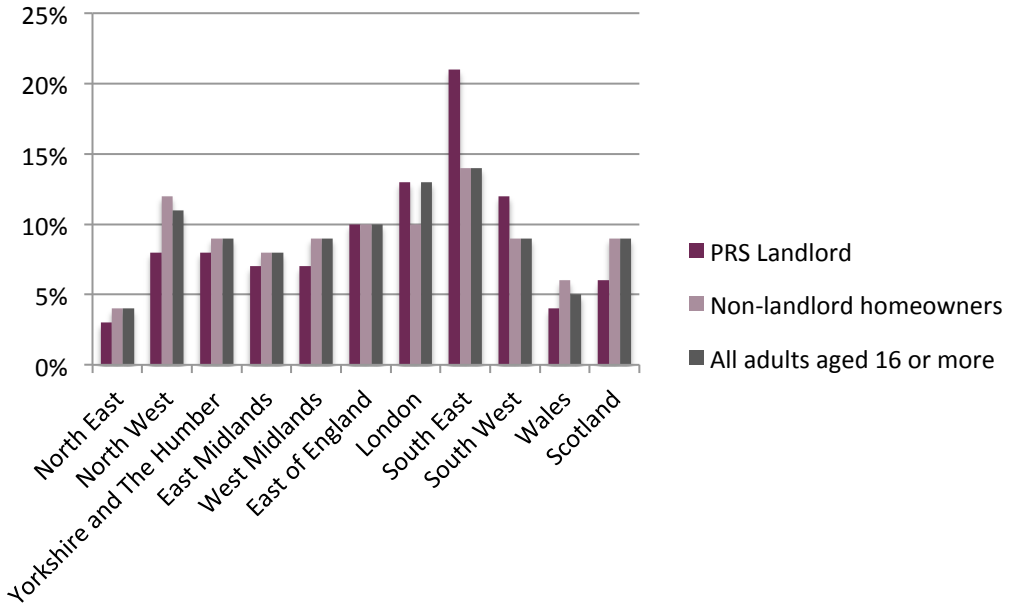
PRS landlords by age range, (WAS: Wave 2)

Source: Understanding Landlords (2013)

Interestingly, only 12% of private landlords are 65 and over compared to 20% of the general population. Around 54% of landlords are male. The proportion of non-white private landlords - around 11.5% - is similar to the wider population.

Around 72% of landlords are married, compared to around 50% of the whole adult population. Private landlords are typically more highly educated than the general population. Around 41% of private landlords have a degree, compared to 29% of non-landlord homeowners and 22% of the entire adult population.

Private landlords are noticeably more likely to live in the South East (21%), London and the South West than the general population. In fact around one in three landlords (34%) live in London and the South East, compared to 24% of non-landlord homeowners:



Government Office Region code, (WAS: Wave 2)

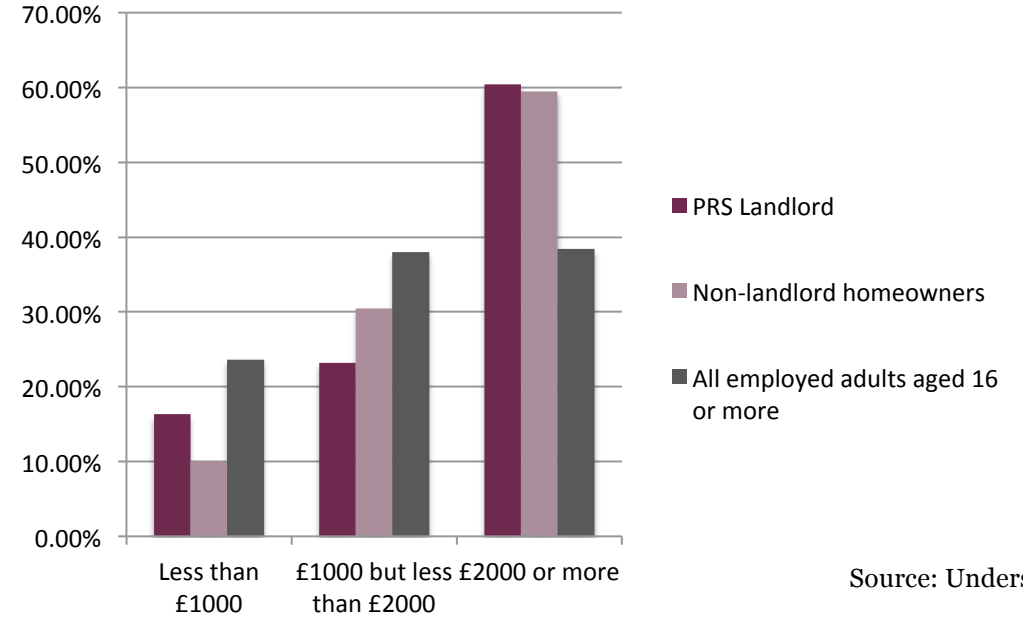
Source: Understanding Landlords (2013)

EMPLOYMENT AND EARNINGS

As described above, most landlords are of working-age, and may therefore be expected to be in employment.

The proportion of private landlords who are employees – around 55% - is broadly similar to the general population. However, at one in five, a significantly higher proportion of private landlords are self-employed, compared to one in ten of non-landlord homeowners. Among private landlords who are employees, they are more likely to work in the private sector (76%) than the general population (70%).

In relation to earnings, the earnings of private landlords who are not self-employed are broadly comparable with non-landlord homeowners:

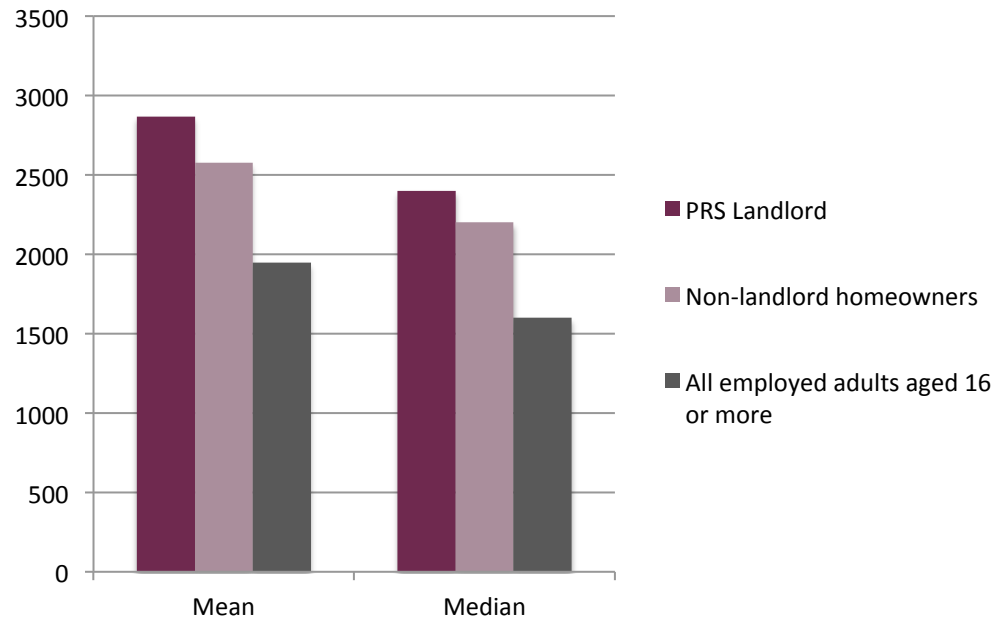


Monthly gross earnings, (WAS: Wave 2)

(employees only)

Source: Understanding Landlords (2013)

However, comparing the average earnings of all private landlords with non-landlord homeowners and the adult population, the earnings of private landlord are typically higher.



Average gross monthly earnings, (WAS: Wave 2)

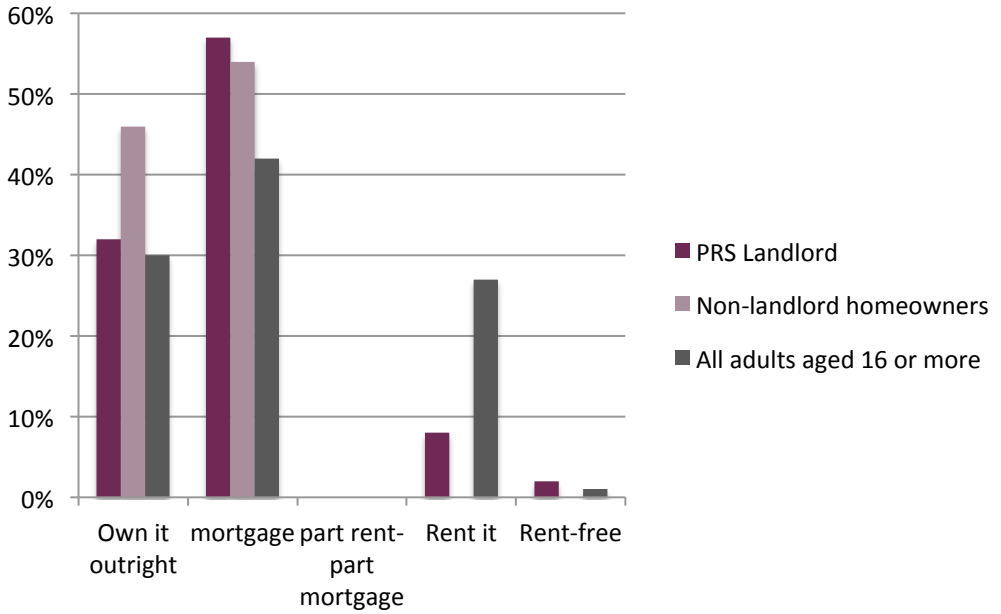
(employees only)

Source: Understanding Landlords (2013)

This difference in earnings can be related to the age and typical life-stage of private landlords, as well as to their socioeconomic characteristics, such as levels of education.

HOMES OF PRIVATE LANDLORDS

As with non-landlord homeowners, the vast majority (91%) of private landlords live in a house or bungalow. Compared to non-landlord homeowners and the adult population more broadly, private landlords are more likely to own their main home with a mortgage.



Tenure of main home, (WAS: Wave 2)

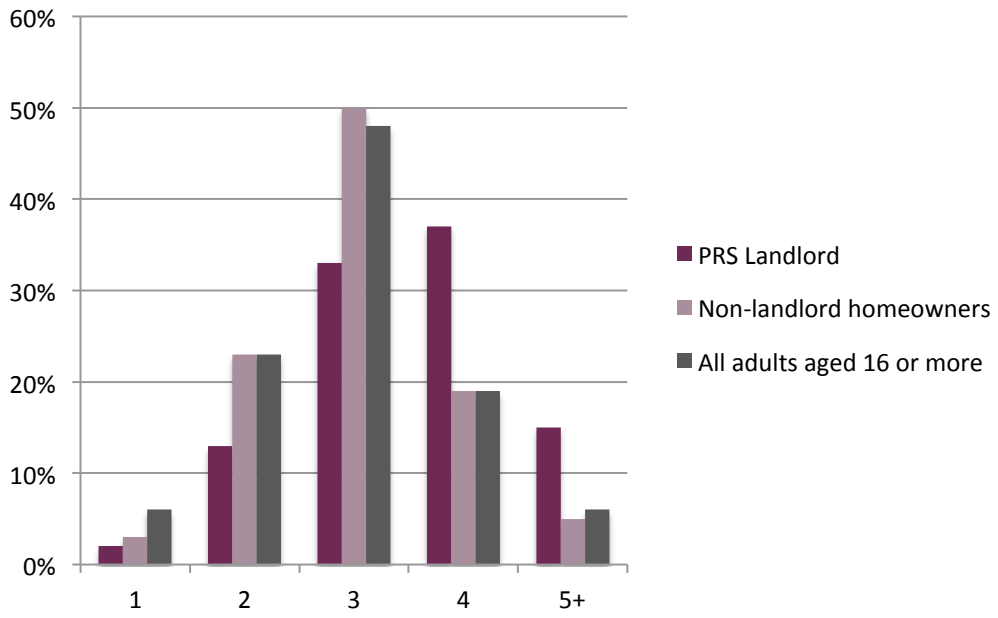
Source: Understanding Landlords (2013)

Around 32% of private landlords own their main home outright, although unsurprisingly, this figure is higher for landlords over pension age (79%) than for those of working-age (24%).

Some private landlords may rent out their home because of practical reasons, for example, the need to move closer to a new job. Understanding Landlords found that around 8% of private landlords rent the main home they live in, suggesting that during the 2008-10 period, some private landlords may have become landlords due to individual circumstances.

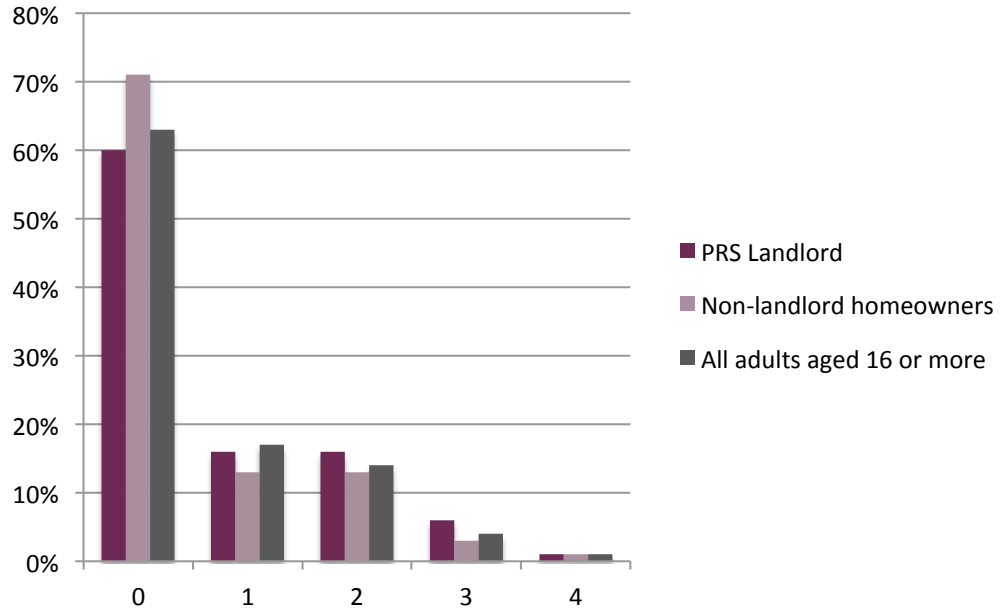
In relation to the number of bedrooms in their main home, it is clear that private landlords typically live in larger properties than both non-landlord homeowners and the general population.

