

# Who Lives in the Private Rented Sector?



# Who Lives in the Private Rented Sector?

**An analysis of households' characteristics**

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Published January 2013

Cover design by [www.soapbox.co.uk](http://www.soapbox.co.uk)

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ISBN 978-1-901742-47-3

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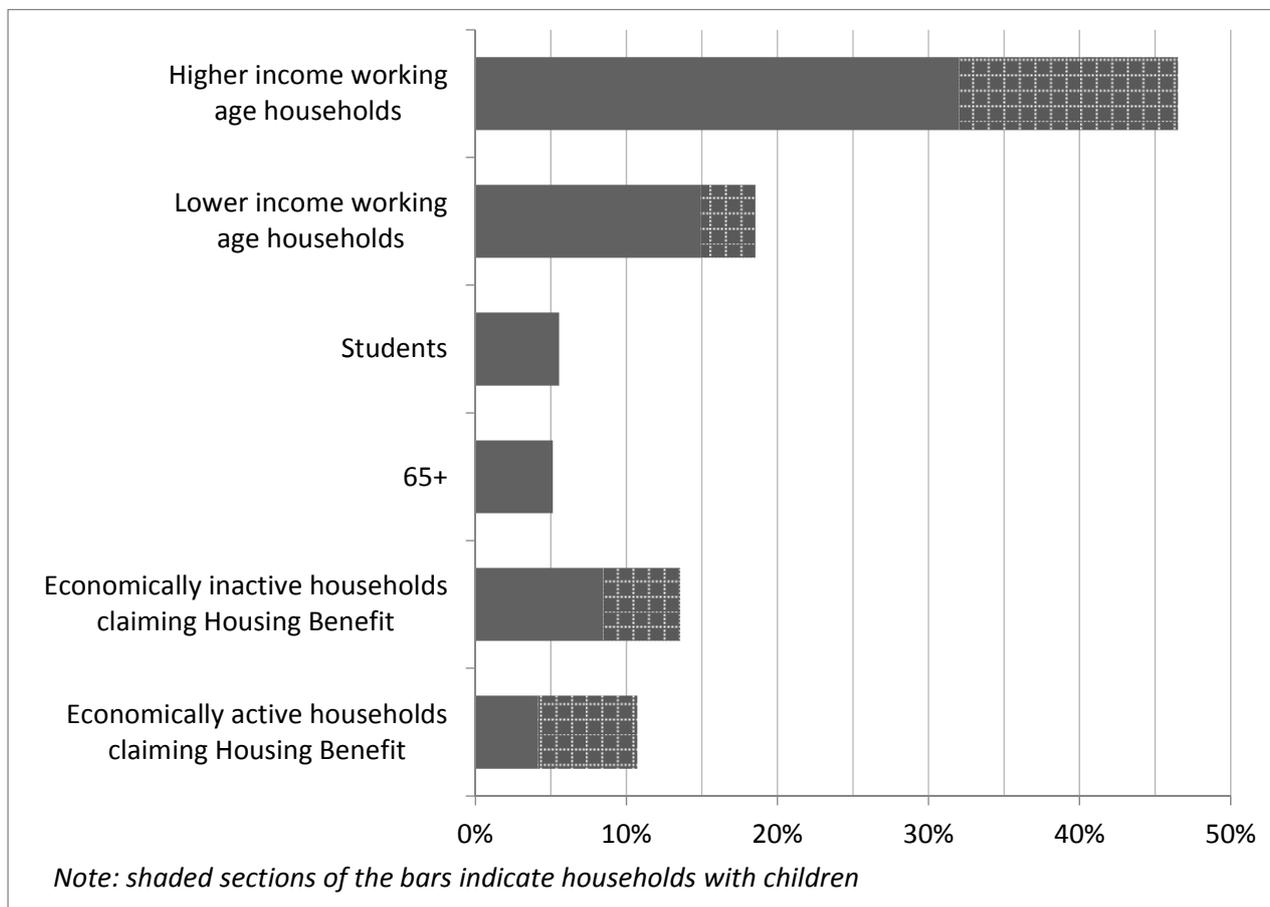
# Executive summary

This paper presents a detailed analysis of the UK private rented sector, with a particular emphasis on the types of household it accommodates. The research charts the growth of the sector over the last ten years and analyses the drivers behind this growth. Over the last decade, the sector has grown by 60 per cent, and in 2010 housed 15 per cent of UK households.

## Private rented sub-sectors

Using large-scale national survey data, the key social and economic characteristics of households in the private rented sector are identified, and the change in these characteristics over time is charted. These characteristics then form the basis of a cluster analysis of privately renting households, which reveals the key sub-sectors of the private rented sector (Figure 1). The description and quantification of private rented sub-sectors has been identified as an important step to developing an effective private rented sector.<sup>1</sup>

**Figure 1. Sub-sectors of the private rented sector**



The research reveals the diversity of the private rented sector, and the significant difference between groups that are often discussed as though they are relatively homogeneous, such as families with children and Housing Benefit claimants.

Over the last ten years, the majority of sub-sectors have grown in absolute terms due to the overall growth of the private rented sector. However, the number of over 65s has declined in absolute terms, and significantly as a proportion of the sector. There has been significant growth in economically active HB claimants and in higher income working age households. Families now make up around one in six households in the private rented sector, with a significant rise in the number of families renting privately over the last decade.

## What are the implications?

The findings regarding the private rented sub-sectors and the growth of the private rented sector more generally have significant implications for ensuring the needs of private renting households are met.

**Acknowledge and respond to the sector's diversity:** The private rented sector is not simply one sector that needs common treatment, but rather there are a variety of household types with diverse characteristics and needs. Consequently, it is important that the private rented sector addresses this diversity by responding to the needs of the wide range of households that live in the sector.

- The sub-sectors identified offer a useful **framework against which to analyse policy interventions** in the private rented sector. Interventions that may be suitable for one sub-sector may be detrimental to others. A holistic approach is needed, to ensure that the sector is suitable for the full range of tenants.
- The sub-sectors provide guidance to landlords and investors to enable them to more effectively consider how they target their properties, tenancy arrangements, etc. **By adapting business models to the needs of different sub-sectors, landlords have the potential to improve the desirability of their properties and tenancies, as well as effectively meeting housing needs.**

Student housing is an example of this, showing how the particular needs of a sub-sector can be met by tailoring tenancies in a way that is profitable for landlords, both individual and institutional.

- The research also highlights those sub-sectors that have seen the most growth over the last decade, and which ones are in decline. This can be used

to **target responses, with priority given to growth groups** such as families and economically active Housing Benefit claimants.

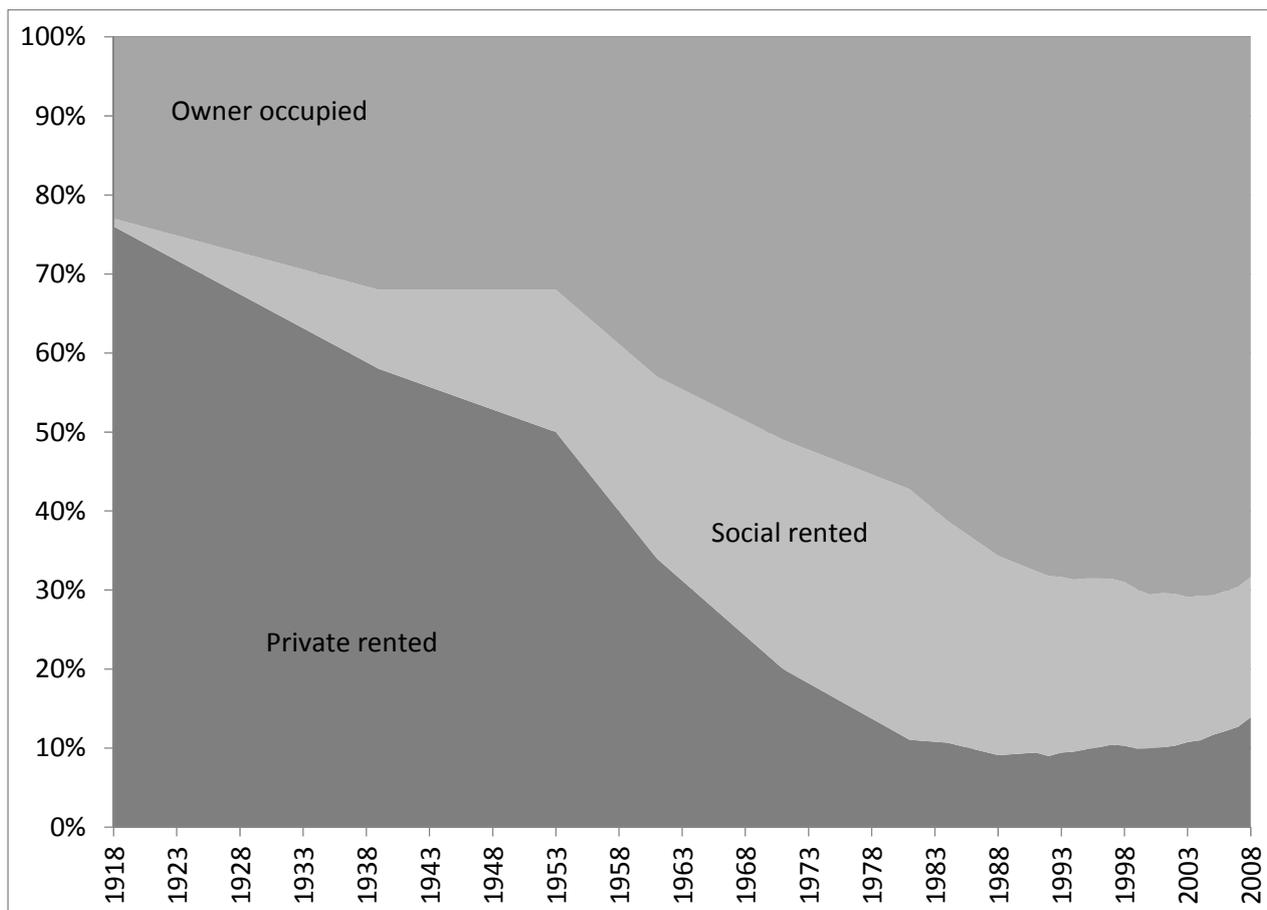
- **Further research is required to more fully understand the needs of the different sub-sectors** and how these can be effectively met. There is a wide range of issues to consider, but some particular areas of investigation include
  - Providing security of tenure for those who need it, without compromising flexibility
  - Understanding the types and locations of property that are most suited to each sub-sector
  - Providing opportunities to 'make a home' in the private rented sector for those who are living in the sector longer term

**Address the wider problems in the private rented sector:** Looking more broadly, the role of the private sector in housing an increasing number of households necessitates increased commitment to the improvement of the sector for tenants. There are a range of issues frequently raised regarding the suitability of the sector for a substantial minority of households. Particular issues are those of stock condition, affordability and quality of management.

# The UK private rented sector

Following decades of decline, the private rented sector is currently thriving. Relegated to the smallest of the three main tenures for half a century, the sector looks set to house a fifth of households by 2020.<sup>2</sup> It currently houses 16 per cent of households, with social housing also accommodating 16 per cent and owner-occupied housing accommodating 68 per cent of households.<sup>3</sup>

**Figure 2. Tenure trend, England<sup>4</sup>**

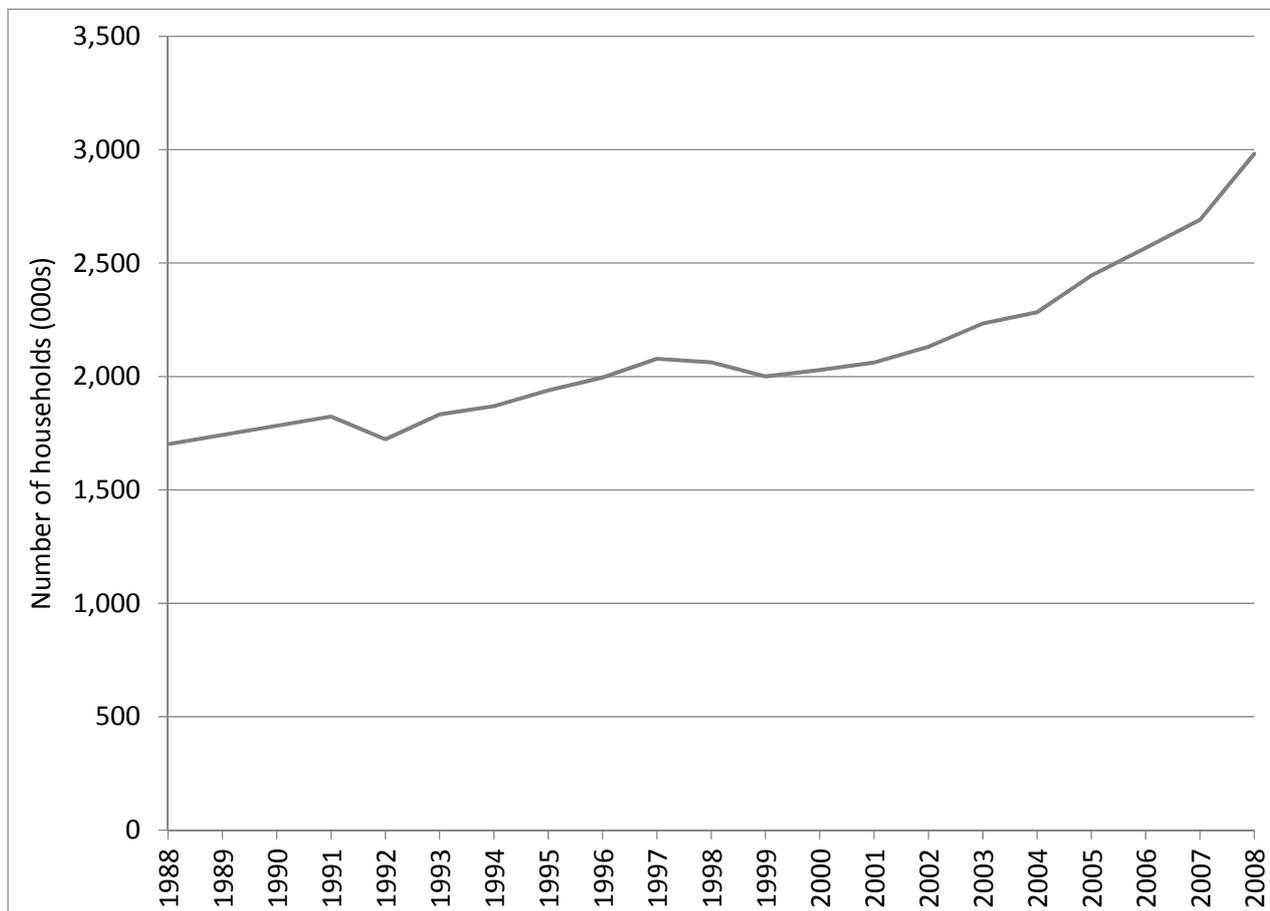


The changing size of the private rented sector over the last century in comparison with the other tenures can be seen in Figure 2. At the start of the 20<sup>th</sup> Century, private renting was the dominant tenure, with even many relatively wealthy households renting rather than owning their home.<sup>5</sup> As mortgages became much more readily available and house prices became affordable to an increasing number of middle and working class households, owner occupation increased significantly. At the same time, social housing grew dramatically, particularly following the mass building programmes of the post-war era. Strict rent controls and indefinite tenancies further encouraged disinvestment from the private

rented sector. These changes saw the sector increasingly marginalised: from housing three quarters of households in 1918, the private rented sector housed nine per cent of households by 1992.

The turnaround came in the late 1980s when rents were entirely deregulated (for new tenancies) and more flexible tenancy options were introduced. These changes saw the sector grow substantially, with an increase in the number of tenancies of around 20 per cent by the mid-1990s (Figure 3).<sup>6</sup> Between 1997 and 2001 this rate of growth slowed, linked to a substantial increase in the number of first-time buyers. By 2003, the buy-to-let mortgage (which was introduced to the market in 1998) began to have a significant impact, leading to another rapid growth in the sector, as the accessibility of investment in property caused many to take advantage of rapidly rising house prices.

**Figure 3. Households in the private rented sector, England, 1988-2008<sup>7</sup>**

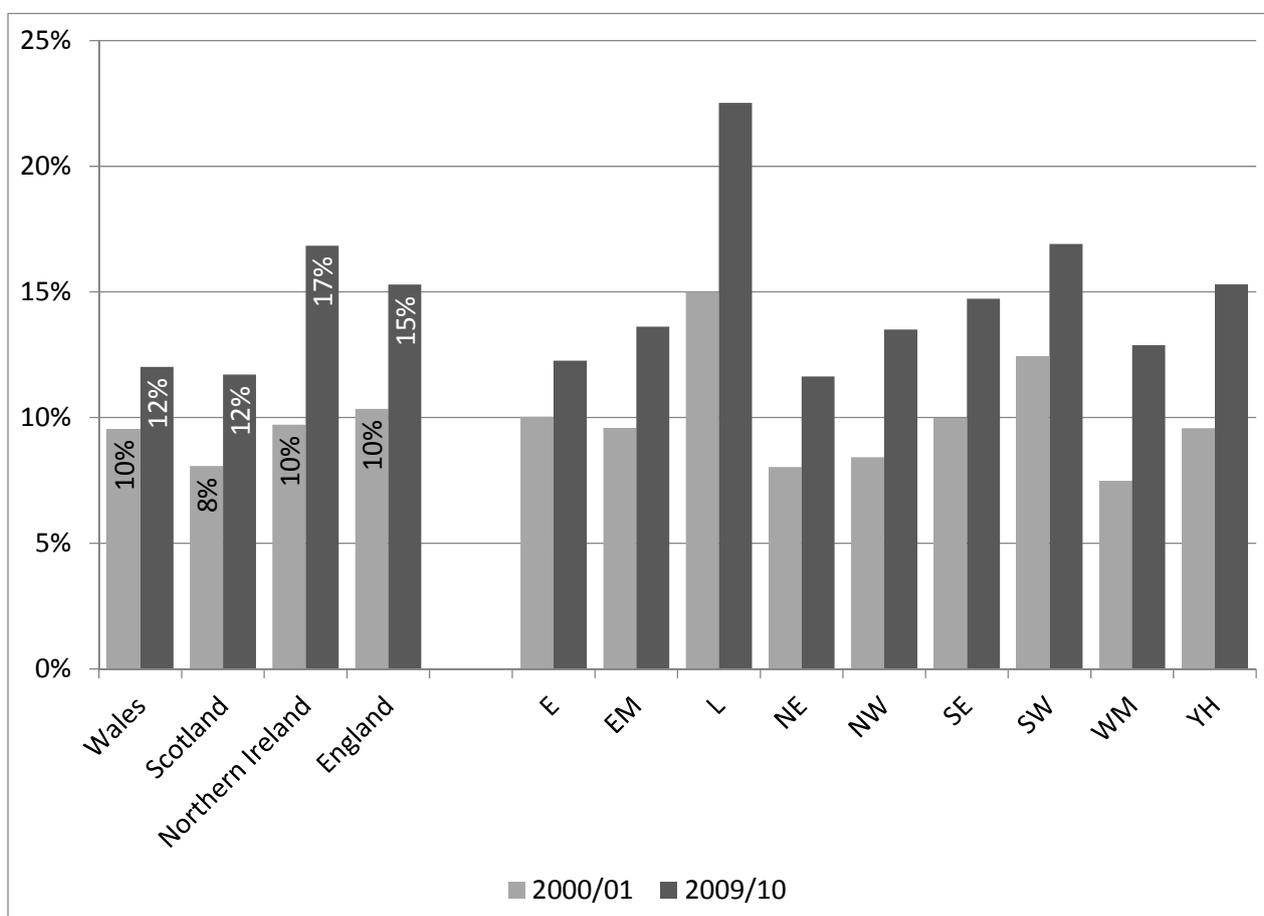


Following the 2007 credit crunch and subsequent financial crisis, the private rented sector has continued to grow. By 2010, 14.9 per cent of UK households were private tenants, constituting an increase of 1.5 million households over ten years. This growth is projected to continue, with one fifth of households likely to

be renting privately by 2020.<sup>8</sup> The drivers of this growth are discussed in more detail on page 12.

There is substantial regional and national variation in both the size of the private rented sector and the amount of growth it has seen (Figure 4). Both Wales and Scotland have smaller than average private rented sectors. London is the region with both the highest proportion of private renters (22.5 per cent) and the fastest growth (7.5 percentage points). By contrast, the North East has the smallest private rented sector (11.6 per cent) and the East has seen the slowest growth (2.2 percentage points).

**Figure 4. Size of the private rented sector by Government Office Region**



*Note: The Family Resources Survey does not contain data on Northern Ireland for 2000/01, so the earliest data available (2002/03) are shown here.*

The regional differences in the private rented sector across the UK are related to the strength of the economy and wider housing market.<sup>9</sup> In areas of relatively high economic performance, growth in the sector has been driven by high house prices and the relative difficulty of accessing owner-occupation. London is, perhaps, the best example of this, although there are additional factors to

account for its exceptionally large private rented sector, such as a relatively high proportion of mobile workers and students. By contrast, in areas of lower economic performance, growth is more often driven by a lack of supply of (and therefore access to) social housing.

It should be noted at this stage that data concerning the private rented sector are limited in comparison to the two other main tenures and as such, the exact size of the private rented sector is unknown. Different data sources give varying estimates of size (with a range of around three percentage points), but all showing the same broad trend. Appendix 1: Measuring the private rented sector discusses these different estimates and the data behind them in more detail. This research uses the Family Resources Survey, which is based on an annual sample of UK households. In addition to tenure details, this survey provides information on household characteristics, enabling an understanding of those living in the private rented sector.

# Factors affecting the size and nature of the private rented sector

There is a wide range of factors affecting the size and nature of the private rented sector in the UK. This section outlines three broad categories of influence: government policy, population change, and housing markets and the economy.

## Government policy

Government policy has a significant impact on the private rented sector, shaping the framework within which the market operates. These can be directly through legislation governing the sector, or indirectly, through wider housing and fiscal policy. There are three main ways that government can influence the sector.

## Legislation and regulation

This represents the most direct form of influence, as it governs, to some degree, the length of tenancies, the security/flexibility offered to both tenants and landlords, and the regulations regarding the quality and management of privately rented properties. Within this, there is of course substantial variation in the practices of landlords, but the government has the power to set the broad framework.

The most substantial legislative changes that have affected the private rented sector are the abolition of all rent controls and introduction of the assured shorthold tenancy (AST) in 1988. The AST is the default tenancy arrangement and accounts for the majority of private rented tenancies. It lasts for a minimum fixed term of six months, after which the landlord may gain possession of the property for any reason, provided two months' notice is given. Tenants are required to give one month's notice. Prior to these changes, the sector was subject to strict rent controls and tenants had almost complete security of tenure, both of which stifled investment in the sector. Further details of private tenancies in the UK can be found in Appendix 2: Legislation and regulation,

Since the 1988 Housing Act the response of successive governments to the private rented sector has been broadly light-touch, with little regulation. Governments have been content for the sector to grow, but to do so governed primarily by market forces rather than by active government intervention. There are some statutory regulations governing property conditions and tenancy terms, for

example, but these are limited and largely reactive. They are also often dependent on a tenant complaining to a local authority about their landlord; tenants may be reluctant to do this due to fears of retaliatory eviction.<sup>10</sup> However, increasingly there are different approaches being adopted by the devolved nations and by some local authorities. Appendix 2: Legislation and regulation contains details of the current regulatory arrangements for the private rented sector, including differences between the devolved nations.