Number of bedrooms in main home, (WAS: Wave 2)



Source: Understanding Landlords (2013)

Although landlords typically live in larger homes, the number of dependent children living in their homes is broadly similar to other groups:

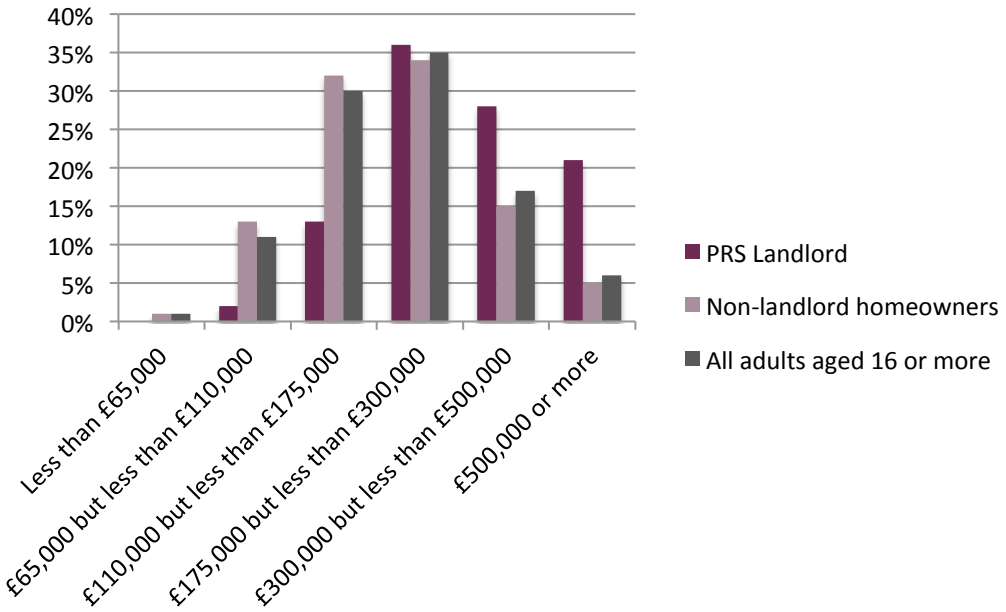


Total number of children in household, (WAS: Wave 2)

Source: Understanding Landlords (2013)

PROPERTY WEALTH

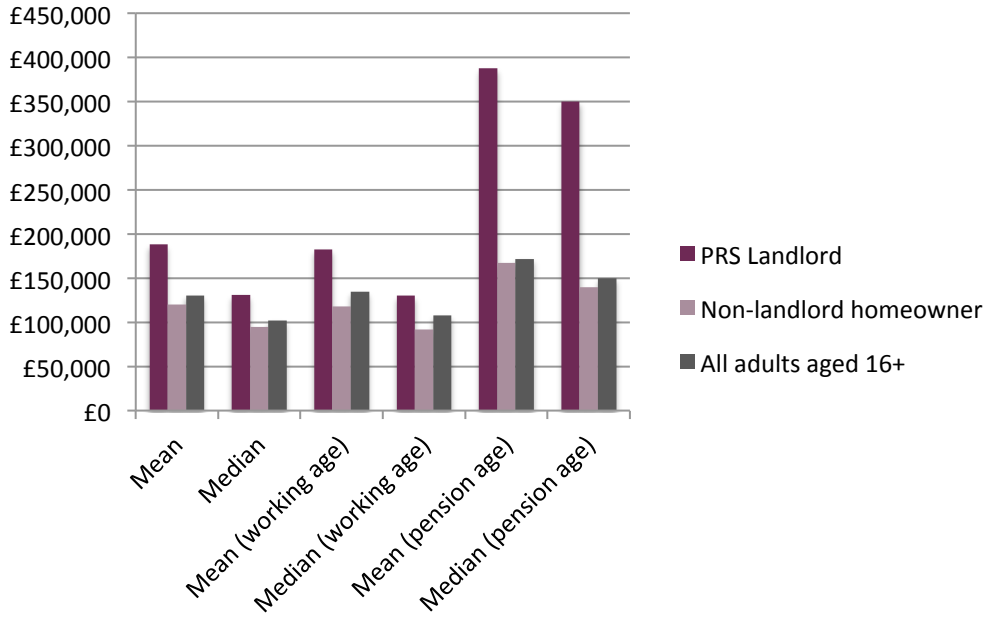
Among the 92% of private landlords who own their main home, the value of their home is typically higher than non-landlord homeowners. Indeed, one in five landlord homeowners live in homes worth half a million pounds or more:



Value of owned main home, (WAS: Wave 2)

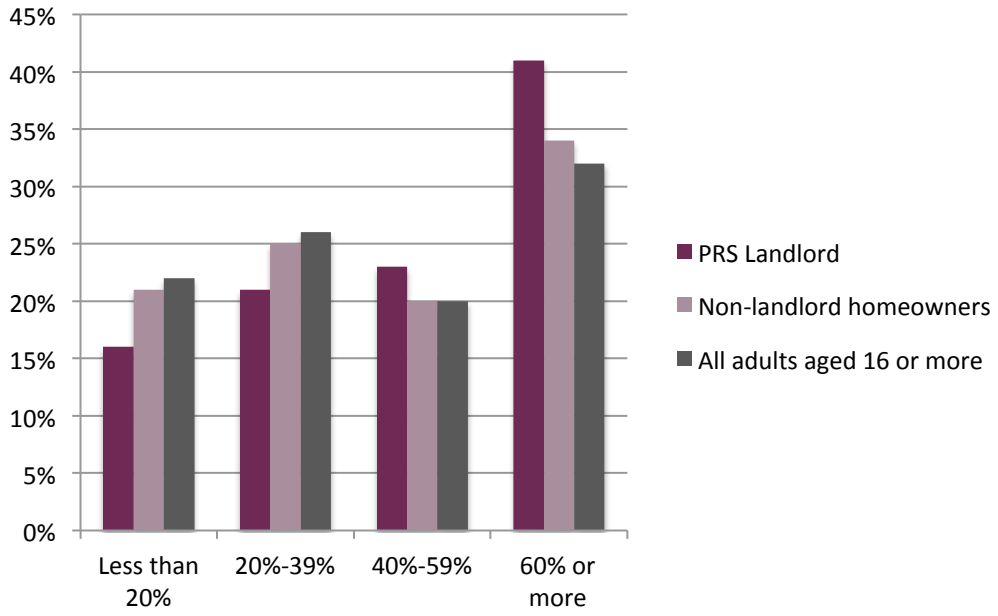
Source: Understanding Landlords (2013)

This effect can also be seen when comparing the mean and median value of main home for private landlords and other groups by distinguishing between those of working-age and retirement-age.



Average value of main home (WAS: Wave 2)

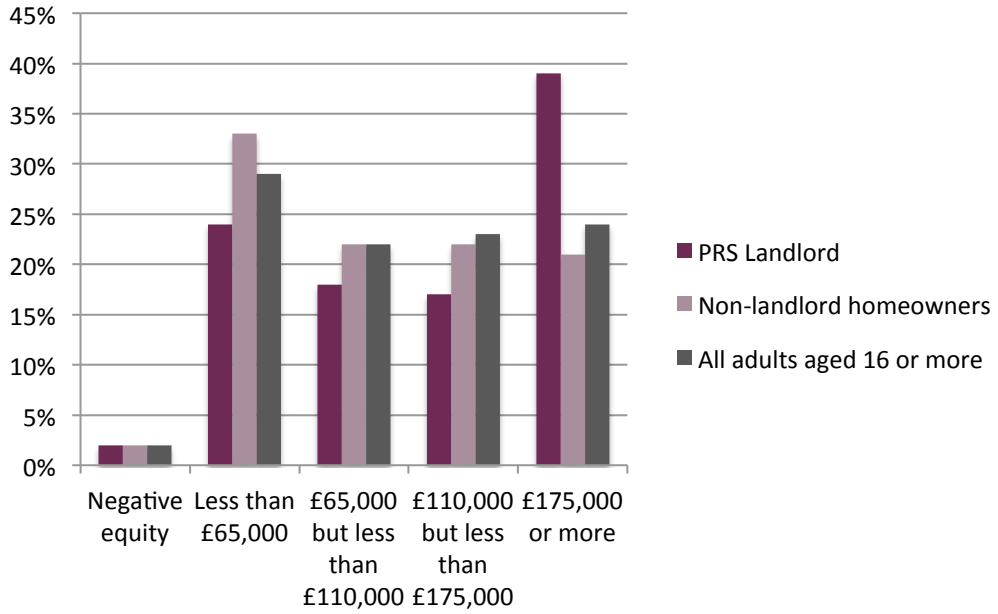
Commensurate with higher earnings and owning more expensive homes, it appears that home owning private landlords are also more likely to have larger mortgages on their home:



Percentage value of outstanding mortgage debt compared to value of home, (WAS: Wave 2)

Source: Understanding Landlords (2013)

However, the overall net equity position of private landlords in relation to their main home is typically positive compared to the rest of the population. Indeed, around two in five landlords have more than £175,000 of net equity in their main home:



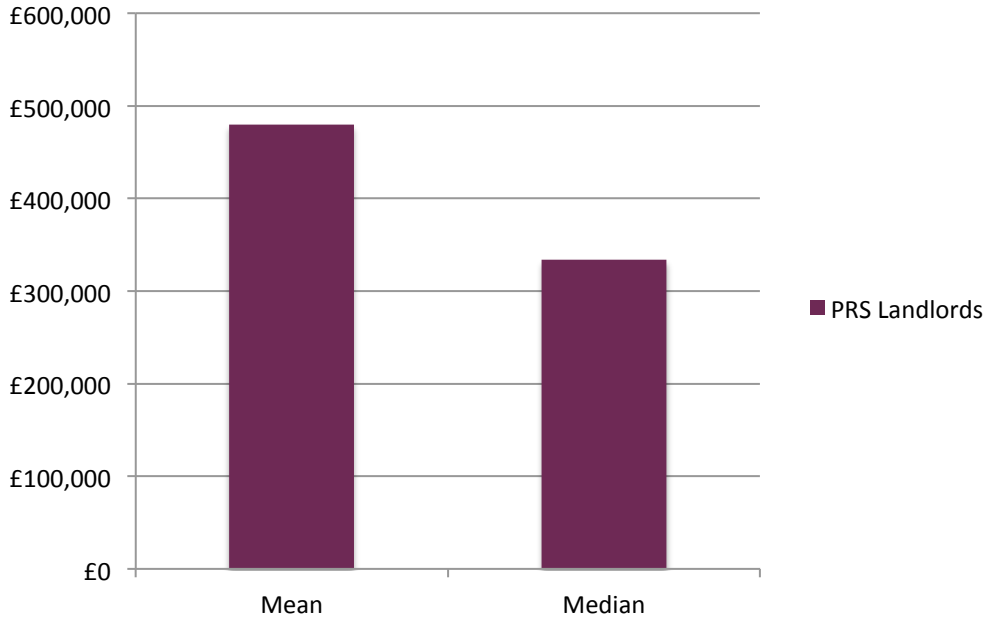
Net equity home owned (value of home minus mortgage debt), (WAS: Wave 2)

Source: Understanding Landlords (2013)

Interestingly, there is noticeable variation in the type of mortgage on their main home used by private landlords, compared to other groups. Only around 56% of private landlords have a repayment mortgage, compared to 73% of non-landlord homeowners, and 20% have an interest-only mortgage compared to 7% of non-landlord homeowners.

Private landlords may own multiple rental properties, or both rental properties and holiday homes. The median total value of all homes owned by private landlords is £510,000 and the mean is £670,127.

After taking account of mortgage debts on these properties, the median total net property wealth of private landlords is £333,999 and the mean is £479,598, as the following chart shows:

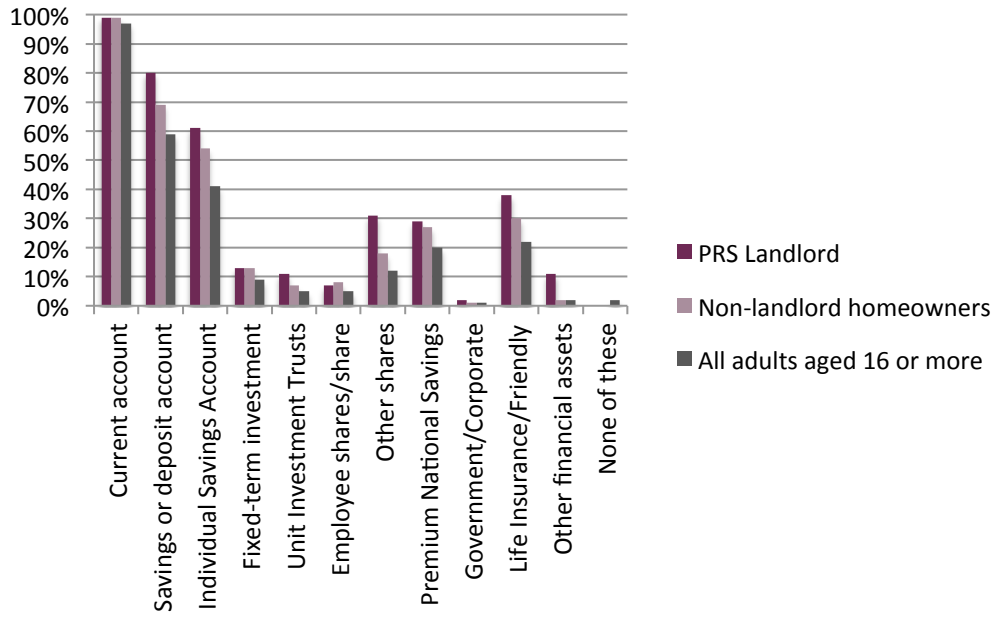


Average total net property wealth of PRS landlords for all properties (WAS: Wave 2)

FINANCIAL CHARACTERISTICS

What is the savings behaviour of private landlords?

Across all types of savings and investment product, private landlords are more likely to use such products than both non-landlord homeowners and the general population:



Types of liquid saving and investments held, (WAS: Wave 2)

Source: Understanding Landlords (2013)

Private landlords are more likely to have saved money in the preceding two years (68%), compared to non-landlords homeowners (57%) and the general population (48%).

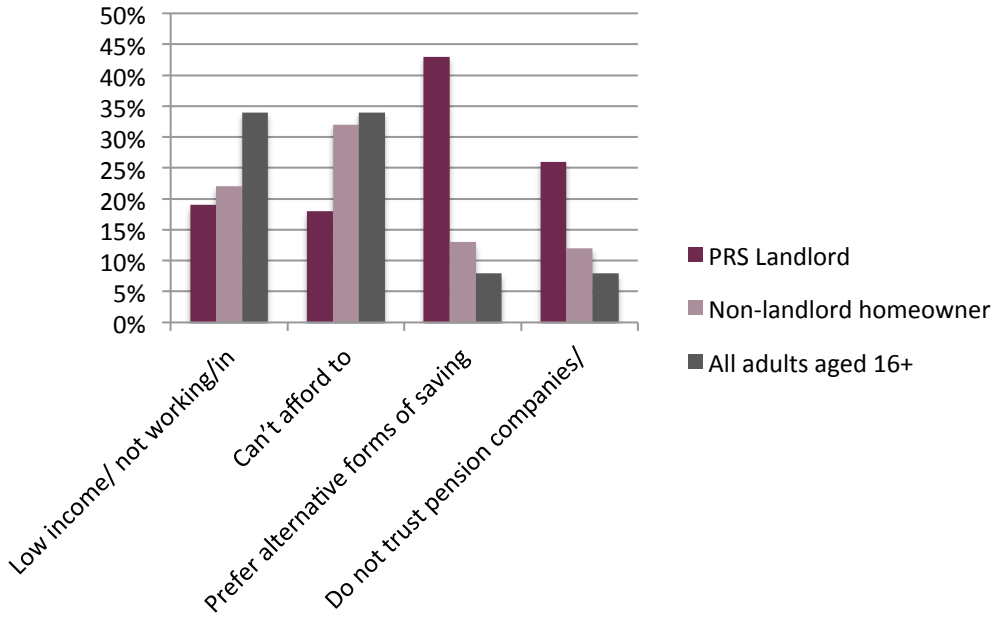
What is the pension savings behaviour of private landlords?

Among employed private landlords, there is little difference in eligibility for a pension scheme:

Whether eligible for occupational pension scheme	PRS Landlord	Non-landlord homeowner	All adults aged 16+
Yes	39%	41%	29%
No	61%	59%	71%

This suggests that participation in letting activity is not simply a response by private landlords to the non-availability of workplace pension saving as a means of building assets for retirement.

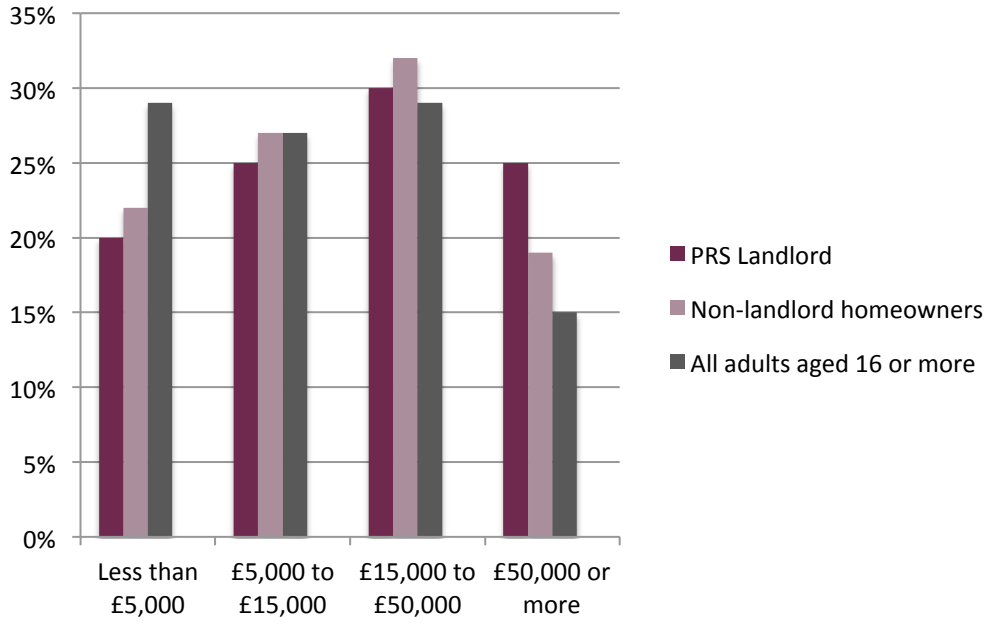
Among private landlords not participating in an eligible workplace pension scheme, there are some notable differences in the reasons cited as motivating their decisions, with the findings suggesting a particularly negative attitude to pensions among some private landlords.



Reasons for not saving into an eligible pension scheme (selected results) (WAS: Wave 2)

In relation to those landlords who are participating in pension saving, there is little difference between private landlords and other groups in terms of pension contribution levels as a proportion of income. Around 84% of private landlords contribute 5% or less of their income, compared to 85% of non-landlord homeowners and 90% of all adults.

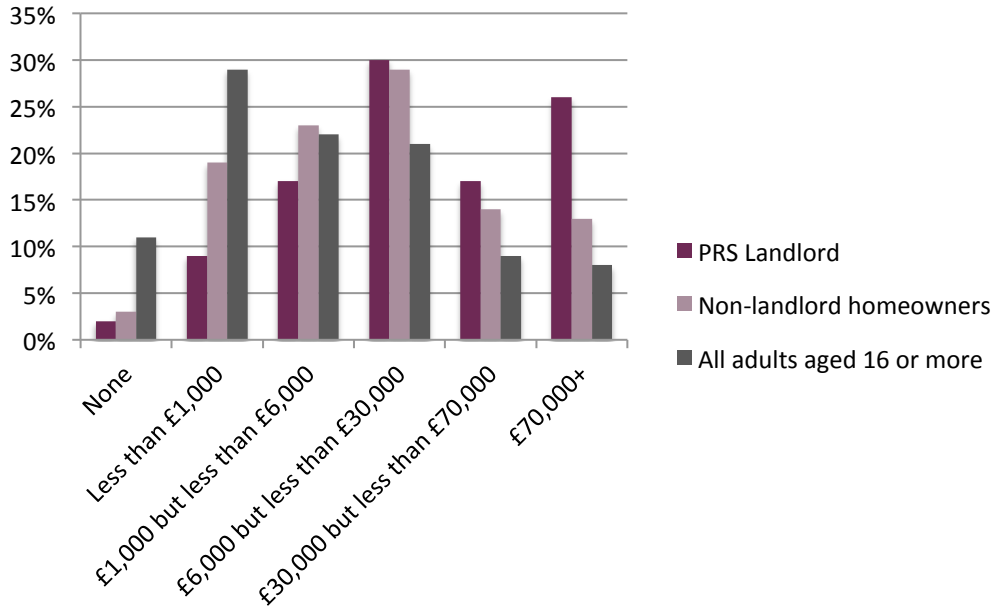
However, reflecting both life-stage and earnings levels, the total amount of defined-contribution pension saving among private landlords with this form of pension saving is notably higher than other groups:



Banded worth of Defined-Contribution pension, (WAS: Wave 2)

Source: Understanding Landlords (2013)

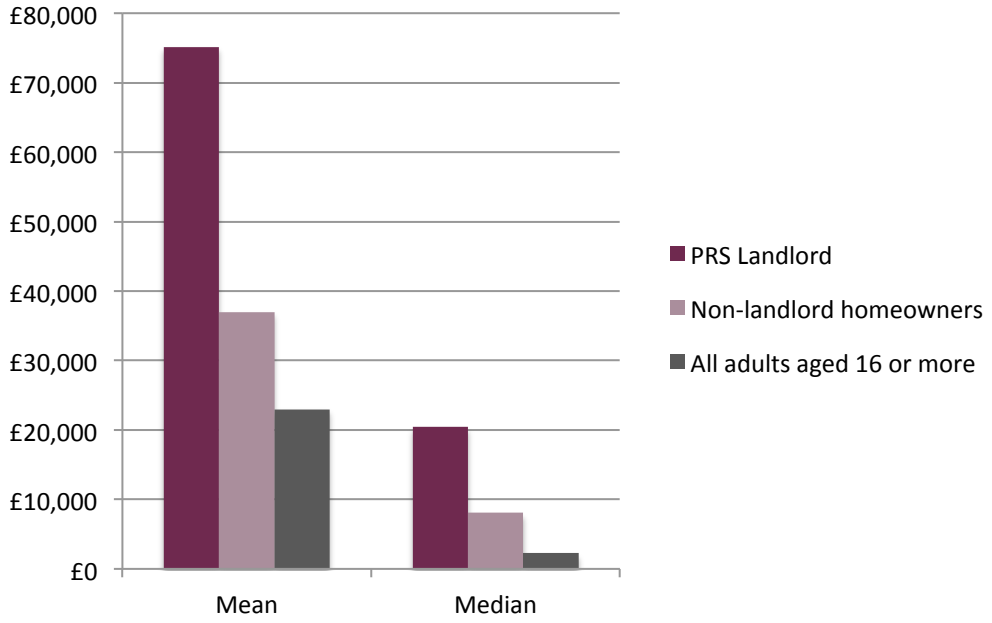
In terms of total financial assets (liquid savings, bonds, investments, etc.), private landlords appear wealthier than both non-landlord homeowners and the general population:



Total financial assets, (WAS: Wave 2)

Source: Understanding Landlords (2013)

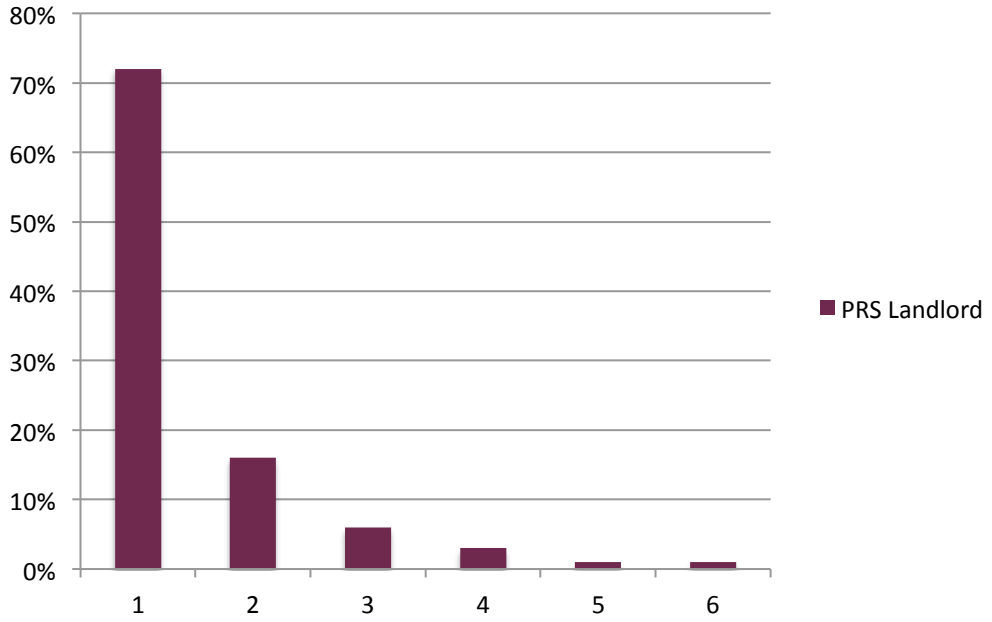
This can also be seen in differences in comparing median financial assets, although the significant difference between the mean and median financial assets of private landlords also suggests a high degree of inequality within the private landlord group.



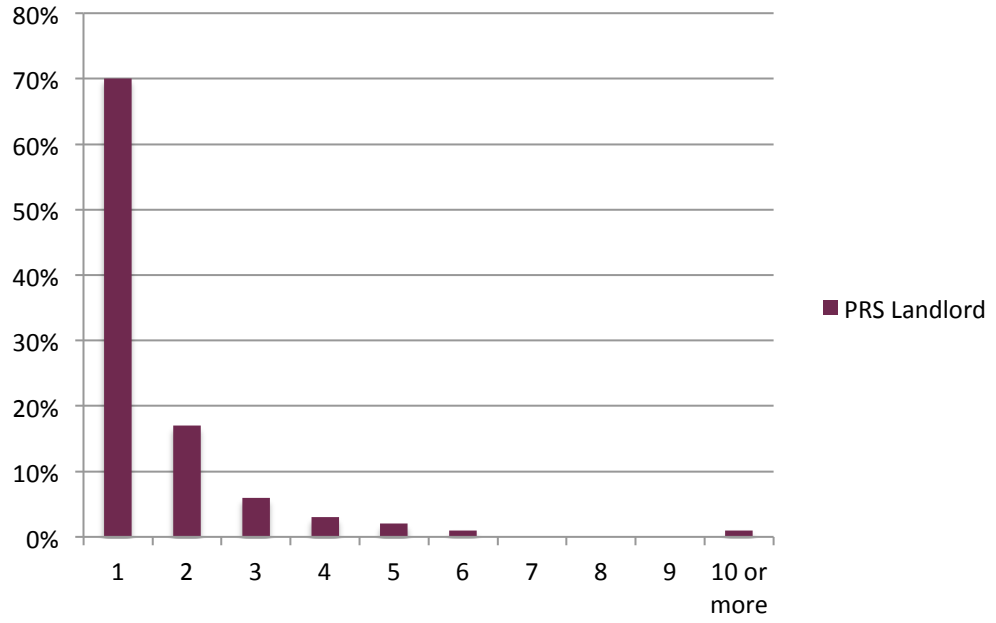
Average total financial assets, (WAS: Wave 2)

Letting activity by private landlords

Private landlords rent out properties other than the one that they live in, and the types of property can either be a 'buy-to-let' property or a 'second home'. When second homes and buy-to-let properties are considered together, just less than three quarters (72%) of all landlords own a single property apart from the home that they live in. Sixteen per cent of private landlords own two rental properties, with 6% owning three, and a further 6% owning four or more properties. This suggests that the majority of private landlords do not have a large portfolio of houses that they rent out, but instead let a single property. Most private landlords have a buy-to-let property (80%) and a quarter (24%) has a second home.