## Housing strategy

As well as particular policy proposals, governments' general approaches to housing have the capacity to shape the private rented sector. Strategy not only affects the direction of policy, but also influences other actors, such as potential investors, who will be sensitive to the approach that government takes.

A recurrent theme in this area is the commitment of successive governments to owner occupation as the tenure of choice and aspiration, which has tended to be at the expense of developing the quality and supply of privately rented accommodation. In the government's housing strategy for England, *Laying the Foundations*, the commitment to homeownership was reiterated:

*"We want to build an economy that works for everyone, one in which people who work hard and play by the rules can expect to own a decent home of their own. This goes right to the heart of what this Government is about."*<sup>11</sup>

However, as the private rented sector has grown and access to the other tenures has become increasingly constrained, it has been the subject of increasing political attention. In 2011, the Housing Minister identified private renting as having a "vital part to play in meeting our national housing need and supporting mobility".<sup>12</sup> Alongside this, there has been increasing interest in encouraging institutional investment in the private rented sector. The Department for Communities and Local Government has commissioned a review on this topic, with the aim of promoting growth in the sector and increasing the supply of new homes.<sup>13</sup>

However, the growth of the private rented sector also represents a difficulty for the government, as much of the growth is from would-be first-time buyers who are unable to access homeownership due to high house prices and increased mortgage constraints.<sup>14</sup> Given the government's commitment to increasing access to homeownership, the growth of the private rented sector is problematic, and while the government may take more interest in the sector, homeownership is likely to remain the main political priority with respect to housing.

## Financial incentives

In addition to direct control, the government can influence the behaviour of both landlords and tenants through the financial incentives that it creates, such as through taxation. This can affect both supply and demand, by, for example, increasing the viability of investment in residential property (increasing supply), or improving tax advantages for owner occupiers (decreasing demand).

## Population change

The increase in population and decrease in average household size has meant that between 1981 and 2008 the number of households in the UK has increased by 26 per cent, from 21 million, to 26 million.<sup>15</sup> This growth is set to continue with an estimated 33 million households by 2033. Therefore, the private rented sector, like all tenures, has needed to and will continue to need to expand substantially to keep up with demand.

However, certain aspects of population change affect the private rented sector in particular. In recent years, there has been significant growth in the groups that the sector most commonly houses, such as students, migrants and single people.<sup>16</sup> As higher education has expanded, increasing numbers of students are making their homes in the private rented sector while they study. The private rented sector offers the flexibility and affordability that students require, with many landlords adapting their tenancies to meet the needs of students.<sup>17</sup>

The vast majority of recent migrants to the UK also use the private rented sector on arrival.<sup>18</sup> Not only does it offer mobility, but it is also typically the only accessible tenure for migrants, who will not be able to obtain a mortgage and will not be eligible for social housing. The increase in the number of migrants arriving in the UK, particularly following the A8 countries joining the European Union, has been a substantial area of growth for the sector. However, as other countries increasingly open their borders to A8 migrants and existing migrants either return home or settle more permanently in the UK, the pressure on the private rented sector is expected to lessen.<sup>19</sup>

In addition to population increases, growing affluence and mobility among younger people has meant that new households are forming earlier, where previously people may have continued to live in the parental home. For such new households, a lack of capital and desire for mobility for the purposes of employment opportunities has meant that the private rented sector is the most viable tenure. This has prompted substantial growth from younger people moving into the private rented sector.<sup>20</sup>

Demographic forecasts, however, suggest that in the future the number of younger households forming is likely to rise at a slower rate, with the majority of growth coming from older households, as the population ages.<sup>21</sup> Older households are less likely to live in the private rented sector and, consequently the pressure on the sector from demographic factors has been projected to decline in the coming years.<sup>22</sup>

## Housing market and the economy

The operation of the housing market and the wider economy fundamentally shapes the private rented sector. The aspects of these that have most significantly affected the sector are outlined below in terms of their impact on supply and demand. Supply and demand are, however, intrinsically linked, so it is impossible to neatly separate them. However, certain aspects of the performance of the housing market and economy have had clearer impacts on one than the other.

### Supply

One of the main reasons that the private rented sector has flourished in recent years is that it has become an attractive asset class in which to invest. By 2010 real house prices were twice as high as they were in 1990.<sup>23</sup> This made property an attractive investment opportunity, and de-regulation of the private rented sector in the late 1980s increased the prospect of revenue as well as capital returns.

The first buy-to-let mortgage was introduced to the market in 1998, making it easier for would-be landlords to obtain a mortgage at a favourable rate. This, coupled with low interest rates, led to the buy-to-let boom, which saw a rapid expansion of the private rented sector between 2003 and 2008.<sup>24</sup> By 2007 buy-to-let accounted for 12 per cent of the value of all mortgage advances in the UK.<sup>25</sup> Following the credit crunch, there has been criticism of the excesses of buy-to-let and the prospect of further regulation of such mortgages,<sup>26</sup> but nevertheless, buy-to-let mortgages remain a more attractive option for mortgage companies than do many first-time buyers, and as such they are likely to continue to play a significant role.

The financial crisis that began in 2007 has had a substantial impact on the viability of investment in the private rented sector by individual landlords. Research for the Residential Landlords Association found that the “current returns in the private rented sector are extremely low and likely to remain so”.<sup>27</sup> Reduced rental yields, plus stagnant house prices are putting increasing financial

pressure on many private landlords, especially those with high outstanding mortgages.

However, despite these concerns, research for Shelter reveals that the majority (60 per cent) of private landlords were not facing substantial difficulty during the recession, although one in ten were said to be “constantly struggling”.<sup>28</sup> Unsurprisingly, rent arrears in the current economic climate are posing an increasing problem for many landlords.

Finally, increased supply has started to emerge in the form of institutional landlords, although currently this is predominantly in the student market, with companies such as UNITE providing rented accommodation for university students. Greater institutional investment outside of the student market has been consistently posited as an area of potential growth, but this has yet to materialise on any scale. However, with a review by the Treasury<sup>29</sup> recently completed, and another ongoing for the Department for Communities and Local Government,<sup>30</sup> as well as increased interest by potential investors and developers, it is possible that this could be a potential driver of new supply in the future.

## Demand

There has also been a substantial increase in demand for housing in the private rented sector. Factors driving this demand have been ongoing, but many, especially those relating to the accessibility of homeownership, have intensified substantially since the credit crunch.

One of the main drivers of demand for private rented accommodation has been the increasing inaccessibility of both of the other main tenures, owner-occupied and social housing. Over the last 20 years, house prices and mortgage repayments have outstripped the rise in earnings, whereas rents have risen fairly consistently in line with them.<sup>31</sup> As affordability has declined, people have been pushed into private renting rather than homeownership.

As well as income constraints, wealth constraints have posed an increasing barrier to homeownership since 2007, with mortgage lenders in many cases requiring 25 per cent deposits.<sup>32</sup> This has meant that many people are unable to access homeownership without financial support, with the average age of a first-time buyer increasing substantially since the credit crunch.<sup>33</sup> This increase in the stringency of mortgage requirements is likely to continue, as it is well recognised that unsafe lending was a major contributory factor in the financial crisis. Greater mortgage regulation looks set to become a long-term change, although the details of this are yet to be decided.

The increasing demand for private rented sector accommodation has also been driven by the inaccessibility of social housing.<sup>34</sup> As access to social housing has become increasingly constrained, increasing numbers of households who would traditionally have lived in social housing are living in the private rented sector.

Research has shown inaccessibility of both of these tenures has had an impact on the growth of the private rented sector, but that there is also substantial geographical variation in which of these is most significant.<sup>35</sup> The picture is complex, but broadly speaking, in areas with high demand and high house prices, households in the private rented sector are more likely to be priced out of homeownership, whereas in lower demand areas with relatively lower house prices, private tenants are more likely to be those unable to access social housing.

In addition to these 'push' factors, whereby households live in the private rented sector because they have no other option and the sector is considered the tenure of last resort, there is also evidence that for some households the private rented sector is an active choice, and that growth in demand comes, at least in part, from increased preference for the sector.<sup>36</sup> In particular, the choice and flexibility of the sector are seen as desirable, particularly for young mobile workers.

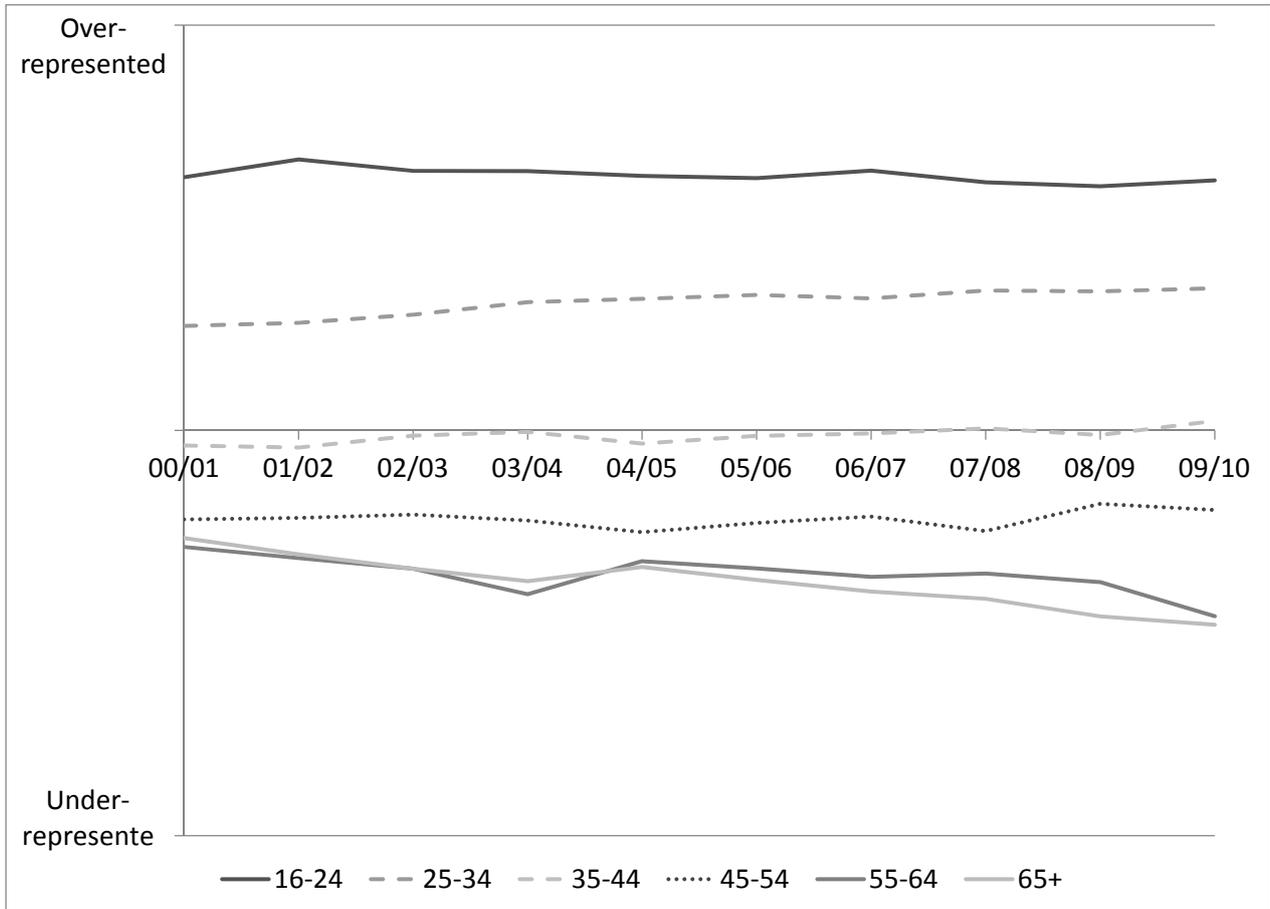
# Households living in the private rented sector

This rapid growth underlines the importance of understanding the characteristics of households living in the sector. The magnitude of the sector's growth means that the sector is now housing new types of household that it did not previously house in any significant quantity. Households are also increasingly using the sector as a longer-term home, so it is important to ensure that it caters for their needs. To do this, it is vital to gain an understanding of who the sector houses. This section analyses data on selected household characteristics from the Family Resources Survey to build up a picture of the private rented sector as a whole.

## **Age of households**

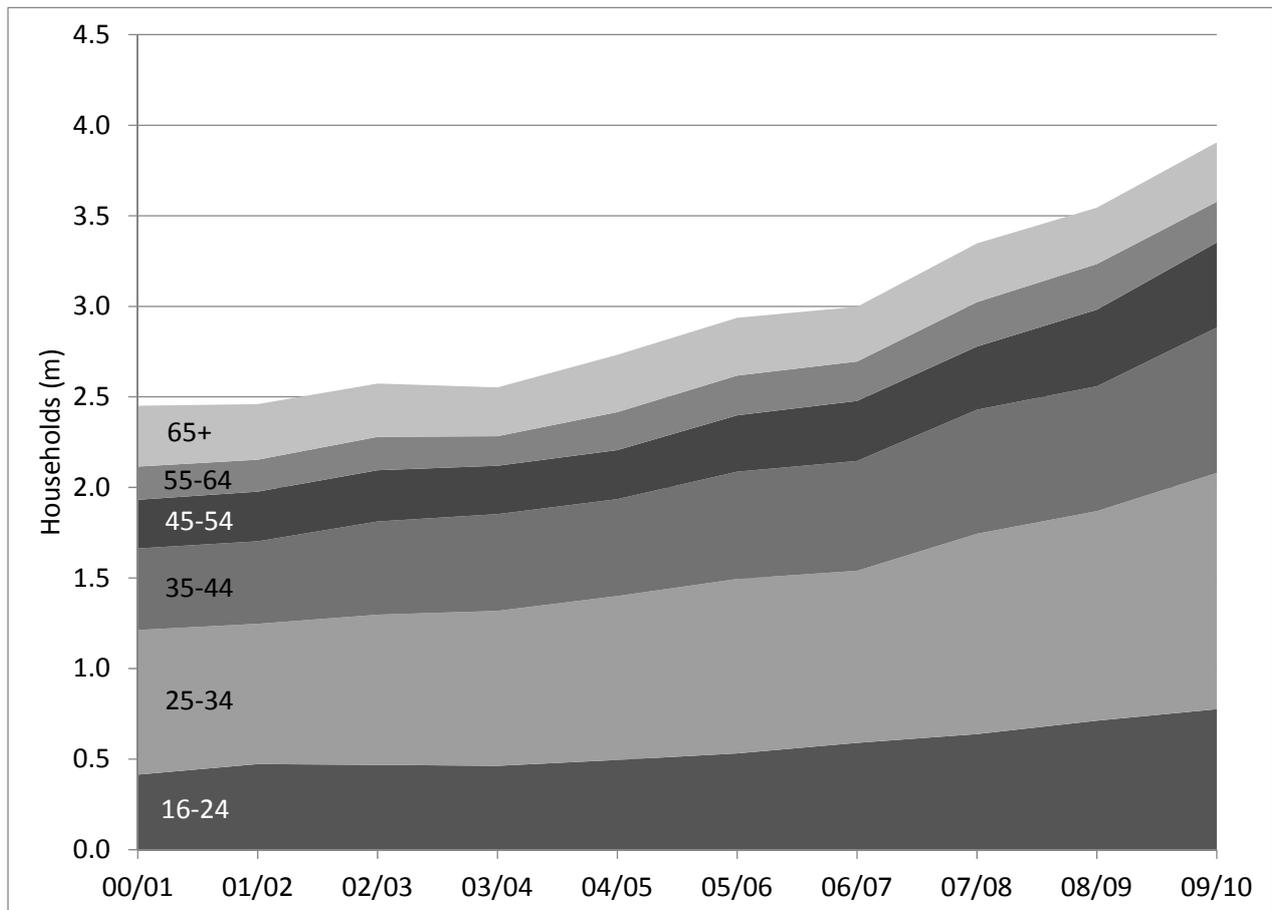
In terms of the characteristics of households living in private rented housing, there are a number of key features that make the sector distinct. In comparison with all households, those living in the private rented sector are typically much younger, with those under 35 accounting for over half of private tenants, despite this age group comprising one fifth of the population. Figure 5 shows private tenants by age group and the extent to which they are over-represented or under-represented in the sector relative to the population as a whole.

**Figure 5. Age of household reference person in the private rented sector in comparison with the population**



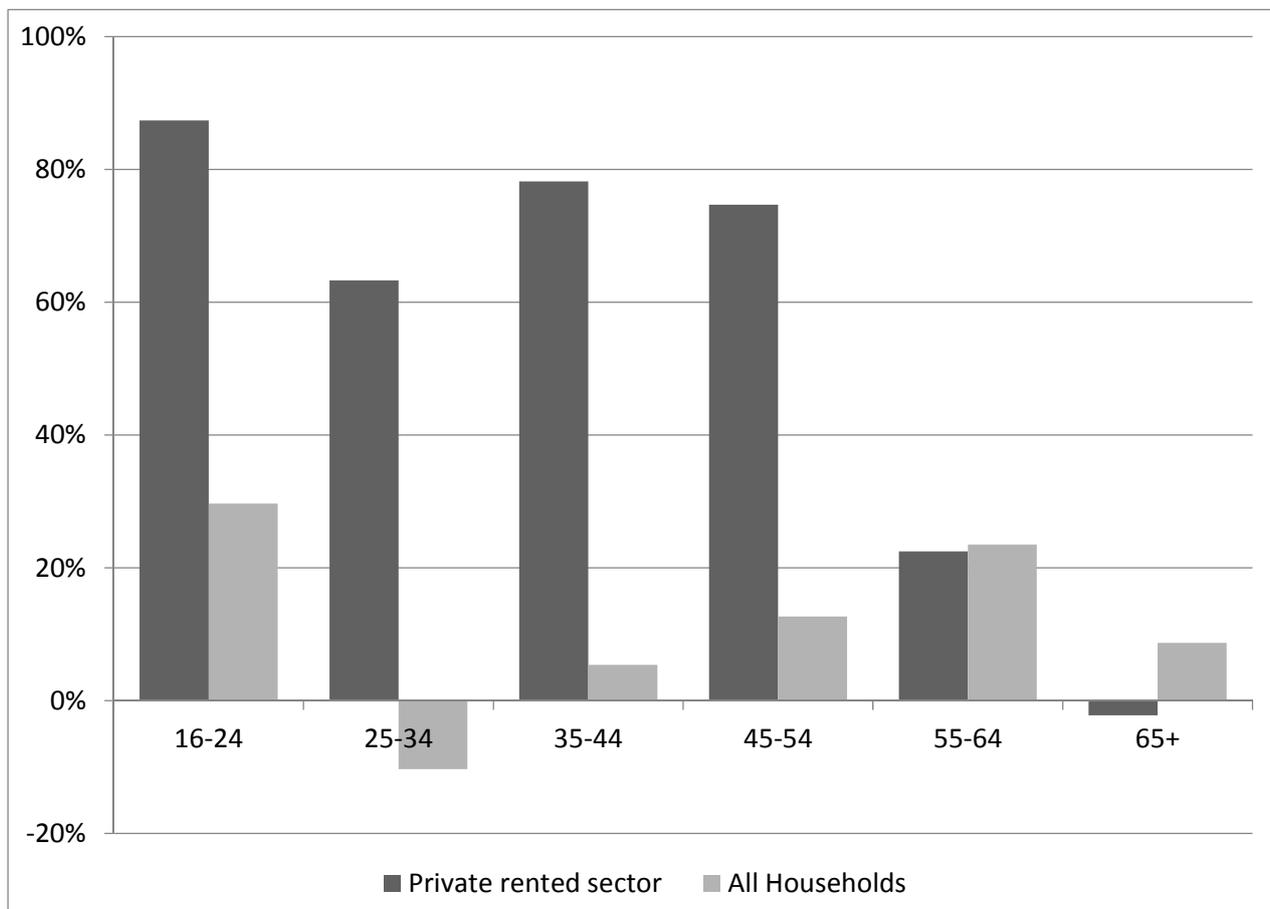
The age profile of the sector has remained relatively stable over the last ten years (Figure 6), but those over retirement age constitute a decreasing proportion of the sector, despite the growth in this section of the population as a whole. The vast majority of growth in the sector over the last decade has come from the younger three age groups, with 35 per cent coming from 25-34 year olds and around a quarter coming from each the 16-24 and 35-44 year old groups.

**Figure 6. Age of household reference person in the private rented sector**



Despite the predominance of younger households and the decline in older households, particularly those aged 65 and over, the private rented sector caters for households across the age range and a wide variety of life stages.

Looking at these data in comparison with the growth in households across all tenures, we can see the change in age of households in the private rented sector does not mirror that of households in the population as a whole (Figure 7). Households aged less than 55 grew far more in the private rented sector than in the population. Notably, households aged 25-34 grew in the private rented sector, despite declining in the population. By contrast, private rented sector households over the age of 55 saw less growth than in the population; and there was a decline in the absolute number of households over 65 in the private rented sector, despite a significant growth in the population of this age group.