Total number of houses, apart from home lives in (combines second homes and buy-to-let homes), (WAS: Wave 2)



Number of buy-to-let properties, (WAS: Wave 2)

Whereas approximately a quarter (24%) of PRS landlords received less than £300 per month in rental income, the same proportion received £900 or more. The mean amount of rent received per month was £1,493, while the median was £500. This indicates that although approximately half of private landlords receive £500 or less per month, there are landlords who do receive substantially more.

Conclusion: Who are private landlords?

This chapter has sought to paint a picture of private landlords in the UK, using the detailed findings contained in Understanding Landlords, made possible by the availability of data from Wave 2 of the Wealth and Assets Survey.

Few preconceptions exist around private landlords in the general population and in the absence of previous research, many people may assume that the characteristics of private landlords are reflective of the wider population.

However, the picture that emerges from Understanding Landlords is different: it shows that private landlords are in a privileged position to other groups, whether in relation to earnings, wealth or the size of their homes. As subsequent chapters explore, landlords are also typically better educated than the rest of the population, and more likely to have grown up in owner-occupied homes themselves.

Although few private landlords could be considered ‘super rich’, even representing around 2% of the adult population, private landlords are notable for higher than average levels of earnings, liquid and property wealth, as well as the size of their homes.

Key points:

- Although representing 2% of the population, private landlords are in a privileged position compared to other social groups (including tenants) whether in relation to earnings, wealth or the size of their homes.
- Most private landlords have only one other property beside their main home.
- The median total net property wealth of private landlords is £333,999 and the mean is £479,598.
- The mean financial wealth of private landlords is £75,103 and the median is £20,500.
- Around one in three private landlords live in London and the South East.

3. Regulating Private Landlords and Letting

As an economic transaction between a landlord and tenant, letting in the PRS is subject to regulation by the state.

The relative balance of rights and responsibilities of landlords and tenants in relation to PRS letting varies considerably across different countries. The key dimensions of this balance of rights and responsibilities comprise:

- 'Minimum secure period' – this is the minimum period during which tenants cannot be evicted by their landlords, and tenants cannot give notice on their rented properties;
- Rent levels – this refers to restrictions on the way in which rent levels are adjusted during a rental contract, or beyond the minimum secure period.

Different countries operate very different systems for regulating their PRS. For example, the minimum secure period in England is zero months – although in practice, six months is the norm - compared to 'indefinite secure periods' in Germany (as England also had between 1965 and 1988). The following table demonstrates some of the cross-country variations observable:[3]

Country	Minimum Secure Period (years)
England	0.5
France	3
Ireland	3.5
Spain	5
Germany	No limit

More broadly, various other features of PRS letting represent a 'balance of interests' between landlords and tenants, such as:

- The balance between flexibility and security provided to landlords and tenants by the tenancy agreement;
- Responsibility for paying letting agent and other fees;
- Responsibility for organising maintenance of the property.

Evaluating the balance of interests in PRS letting in the UK

The relative balance of rights and responsibilities between private landlords and tenants in the UK is ultimately a political decision. It reflects judgements by policymakers taking into account multiple factors, including the financial position of private landlords and their commitment to letting on the one hand, as well as the financial position and stability of private tenants on the other. It also reflects the influence of lobbying by related tenant and landlord interest groups.

Various stakeholders have argued that the rights of private tenants in the UK are inadequate, and the implications of this are becoming more serious as more parents find themselves rearing children in the PRS. For example, a recent survey of over 4000 people living in the PRS in England found:

- 1 in 10 renting families have had to change their children's school due to moving, with moves causing stress and upset for some children;
- 10% of parents who had moved in the past five years said their children would prefer not to move and 13% said the move was stressful or upsetting for their child;
- 44% of parents feel their children would have a better childhood if they had more stability in their home;
- 1 in 10 families have moved because their landlord asked them to leave or gave them notice and 15% of families had moved because their previous accommodation was in poor condition.
- 13% of families have been forced to stay with family and friends whilst living between private rented homes
- 34% of families who have moved in the past five years said the move strained their finances. 22% of families have been forced to borrow money to pay their deposit and/or rent in advance.

Source: Albanese F (2013)[4]

Is the balance of rights and responsibilities between landlords and tenants in the UK the right one? Understanding Landlords included a range of findings that merit particular consideration in the context of this question.

Are private landlords attached to letting?

The findings of Understanding Landlords suggest private landlords are strongly attached to letting as an activity and see it as a long-term investment. The previous chapter identified negative attitudes to pensions among private landlords. This is reflected in the fact that:

- Around 63% of private landlords believe that investing in property will make the most money compared to 32% of non-landlord homeowners and 32% of the general population;
- Around 70% of private landlords expect to use selling or renting out property as a way of funding their retirement, compared to 68% who expect to use a pension;
- Around 36% of private landlords expect that selling or renting property will make up the largest part of their income in retirement, compared to 30% who think that a private pension will be their biggest income source, and 7% who think this will be the State Pension;
- Around 49% of private landlords believe that investing in property is the safest way of saving for retirement compared to 20% of non-landlord homeowners and 21% of the general population.

These findings suggest that most private landlords are strongly attached to letting as an investment activity. For example, many private landlords see letting property as a way of saving for retirement, even as it has significant implications for the long-term retirement saving of private tenants, which are explored in subsequent chapters.

How financially secure are private landlords?

The preceding chapter identified that private landlords are typically better off than both non-landlord homeowners and the general population:

- The median amount of financial assets (savings, liquid investments, etc.) among private landlords is £20,500 and the mean is £70,103. The equivalent figures for private tenants are £398 and £9,506;
- After taking account of all mortgage debts on their properties, the median total net property wealth of private landlords is £333,999 and the mean is £479,598.

These findings and the analysis presented in the previous chapter make it clear that compared to non-landlord homeowners, tenants and the wider adult population, the overall financial position of private landlords is notably strong.

Are landlords reliant on letting for their income?

For around one in three private landlords, rental income makes up more than 80% of their total income. However, even when a large proportion of landlord's income comprises rental income, this does not mean they are wholly reliant on rental income. For example, someone in full-time employment who rents out a large house they inherited without any mortgage debt may not be reliant on their rental income to maintain their standard of living.

Nevertheless, some landlords may rely on rental income, whether because they are unemployed, or effectively treating letting multiple properties as their employment.

Are landlords struggling to make ends meet?

Although the overall wealth of private landlords be may higher than other groups, some may nevertheless be struggling with liquidity or income shortfalls, i.e. their income may not meet their expenditure requirements. The data analysed for Understanding Landlords was collected during 2008-10, but a clear picture still emerges.

A similar proportion (1%) of private landlords are behind with their bill repayments as non-landlord homeowners. Among the 14% of private landlords with a personal loan, none report being behind with their loan repayments and 78% report the repayments are not a burden at all.

By comparison, among the 24% of private tenants with a personal loan (of which 20% have a student loan), around 9% are behind with payments and 52% report that repayments are a burden.

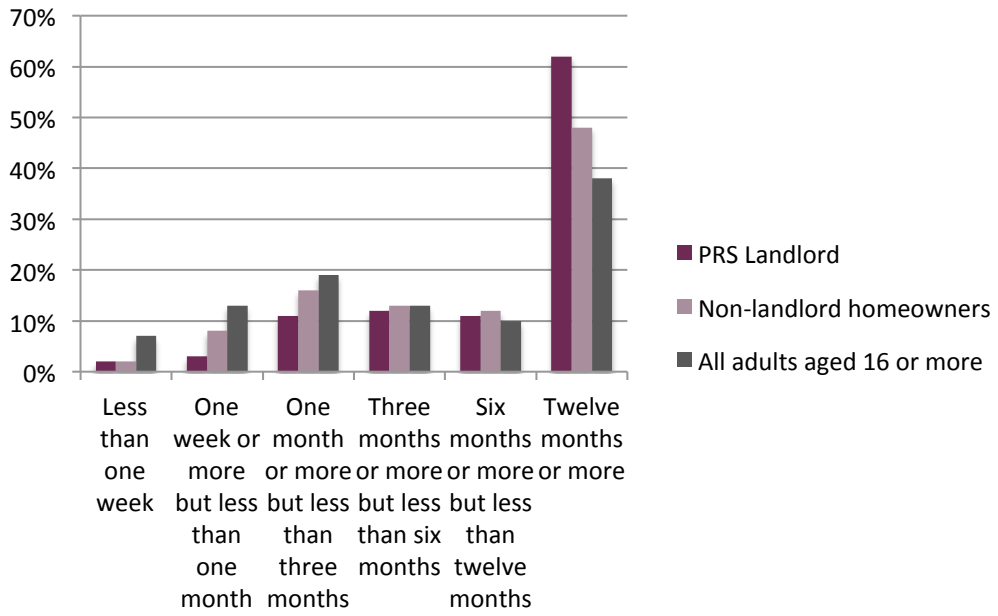
A similar picture is found in relation to keeping up to date with mortgage payments on their main home. As the previous chapter observed, private landlords typically have larger mortgages on their main home, as well as any buy-to-let mortgage(s) on rental property. However, among private landlords with a mortgage, 58% report that mortgage repayments are not at all a burden compared to 49% of non-landlord homeowners.

Overall, 71% of private landlords report that they are keeping up with all bills and credit commitments without any difficulty, and a further 21% report they are keeping up but it is a struggle from time to time. As a comparison, the equivalent figures for non-landlord homeowners are 63% and 26%, but the figures for private tenants are only 36% and 37%, suggesting more private tenants find their financial commitments, such as rental payments, a burden.

In relation to overall income and outgoings, around 78% of private landlords report that their income is enough to meet the cost of their everyday outgoings, compared to 42% of non-landlord homeowners and 47% of the adult population. Indeed, 52% of private landlords report they always or most of the time have money left over at the end of the week, compared to 48% of non-landlord homeowners and 40% of the adult population.

Could private landlords cope with a reduction in their income?

Compared to other groups, it appears that private landlords would be better able to cope with a 25% cut in household income:



If household income dropped by a quarter, for how long would be able to make ends meet (WAS: Wave 2)

Source: Understanding Landlords (2013)

In fact, it appears that around two out of three landlords would be able to cope permanently with a 25% reduction in their income.

Could policymakers improve the rights of private tenants relative to landlords?

These findings suggest that in addition to being significantly wealthier than private tenants, most private landlords:

- Are strongly attached to letting as an activity;
- Are financially secure, both in terms of their net total assets and their financial income and expenditure;

- Would be able to cope with a 25% reduction in their income without any difficulty.

Rather than being financially insecure, it appears most private landlords could absorb and accept a significant strengthening of tenant rights - for example, in relation to minimum secure periods and rent controls – that might reduce the profitability of their letting activity. This would suggest that that any changes to the regulation of private letting that favour tenants over landlords would not result in significant numbers of private landlords either leaving the private or struggling financially.

In the context of policy debate on the regulation of the PRS in the UK, various proposals for reform have been put forward that would strengthen the position of tenants. For example, one UK housing charity has proposed a 'Stable Rental Contract' to:[5]

- Give renters five years in their home during which they could not be evicted without a good reason
- Allow landlords to increase rents annually by a maximum of CPI during the five years
- Give renters the chance to decorate their home as long as they return it to neutral afterwards
- Allow renters to give two months' notice to end the tenancy
- Hive landlords the right to end the tenancy if they sell the property.

Interestingly, in London – characterised by a large rental population and high rents – political debate on the future of private renting has countenanced radical reforms to tenant rights, which may provide an indication of how future political debate will evolve if current tenure trends continue. A 2013 report from members of the London Assembly called for:

- Rent stabilization - an effective mechanism to stabilise rents;
- Landlord registration: landlords must have to register in order to operate in London;
- Longer tenancies: homeless households placed in the private rented sector should have at least 24-month tenancies – and longer for families with children – instead of the current 6-month minimum.

Source: London Housing and Regeneration Committee (2013)[6]

Conclusion

This chapter has considered detailed evidence on the financial position and resilience of private landlords in the context of policy debate on the balance of rights and responsibilities between landlords and tenants in the PRS.

There is not space here to evaluate in detail specific proposals for reforming this balance of rights and responsibilities. Nevertheless, the findings of Understanding Landlords suggest there is significant scope to enhance the rights of tenants without either endangering the financial security of landlords or driving them from the sector.

Recommendations

- **Private landlords are financially secure, are not struggling to make ends meet and are strongly attached to letting as an investment activity, so policymakers should feel confident to improve the position of private tenants in relation to their rights and responsibilities.**

Key points:

- In addition to being significantly wealthier than private tenants, most private landlords are strongly attached to letting as an activity, are financially secure, both in terms of their net total assets and their financial income and expenditure, and would be able to cope with a 25% reduction in their income without any difficulty.
- As such, it appears that most private landlords could absorb a significant strengthening of tenant rights - for example, in relation to minimum secure periods and rent controls – that might reduce the profitability of their letting activity.
- The findings of Understanding Landlords suggest that that any changes to the regulation of private letting that favour tenants over landlords would not result in significant numbers of private landlords either leaving the private or struggling financially.

4. Landlords, Homeownership and Aspiration

All mainstream political parties in the UK espouse the promotion of home ownership as a policy objective.

This is unsurprising: given a choice between owning and renting, polling of the public has found 85% have a preference for owner-occupation, and it is the favored tenure among those buying on a mortgage (92%), those owning their property outright (93%), private renters (79%) and social housing tenants (64%). Owner-occupation was also found to be the preference among all age groups, and 79% of those aged 16-34 currently renting in the private sector would choose to buy in preference to renting. (Source: Ipsos MORI, 2011)[7]

The political promotion of home ownership also reflects the crucial role that owner-occupation has in determining the success of other policy areas, notably pension policy and housing benefit.

This chapter explores the public policy arguments for promoting home-ownership, and what the findings of Understanding Landlords suggest for the effectiveness of government policy seeking to boost rates of owner-occupation.

What are the public policy arguments for promoting homeownership?

There are a number of reasons why maximising sustainable rates of owner-occupation across the population (i.e. individuals who could expect to remain on the 'property ladder' for the long-term and would be at low-risk of foreclosure) is coherent with wider public policy objectives:

- Fiscal sustainability - the cost of Housing Benefit to the Exchequer

The principal policy rationale for promoting home ownership is economic - the cost to the Exchequer of paying means tested Housing Benefit to individuals renting their home, in particular: pensioners.

The average value of Housing Benefit during 2009-10 received by the by 1.48 million UK pensioners in receipt of this form of income support was £69 per week. The total cost to the Exchequer for that year was £5.32 billion (Source: DWP, 2012).

Importantly, very few pensioners have private pension incomes sufficient to meet all their rental costs in retirement. If a larger proportion of pensioners rent in future, combined with increasing longevity and a larger older population, this will increase the cost of Housing Benefit to the Exchequer considerably.

Previous estimates from the Strategic Society Centre noted that by the time that someone aged 20 in 2010 has reached the age of 70 in 2060, the number of pensioners in the UK will have increased from 12.6 million to 18.8 million.[8]

Using these figures, and projections on rates of owner-occupation in future, the Centre estimated by 2060, there will be 3.76 million pensioners claiming Housing Benefit, and the UK Exchequer will have to spend an extra £8.13 billion on Housing Benefit for pensioners compared to today, totalling around £13.45 billion each year.[9] In short, allowing rates of owner-occupation across the population to drift downwards will impose significant long-term costs to the Exchequer.

As such, there are strong fiscal reasons for UK policymakers to target the maximum sustainable rate of owner-occupation across the population, in order to minimise the cost to the Exchequer of paying Housing Benefit to pensioners.

- Pension policy: ensuring workers are not made worse off by saving for retirement

Individuals who do not get on to the 'property ladder' and who therefore expect to rent during retirement have significantly reduced incentives to save into a pension, because any pension income they receive will have to be used toward their rental costs in retirement, thereby displacing the means tested Housing Benefit they would have received.

For example, if someone has a private pension income in retirement of £50 per week having saved consistently throughout their working-life, but pays £70 per week during retirement in rent, they will have to contribute up to £50 per week of this pension income toward their rent, and will only receive means tested Housing Benefit for the remaining £20 per week rental cost. If this person had not saved for retirement, their £70 per week rental costs would have been met entirely by Housing Benefit from the state.

In short, individuals who expect to rent during retirement have very diminished incentives to save into a pension, and in fact, are likely to be made substantially worse off overall through doing so. This is particularly significant in the context of the government's 'auto-enrolment' reforms to workplace pension saving, launched in 2012, which are seeking to nudge millions of low-income workers into pension saving for the first time.[10]

- The role of housing wealth in funding retirement

As well as providing a home, owner-occupation gives individuals an asset which they can use to fund their retirement income needs, whether via downsizing to release capital, or using an 'equity release' product (effectively a 'reverse mortgage').

However, if in future fewer individuals own their home, a smaller proportion of pensioners will be able to release capital from their home to fund their retirement. This is important not just to individuals, but would also be likely to have implications for other areas of public policy, notably, the local authority long-term care funding system, which in future may have to fund the care of more individuals with long-term care needs if rates of owner-occupation are lower.

- Social capital, community and home-ownership

Academic researchers have long investigated whether home-ownership is associated with higher levels of 'social capital' at the community level, i.e. the development of stronger social bonds and cooperation between individuals and groups. In research terms, such studies have always struggled to control for other effects, i.e. for the possibility that the kinds of people who are homeowners are also more likely to have higher levels of social capital. Nevertheless, where researchers have been able to control for such 'selection effects', positive correlations between home-ownership and social capital have been found.[11] In a similar vein, researchers have also identified correlations between home-ownership and community participation.[12]

As such, given improving social capital and community bonds is widely espoused by politicians as a policy objective, this would appear to be helped by lifting rates of owner-occupation.

- Mental health and wellbeing

Academic research has also investigated the link between home-ownership and mental health, and found that low-income homeowners report a greater sense of control and better mental health than comparable renters.[13] In the emerging field of wellbeing, researchers have also found an association between owner-occupation and levels of wellbeing.[14]

- Home-ownership and long-term care

Social science researchers have investigated whether those individuals who own their own home are less likely to move into costly residential care, because of a desire to stay in their own home and greater scope to undertake housing adaptations. For example, a Dutch study investigated the relationship between homeownership and moves into residential care using longitudinal data, controlling for health status, presence of a partner and children, neighbourhood, and housing.[15] The study found that homeowners were less likely to move into residential care.

Home-ownership: the reality

Despite these strong policy arguments for maximising sustainable rates of owner-occupation across the population, the reality is – as set out in Chapters 1 and 2 – the proportion of households living in the PRS has increased steadily over the last decade, and data from the British Households Panel Survey (BHPS) suggests the number of private landlords as a proportion of the population more than doubled between 1991 and 2008.

How do private landlords affect the policy objective of maximising rates of home-ownership?

The preceding section set out the multiple areas of public policy with an interest in maximising the sustainable rate of owner-occupation across the population, beginning with fiscal policy.

A key factor contributing to the decline in owner-occupation over the last decade in the UK is homes being transferred into the private rental sector by landlords. This typically occurs via:

- Direct inheritance - private landlords inheriting properties which are then let out;
- Cash - private landlords purchasing new-build or older homes without a mortgage using cash they have inherited or have taken from other savings or investments;
- Mortgage - private landlords using buy-to-let mortgages to purchase new-build or older homes.

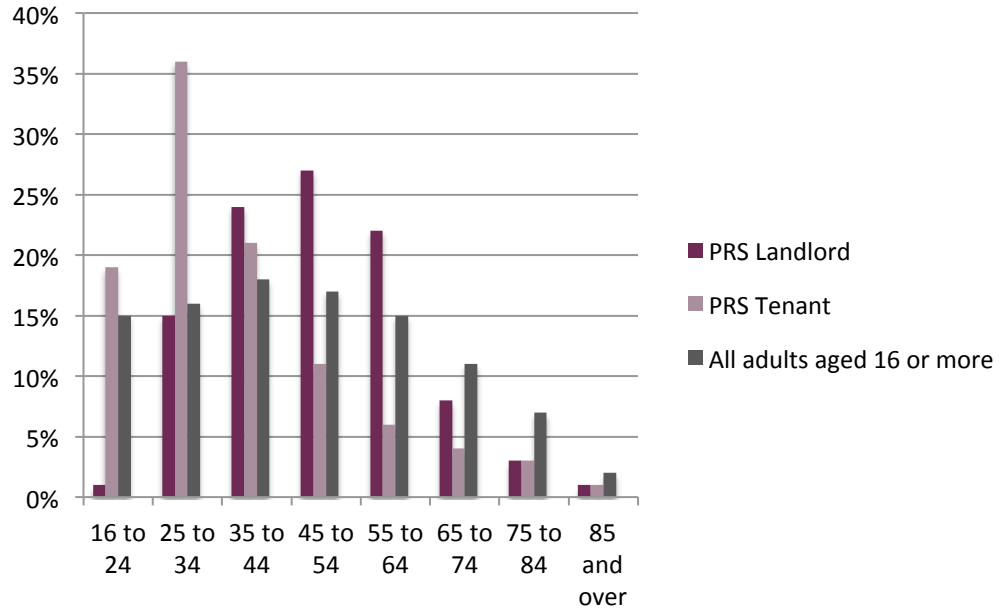
In fact, buy-to-let mortgage lending comprises a significant proportion of mortgage lending in the UK. There are around 1.46 million buy-to-let mortgages in the UK, accounting for around 13% of the total estimated stock of 11.26 million mortgages, and by the end of March 2013 buy-to-let lending accounted for 13.4% of total outstanding mortgage lending in the UK (Source: Council of Mortgage Lenders). To provide historical context: in 2002, buy-to-let mortgages accounted for 5% of all mortgages, but this had risen to 17% by 2007. Over the same period, mortgage lending for owner-occupation declined from 95% of all mortgages to 83%.[2]

Why are homes bought by private landlords rather than those renting?

The growth of the PRS over the last decade begs the question: why has this transfer of homes out of owner-occupation and into the PRS occurred?

Properties are frequently sold to private landlords rather than those renting (first-time buyers) for the simple reason that private landlords are frequently able to outbid renters in a competitive housing market. In this context, it is important to review the findings of Understanding Landlords comparing the financial characteristics of private landlords and tenants. First, given the life-stage nature of earnings and wealth, it should be noted again that private tenants are typically younger than landlords:

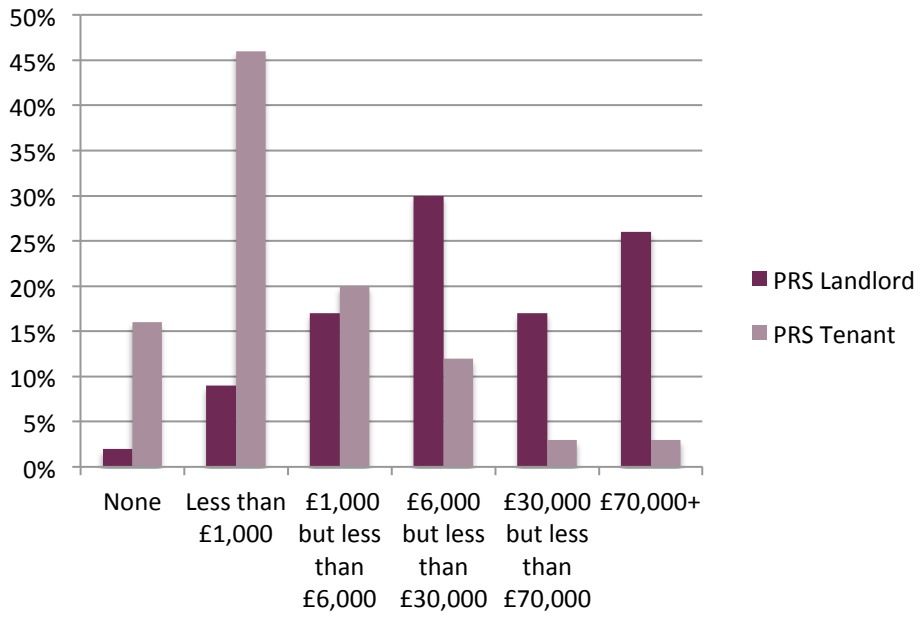
Age range, (WAS: Wave 2)



Source: Understanding Landlords (2013)

[2] Source: Rugg J and Rhodes D (2008) The Private Rented Sector, Table 2.2: UK mortgage advances, 2002-07

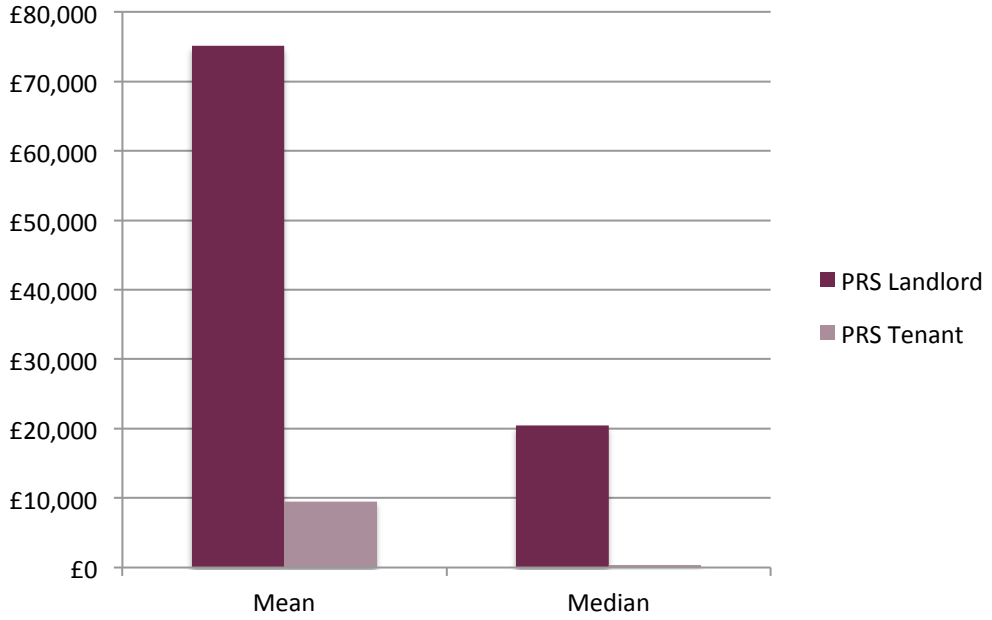
This difference in age profile is important because private tenants, as younger households may have lower salaries, and may typically have had less opportunity to build up savings for a deposit to fund a house purchase. Indeed, the total financial wealth of private landlords is typically higher than that of private tenants:



Total financial wealth, (WAS: Wave 2)

Source: Understanding Landlords (2013)

These differences in financial characteristics can also be seen by comparing the mean and median net financial assets of private landlords and private tenants:



Average financial wealth, (WAS: Wave 2)

Source: Understanding Landlords (2013)

This difference in financial wealth between private landlords and private tenants could be termed the 'equity advantage' of private landlords in a competitive housing market, and is important to understanding the growth of the PRS over the last decade.