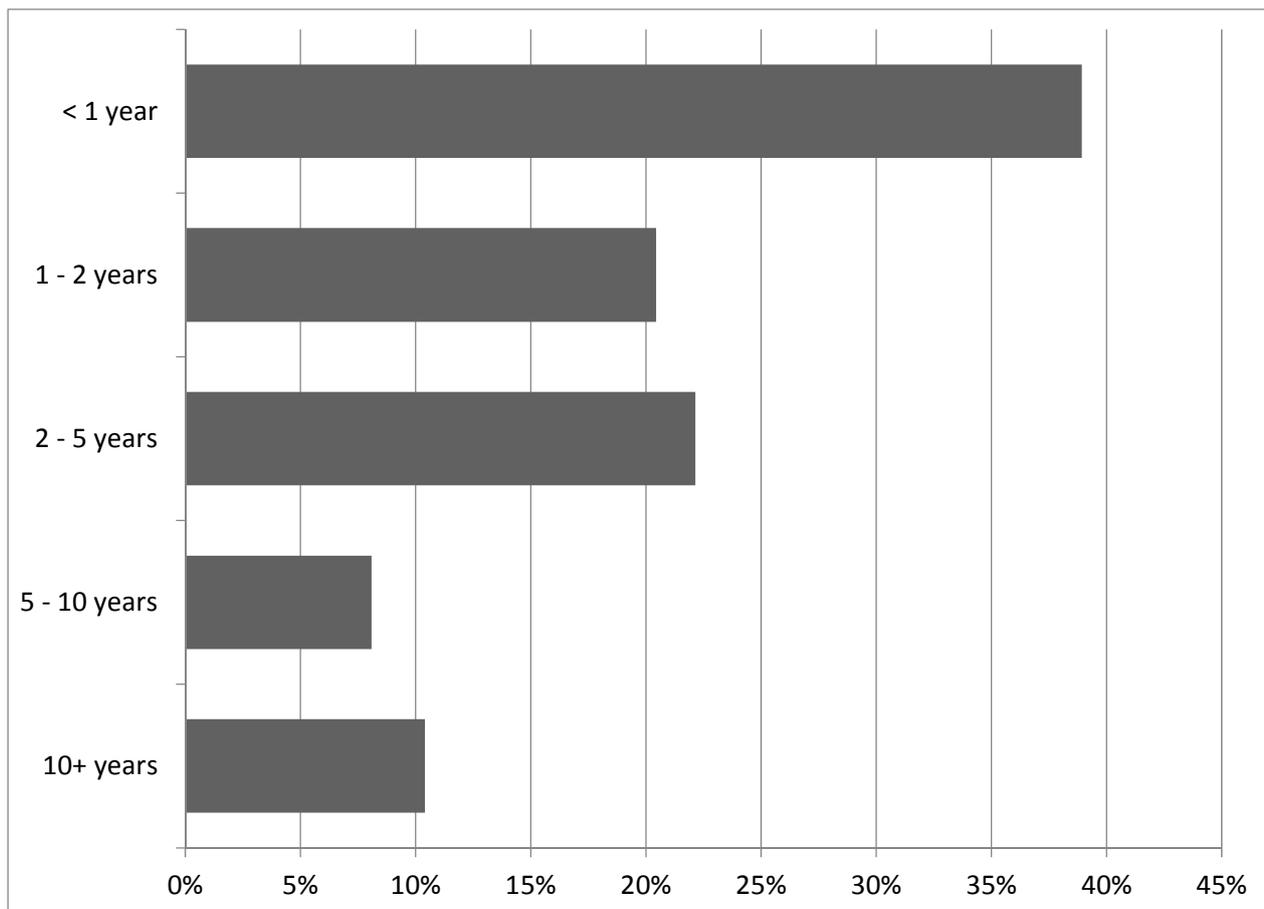
**Figure 7. Changing age of households 2000/01 – 2009/10**

Population changes cannot therefore account for the changes seen in the private rented sector. Rather, the changes are linked to the supply and demand drivers that are seen above, with fewer younger households being able to access other tenures, and remaining in the private rented sector as a result.

## Residential mobility

Households in the private rented sector are also highly mobile, with over half of all households having moved in the last two years. The levels of mobility have been fairly stable over the last ten years, apart from those households that have lived in their homes for over twenty years, the number of which has decreased rapidly, from ten per cent to six per cent of households by 2009/10. One of the reasons for this decline is the dwindling number of regulated tenancies, which offered lifetime security of tenure. Forty per cent of household have lived at their current address for less than a year and 10 per cent have lived there for ten or more years (Figure 8). This is in contrast with the population as a whole, where 10 per cent have lived at their address for less than a year, and 47 per cent for more than ten years

**Figure 8. Residential mobility**



An important caveat with these data is the age profile of household reference persons in the private rented sector. The age profile of the sector is younger than for other tenures and therefore, by virtue of their age, households will not have lived in the sector for as long. However, despite this caveat, mobility within each age band is higher in the private rented sector than for households in other tenures.

In fact, moves within the private rented sector account for 38 per cent of all moves in the last year (Table 1), more than twice the proportion of households in the sector. Looking in more detail at nature of the moves of households, we can see that the majority of moves (61 per cent) are within the private rented sector, rather than moves from other tenures. This high level of churn within the sector accounts for the high level of mobility. It is also the most common tenure for newly formed households, which account for a fifth of all moves in the private rented sector.

**Table 1. Current and previous tenure of households moved in the last year, 2010/11, England<sup>37</sup>**

		Previous tenure				Total
		New household	Owner occupiers	Social renters	Private renters	
Current tenure	Owner occupiers	55	249	*10	130	444
	Social renters	71	27	134	87	318
	Private renters	268	157	65	761	1251
	Total	394	432	209	978	2013

*Notes: (i) excludes a small number of households with unknown previous tenure; (ii) \* indicates sample size too small for reliable estimate; (iii) not all totals sum due to rounding*

There are two ways of viewing this high level of mobility in the sector: flexibility and insecurity. For many households, particularly younger households, the flexibility of the private rented sector is a desirable quality, allowing people to move for work, for example. This is borne out by the fact that the 75 per cent of tenancies are ended at the tenant's request rather than the landlord's (although this figure would include tenants who end tenancies due to dissatisfaction with the quality of property or service provided by the landlord).<sup>38</sup> The high level of mobility in the private rented sector is also unsurprising given that the tenure is seen by many as a stepping stone to either home ownership or social housing, rather than a long-term home.

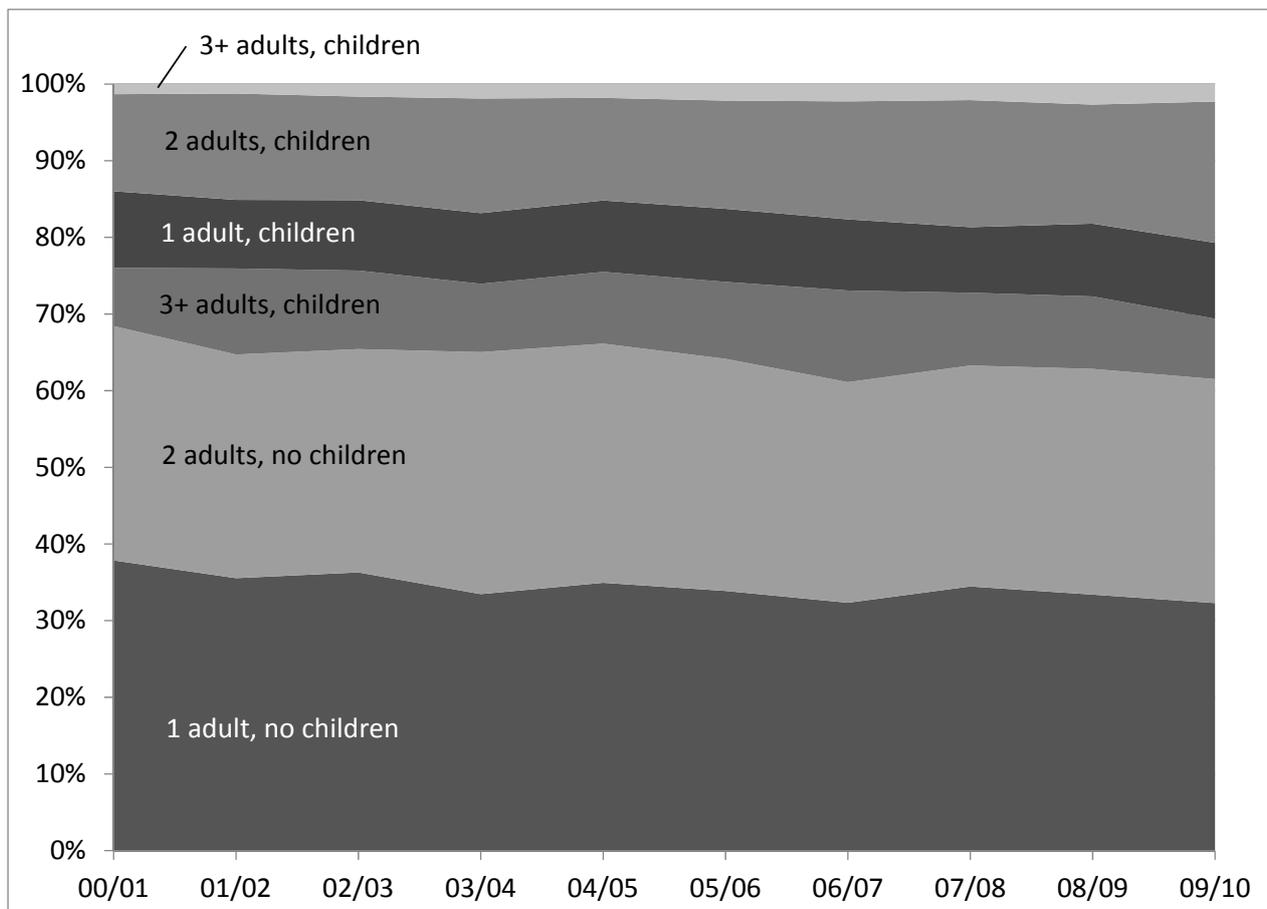
However, a significant minority of tenancies, end against the wishes of the tenant. In more extreme cases, this can result in homelessness, but at least creates instability for households and an uncertainty regarding the future. As the private rented sector becomes a long-term home for an increasing number of households, these problems look set to increase.

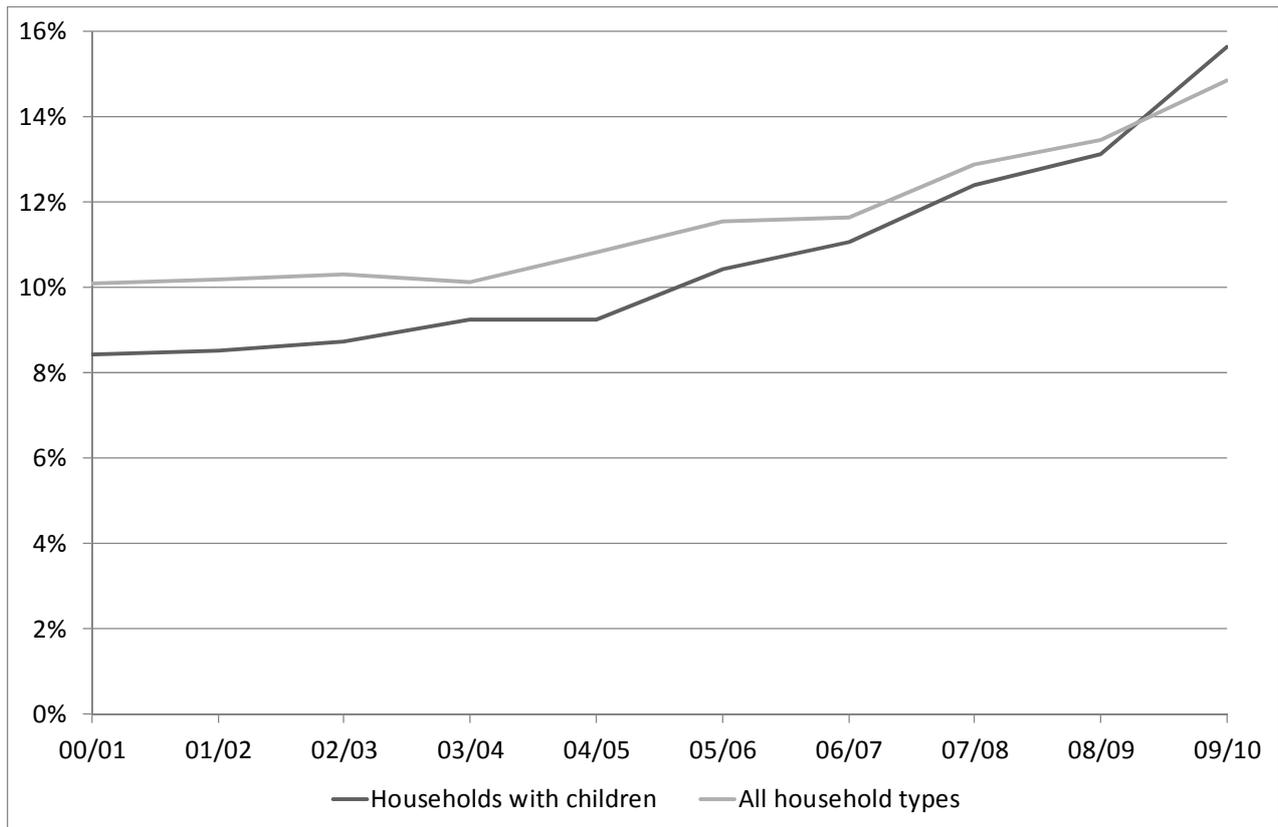
The balance between security and flexibility has implications for both landlords and tenants, with varying preferences for both parties. Some tenants require short-term flexibility, whereas others require longer-term stability. Landlords ideally want a stable income stream (often best provided by stable tenant who consistently pays the rent), but also need the flexibility to evict problematic tenants, or reclaim the property in specific situations (e.g. needing it as a personal residence or to selling it to receive a capital gain). Although the data reveal that the private rented sector is highly mobile, the significant number of longer-term tenancies of five or more years shows that stability in the sector is a reality for many households. In fact, the majority (60 per cent) of households have lived at their current address for longer than the typical AST of 6-12 months.

## Household composition

In terms of household composition, the sector is dominated by single adults and two adults without children, which between them comprise over 60 per cent of the sector (Figure 9). However, this is a decrease on 2000/01, as there has been significant growth in the number of households with children. In fact, in 2009/10, a greater proportion of households with children were housed in the private rented sector than in the population as a whole (Figure 10).

**Figure 9. Household composition**



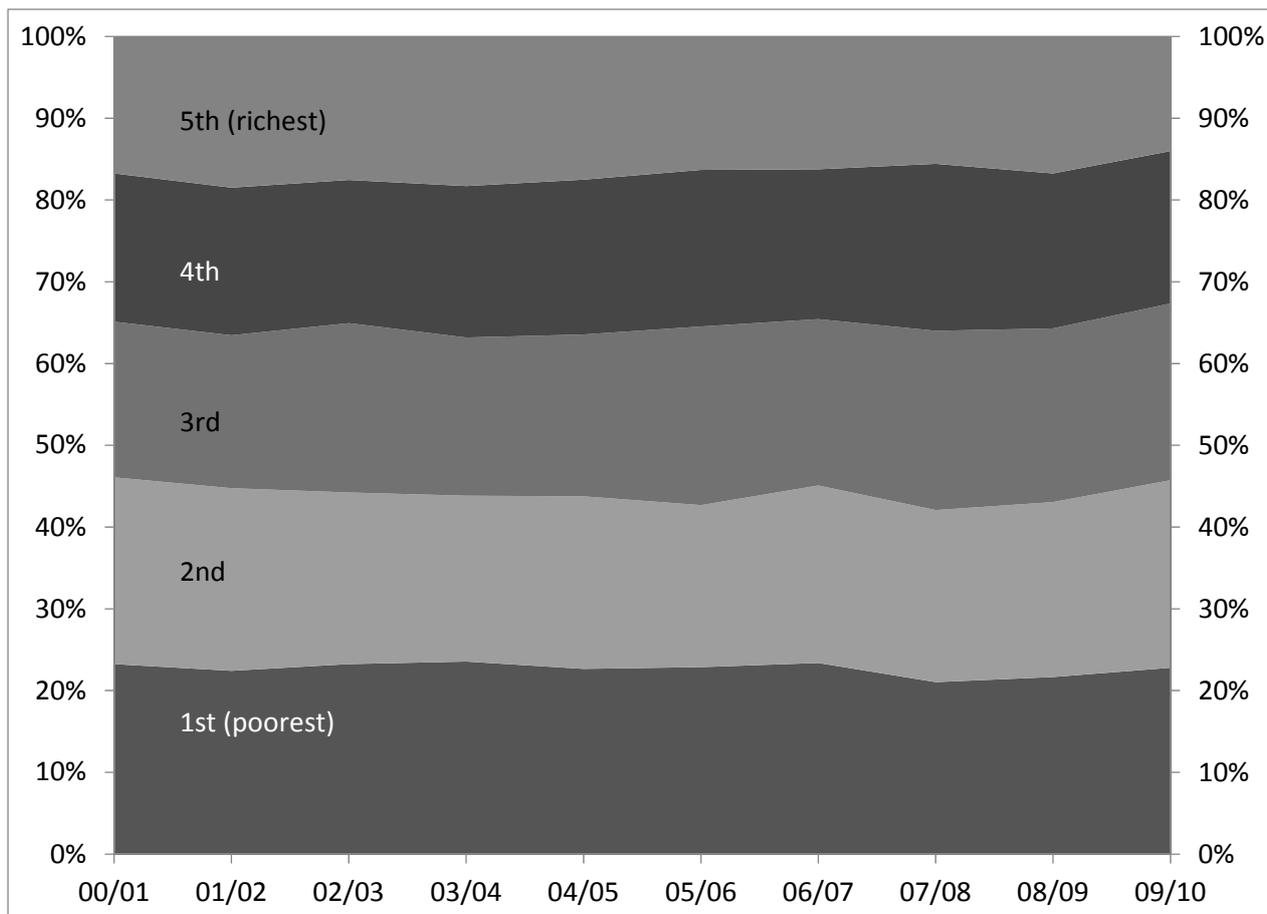
**Figure 10. Percentage of households living in the private rented sector**

The needs of families are therefore becoming increasingly important in the private rented sector. In terms of property type, families will typically prefer houses over flats, and larger sizes of property, with access to safe outside space. In addition, access to schools and parks, and tenancies that provide the long-term stability that children need for education and well-being, are significant priorities.<sup>39</sup>

## Economic profile

In terms of economic characteristics, the income of private rented sector is not dissimilar from the population as a whole, with households drawn from across the income spectrum; there is only a slight over-representation of the lower income groups, which has been relatively stable over the last decade (Figure 11).

**Figure 11. Household income, by income quintile, before housing costs**



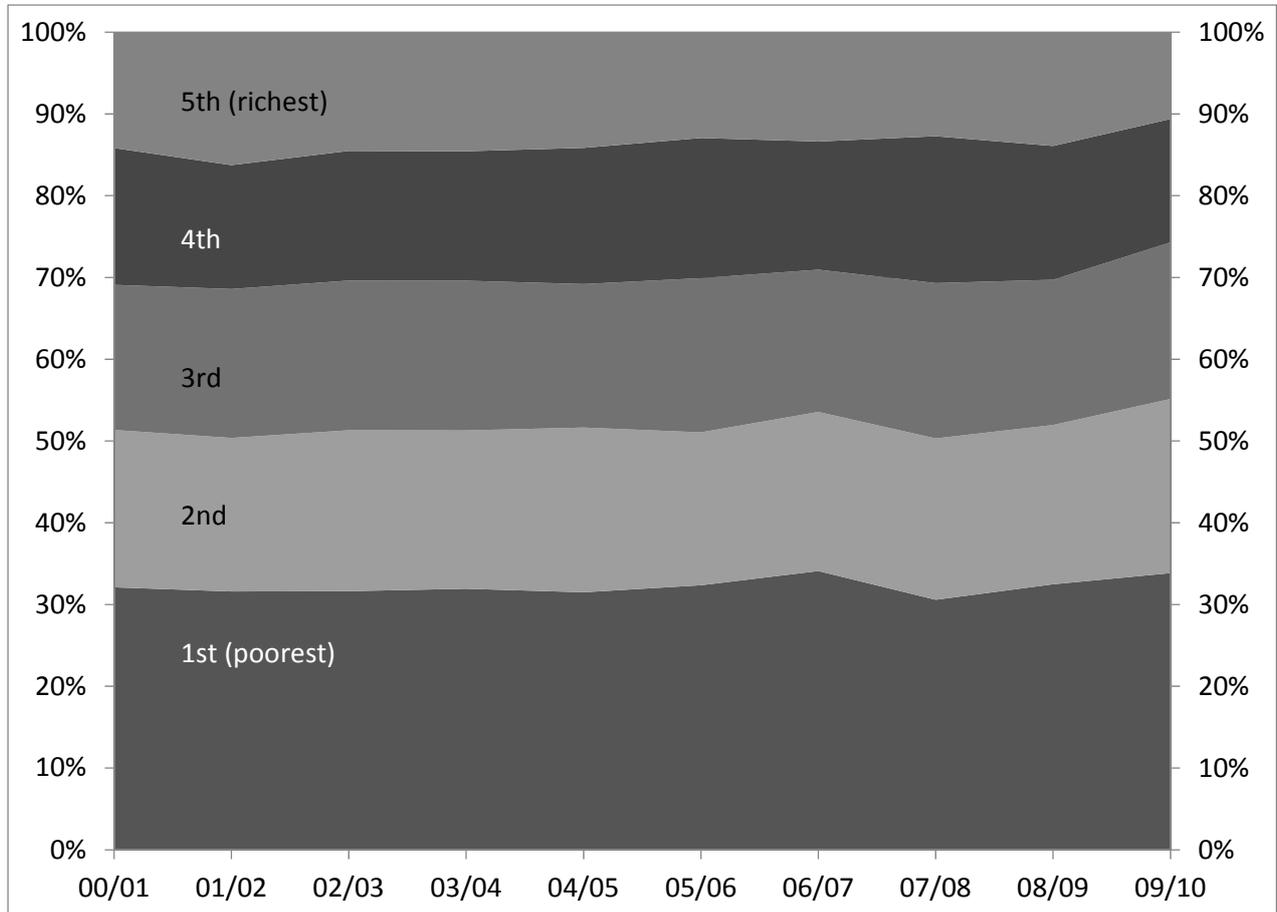
*Note: Income data used are those for weekly gross income for all households, adjusted for household size according to the OECD modified equivalence scale<sup>40</sup>*

As with the issue of mobility, highlighted above, the income of private tenants reflects in part the age profile of the sector, with younger households more likely to be on lower incomes, given that they are typically at the beginning of their careers. However, retired households, which are under-represented in the private rented sector, are also often on lower incomes. Older working age households are also under-represented in the sector, which are likely to be at the peak of their earning potential and therefore more likely to be on higher incomes.