Will rising earnings for private tenants be enough to get them on to the property ladder?

It is important to explore how rising earnings among private tenants, whether arising from economic growth or investment in skills and education, can never be sufficient to overcome the equity advantage of private landlords in the context of a competitive housing market and the availability of buy-to-let mortgage lending to private landlords.

To illustrate this point, the following, simplified case study can be used:

> John is an average private landlord and Peter is an average private tenant. John is 48 and has £70,000 in financial assets. Peter is 32 and has £10,000 in savings and other financial assets, and has net earnings of £1,500 per month.
>
> John and Peter are competing to purchase the same house – 29, Acacia Road. Peter applies for a mortgage, and can afford to pay up to £200,000.
>
> John applies for a buy-to-let mortgage, and on the basis of being able to rent the property out to individuals like Peter, secures a mortgage and is able to pay £210,000 for the property. So, 29, Acacia Road is sold to John, and John then lets out the property to Peter.
>
> Now imagine that before setting out to purchase a home, Peter undertook some additional educational qualifications, and as a result his net earnings are higher: £1,800 per month.
>
> Once more, John and Peter are competing to purchase the same house – 29, Acacia Road. Peter applies for a mortgage, and with his higher income of £1,800 per month, he can afford to pay up to £210,000 for the property.
>
> However, because Peter is earning more, the rental income that John can obtain from 29, Acacia Road is also higher. On this basis, his mortgage lender is willing to lend John more as a buy-to-let mortgage, and as such, John is able to pay £220,000 for the property.
>
> So, despite Peter's investment in his education and skills, and his ensuing higher earnings, in practice, this simply means that John is able to borrow more to purchase the property, which he then rents to Peter.

This stylized example of the operation of the 'equity advantage' shows how, in the context of substantial disparities in wealth between them, private landlords will always be able to outbid private tenants. In particular, rising earnings among private tenants will never be adequate to 'outbid' private landlords, because higher earnings among private tenants simply mean that private landlords are able to obtain higher-value buy-to-let mortgages. It is also important to note that the overall financial position of private landlords is typically far superior to that of tenants, and landlords may be more likely to have better credit scores, and therefore access to credit, in addition to large deposits. Put simply, given the choice between lending a mortgage to John or Peter, banks may be more likely to prefer to lend to John.

This also potential reduces incentives to invest in education and skills by young people, which is particularly significant in the context of the long-term aim in English higher education for the government to transfer more of the cost of a university degree on to students themselves.[16]

What does the 'equity advantage' means for government policy to encourage home-ownership through increasing the supply of new homes?

In response to declining rates of owner-occupation, rising house prices and the difficulty experienced by young people in getting on the 'housing ladder', it is frequently argued that the government should stimulate greater house building, i.e. bring down house prices for first-time buyers by increasing supply.

The government does not produce any data on the proportion of new-build homes which are bought for the purposes of letting. However, in the context of the 'equity advantage' of private landlords, it is clear that greater house building is unlikely to ever be adequate to increase rates of owner-occupation because many private landlords will always be able to outbid first-time buyers. In some respects, government policy already recognises this outcome, such as the Help to Buy equity affordable housing scheme for new-build homes.

Nevertheless, despite the operation of such temporary schemes, the conclusion is clear: **in the absence of restrictions to private landlords to buying new-build homes, boosting the supply of new homes will be undermined as a policy to enable first-time buyers to get on the housing ladder.**

How can the government ensure that new-build homes are kept out of the PRS?

This poses a challenge to the government: how can it ensure that rather than private landlords, new-build homes are bought by first-time buyers and other owner-occupiers? Various options are available to the government, including:

- 'New-build buy-to-let mortgage moratorium' – the government could introduce a long-term moratorium on the purchase of new-build homes with buy-to-let mortgages;
- 'Three-year rule' - a three-year rule (or other such period) during which short-term tenancy agreements cannot be drawn up in relation to homes that are less than three years old, which would constrain cash-purchases of new-build homes by private landlords.

Both of these measures would ensure that a greater proportion of new-build homes are purchased for owner-occupation. Importantly, these measures would release housing stock in the PRS, thereby improving affordability and choice for private tenants.

Where such measures reduced the sustainability of new-build developments in a way that may risk future supply and development, the government could use tax incentives and other policy levers to ensure new homes were built, offsetting such costs against lower future Housing Benefit expenditure resulting from higher rates of owner-occupation. Alternatively, the government could ensure more new build homes are available on a 'shared ownership' basis with a housing association.

Beyond new-build homes, how can the government help people on to the property ladder given the 'equity advantage' or private landlords?

Relatively few new homes are built each year so the measures described above would only have limited effect on rates of owner-occupation. Ultimately, if the government wishes to promote home-ownership, in the context of the 'equity advantage' of private landlords, other policies will have to be deployed in relation to the existing housing stock.

In order to reduce the number of homes sold to buy-to-let landlords, the government could impose restrictions on the proportion of mortgage lending made to landlords by banks to purchase owner-occupied homes: a 'buy-to-let lending cap'.

For example, preventing banks from allocating more than 5% of their mortgage lending to buy-to-let mortgages would restrict the availability of credit to private landlords. Where demand for buy-to-let mortgage lending exceeded supply, banks would be able to increase the interest costs charged to buy-to-let landlords, which in turn could be used to cross-subsidise cheaper interest rates charged on other types of mortgage lending for first-time buyers and owner-occupiers.

However, given that some private landlords inherited the properties they rent out or purchase them with cash, it is unlikely that only regulating buy-to-let mortgage lending would be adequate to improve rates of owner-occupation in the face of the 'equity advantage' of private landlords.

As such the government may also want to consider other measures relating to the investment returns and incentives for private landlords, such as reviewing the capital gains tax applied to second homes, or the taxation of rental income.

Recommendations

Given the overwhelming policy rationale for maximising rates of sustainable owner-occupation across the population, as well as the substantial wealth disparities between private landlords and private tenants, it appears that in the absence of restrictions to private landlords to buying new-build homes, boosting rates of new home building will be undermined as a policy to improve affordability to first-time buyers and lifting rates of owner-occupation.

For this reason, the government should:

- **Produce bi-yearly data on what proportion of new-build homes are being sold into the PRS;**
- **Implement a 'new-build buy-to-let mortgage moratorium', preventing the purchase of new-build homes with buy-to-let mortgages for the foreseeable future;**
- **Implement a 'three-year rule', such that short-term tenancy agreements cannot be drawn up in relation to homes that are less than three years old;**
- **Implement a 'buy-to-let lending cap' on the proportion of mortgage lending by banks that can be distributed as buy-to-let mortgages for purchasing owner-occupied housing;**
- **Review the wider financial incentives and investment returns available to private landlords via the rental sector.**

Key points:

- There are strong policy arguments to maximise sustainable rates of owner-occupation across the population relating to: fiscal policy, pension policy, the role of housing wealth in funding retirement, social capital and community bonds, mental health and wellbeing, as well as use of long-term care.
- Despite these strong policy arguments for maximising sustainable rates of owner-occupation across the population, the reality is – as set out in Chapters 1 and 2 – the proportion of households living in the PRS has increased steadily over the last decade, and data from the British Households Panel Survey (BHPS) suggests the number of private landlords as a proportion of the population more than doubled between 1991 and 2008.
- Given the difference in financial wealth between private landlords and private tenants - what could be termed the 'equity advantage' of private landlords in a competitive housing market, boosting rates of new home building will be undermined as a policy to improve affordability to first-time buyers.
- For these reasons, the government should:

    - Produce bi-yearly data on what proportion of new-build homes are being sold into the PRS;
    - Implement a 'new-build buy-to-let mortgage moratorium', preventing the purchase of new-build homes with buy-to-let mortgages for the foreseeable future;
    - Implement a 'three-year rule', such that short-term tenancy agreements cannot be drawn up in relation to homes that are less than three years old;
    - Implement a 'buy-to-let lending cap' on the proportion of mortgage lending by banks that can be distributed as buy-to-let mortgages for purchasing owner-occupied housing;
    - Review the wider financial incentives and investment returns available to private landlords via the rental sector.

5. Wealth Transfers, Social Mobility and Inequality

Previous chapters set out the characteristics of private landlords in the UK and explored the implications for the regulation of the PRS and policy objectives around public spending and pensions.

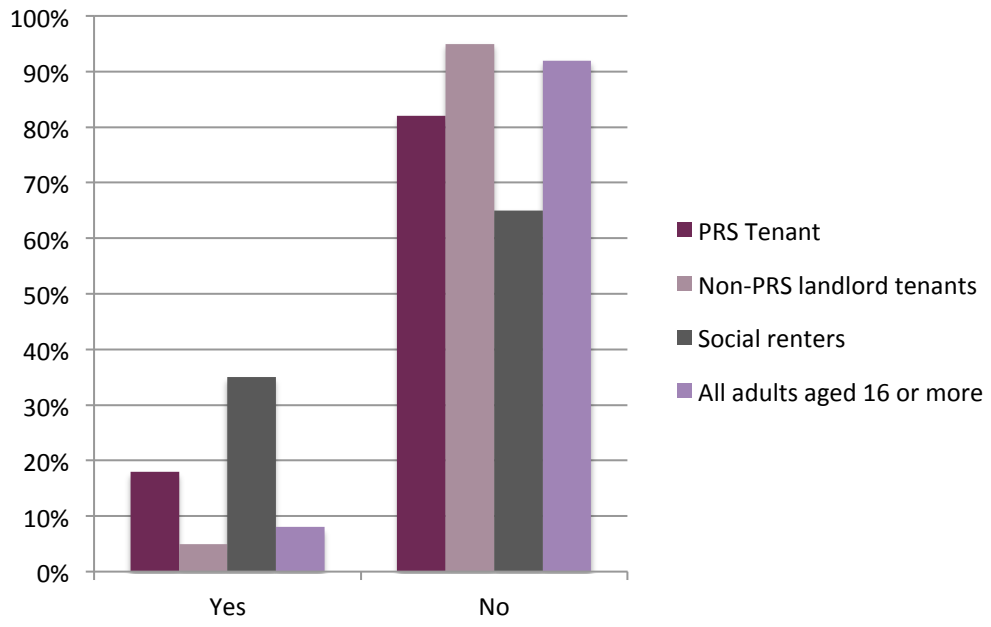
This chapter explores the insights of Understanding Landlords for social mobility and wealth distribution across society, specifically:

- The transferral of wealth between different groups in society;
- Wealth inequality in society;
- Social mobility.

To what extent does the PRS transfer wealth between different groups in society?

Renting in the private sector is a financial transaction between a landlord and tenant. However, a tenant's income may include means tested Housing Benefit (Local Housing Allowance) paid from the state. In recent years, the transfer of money from taxpayers to private landlords via Housing Benefit has caused concern among politicians about landlords "getting rich off the state" From a taxpayer point of view, this may be considered particularly pernicious when such money is paid to landlords letting poor quality accommodation.

In fact, only around one in five private tenants receive Housing Benefit:



Receipt of Housing Benefit by type of tenants, (WAS: Wave 2)

Source: Understanding Landlords (2013)

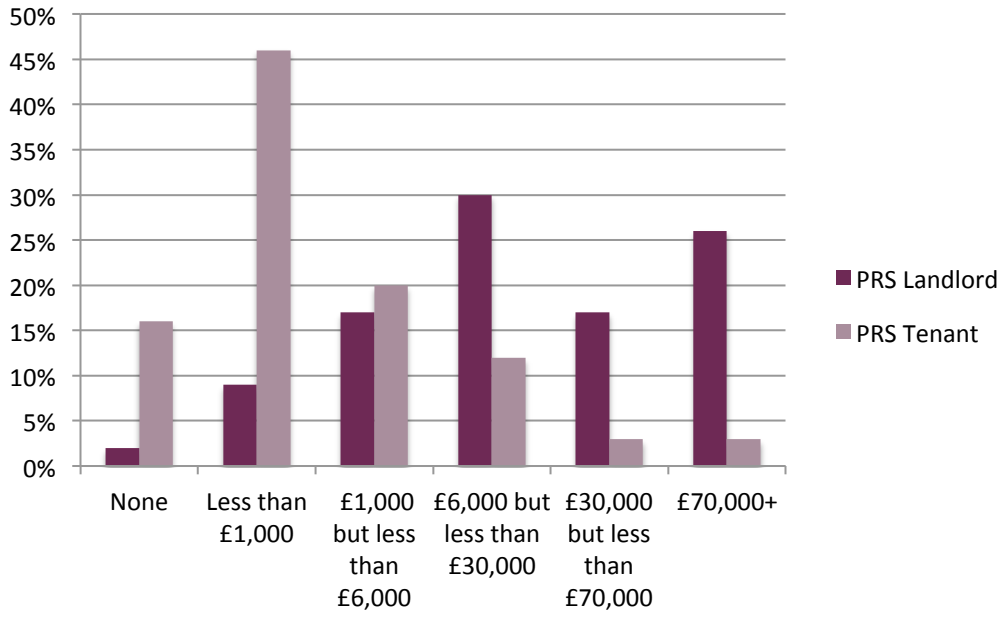
As such, for around 80% of private tenants, the rent paid to their landlord represents a financial transfer from their private income and wealth, rather than from taxpayers.

In this way, we can see that for the majority of private tenants, the functioning of the PRS effectively transfers the private income and wealth of one group – private tenants – to another, i.e. private landlords. Most private landlords are not "getting rich off the taxpayer", but instead receive transfers of income and wealth from tenants, who are significantly poorer than they are.

In what ways are the income and wealth of private landlords and tenants different, and what are the implications for inequality?

If private landlords were typically poorer than private tenants, the functioning of the PRS would reduce inequality in society.

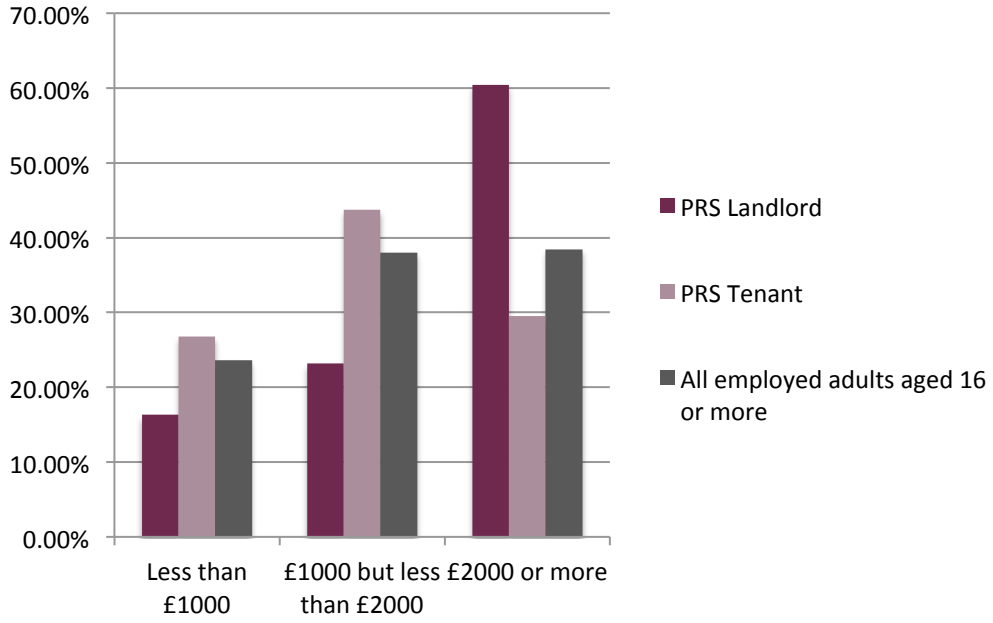
However, the opposite scenario is observable: private tenants are significantly less well off than private landlords. The most significant financial difference between private landlords and tenants is financial wealth, as the following chart shows:



Total financial assets, (WAS: Wave 2)

Source: Understanding Landlords (2013)

Differences can also be seen in relation to gross monthly earnings:



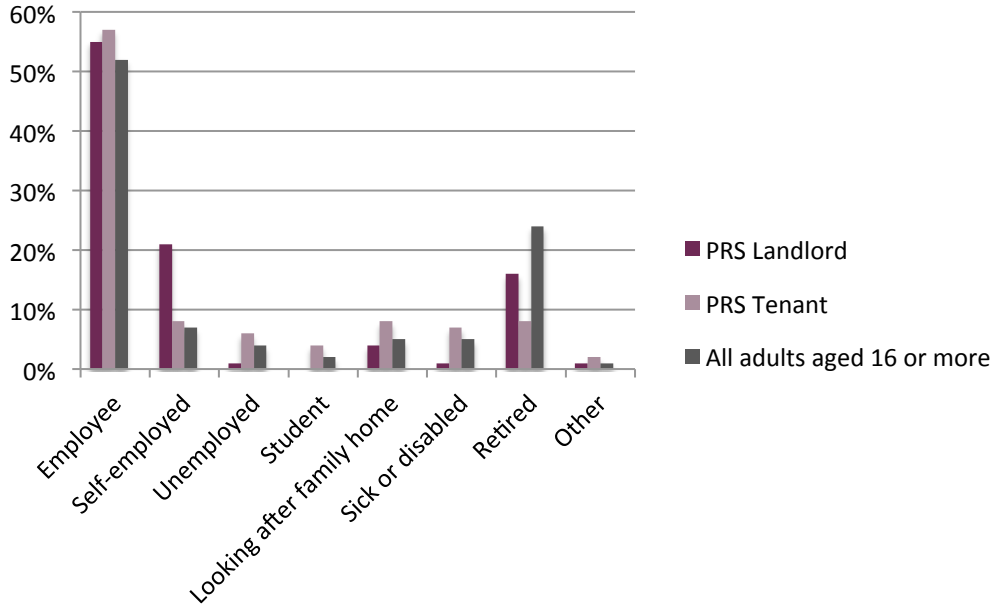
Monthly gross earnings, (WAS: Wave 2)

(employees only)

Source: Understanding Landlords (2013)

Are differences in income and wealth simply the result of educational, employment and other socio-economic differences between private landlords and private tenants?

No. Besides age, income and wealth, the characteristics of private tenants and private landlords are surprisingly similar in several respects. Indeed, the majority of private tenants are in employment and earning an income and there is very little difference to PRS landlords, except in relation to rates of self-employment and retirement:



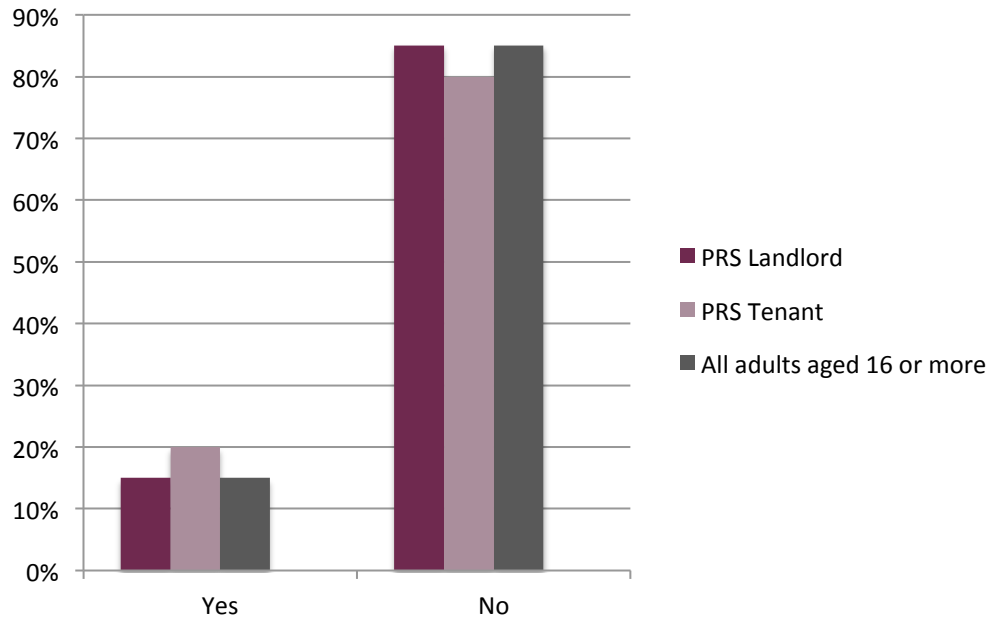
Employment status, (WAS: Wave 2)

Source: Understanding Landlords (2013)

Importantly, the findings of Understanding Landlords suggest that a significant proportion of private tenants are in secure, paid employment and could therefore aspire to home

ownership. Only around 25% of private tenants are either unemployed, a student, caring for someone, or sick and disabled, compared to 6% of private landlords.

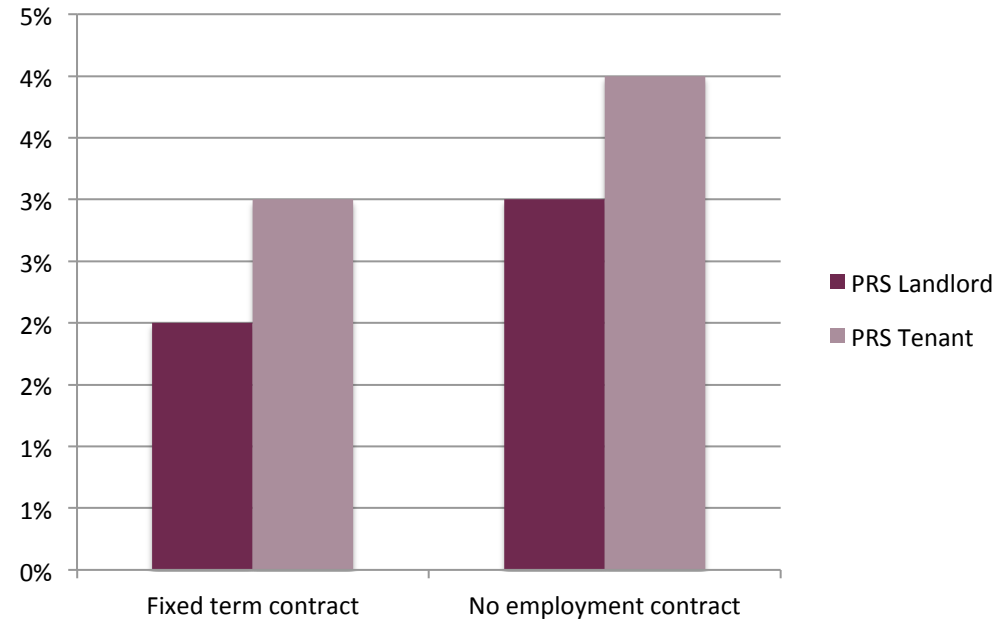
In addition, employed private tenants are only slightly more likely than private landlords to have experienced unemployment during the last two years:



For those working: any periods of unemployment during previous two years, (WAS: Wave 2)

Source: Understanding Landlords (2013)

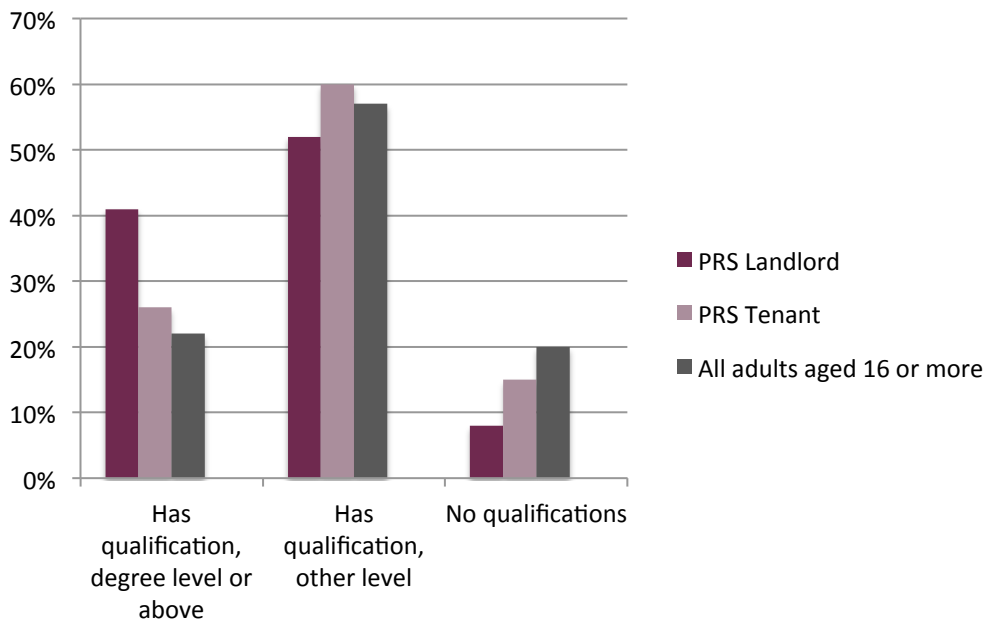
In terms of employment security, a very small proportion (3%) of employed private tenants were on a fixed term contract, and 4% had no employment contract, i.e. were working semi-informally. However, such proportions are very similar to private landlords:



For those working as employee: whether permanent contract, (WAS: Wave 2)

Source: Understanding Landlords (2013)

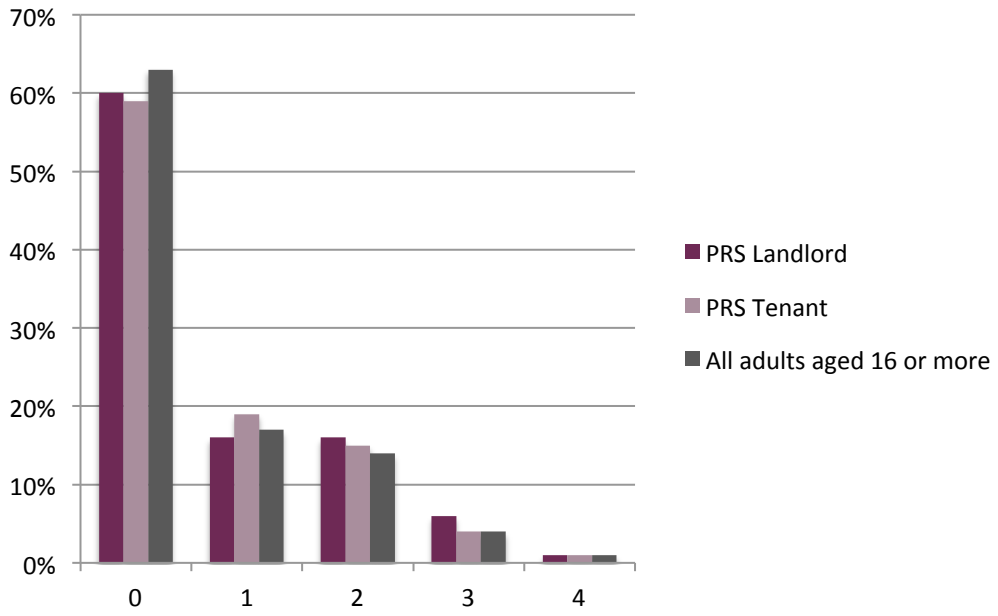
Employment and earnings are linked to level of education. Here it is interesting that both private tenants and landlords tend to be better educated than the rest of the population:



Level of education, (WAS: Wave 2)

Source: Understanding Landlords (2013)

Overall, these findings contradict an observation frequently made in relation to private tenants: they prefer to rent because of their particular life-stage or situation, for example, because they are students. In fact, the similarity between private landlords and tenants is perhaps best illustrated by almost identical patterns of child rearing among private landlords and tenants:



Number of dependent children in household, (WAS: Wave 2)

Source: Understanding Landlords (2013)

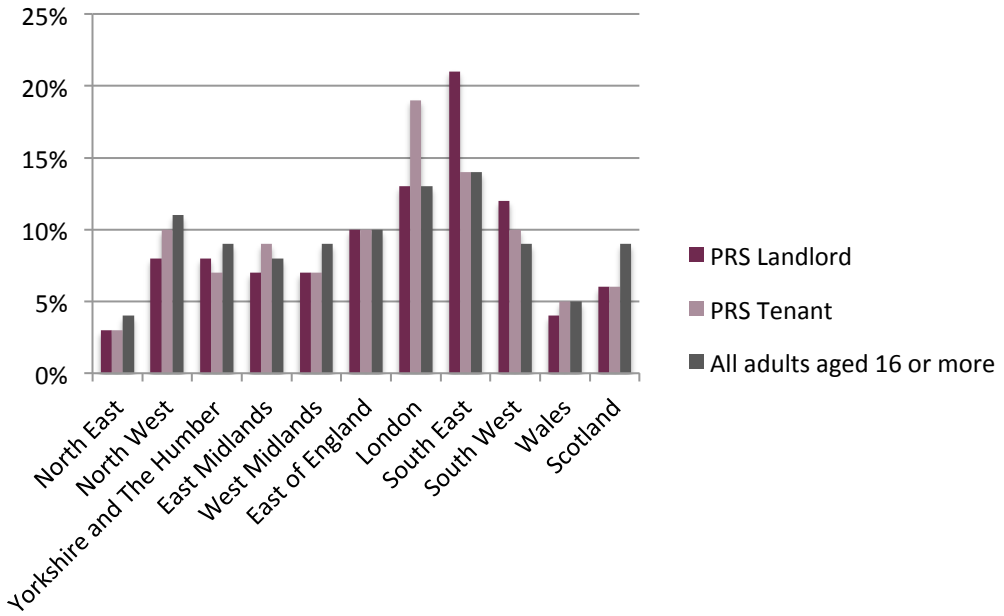
Given their similarities, why are some people private landlords and some private tenants?