Unlike owner occupation and social housing, which are typically more dominated by higher-income and lower-income households respectively, the private rented sector is drawn fairly evenly from a wide range of incomes, reflecting the broad range of households for which the sector caters. However, once housing costs are taken into consideration, this picture changes slightly, with far more households in the lowest income groups, reflecting the high rents paid by many private tenants. This issue of housing cost burden for households in the sector is further addressed below. It is interesting that the income profiles of households in the

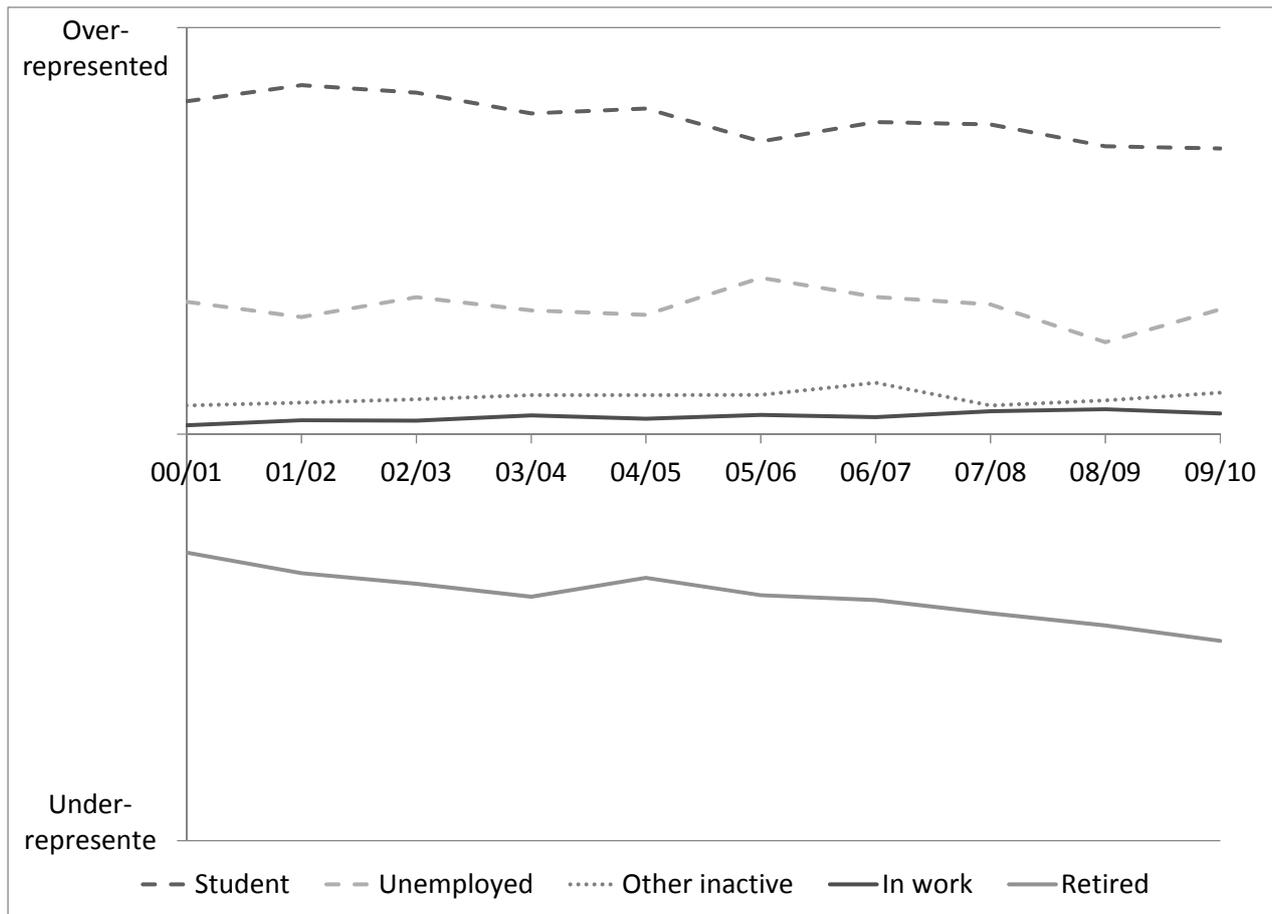
sector have remained fairly stable, despite the significant changes in the sector that have been occurring.

**Figure 12. Household income, by income quintile, after housing costs**



In terms of the employment status of private tenants, there are substantial differences from the population as a whole (Figure 13). Retired household reference persons are significantly under-represented and increasingly so. Students are the by far the most over-represented group (although this dominance is decreasing slightly), followed by unemployed people. Those who are in work or economically inactive for other reasons such as long-term illness are slightly over-represented, but not substantially so.

**Figure 13. Employment status of household reference persons**



The relative dominance of economically active households is, in part, influenced by the disproportionate number of working age households in the sector, as they are more likely to be economically active. However, of the economically active households (those in work or actively seeking work) unemployed household reference persons are more over-represented than are those who are in work.

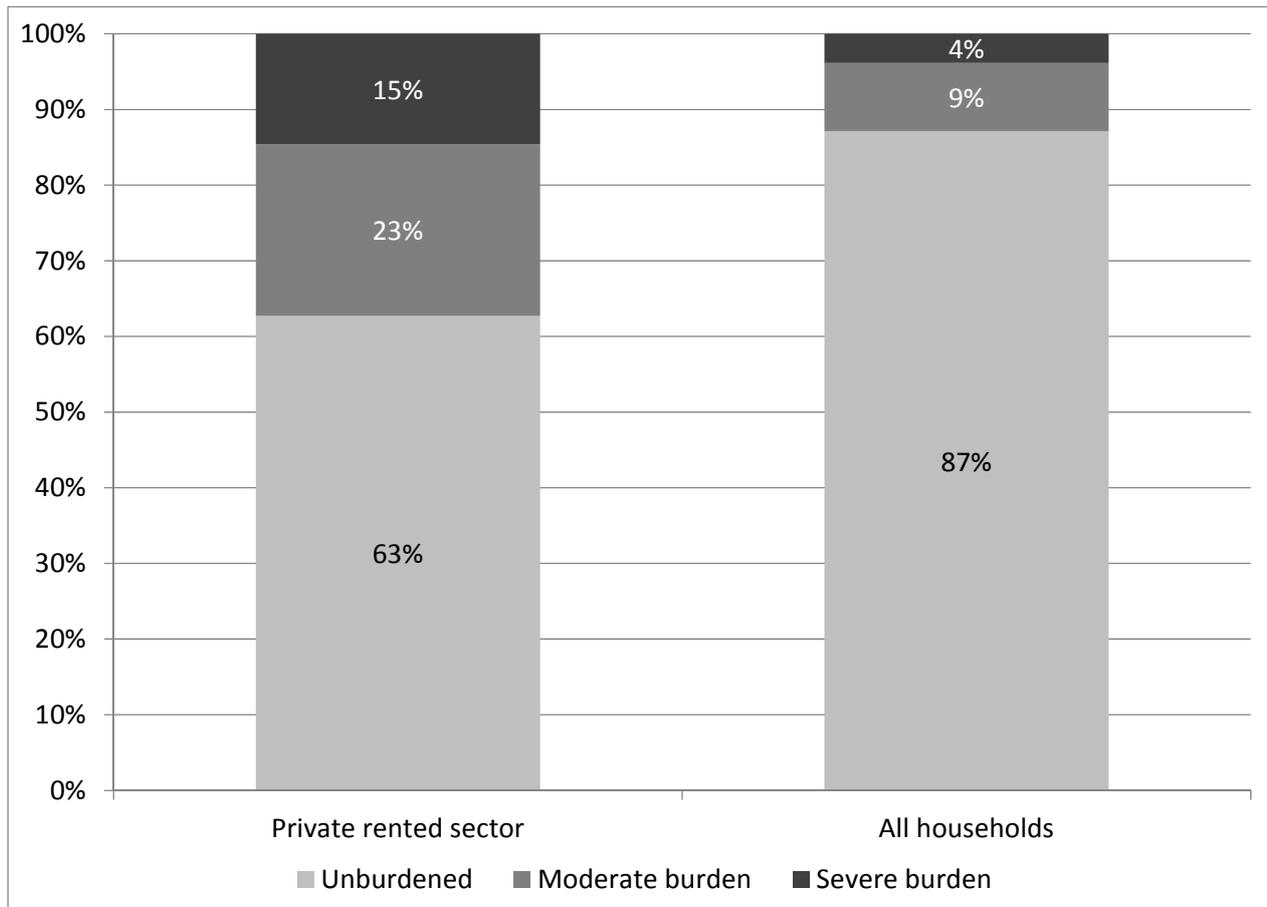
## Housing costs and Housing Benefit

On average, those in the private rented sector spend a far higher proportion of their income on housing costs than does the population as a whole. This is perhaps not surprising, because those in social housing pay a sub-market rent and outright owners have minimal or zero housing costs, but it is nonetheless important. Households spending 30 per cent or more of their income on housing costs can be considered to be facing a financial burden, and spending 50 per cent or more a considerable financial burden.<sup>41</sup>

Figure 14 compares households in the private rented sector with all households on this issue, and reveals that nearly 40 per cent of private renters are spending

more than 30 per cent of their income on housing, compared with less than 15 per cent of all households. More than 15 per cent of private renters spent over half their income on housing, compared with less than five per cent of all households. These data demonstrate that affordability in the private rented sector – particularly in high-cost areas such as London – is a major concern, and needs to be addressed. With rents currently rising faster than earnings, housing cost burden is likely to become an increasing problem for private tenants.<sup>42</sup>

**Figure 14. Expenditure on housing costs as a percentage of income**



This definition of housing costs burden is not without its flaws, however, as it does not take into account the amount of residual income a household will have after housing costs. A high-income household that spends a large proportion of its income on housing costs may still have significant remaining disposable income. Equally, a low-income household that spends only a small proportion of its income on housing costs (e.g. outright owner pensioner households) may well feel burdened. Nonetheless, this well-established measure gives an indication of the level of financial burden experienced by many households.

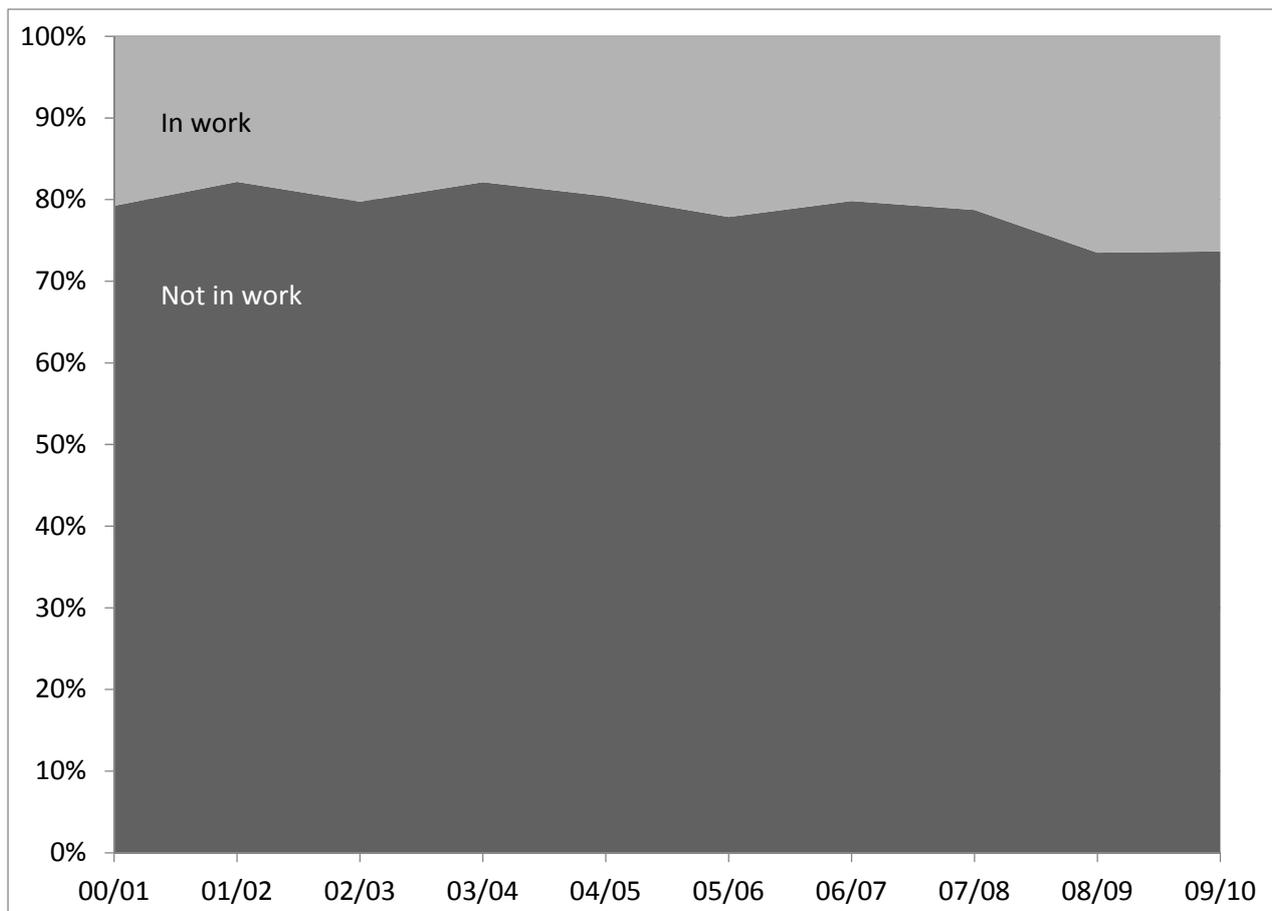
Another important consideration is the role that Housing Benefit plays in the private rented sector. Given that owner occupiers are not able to claim Housing

Benefit, this analysis focuses on the private rented sector in comparison with all renters as opposed to all households. In 2009/10 around a quarter of private tenants were in receipt of Housing Benefit, in comparison with 45 per cent of all renters. The percentage of private tenants claiming Housing Benefit has remained relatively stable over the last ten years, but there has been a slight decrease in the percentage of all renters claiming Housing Benefit.

It should be noted that the Family Resources Survey, like much survey data, under-reports the claiming of benefits, including Housing Benefit. Therefore the actual number of private renters claiming Housing Benefit is likely to be higher than reported here, although the trends will be similar.<sup>43</sup>

Of those living in the private rented sector and receiving Housing Benefit, the majority are not in work (an average of 78 per cent over the last decade). However, since 2003/04, the proportion of claimants who are in work has increased from 18 per cent to 26 per cent (Figure 15).

**Figure 15. Employment status of Housing Benefit recipients in the private rented sector**



Around half of private rented households not in work are in receipt of Housing Benefit, in comparison with around seven per cent of those in work. However, the proportion of in-work households in receipt of Housing Benefit is increasing, with an increase from 5.6 per cent in 2003/04 to 9.7 per cent 2009/10.

The growth in Housing Benefit claimants has continued more recently than the latest Family Resources Survey data, with the number of Housing Benefit claimants in the private rented sector growing by 14.6 per cent between 2010 and 2012.<sup>44</sup> Over 90 per cent of new claimants of Housing Benefit are those who are in work.<sup>45</sup>

# Private rented sub-sectors

The data above offer important insights into the nature of the private rented sector in the UK. However, as well as providing useful insights, the data indicate the diversity of the private rented sector; a picture that is difficult to understand by looking at the sector as a whole. The sector comprises a wide range of household types and markets; these can be classified into sub-sectors, which offer a clearer explanation of the make-up of the private rented sector. By dividing up the private rented sector in this way, it is possible to not only analyse these different groups to understand their characteristics, but also observe the changes in these groups over time. A better understanding of the make-up of the private rented sector has recently been identified as an important step in developing a sector that is fit-for-purpose.<sup>46</sup>

The focus of this research therefore now turns to this process of defining sub-sectors. This can be done in two main ways: focusing on households' characteristics, and focusing on the markets in which private landlords operate. The process of defining markets, such as the approach taken in the Rugg Review, emphasises the role of the private rented sector in the housing market, whereas the process of defining household types emphasises the needs of households. These two approaches, of course, overlap to a significant degree. Some examples of sub-sectors identified are outlined below.

## **Sub-sectors identified in existing research<sup>47</sup>**

- Students
- Recent migrants
- Families
- Generation Rent (unable to access owner occupation)
- Residual users (unable to access social housing)
- Young professionals
- Housing Benefit market
- Slum rentals
- Tied housing
- High income, high rent
- Transitional renters
- Temporary accommodation
- Regulated tenants

One of the most firmly established demarcated sub-sectors of the private rented sector is that of **student housing**. This group has in common many important typical characteristics such as age (typically younger), geography (near universities and other student households), income (student loan funding) and property type (shared, furnished accommodation). As a result, many landlords choose to focus exclusively on this particular sub-market and adapt their practices accordingly, for example, by aligning tenancies with the academic year.<sup>48</sup>

Another well-researched group in the private rented sector is **recent migrants**. Recent migrants (those who have arrived in the UK within the previous five years) live mainly in the private rented sector and form an important sub-sector of the market. Difficulty in accessing formal channels of entry to the private rented sector is a common experience. As a result, they typically have limited choice and live in less desirable accommodation.<sup>49</sup> Poor living conditions, lack of privacy and security are particular issues. In the worst cases, migrants end up in slum rental conditions. As well as concentration at the bottom end of the private rented sector, this group is characterised by high levels of mobility. However, despite these commonalities, recent migrants are a diverse group, comprising a range of household types and housing experiences. The arrival experiences of new immigrants are determined by their immigration status (e.g. asylum seeker, economic migrant) and associated access to support, and can therefore vary substantially.<sup>50</sup> For example, a migrant arriving for a specific job is likely to have more opportunities to access formal routes to the private rented sector than is an asylum seeker.

More recently, the impact of poor affordability and tighter mortgage constraints has led to an increase in households that aspire to homeownership, but are unable to buy, a group dubbed **Generation Rent**. The term is loosely and varyingly defined, but are typically households that have sufficient income to service a mortgage, but are likely to remain in the private rented sector for at least five years, as they are unable to meet deposit requirements.<sup>51</sup> However, while this is a real phenomenon, to describe the group as a sub-sector is not entirely accurate, as Generation Rent will include households from a wide range of life stages, household compositions, income groups, etc. who will have a variety of housing needs in the private rented sector. The only thing that these households particularly have in common is that they aspire to homeownership and in previous years (when mortgage finance was more readily available and job security was greater) have had the opportunity to fulfil this aspiration earlier.

Another significant area of growth that has been noted is the increase in the number of **families with dependent children** living in the private rented sector. This increase is coming from households that would previously have lived in either social or owner occupied housing. These households are considered to

constitute a sub-sector because of specific needs such as larger properties, stability and access to schools, parks and other amenities for children. Private renting is not generally considered a tenure of choice for families due to the instability of ASTs and the particular impact this can have on children's education and emotional well-being.<sup>52</sup>

The Rugg Review identifies a number of "niche markets" in the private rented sector based on patterns of supply and demand.<sup>53</sup> These groups are not empirically defined or quantified, but instead are based on distinct market characteristics, such as landlord letting practice, property type and quality, and tenant expectations. It would be expected that there would be little overlap between the identified niches, as they would differ in desired location, property type, etc. In addition to the some of the groups already discussed, the Review identifies young professionals, Housing Benefit recipients and high-end private renters as key sub-markets. **Young professionals** are a loosely defined group who live in the private rented sector as a lifestyle choice. These households are younger, in work and do not have children. They typically value living central locations with good access to work, shops and night-life. In terms of household composition, there is a mix of shared accommodation and small flats for individuals or couples. Private renting affords this group with mobility, which aids employment opportunities, an access to locations that might not be affordable in other tenures, or desirable as a longer-term home.

The Rugg Review identifies the **Housing Benefit** sub-market as a key part of the private rented sector. This group it is often considered to constitute a sub-market because only a proportion of landlords let to those in receipt of Housing Benefit, and those that do tend to operate mainly within that market and adapt their practices to the Housing Benefit process. However, it is important to note that this group (which comprises around 25 per cent of private renters) is a diverse group in terms of household types; including for example, pensioners, working families and those unable to work through sickness or disability.

By contrast, at the **top end** of the private rented sector is a small but significant sub-market for those on high incomes. Properties tend to be of very high quality and located in prime areas, particularly in central London. Households in this sub-market are highly mobile, likely to have moved for work reasons and many have moved from a significant distance to their current address, including many who have come from abroad. This market is distinct from the rest of the private rented sector, can involve corporate lettings rather than ASTs and is vulnerable to fluctuations in the financial markets.

The Review also highlights a number of specialist uses for the private rented sector, such as **tied accommodation** (where the tenancy is linked to

employment) the declining number of remaining **regulated tenancies** (which are typically older settled households given that the tenancy would have to have commenced prior to 1988), and the use of the sector by local authorities for the provision of **temporary accommodation** for homeless households.

Another important role identified for the private rented sector is in providing relatively short-term accommodation for those in **housing transition**, for example if relocating for employment or following a relationship breakdown.<sup>54</sup> These users are likely to value the flexibility of private renting, and may have previously been homeowners and intend to return to owner occupation as soon as practical. However, this group is likely to be varied, linked only by their choice to live in the private rented sector. As such, they do not represent a sub-sector, but rather demonstrate an important role that the private rented sector can play.

A further area of growth in the private rented sector is so-called **residual users**, who would previously have been more likely to live in social housing, but are unable to access social housing, due to the lack of availability of the tenure.<sup>55</sup> Again, this group will be diverse, comprising low-income working households, the unemployed and economically inactive households, but are more likely to be in receipt of Housing Benefit.<sup>56</sup> As such, they are not a homogeneous sub-sector, but may constitute a small number of sub-sectors.

Some of these existing groups, such as students, are readily identifiable, have clear and distinctive characteristics in terms of housing needs, and have been successfully quantified. Others, such as young professionals, are more difficult to quantify and will contain a wider variety of household types. These sub-sectors offer a useful starting point for this analysis, but to they lack clear definition and quantification. This analysis therefore uses statistical analysis to define and quantify sub-sectors, analyse their characteristics and see how they have changed. Statistical analysis also allows the data to speak for themselves, rather than being influenced by pre-conceptions about the private rented sector. The methods used for this approach are outlined in the following section.

## Method

To analyse the household data, cluster analysis was employed. Cluster analysis seeks to identify statistical clusters among a large group of data points, by assigning these points into groups so that the objects in the same cluster are more similar to each other than to those in other groups. Similarity is assessed by comparing the data on a set of specified characteristics.

Cluster analysis is an exploratory data analysis technique and there is no single algorithm for producing clusters. The advantage of an exploratory approach is

that it enables patterns in the data to emerge without being affected by pre-conceptions. However, the clusters produced are purely statistical groupings, which often need further analysis and refinement to understand their application to real-world scenarios. Nonetheless, it is an effective way of identifying data patterns that may not be apparent, particularly when working with a large number of variables or data points, as is the case when analysing household characteristics in the private rented sector using a national survey.

Cluster analysis was therefore performed on a range of variables for households in the private rented sector for each of the ten years of the Family Resources Survey under study. Following the cluster analysis, the characteristics of each cluster were identified and these were used to develop classifications, which were then reapplied to the original data. Classifications are used instead of the original clusters because the different clusterings will vary slightly year to year, preventing an analysis of trends, and the classifications can also be applied to novel data. Specific classifications are also more useful in discussing the characteristics of private rented sector and policy implications of these characteristics. Appendix 3: Cluster analysis provides a more detailed explanation of the methods used.

#### **Variables used in cluster analysis**

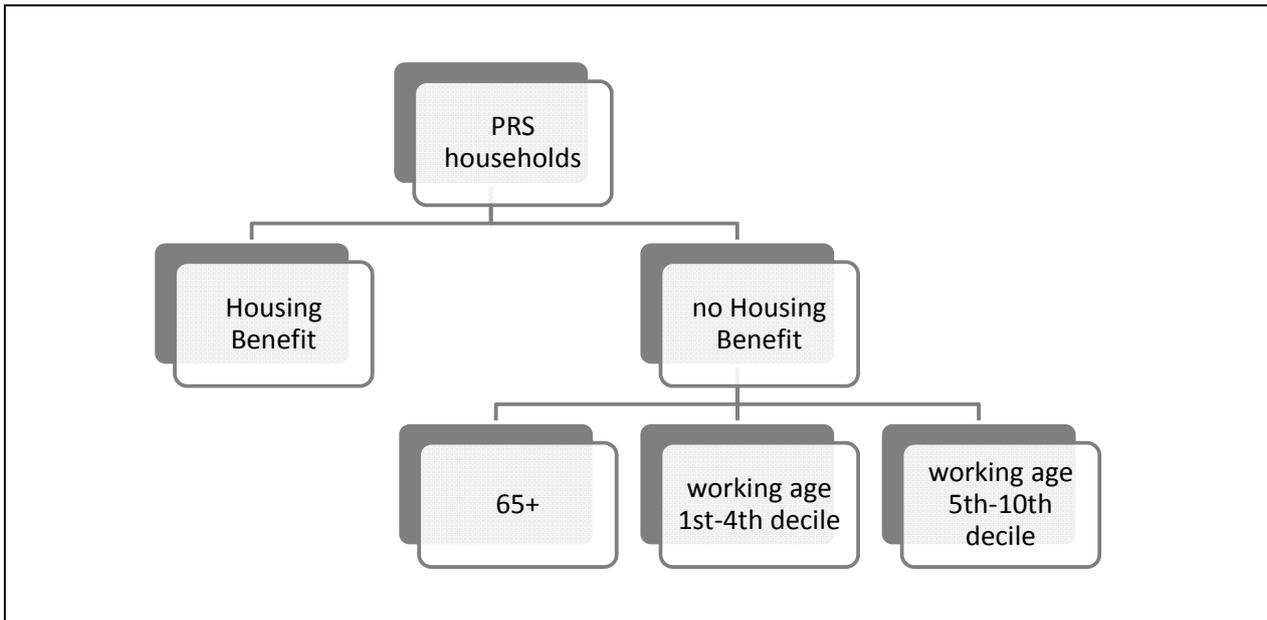
- Age of household reference person
- Employment status of household reference person
- Migration status of household reference person (2008/09 and 2009/10 only)
- Household composition
- Household income
- Proportion of income from benefits
- Proportion of income from earnings
- Proportion of income spent on housing costs
- Proportion of housing costs covered by Housing Benefit
- Period lived at current address

## **Results of cluster analysis**

Clustering the data for the ten years shows that in the majority of cases a four-cluster solution is the strongest explanation of the data, but for some years larger numbers of clusters were produced (2000/01 and 2002/03 produced five clusters; 2004/05 produced six clusters). The reason for the different clusterings in these years is unclear, but they were less statistically robust than the four-cluster solutions.

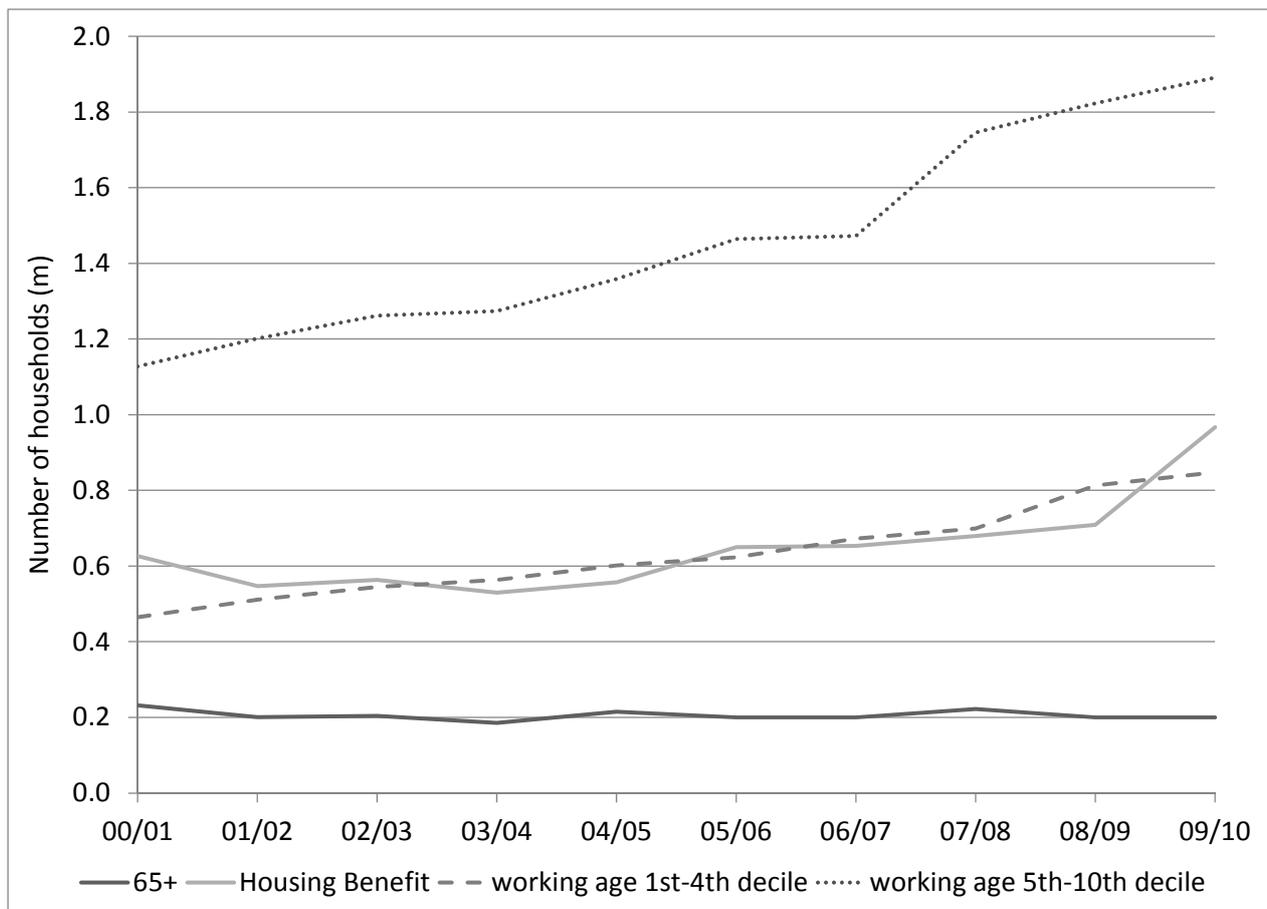
Comparison of the four clusters over the different years reveals that these four-cluster solutions share significant commonality. Furthermore, running a cluster analysis on the data for all years produces a four-cluster solution that shares the same characteristics. This suggests that the four clusters produced are the most robust grouping of the data. The defining characteristics of the four clusters are outlined in Figure 16, and constitute the classifications used to further analyse the data.

**Figure 16. Summary of four-cluster solution**



Applying these classifications to the original data enables the examination of the characteristics of these sub-sectors and they have changed in size. Figure 17 and Table 2 show the change in size of each of the sub-sectors over the last ten years. The number of over 65s not in receipt of Housing Benefit decreased in absolute terms by nearly 14 per cent; due to the overall increase in the size of the private rented sector this represented a reduction in relative size of over 45 per cent. By contrast, working age households in the 1<sup>st</sup>-4<sup>th</sup> income deciles grew significantly as both a proportion of private rented sector households (from 19 per cent to 22 per cent) and as an absolute number of households (from 460,000 households to 850,000 households, a growth of more than 80 per cent).

**Figure 17. Changing size of the four clusters**



**Table 2. Changing size of the four clusters**

	Percentage change in size of sub-sector (00/01–09/10)	Sub-sector as a percentage of the PRS	
		00/01	09/10
65+, no HB	13.8	9.5	5.1
Housing Benefit	54.3	25.6	24.8
Working age, 1st-4th decile, no HB	82.5	19.0	21.7
Working age 5th-10th decile, no HB	67.7	46.0	48.4

### 65+, not in receipt of Housing Benefit

In terms of household composition, 97 per cent of households are either single people or couples without children, with the former being the larger of the two groups at 64 per cent. This cluster also has low levels of residential mobility, with 66 per cent having lived at their current address for at least ten years, with this figure being fairly constant over the period under study. The remaining regulated tenancies have some role to play in this, but given that in 2000 tenants would have needed to live at their current address for more than 12 years, and in 2009

for more than 21 years to be on a regulated tenancy, this does not explain all the long-term stays. Very few households (an average of six per cent) have lived at their current address for less than a year, which is more in line with mobility figures for the owner occupied and social housing sectors. Across the private rented sector as a whole, around 40 per cent of households have moved within the last year.

Unsurprisingly, 86 per cent of this cluster is retired, with a further 11 per cent in work. There has been a slight increase in the proportion of in-work households in this cluster since 2003, but there is significant year-on-year fluctuation. Given the small sample size of in-work households, this fluctuation is not surprising, and it is not possible to draw any strong conclusions regarding trends.

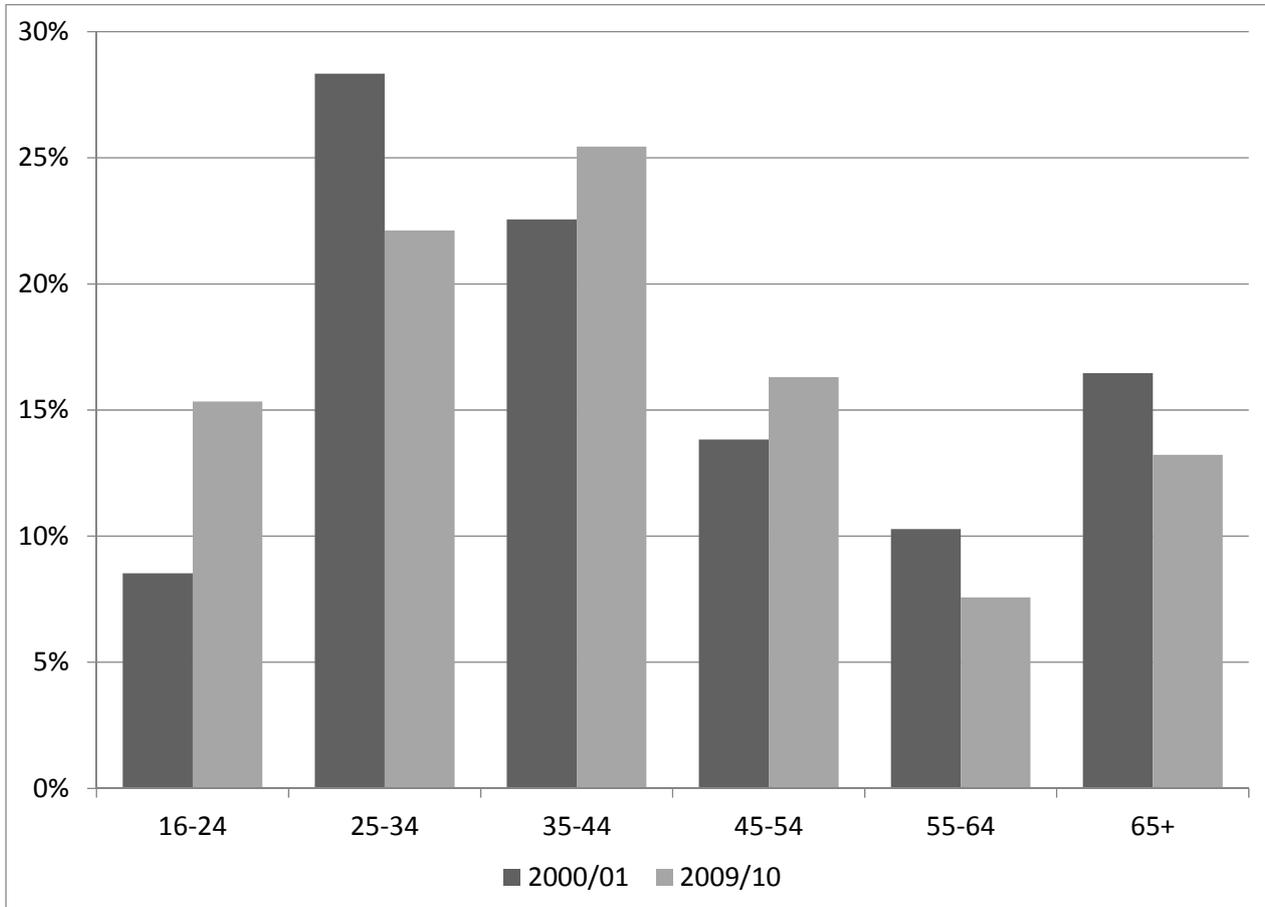
The income of these households has been relatively stable over time, with around 50 per cent of households in the bottom fifth of incomes and 80 per cent in the bottom two-fifths. Around 66 per cent of income is derived from benefits, including the state pension; and 28 per cent is from other sources, probably private pensions, given the age of this group. A relatively small proportion is derived from earnings, with an average of six per cent for the years studied.

Despite their low income, this group is relatively unburdened by housing costs, with the vast majority spending less than 30 per cent of their income on housing. This is, perhaps, surprising given the typical level of market rents and suggests that at least a substantial proportion of this group must be paying rents that are much lower than typical.

## **Housing Benefit recipients**

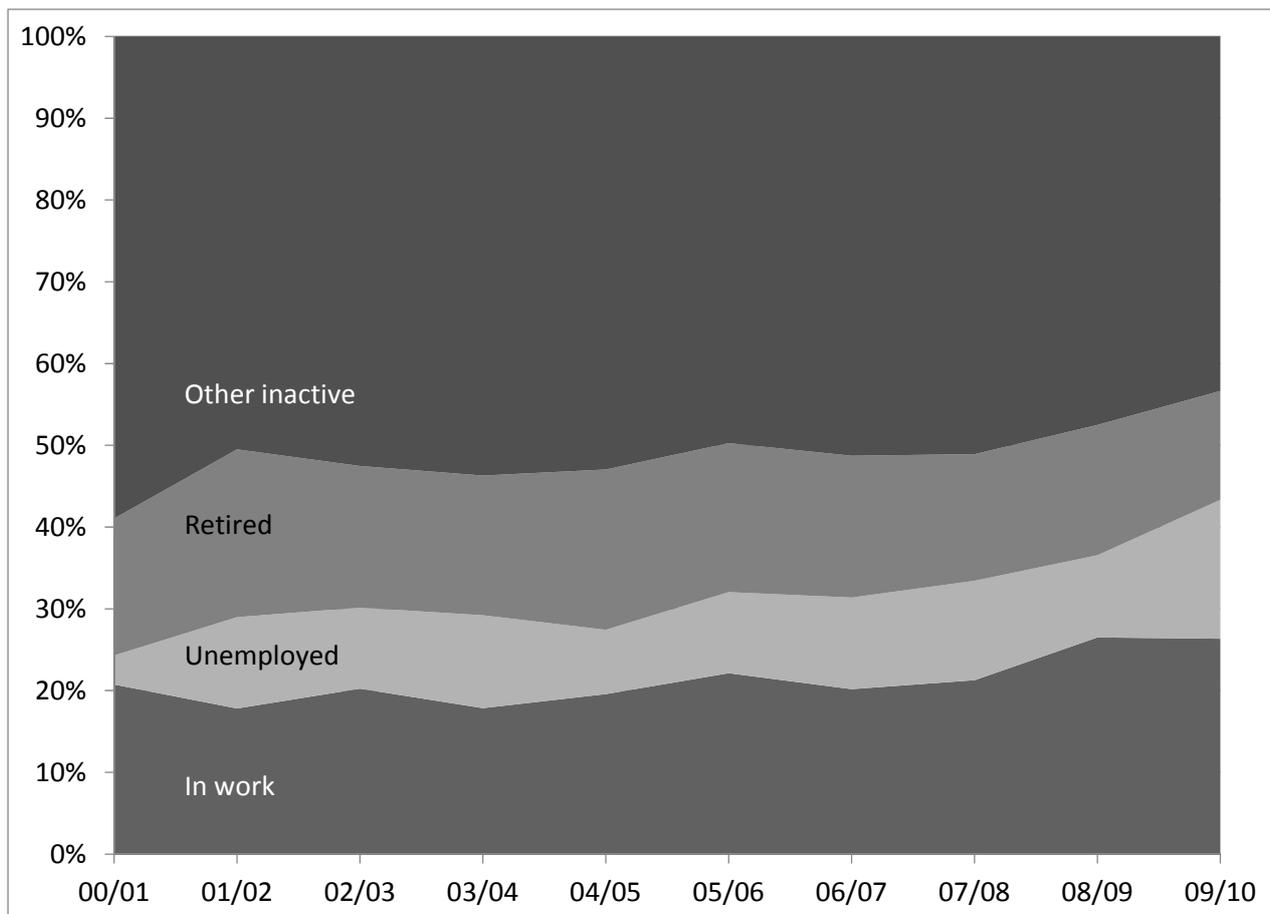
Housing Benefit recipients in the private rented sector are drawn from across the age range; the group is less dominated by younger households than the sector as a whole. There has been a strong growth in claimant numbers in the private rented sector over time, as outlined above. There has therefore been a growth in all age groups living in the sector. However, by far the strongest growth has been from the 16-24 year old age group, with the proportion of this age group nearly doubling in ten years (Figure 18). Older households (55+) and those aged 25-34 have seen a relative decline as a proportion of Housing Benefit claimants in the sector.

**Figure 18. Distribution of Housing Benefit recipients by age of household reference person**



In terms of household type, the sector is quite diverse and contains more households with children than the private rented sector as a whole. Households with children now make up almost half of all Housing Benefit claimants in the private rented sector, a figure which has grown from 40 per cent over the last ten years. Seventy per cent of single parent households are in receipt of Housing Benefit.

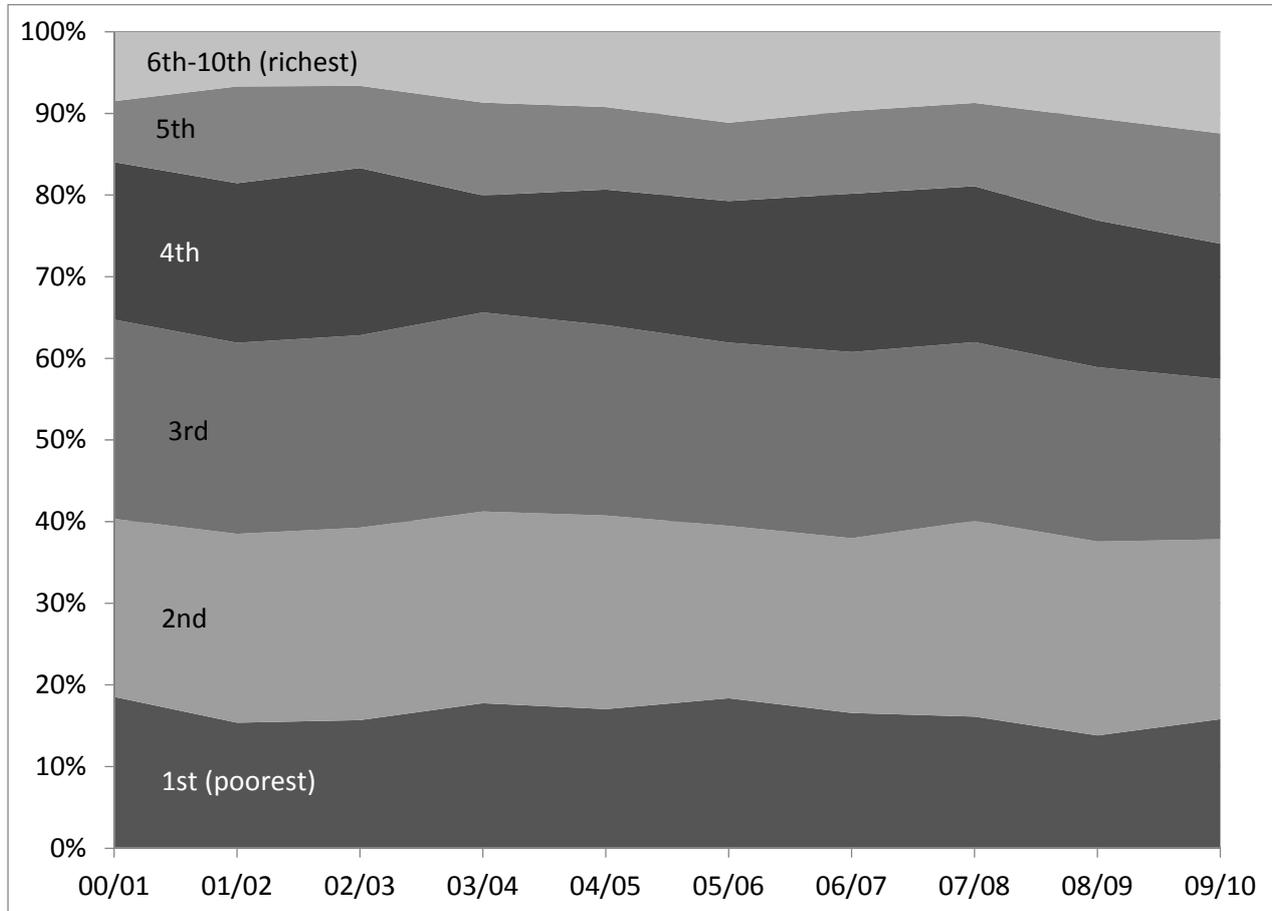
Housing Benefit recipients are most likely to be economically inactive for reasons such as sickness or caring for dependants, although the proportion inactive for these reasons is declining (Figure 19). A substantial proportion is also retired. Many of these are likely to be in receipt of Housing Benefit in the long term. However, over the last decade there has been a steady growth in the number of economically active claimants, including in-work claimants, who have gone from comprising 21 per cent of claimants to 26 per cent.

**Figure 19. Employment status of Housing Benefit recipients**

Housing Benefit recipients are also more likely to have stayed in their accommodation for longer periods, with 43 per cent having lived at their current address for three years or more, in comparison with 31 per cent of all private tenants. However, the older age profile of Housing Benefit recipients needs to be taken into account in this.

In terms of income, around 90 per cent of Housing Benefit claimant households are below the median (Figure 20). However, over the last ten years there has been a slight growth in the number and proportion of households earning above median income and still being in receipt of Housing Benefit. The proportion of households above the median income has grown from 8.5 per cent to 12.5 per cent. The source of income for this group is predominantly benefits (averaging 80 per cent of the last ten years), although this has declined from 83 per cent in 2000/01 to 73 per cent in 2009/10. The high percentage of income from benefits and the high levels of economic inactivity indicate that many households are likely to be in receipt of a variety of benefits in addition to Housing Benefit.