In addition to financial wealth and earnings, the principal difference between private landlords and tenants is age: the average (median) age of private landlords is 48, but the average age of private tenants is 32.

Given the surge in the proportion of the population who are private landlords identified in Chapter 1, particularly reflecting the availability buy-to-let loans in the decade after 2000, it could be argued landlords and tenants are therefore primarily distinguished by cohort.

In particular, it can by hypothesised that many private landlords are part of a 'lucky cohort' that was able to use inherited capital, recycled capital gains from a rising property market, together with the greater availability of buy-to-let mortgage lending, to invest in property and rent out homes to private tenants, many of whom have substantially similar socioeconomic characteristics, but are ten to 15 years younger on average.

In this context, it is particularly interesting to note the high proportion of tenants living in London, compared to the high proportion of landlords living in the South East:



Government Office region, (WAS: Wave 2)

Does the functioning of the PRS serve to increase or decrease inequality in society?

Overall, we can see that the PRS serves to transfer the private earnings and wealth from one group (tenants) to another (landlords) who similar in many respects, except for

- Cohort;
- Earnings;
- Levels of financial wealth.

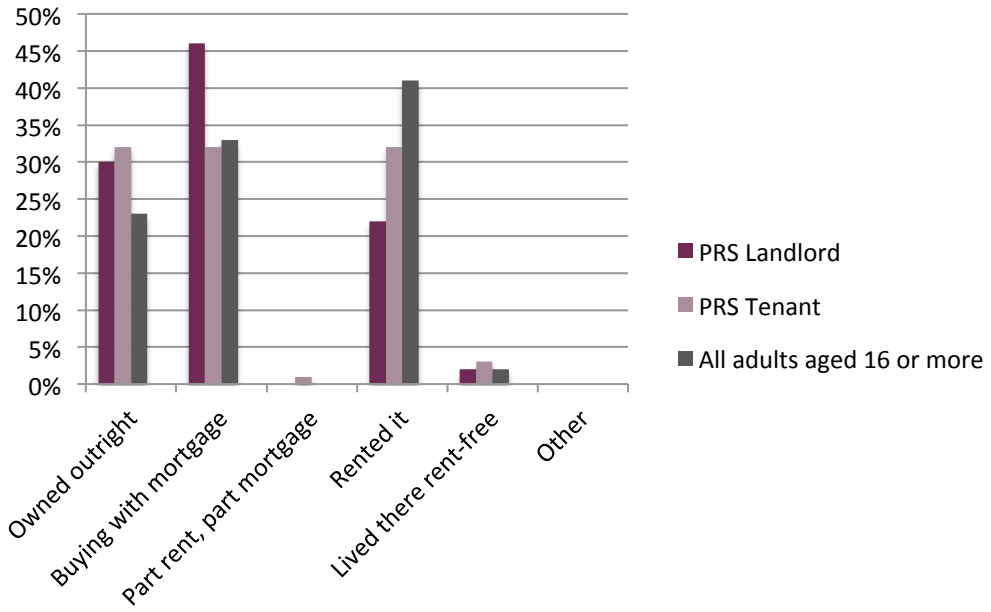
By transferring earnings and financial wealth from the poorer to the wealthier of these two groups, who are otherwise relatively similar in many respects, **it would appear that the PRS increases wealth inequality in society.**

In addition to ongoing, real-time transfers between these two groups, it is also important to consider a life course perspective on asset accumulation and inequality. Where the operation of the PRS – in particular, the 'equity advantage' of private landlords - prevents tenants from getting on to the property ladder until a later stage in their life, this means that a greater proportion of their lifetime earnings is directed at paying rent rather than, for example, saving into a pension, with inevitable consequences for their retirement income. In this sense, the increased inequality that arises from the functioning of the PRS is preserved for the rest of people's lives.This points to the need for understanding the impact of the PRS on social mobility.

What are the implications of the growth of private landlords for social mobility?

No formal definition of social mobility exists, and the UK government has set up the Social Mobility and Child Poverty Commission in order to provide advice to ministers on how to measure social mobility, and to act as an advocate for social mobility across government.[17] Nevertheless, societies with high levels of social mobility are typically seen as those characterised by a lower correlation between parental socioeconomic characteristics (earnings, education, etc.) and those of their children.

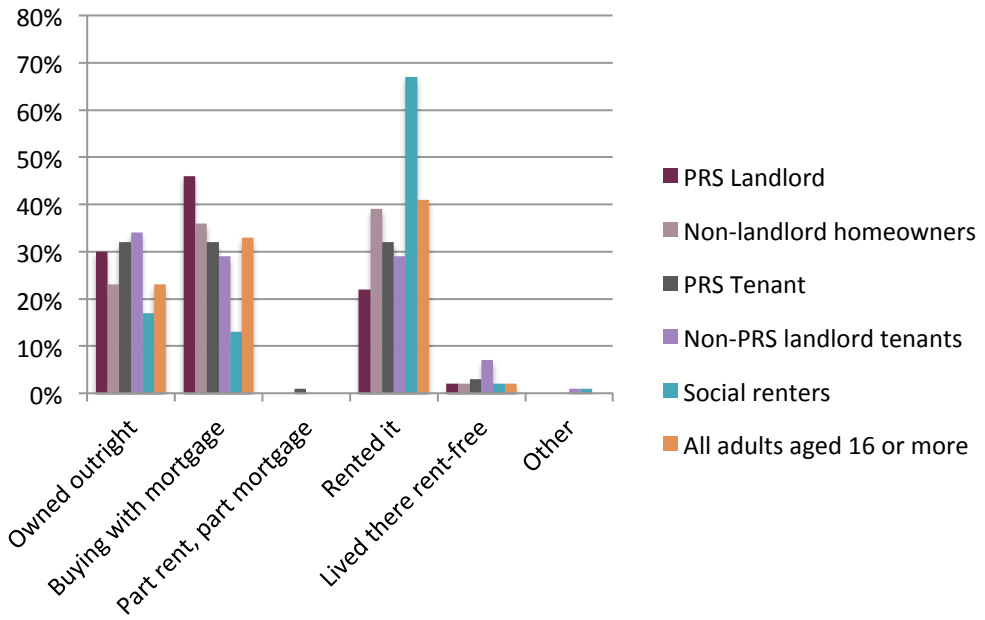
Owning their home is an outcome that many individuals aspire to as the polling evidence cited in Chapter 4 identified. In addition, many of those who raise children in rented homes often hope their children will one day become homeowners. As such, comparing current tenure to childhood tenure is a useful indicator of social mobility. To this end, Understanding Landlords reviewed the household tenancy of different groups as teenagers:



Household tenancy when a teenager and living with parents, (WAS: Wave 2)

Source: Understanding Landlords (2013)

As this chart shows, private tenants were more likely to grow up in an owned home than the population average (60% compared to 40%), but were still less likely to have grown up in an owner-occupied home than private landlords (75%). These findings can best understood by looking at household tenancy when a teenager for all groups:



Household tenancy when a teenager and living with parents, (WAS: Wave 2)

Source: Understanding Landlords (2013)

Although some tenants in the PRS may expect to subsequently become homeowners, long-term projections – cited above – are for declining rates of owner-occupation.

Given these trends, and differences in household tenure as a teenager between landlords and tenants, it would appear that the functioning of the PRS serves to reduce levels of social mobility in society.

What can the government do to address the effects of the PRS for inequality and social mobility?

To address the effects of the PRS on inequality and social mobility, the government could take aggressive steps to broaden access to home-ownership. This could include conventional policy measures designed to increase affordability for first-time buyers:

- Build more homes – this would bring down the cost of renting and home-ownership;
- Shared-ownership schemes – these allow tenants with smaller deposits and lower-incomes to get on to the 'property ladder';
- 'Shared equity for tenants' – the government could give tenants the opportunity to gain partial ownership of the homes they rent, for example, preferential share rights for tenants of institutional 'build-to-let' developments;
- Regulate rental prices in the PRS – given that high rental and property prices are the result of market failure in UK housing supply – itself the result of political choices - there may be arguments for policymakers to review how private rent prices are determined in the PRS.

RECOMMENDATIONS

Drawing upon the quantitative evidence of Understanding Landlords, it appears the implications of the PRS for transfers of wealth around society, inequality and social mobility are profound and long-term. The government should therefore lead a public debate about the future of the PRS and its impact on society, including radical measures to transfer more households out of the PRS and into home-ownership, thereby releasing capacity in the PRS and bringing down rental prices. In particular, the government should look again at:

- **Building more homes;**
- **Shared-ownership schemes;**
- **'Shared equity for tenants';**
- **Regulation of rental prices in the PRS.**

Key points:

- The transfer of money from taxpayers to private landlords via Housing Benefit has caused concern among politicians about landlords "getting rich off the state". In fact, only around one in five private tenants receive Housing Benefit: for the majority of private tenants, the functioning of the PRS effectively transfers the private income and wealth of one group – private tenants – to another, i.e. private landlords. Most private landlords are not "getting rich off the taxpayer", but instead receiving transfers of income and wealth from tenants, who are significantly poorer than they are.
- Overall, the findings of Understanding Landlords suggest that the PRS serves to transfer the private earnings and wealth from one group (tenants) to another (landlords) who are similar in many respects, except for cohort; earnings; and, levels of financial wealth. By transferring earnings and financial wealth from the poorer to the wealthier of these two groups, it would appear that the PRS increases wealth inequality in society.
- Private tenants were more likely to grow up in an owned home than the population average (60% compared to 40%), but were still less likely to have grown up in an owner-occupied home than private landlords (75%). Although some tenants in the PRS may expect to subsequently become homeowners, long-term projections – cited above – are for declining rates of owner-occupation. Given these trends, and differences in household tenure as a teenager between landlords and tenants, it would appear that the functioning of the PRS serves to reduce levels of social mobility in society.
- The government should lead a public debate about the future of the PRS and its impact on society, including radical measures to transfer more households out of the PRS and into home-ownership, thereby releasing capacity in the PRS and bringing down rental prices.

6. Conclusion

The last two decades have witnessed a steady rise in the number of households living in the private rented sector matched by a rise in the number of private landlords in the population – all against the backdrop of a widely acknowledged, chronic undersupply of new-build homes in the UK.

This has occurred despite overwhelmingly strong public policy arguments in favour of maximizing sustainable rates of owner-occupation across the population, as well as home-ownership being by far the most popular tenure of choice among the public.

As this report has explored, the PRS functions to transfer wealth from a poorer group (tenants) to a richer group (landlords), as well as to undermine social mobility. In the long run, every taxpayer will suffer because of declining home-ownership rates through higher Housing Benefit bills for the Exchequer. Indeed, it is not just 'poor renters' who have suffered as a result of the trends identified above. Because of the growing PRS, many middle-income families have felt compelled to make 'inter vivo' gifts to their children to get on the property ladder, reducing their own 'financial cushion' and retirement saving in the process.

In many ways, the trends in the PRS observable over the last two decades should not be a surprise. The growth in the PRS reflects rising levels of income and wealth inequality in society, a severe under-supply of new homes, as well as banks and landlords responding to the incentives presented to them.

However, it is increasingly difficult to envision current or future governments prevailing in relation to their policy objectives for housing and owner-occupation, without significant changes to the regulation of the sector and the opportunities it provides. The findings of Understanding Landlords make this conclusion both readily apparent and more difficult to ignore.

This raises an important question: why have these trends been allowed to occur over the last two decades? Regulation of property and the private rental sector in any country reflects inherited societal norms and political attitudes, and the UK is no different. Yet it appears remarkable that these norms and attitudes have prevailed in UK to the benefit of just 2% of the population, despite the significant costs – what economists called 'negative externalities' – for the rest of society.

This raises a secondary question: for how much longer can the attitudes and norms that underpin this situation continue?

Such a question can only be answered honestly with speculation. However, it is hoped that the findings of Understanding Landlords and the accompanying analysis contained in this report have demonstrated the importance of understanding landlords and their effect on public policy.

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[16] Department for Business, Innovation and Skills (2011) *Students at the Heart of the System*, London
[17] More information can be found at: https://www.gov.uk/government/organisations/social-mobility-and-child-poverty-commission

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