**Figure 20. Household income of Housing Benefit recipients (measured by income decile)**

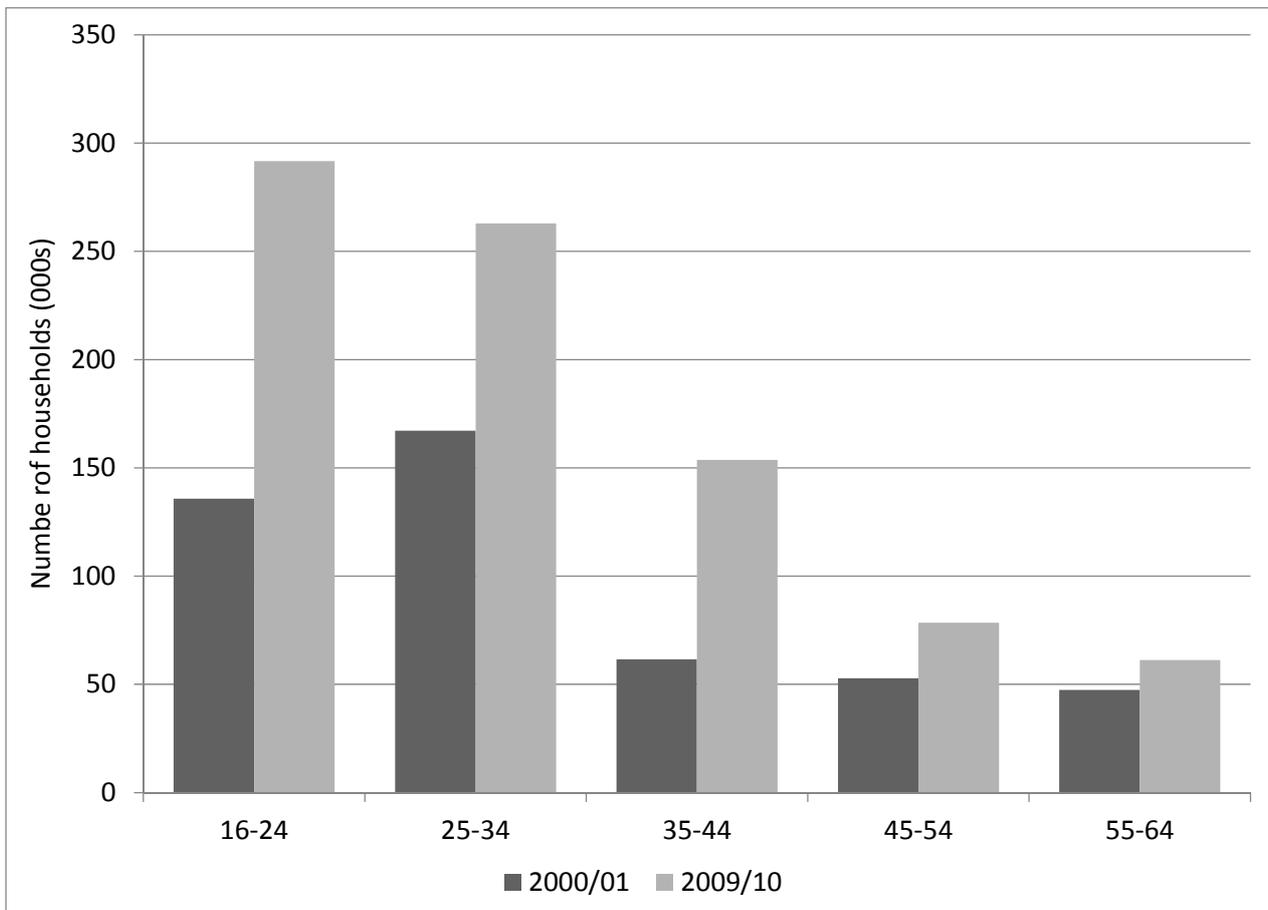


Despite being in receipt of Housing Benefit, this group is burdened by housing costs, with around three-quarters spending more than 30 per cent of their income on housing, and a quarter spending more than 50 per cent.

### Working age, 1<sup>st</sup>-4<sup>th</sup> income decile, not in receipt of Housing Benefit

This sub-sector has grown substantially in absolute and relative size over the last decade, showing the most rapid growth of the four sub-sectors. Households are typically younger than working age households in the private rented sector as a whole, with 16-24 year olds comprising 31 per cent of the sub-sector on average. Given the rapid growth in the size of the sub-sector, it is unsurprising to see growth in all age groups; however, the growth has been largest in 16-24 and 35-44 year old age brackets (Figure 21).

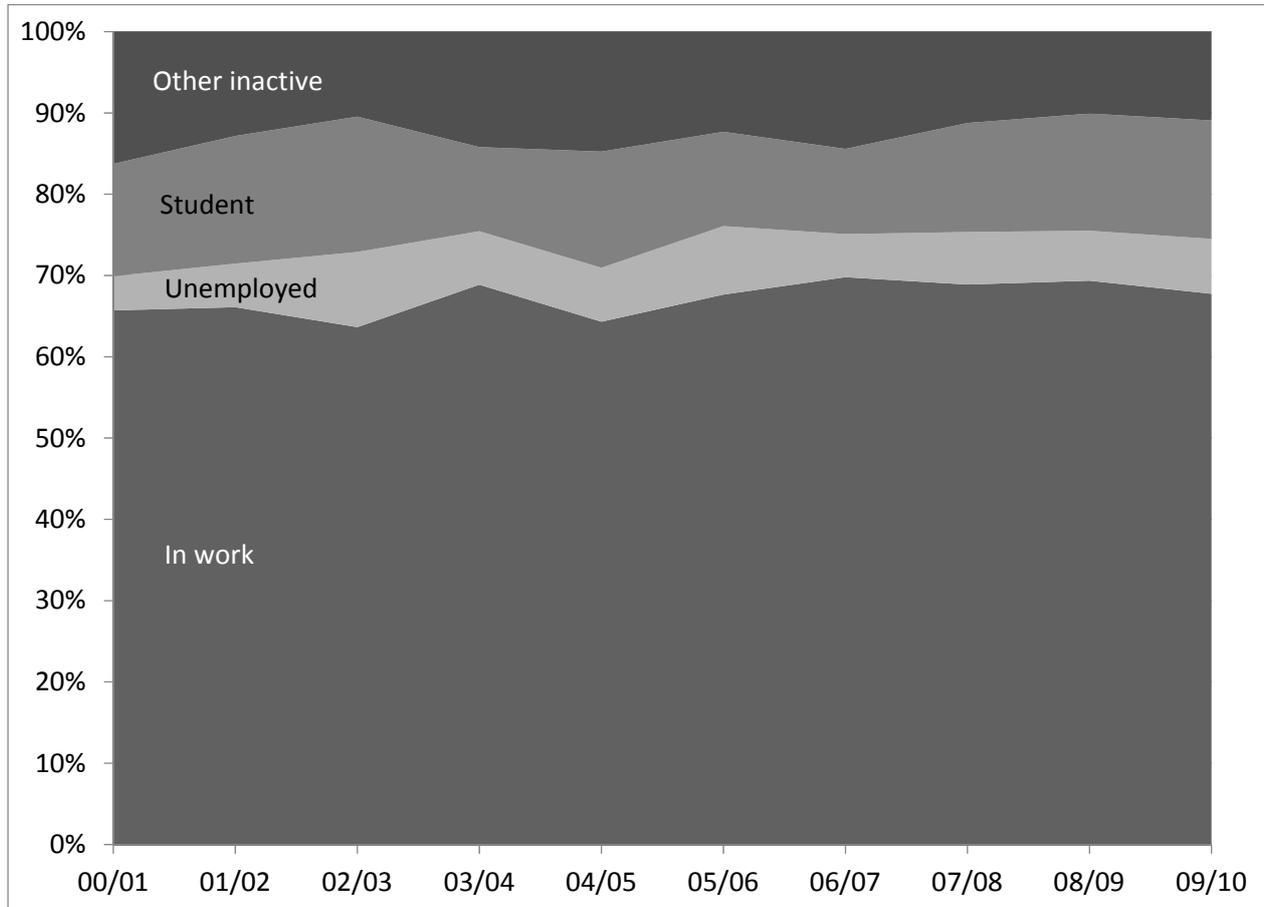
**Figure 21. Age of household reference person in the 1<sup>st</sup>-4<sup>th</sup> income deciles not in receipt of Housing Benefit**



In terms of household type, the majority are single person households, accounting for around 56 per cent of households. However, this is likely to be partially related to that fact that non-equivalised income was used in this analysis: statistically, single-person households are likely to have a lower income than households with two or more adults. The proportion of households with children in this group has remained stable at around 18 per cent. The relatively small proportion of children in this group is probably because low-income households with children are more likely to need Housing Benefit to supplement their income, given their higher housing costs and lower equivalised income relative to households without children.

The majority (67 per cent) of households in this sub-sector are in work. Students also make up a substantial proportion of the sub-sector, accounting for around 14 per cent of households. Figure 22 outlines the distribution of employment status in this group between 2000/01 and 2009/10.

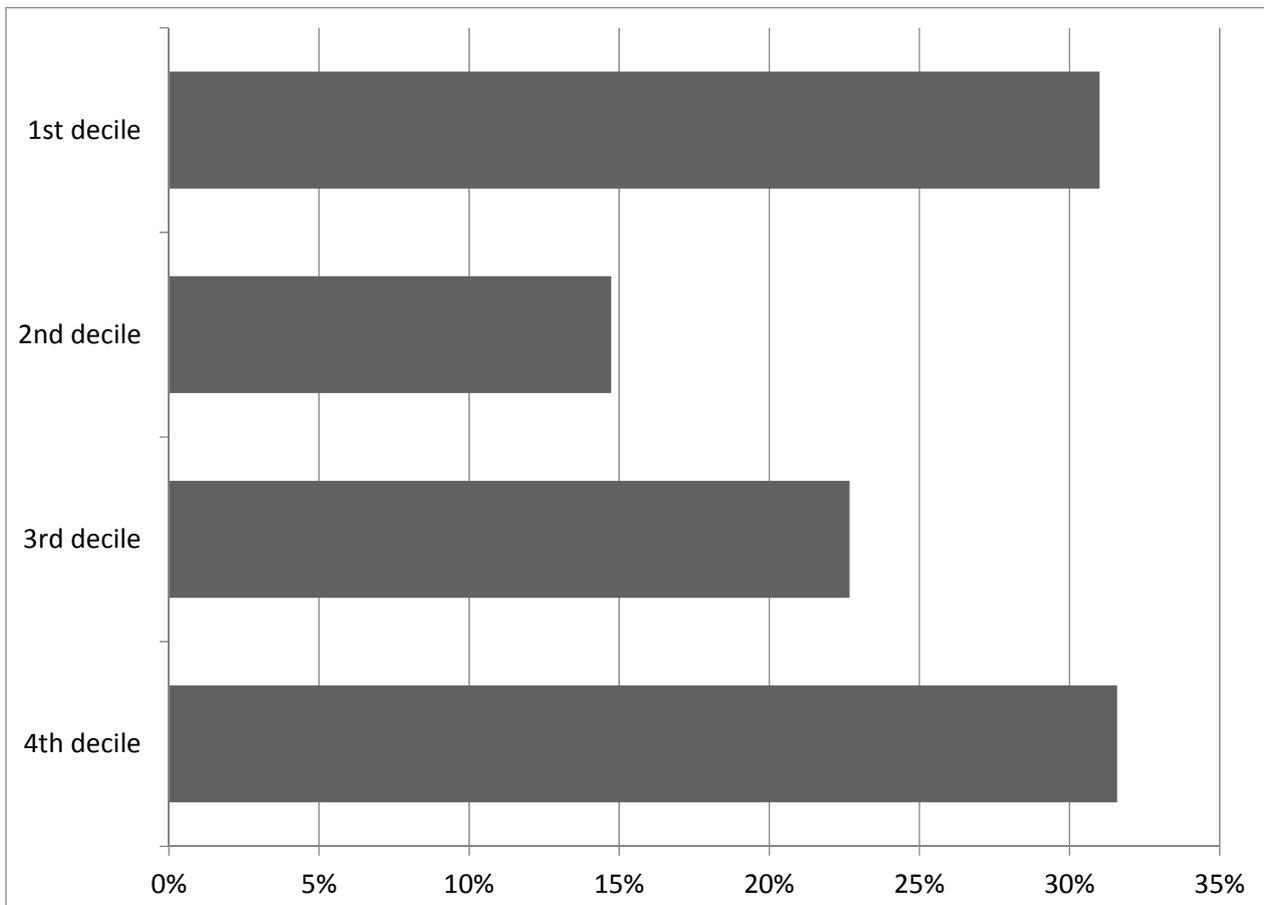
**Figure 22. Employment status of household reference persons in the 1<sup>st</sup>-4<sup>th</sup> income deciles not in receipt of Housing Benefit**



Relative incomes for this group have remained fairly constant over the last ten years, with the majority being drawn either from the lowest income decile (31 per cent) or the fourth (32 per cent; Figure 23). This is a different picture from what might be expected. It would seem plausible that there would be fewest households in the lowest income decile (as they are more likely to be in receipt of Housing Benefit), with an increasing proportion of households as income increases (and fewer households are eligible for Housing Benefit).

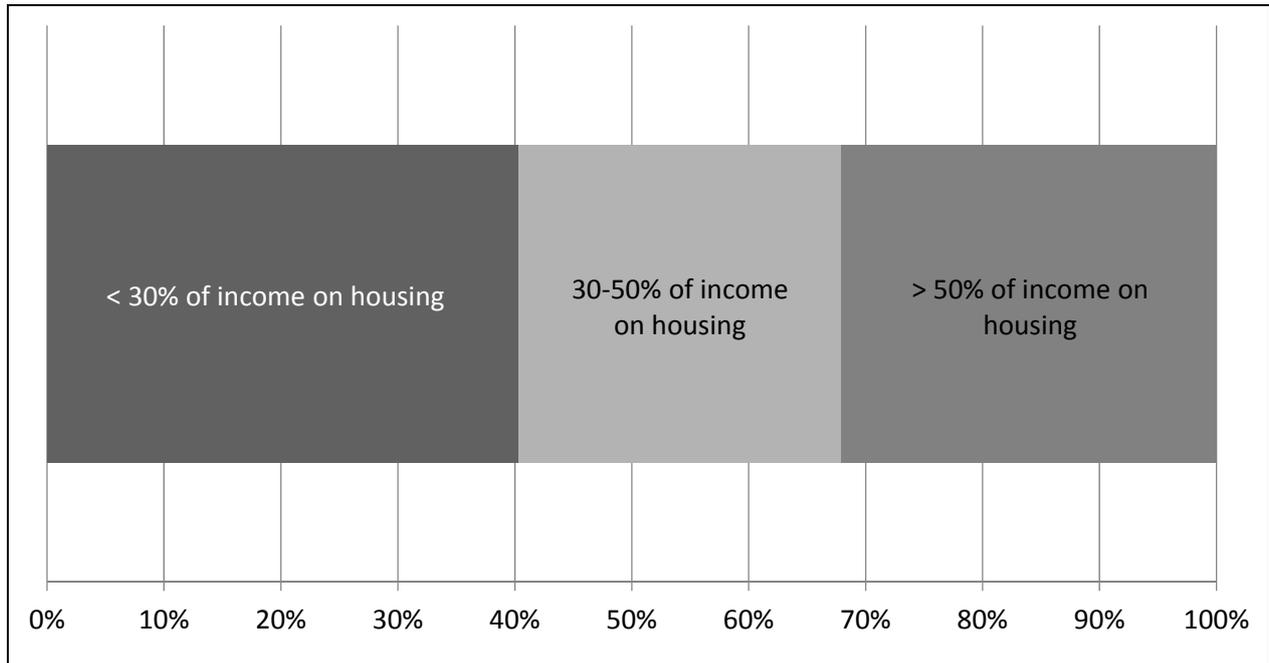
There are some partial explanations for this, including the fact that this pattern is reflected in the private rented sector as a whole, although to a smaller degree. There is also a significant number of migrants and students in this group, who are less likely to be eligible for Housing Benefit, but still have low incomes. Around half of this income is earned and around 40 per cent is classed as coming from other sources. Given the high number of students in this group, it is likely that a significant proportion of this is student loans.

**Figure 23. Income distribution of households in 1<sup>st</sup>-4<sup>th</sup> income deciles not in receipt of Housing Benefit**



Given their low incomes and lack of Housing Benefit, it is unsurprising that this group is burdened by housing costs. In fact, this is the most burdened group of the four, with nearly 60 per cent of households spending over 30 per cent of their income on housing and nearly a third spending more than half their income on housing (Figure 24).

**Figure 24. Burden of housing costs for working age households in the 1<sup>st</sup>-4<sup>th</sup> income deciles not in receipt of Housing Benefit**

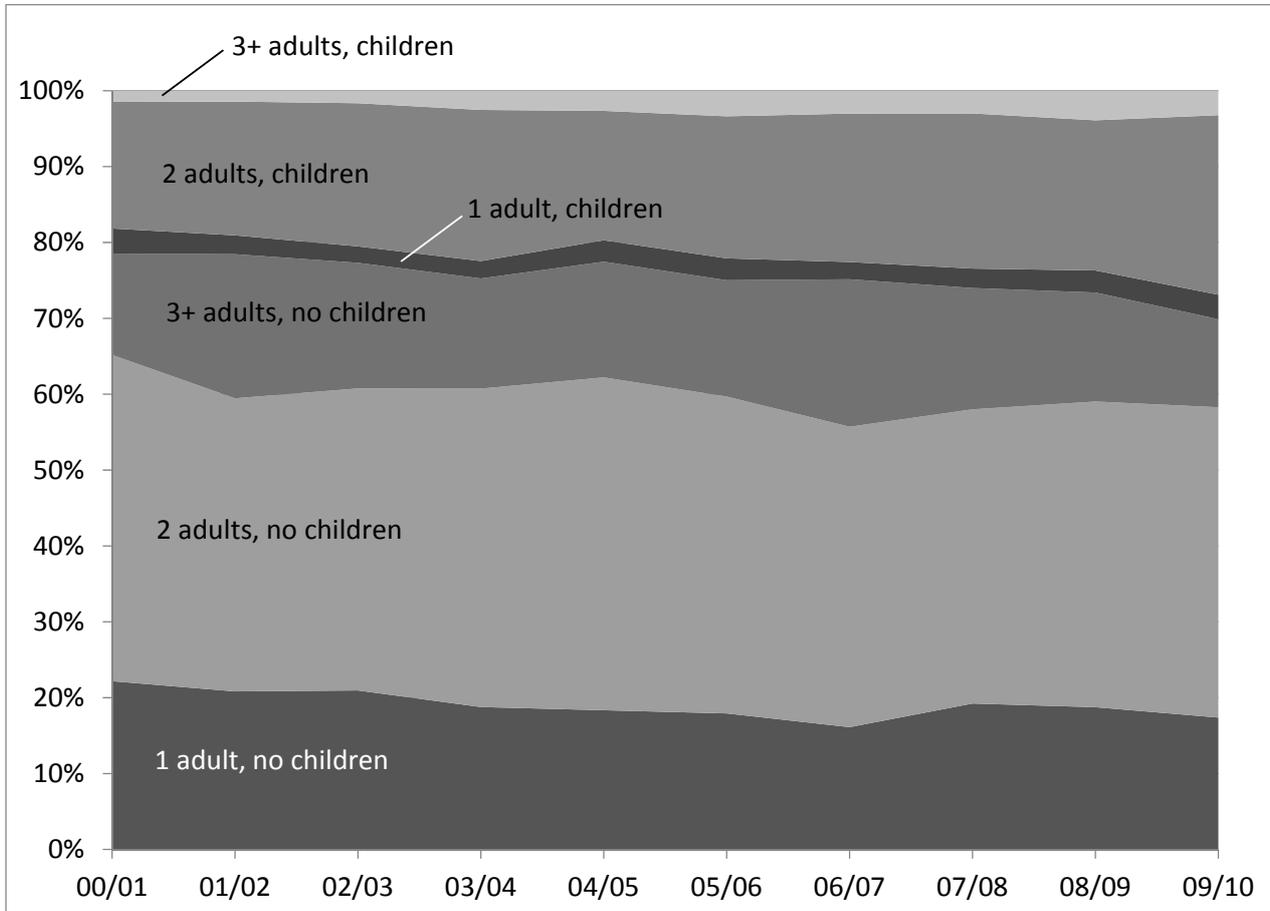


**Working age, 5<sup>th</sup>-10<sup>th</sup> income decile, not in receipt of Housing Benefit**

Forty-two per cent of this sub-sector is composed of households headed by those aged 25-34, with 16-24 year olds (19 per cent) and 35-44 year olds (22 per cent) forming the next largest age brackets. The age profile of this group has not changed significantly over time.

The majority of households do not have children, but households with children have grown as a proportion of the group from 22 per cent to 30 per cent in the last decade. This constitutes 327,000 extra families. Couples without children constitute around 40 per cent of the group, a figure that has remained fairly constant for the last decade. Figure 25 shows the changes in the household composition of this group over time.

**Figure 25. Household composition of working age households in the 5<sup>th</sup>-10<sup>th</sup> income deciles not in receipt of Housing Benefit**



Ninety-four per cent of this sub-sector is in work and 81 per cent of their income is derived from earnings. The remaining household income is mainly from other sources (17 per cent) with benefits comprising just two per cent of this group’s income. Households are drawn fairly evenly from across the six higher income deciles.

Given the relatively high incomes, it is unsurprising that this group is relatively unburdened by housing costs, with only 14 per cent of households spending more than 30 per cent of their income on housing. It is also the case that, given they have higher incomes, households are more likely to be able to afford spending more of their income on housing, without causing financial hardship in other areas. However, it is worth noting that the proportion of people who are burdened by housing costs in this group has increased from 11.5 per cent to 14.5 per cent between 2000/01 and 2009/10.

## Analysis of clustering approach

Using the information obtained by the cluster analysis, it is therefore possible to develop descriptions of groups living in the private rented sector that share important commonalities. This is a different approach to grouping households in the private rented sector from that which has typically been applied before. The key issue is to what extent the results of this analysis facilitate an understanding of the private rented sector. As stated above, cluster analysis is an exploratory technique and results represent statistical commonalities, which need to be examined in context to assess their usefulness.

As is apparent from the cluster descriptions above, the clusters created are quite meaningful, related to particular household types, which will have particular needs, or be seeking to access particular sectors of the market. For example, those in the over 65s group are likely to remain in the private sector in the long term, as they are unlikely to be able to access owner occupation or social housing, if they have not been able to do so previously. They are also very unlikely to need to move for reasons of work, etc. Therefore, they are likely to value a stable, long-term home, with the possibility of adapting to care and mobility needs in later life.

The clusters also highlight a number of important observations about households in the sector that have, in some cases, been overlooked by policymakers and researchers, particularly with regard to the diversity of some groups. First, families in the private rented sector are a very diverse group, being split across the three working age clusters, with a range of incomes, levels of mobility, employment statuses, etc. While it is correct to talk about the growth of families in the private rented sector, it is also important to recognise that this group is by no means homogeneous. This means that there will equally be no single solution to meet the needs of families in the private rented sector, but rather a range of solutions will be needed. That is not to say that families living in the private rented sector do not share important similarities and needs, but is important to acknowledge diversity as well.

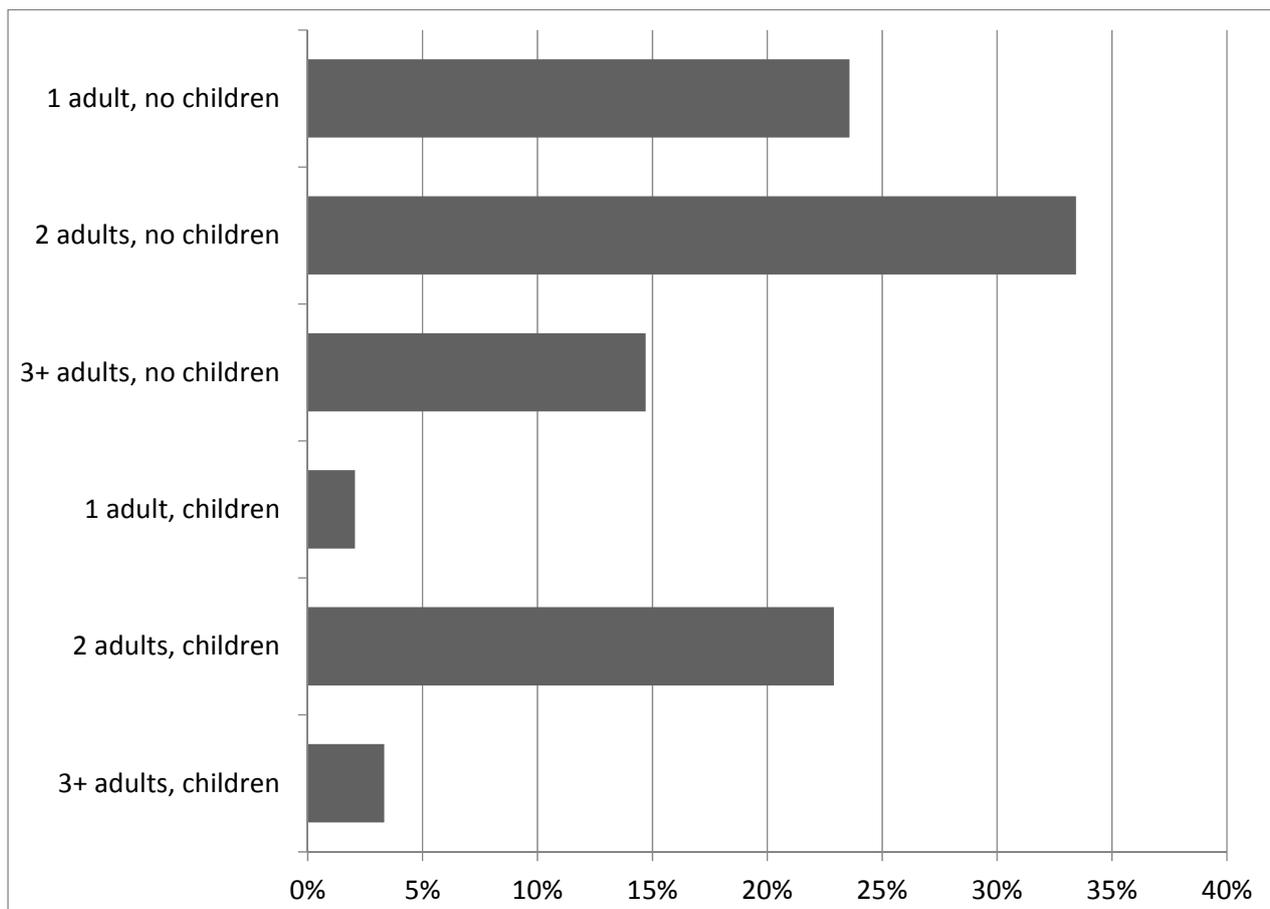
Equally, recent migrants (those who have lived in the UK for less than five years) are a diverse group. The idea of migrants in the private rented sector often conjures up images of low income workers in poorer quality, often shared accommodation, with little security of tenure. At the extreme, particularly in parts of London, it is synonymous with the worst cases of unscrupulous landlord practices, such as people living in sheds or outbuildings, and hot-bedding, where multiple people share a room and take it in turns to sleep in it. However, the clustering reminds us that migrants are in a range of economic situations, with

many in well-paid occupations and many who are students, likely to be in accommodation similar to that of their British peers.

Of the four clusters, recent migrants are found in all apart from the older cluster. Although a small number are in receipt of Housing Benefit, this makes up less than four per cent of the Housing Benefit group. The majority of migrants in the private rented sector are therefore working age and not in receipt of Housing Benefit. Recent migrants make up 18 per cent of the lower income group (which includes the majority of students) and 16 per cent of the higher income group.

Migrants tend to be younger (around three quarters are under 35) and either in work (80 per cent), or students (13 per cent). However, they have a diverse range of incomes (similar to that of the sector as a whole) and live in a variety of household types (Figure 26). Migrants should therefore not be considered a homogeneous group, but rather a variety of groups that, in many cases, bear more similarities to those who have been resident in the UK for much longer, than they do to each other.

**Figure 26. Household composition of recent migrant households**



*Note: the sample size for single parent households is too small to be reliable.*

However, while migrants do not have particularly different needs from the settled population in terms of housing, research indicates that their needs are less likely to be met if they arrive in the UK without sufficient support.<sup>57</sup> This includes problems accessing suitable private rented accommodation. Therefore, although not a homogeneous sub-sector of private tenants, recent migrants remain an important focus for those seeking to meet housing need.

Finally, the older cluster is interesting in that they are typically on low incomes and yet are not burdened by housing costs. This cannot be mainly attributed to low rents from remaining regulated tenancies because the majority of tenants have not lived at their current address for sufficient time to still be subject to rent control. The reasons for the low level of rent paid by this group is therefore unclear, but nonetheless an interesting finding.

However, there are also a number of issues with the groupings developed. This is mainly because the clustering produced only four clusters, which, although the most statistically valid, does not sufficiently reflect the variety of households that the sector houses. Each cluster is quite diverse, making it difficult to draw conclusions about any particular household type, its characteristics, its size and how this has changed over the last decade.

Students, in particular, are a well-established and studied sub-sector of the private rented sector, yet are not recognised as such in the clustering. Rather, students are found in each of the three working age clusters. While this reveals interesting similarities between students and other households that are often not acknowledged, it ignores the fact that the majority of students live in a single sub-market of the private rented sector, with its own specific practices. They tend to live in properties let specifically for the student market and in accommodation shared with other students. Students will typically live at an address for a maximum of three years, with living at a different address for each year of study being common. Students are also typically in the lowest income decile and yet are not eligible for Housing Benefit unless they are disabled or have dependent children.<sup>58</sup> Given these important differences, the failure of the clustering to distinguish students as a particular cluster is problematic.

Equally, although the diverse nature of families highlighted above is important, it is also the case that families have different lifestyles and needs from households without children and so their situation within the private rented sector is distinct. To therefore better understand these households, it would be helpful for the clustering to better distinguish by household type than it does.

A further issue to note is that the Housing Benefit group is a very diverse one. Defining households simply by whether or not they are in receipt of a particular

benefit is overly simplistic. The group contains households that are economically active and inactive, those for whom Housing Benefit covers either a small proportion or all of their rent, and a variety of household types. For some of these groups, Housing Benefit is likely to be paid in the long term, covering all their housing costs because, for whatever reason, they are unable to work. Equally, for others, Housing Benefit supports them with some of their rent as they live and work in areas with high housing costs. Others still will be on Housing Benefit in the short-term while they are unemployed. While all these nuances are not possible to identify in a large scale secondary data analysis, it demonstrates that 'Housing Benefit' is not a sufficiently subtle description of a sub-sector of the private rented sector.

However, Housing Benefit remains an important feature of households in the private rented sector as only the minority (albeit a substantial one) of landlords accept tenants in receipt of it.<sup>59</sup> Being in receipt of Housing Benefit therefore significantly shapes households' access to the private rented sector. This does, to some extent, create a Housing Benefit submarket, but it accounts for such a large proportion of households and such a variety of household types that it is not a particularly useful unit of analysis in itself.

Therefore, if the cluster analysis is to be more useful in understanding the private rented sector, there need to be robust and meaningful ways of further deconstructing the clusters to account for these issues.

## **Developing sub-sectors**

To deconstruct the four main clusters into meaningful sub-sectors, the characteristics of each cluster were examined in light of the issues outlined above and existing research into the private rented sector. Classifications were then developed based on knowledge of the private rented sector and household types, and applying this information to the four clusters.

As highlighted above, students make up a particular and widely accepted sub-sector of the private rented sector, with many landlords concentrating their business on this group, creating a sub-market with particular characteristics. For example, many landlords in student areas will adapt their rent collection align with student loan payments and adapt contracts to tie in with the academic year. Therefore, although this particular group was not identified as distinct by the cluster analysis, and not all those of student status will be living in the student sub-market of the private rented sector, this group was treated as separate for the analysis. It should be noted that the majority of students were in the cluster defined by being working age, not in receipt of Housing Benefit and in the first to

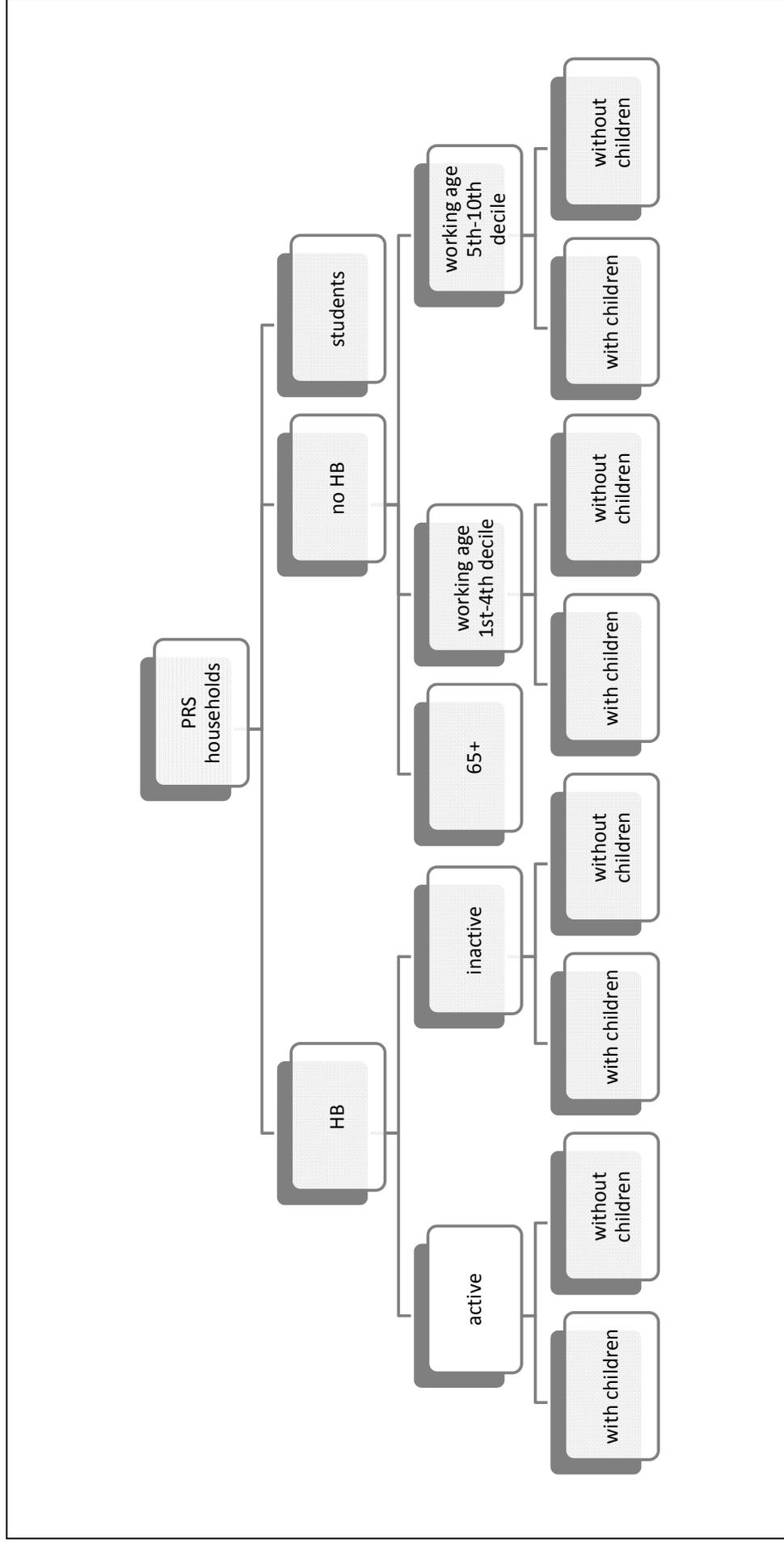
fourth income deciles. However, this sub-sector does cut across the clusters, with the exception of the older households cluster.

The Housing Benefit cluster, as mentioned above, is too diverse to provide detailed insights. Therefore, the cluster was split into economically active and inactive households, as this is an important distinction in terms of household situations.

Finally, clusters with a substantial proportion of families with children in (i.e. all groups other than students and those aged 65+) were split along these lines. Although families living in the private rented sector are diverse, there do have important differences from those households that do not have children. For example, for reasons related to education and well-being, frequent moves can be more problematic for households with children. Equally, they will potentially have different priorities in terms of property type, location, etc.

Given these important issues, the clusters were deconstructed into sub-sectors as per Figure 27.

Figure 27. Development of sub-sectors



**Figure 28. Size of sub-sectors, 2009/10**

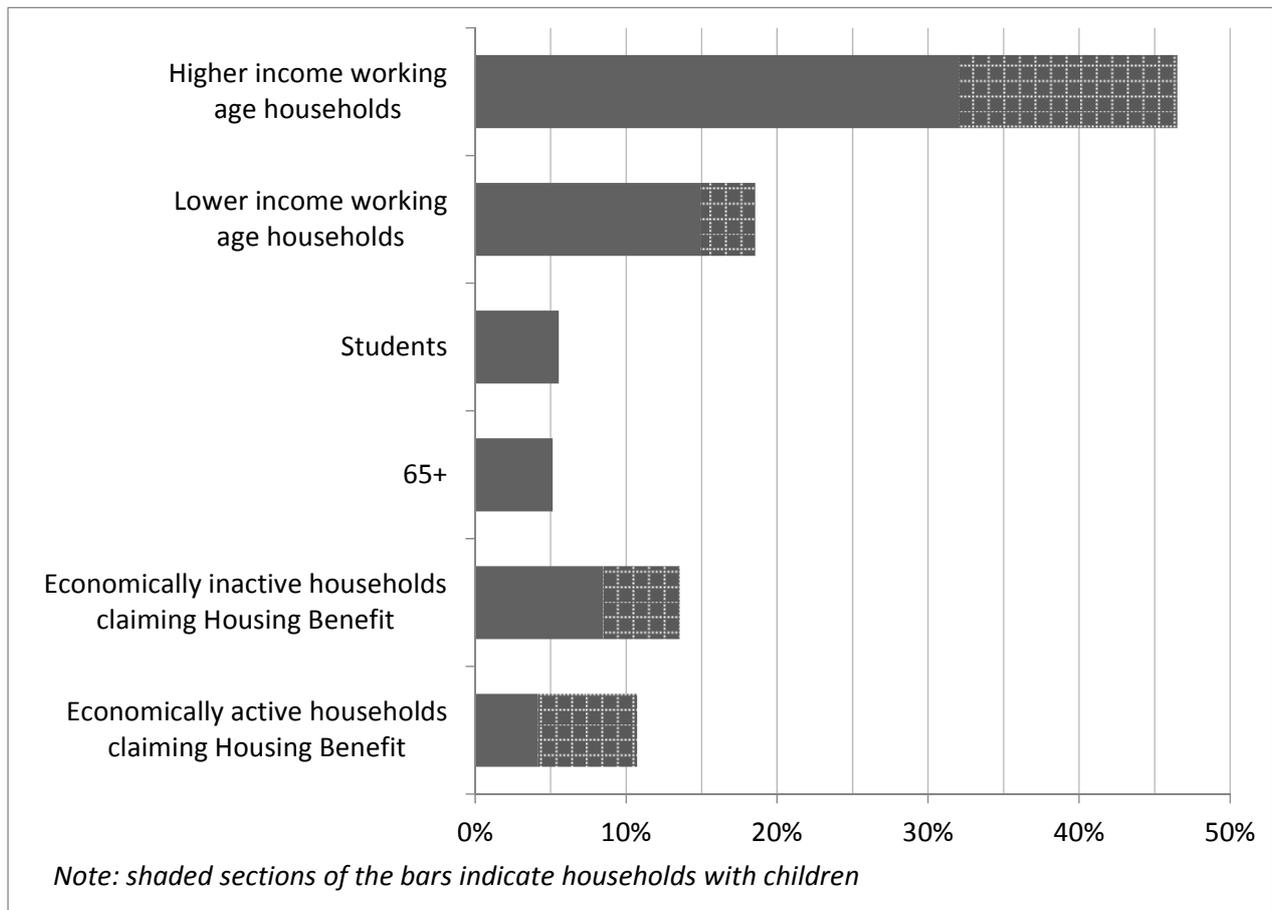


Figure 28 shows the relative sizes of the identified sub-sectors for the most recent available data. Of the four Housing Benefit claiming groups, the majority (56 per cent) are economically inactive, and just under half (48 per cent) are households with children. Economically active Housing Benefit claiming households are more likely to have children than are economically inactive households. Despite receiving Housing Benefit, the majority of households are still burdened by their housing costs.

- Inactive households without children are typically older (40 per cent are 65+, 75 per cent are 45+) single adults. Households have typically lived at their address for significantly longer than is average for the private rented sector, with nearly half having lived there for five or more years.
- Inactive households with children are mostly aged 25-44 (65 per cent). Seventy per cent are single parent households. In terms of mobility, this group is similar to the private rented sector as a whole.
- Active households without children are from across the age range, but half are aged 25-44. The majority (66 per cent) are single adults and 45 per cent

are unemployed. This is the poorest sub-sector, with 40 per cent in the bottom income decile and 91 per cent below median income.

- Active households with children are predominantly aged 25-44 (72 per cent of households). Over half (54 per cent) are single parents, meaning that the majority of households with children claiming Housing Benefit are single parent families. Three quarters of households in this sub-sector are in employment, a much higher percentage than active households without children. Nearly a tenth of this sub-sector is recent migrants, compared with a negligible proportion of other Housing Benefit sub-sectors (although these results are obtained from small sample sizes and may be unreliable). The households in this sub-sector are more stable than the private rented sector as a whole, tending to have lived at their address for several years.

Low income working age households not claiming Housing Benefit make up just under a fifth (19 per cent) of private renting households. Due to their low incomes and high private rents, the majority of these households are burdened by housing costs. Relatively few of these households (19 per cent, compared with around 30 per cent of all private renting households) have children. This is likely to be because low income families are more likely to be claiming Housing Benefit, due to the additional outgoings and larger (and therefore more expensive) property needed.

- Households without children are typically younger, with the majority aged under 35. They are also more mobile than average for privately renting households. Nearly three quarters (71 per cent) are single adults. Again this indicates the issues associated with using non-equivalised income, as single-earner households will typically be on significantly lower incomes than dual-income households. More than three quarters of households in this sub-sector are in work. Fifteen per cent of this sub-sector are recent migrants.
- Households with children are again mainly aged 25-44, reflecting the pattern of the private rented sector as a whole. The majority (55 per cent) are two parent households and three quarters are in work. Interestingly third of this sub-sector's income is identified as coming from sources other than benefits or earnings. More than a fifth of this sub-sector are recent migrants.

Better off working age households make up nearly half of the sector (47 per cent), and around 40 per cent of these households contain children. Young professionals are likely to make up some of the 60 per cent of these households that do not have children. A significant proportion of households are also likely to be classed as Generation Rent; those on higher incomes would be able to service

a mortgage, but may be unable to access owner occupation due to mortgage constraints.

- The majority (65 per cent) of households without children are under 35 and 56 per cent are two-person households. Almost all households are in work and the vast majority (85 per cent) of income is from earnings. Sixteen per cent of this sub-sector are recent migrants, meaning that 41 per cent of recent migrants living in the private rented sector are in this sub-sector.
- Again, the majority (78 per cent) of households with children are aged 25-44 and three quarters are two parent families. As with the households without children, almost all households are in work. Households in this sub-sector are also significantly less mobile than is typical for the private rented sector.

Students constitute 5.5 per cent of the sector and represent a well-established sub-market. However, this group also contains a small number of households that are headed by students, but are not likely to be living in the student sub-market, such as older students and households with children. However, the number of these households was small and so did not constitute a sub-sector in their own right. An alternative formulation would be to include these households in the working age or Housing Benefit claiming sub-sectors as appropriate. However, the small number of households involved meant that this would not substantially alter the size of the sub-sectors. As with any approach, these sub-sectors constitute a guide, rather than an absolute reality.

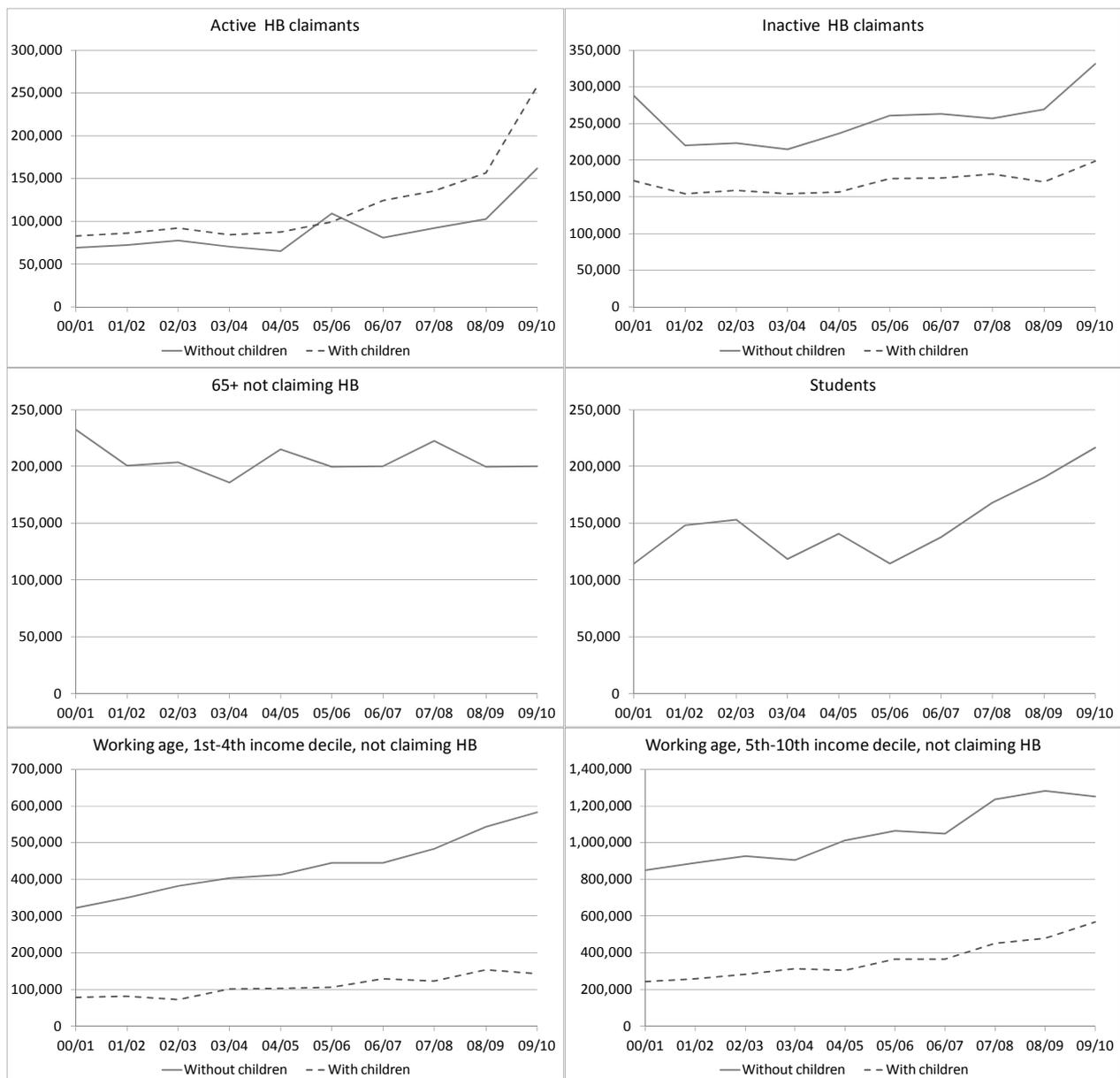
The student sub-sector is by far the youngest, with 67 per cent aged under 25 and 92 per cent aged under 35. The most common household compositions are single person households (32 per cent) or three or more adults sharing (35 per cent). The sector is by also far the most mobile, with 68 per cent of households having moved in the previous year. Students are from a range of incomes, but the majority are in the bottom three deciles and 30 per cent are in the lowest decile. Given this low income, it is unsurprising that this sub-sector is heavily burdened by housing costs.

Older households not in receipt of Housing Benefit, as outlined in the four-cluster solution above, are very stable in their accommodation, many having lived at their current address for many years, are typically on low incomes, but also have low housing costs and so are not burdened. It is not entirely clear how these households manage to access low rent accommodation, but as private renting becomes increasingly expensive and the few remaining regulated tenancies come to an end, this group is likely to claim Housing Benefit and become part of the Housing Benefit claiming inactive sub-sector.

## Growth of sub-sectors

The size of the clusters and how these have changed over the last ten years can be seen in Figure 29. The cluster that has seen the biggest absolute increase is active households claiming Housing Benefit, which is reflective of wider trends in Housing Benefit claimant numbers, which have seen a substantial increase in active claimant numbers in recent years.<sup>60</sup> This is particular the case for active Housing Benefit claiming households with children, which have more than trebled in number in the last decade. As rents increase, in-work households are becoming increasingly dependent on Housing Benefit, especially in high-demand areas. This is particularly the case for households with children as they typically require larger (and therefore more expensive) accommodation for their income.

**Figure 29. Growth of sub-sectors**



The clusters that have seen the largest growth as a proportion of the private rented households are higher income households with children (4.6 percentage point increase) and active households with children claiming Housing Benefit (3.2. percentage point increase). The growth in higher income families is indicative of the constrained access to homeownership. As wealth constraints have an increasing impact on access to the tenure, having a higher income is no longer sufficient, and many remain in the private rented sector.

This growth highlights the wider trend, mentioned above, in the growth of families living in the private rented sector. While the sector has grown by 59 per cent in the last ten years, the clusters containing children have more than doubled in size.

The greatest decline in the sector has been among older households, which has reduced in absolute size by 32,000 households (a decline of 4.4 percentage points as a proportion of the sector). Three other clusters have decreased in size as a proportion of the sector: the two inactive Housing Benefit claimant clusters (by 3.3 per cent for households without children and 1.9 per cent for households with children) and higher income households without children (by 2.7 per cent). However, all these grew in terms of actual number of households.

Students and lower income households with children showed significant absolute growth, in line with the sector as a whole, but therefore remained relatively stable as a proportion of the sector, growing by less than one percentage point.

## Other groups in the private rented sector

While this analysis provides a number of useful insights, it is important to remember that this clustering is not the final word on segmenting the private rented sector. The analysis seeks to identify a number of important distinctions, but there are also other groups that are an important part of the private rented sector, but are difficult to define using available data. Some of these groups are likely to be smaller sub-groupings of the sub-sectors identified, while others may cut across these sub-sectors. The following groups are the key sub-sectors that the present analysis is not able to identify.

- **People on high incomes paying high rents** have been identified as a significant sub-market of the private rented sector.<sup>61</sup> This group, which is particularly prevalent in central London, is highly mobile and dominated by those in higher level occupations. A substantial proportion has moved from abroad. This sub-market is understood to be sensitive to fluctuations in the financial market. The majority of this group would fall into the higher

income working age cluster, probably without children. However, quantitative information on the size and nature of this group is not available.

- So-called **slum rentals** are becoming an increasing problem in areas where rents and demand for accommodation are high, particularly in London Boroughs such as Newham. Unsurprisingly, there are few quantitative data on this sub-sector and the types of households it houses, but anecdotally it is dominated by migrants and other vulnerable groups who have found themselves unable to access or afford other housing options.<sup>62</sup> It is reported to be significantly on the increase in certain areas, but remains a very small proportion of the private rented sector as a whole. The problem of slum rentals is an important one to address, but it represents the mal-practice of unscrupulous landlords in a dysfunctional market, rather than a particular sub-sector.
- **Short-term life-stage renters** are another significant component of the private rented sector. These are households that would typically be owner occupiers, but have moved into the private rented sector, perhaps for the purposes of relocating for work, or following a relationship breakdown. This sub-sector is very difficult to quantify, because it requires information on households' reasons for moving, previous tenure and intentions to move, which is information not typically collected together on large sample surveys.
- **Young professionals** are another key user group in the private rented sector. Many of these will be graduates and therefore will have come from the student sub-sector, but this will not exclusively be the case. They are typically young, mobile, in work and employed in higher or intermediate level occupations. In previous years, many of these households may have accessed owner occupation, but the trend now is towards private renting, both due to the constraints of accessing homeownership and the advantages of being able to move for work in the early stages of careers.<sup>63</sup> These households are typically located in city centre and urban areas, either in shared accommodation or small flats such as studios. It has been noted that this group has much in common with students (e.g. shared living arrangements), but that the standards of accommodation expected would be higher. Given that young professionals are not a tightly defined group, it is not possible to quantify their proportion of the private rented sector, but they are likely to share many characteristics with the working age childless households not in receipt of Housing Benefit.

# Implications

The research presented in this paper describes the household characteristics of the private rented sector and how different household types group together to form sub-sectors. The findings presented here offer important new insights into the sector and have significant implications for ensuring the needs of private renting households are met.

## **Acknowledge and respond to the sector's diversity**

The findings presented here have highlighted the diversity of the private rented sector. The sector is not simply one sector that needs common treatment, but rather there are a variety of household types and sub-markets with diverse characteristics and needs. Consequently, work in the private rented sector – by industry, government, or researchers – needs to acknowledge and respond to this diversity, addressing the needs of the wide range of households that live in the sector.

## **Framework for policy analysis**

The sub-sectors identified offer a useful framework against which to analyse policy interventions in the private rented sector. The diversity of the sector means that interventions that may be beneficial to some household types may be detrimental to others. By better understanding the make-up of the sector, policymakers and analysts can look to develop policy ideas that meet the needs of the full range of households.

## **Guide for landlords and investors**

The growing demand for good quality and well-managed private rented accommodation also presents a significant opportunity for existing and potential landlords and investors. By adapting business models to the needs of different sub-sectors landlords have the potential to improve the desirability of their properties and tenancies, as well as effectively meeting housing needs. The sub-sectors identified here provide guidance to landlords and investors to enable them to more effectively consider how they target their properties, tenancy arrangements, etc.

The student sub-sector – although it has its own particular problems – shows how the particular needs of a sub-sector can be met by tailoring tenancies, in a way that is profitable for landlords, both individual and institutional. This tailored approach could therefore be adopted for other sub-sectors, through understanding how different tenant and landlord needs can work together effectively. For example, research has indicated that longer tenancies with rents indexed to wages and inflation can be profitable for landlords, whilst also providing certainty for tenants.<sup>64</sup>

## Identify the needs of key groups

This research has identified key sub-sectors in the private rented sector, but further research is required to more fully understand their needs and how these can be effectively met in the sector. There is a wide range of issues to consider, but some initial ideas are outlined here.

**Stability and flexibility:** For some households, such as young working households, short-term tenancies offer a desirable flexibility to move for employment opportunities or as household structures change (e.g. moving from a shared house to live with a partner). In contrast, households with children (and other groups making a longer-term home in the private rented sector) greater certainty and stability can be invaluable, particularly given the potential effects of frequent moves on children's education.

**Property type:** With the private rented sector increasingly being a long-term tenure for households and housing an increasing number of families, the property type and geography of the sector needs to develop if the needs of households are to be met. For example, family-sized homes near to schools are likely to become increasingly important. Equally, households living in the sector into old age require properties that will accommodate changing accessibility needs.

**Making a home:** With an increasing long-term use of the private rented sector by households, the ability to make oneself at home is increasingly important. Opportunities to make changes to décor, hang pictures and have pets are often unavailable to private tenants, but are desirable for many. The lack of a "sense of home" has been identified as a problem for households making a long-term home in the sector.<sup>65</sup>

**Affordability:** Although households in the private rented sector have a wide range of incomes, around a quarter of households are burdened by their housing costs. Unsurprisingly, this figure is far higher among the lower-income sub-sectors, with the majority facing significant financial burdens. As household

incomes are further squeezed and rents continue to rise, ensuring that the private rented sector provides affordable housing for those sub-sectors is very important.

## **Prioritise growth areas**

The research also highlights those sub-sectors that have seen the most growth over the last decade, and which ones are in decline. This information can be useful to both policymakers and potential investors. Growing sub-sectors represent a priority area, particularly those sub-sectors that are relatively new as a substantial part of the private rented sector, such as families with children.

### **Families with children**

One of the biggest areas of growth in the private rented sector is that of households with children, which now account for 31 per cent of privately renting households. Nearly one in six households with children lives in the private rented sector. As highlighted in this report, these households have particular needs such as access to schools and other children's facilities, and stable tenancies. They also need sufficiently sized houses (as opposed to flats).

### **Housing Benefit**

There has been a significant increase in the number of private tenants claiming Housing Benefit, with particular growth in economically active claimants. However, only minority (albeit a substantial one) of landlords are willing to let to those in receipt of Housing Benefit. At the same time welfare reforms have reduced the maximum claimable benefit to the 30<sup>th</sup> percentile of local rents. Early indications are that wider welfare reforms will cause some landlords to leave the sub-market.<sup>66</sup> There is therefore a need for the sector to adapt to these changes if households claiming Housing Benefit are to be catered for.

### **Long-term tenants**

Although not a particular sub-sector of private tenants, there is an increasing trend towards longer-term renting, as access to social housing and owner-occupation are increasingly constrained. Although a minority of households have always made long-term homes in the private rented sector, the recent growth is unprecedented and demands a response from policymakers and practitioners. The tenure is currently set up in way the primarily favours shorter-term stays in accommodation. As demand increases for long-term homes in the sector, the sector needs to develop ways of accommodating these households in a way that meets their needs, but also proves viable for landlords and investors.

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## Address the wider problems in the private rented sector

Looking more broadly, the research presented here confirms other data that chart the substantial growth of the private rented sector over the last 25 years. The role of the sector in housing an increasing number of households necessitates increased commitment to the improvement of the sector for tenants. There are a range of issues frequently raised regarding the suitability of the sector for a substantial minority of households.

**Stock condition:** Private rented housing is typically in poorer condition than properties in the other two tenures. In 2010, 37 per cent of private rented homes were classified as non-decent, in comparison with 25 per cent of all dwellings and 19 per cent of socially rented homes.<sup>67</sup> In particular, partly due to the age of the stock, private rented housing performs poorly in terms of energy efficiency and lack basic amenities such as central heating.<sup>68</sup> Given the increasing burden of energy prices on households alongside the burden of housing costs, this is a particularly important area to address.

**Management** is another frequently raised issue in the private rented sector. Although many landlords and letting agents operate effective management of their properties (with 70 per cent of tenants satisfied with the service they receive<sup>69</sup>), poor management is an issue for a substantial minority. Reasons for poor management vary, with some landlords simply not possessing the skills to manage a property effectively, while others are wilfully negligent with the aim of minimising the work involved or maximising the financial gain. These issues require effective responses, supporting struggling landlords and removing unscrupulous ones from the market.

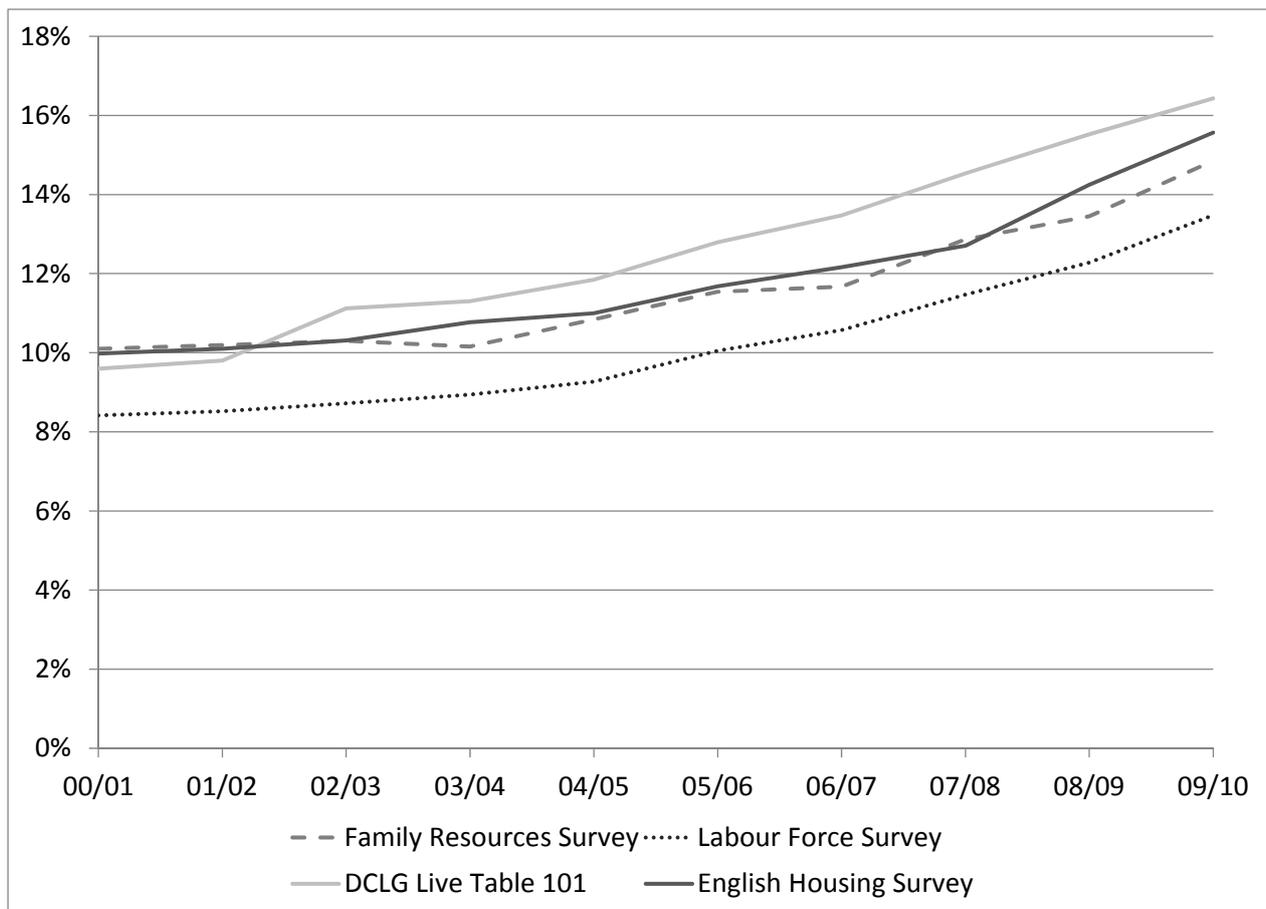
**Affordability:** Households in the private rented sector are more likely to be burdened by their housing costs than households in other tenures. With rents continuing to rise in many areas and benefit allowances being reduced, this problem is set to worsen, and efforts to address affordability are increasingly important. In addition, charges made by many lettings agents are placing a substantial additional burden on tenants.<sup>70</sup>

It is beyond the scope of this paper to form recommendations for how these issues can be addressed either by government, landlords or other groups, but if the private rented sector is housing an increasing proportion of the population, these issues are vital to discuss and address. At the same time the sector needs to be an attractive investment opportunity for landlords to ensure that supply keeps pace with demand. Attempts to improve the sector for tenants must ensure that landlords are not unnecessarily burdened.

# Appendix 1: Measuring the private rented sector

Data concerning the private rented sector are limited and varied, making it difficult to accurately quantify the sector, both in terms of size and characteristics. The Census provides an accurate picture every ten years, but this means that the data are quickly out of date and do not reveal the nuances of year-on-year change. This more detail picture over time is important for all tenures, but particularly for the private rented sector, which exhibits significant annual turnover and is therefore potentially subject to greater change.

In conducting this research, a variety of sources of data on the private rented sector were considered. This appendix offers an explanation of the differences between these sources and the reasons for the selection of the dataset used. Figure 30 shows the three data sources examined, each of which gives a different estimate of the size of the private rented sector. The difference between the two furthest figures in any given year is around two per cent, which equates to half a million households: a very significant difference.

**Figure 30. Estimates of the size of the private rented sector**

The reasons for differences in size are not entirely easy to establish and required significant correspondence with the authorities responsible for the datasets (Department for Work and Pensions, Department for Communities and Local Government and Office for National Statistics).

The Labour Force Survey is produced by the Office for National Statistics on a quarterly basis and has a large sample size (41,000 people per quarter, the largest household survey in the UK). However, it is used mainly for labour market indicators and provides little household level data, making an analysis of the private rented sector extremely difficult.

The Family Resources Survey is an annual household level survey with a sample size of around 25,000 households, which is conducted for the Department of Work and Pensions. It contains very detailed data on household characteristics, income and expenditure. This makes it useful for the analysis of the types of households living in the private rented sector. The data from the Family Resources Survey are reweighted based on the Labour Force Survey, as it has a larger sample size and is therefore more reliable. However, despite this reweighting process (which takes into account housing tenure as a factor) there is

still at least a percentage point difference between the two surveys (equivalent to 250,000 households). The reasons for this difference remain unclear, but may relate to the reweighting of the Labour Force Survey to population estimates.

Unlike the other two datasets, the Department for Communities and Local Government Live Table 101 is a measure of dwelling stock rather than households, and so a small difference in size would not be unreasonable to expect. Nonetheless, the difference of half a million households/dwellings seems particularly large. The dwelling stock figure is calculated on the basis of a complex procedure, which uses Census data, the Labour Force Survey and the English Housing Survey. The Department for Communities and Local Government publishes full details of this process for England.<sup>71</sup> This approach requires a greater number of assumptions than the other two datasets, and so is less reliable, but does provide a picture of the sector including dwellings that are currently empty. Given the higher level of vacancy in the private rented sector in comparison with other tenures, this is a helpful insight. However, the validity of the data, given the number of assumptions made, is far from clear.

Given the Labour Force Survey has the largest sample size and is used by the other two data sources for the purposes of weighting and checking data, it seems that it should provide the most robust data on the private rented sector. However, the Labour Force Survey provides limited household level data and as such it is not possible to use it for analysing the characteristics of the private rented sector.

Consequently, the Family Resources Survey was selected for this research, as it offered a wide range of household variables for analysis. Although this has a smaller sample size than the Labour Force Survey, it is reweighted according to the Labour Force Survey (and Census data in available years), which should add considerable accuracy to the figures. Housing tenure is a factor used in this reweighting process, further adding to the credibility of the data (although the discrepancy described above remains). A more accurate picture will be available on the release of the 2011 Census data.

# Appendix 2: Legislation and regulation

This appendix provides further details on the nature of the UK private rented sector, including the key legislation governing the sector and how this has developed.

## Tenancies

The majority of private tenancies in the UK are assured shorthold tenancies (ASTs), which were introduced in the 1988 Housing Act and became the default tenancy in the 1996 Housing Act (the equivalent in Scotland is a short assured tenancy, which was introduced in the 1988 Housing (Scotland) Act). As well as being the default tenancy, ASTs are common because many mortgage lenders require properties to be let on assured shorthold tenancies, as this enables the lender to obtain possession of the property easily in the case of mortgage default.<sup>72</sup>

ASTs last for a minimum fixed term of 6 months, although 12 month tenancies are also common. During the fixed term, neither tenants nor landlords can end the tenancy (unless agreed to by both parties), although landlords are able to evict tenants for breaches of contract such as non-payment of rent and damage to the property.<sup>73</sup> Following the end of the fixed term, a landlord may gain possession of the property for any reason, provided that the tenant is given two months' written notice. Tenants are required to give one month's notice. Both notice periods can be served during the fixed term, but must end after it.

ASTs make it relatively easy for landlords to regain possession of a property if they need to and also offer significant flexibility for those tenants for whom mobility is a priority. However, they are also considered to be insecure for tenants seeking a long-term home in a private rented sector property. Although nothing legally prevents an AST being made for longer than 12 months (with or without tenant break clauses), short-term contracts are typical.

However, despite the relative insecurity provided by ASTs, there are many long-term private tenants in the UK, showing that at least for some households, the private rented sector does provide the some degree of stability<sup>74</sup> (although long-term stays may consist of a series of short-term contracts, which does not offer the certainty that many tenants may be seeking). It is also worth noting that the majority of tenancies are ended by the tenant rather than the landlord,

suggesting that the relative insecurity of the tenure is not a problem for the majority of households.<sup>75</sup> In fact, provided that tenants pay the rent and take reasonable care of the property, having long-term tenancies can be beneficial for landlords as it reduces the income lost due to void periods between tenancies, and the potential difficulties of finding and vetting tenants.

The other tenancy introduced in the 1988 Housing Act was the assured tenancy, which offers significantly more security of tenure and less flexibility for landlords. This was initially the default tenancy, until the assured shorthold became the legal default in 1996 Housing Act. Assured tenancies account for only around ten per cent of private rented tenancies in the UK.<sup>76</sup>

In addition to the tenancies introduced in the 1988 Housing Act, there remain a small number of regulated tenancies. This applies to tenancies commenced before 1988. These offer complete security of tenure for tenants, with the landlord able to gain possession only after obtaining a possession order from the courts, which is granted only in specific circumstances. This is the case even after the tenancy has expired.<sup>77</sup> They are also subject to strict rent controls.

## Regulation

Statutory regulation of the private rented sector is limited. A range of safety regulations exist regarding privately rented properties and any furnishings they contain. Enforcement of safety standards is the responsibility of local authorities, but is largely dependent on a tenant making a complaint regarding their landlord. Tenants may be reluctant to act on this in case of retaliatory rent eviction.<sup>78</sup> The coalition government has been keen to emphasise the existing powers within local authorities,<sup>79</sup> but given the increasing budgetary constraints on local authorities, enforcement in the private rented sector is just one of many competing priorities for resources.

Landlords are also required to place all tenant deposits into a tenancy deposit protection scheme.<sup>80</sup> This is designed to ensure that unscrupulous landlords do not withhold tenant deposits without reason, but rather tenants receive their deposits back, or the landlord recoups some for the purposes of repairs in cases where tenants have caused damage to the property.

With the exception of the dwindling number of regulated tenancies, the private rented sector is not subject to rent controls. Rents were decontrolled in the 1988 Housing Act with the aim of reviving and encouraging investment in the sector, as the strict rent controls previously in place made private landlordism unviable.<sup>81</sup> Assured and assured shorthold tenancies are not subject to rent controls. In theory, a tenant could apply to a Rent Assessment Committee if they felt their

landlord was charging them an unreasonable rent.<sup>82</sup> However, Rent Assessment Committees can only rule if the landlord's rent is significantly higher than what might be achievable on the open market locally, so in practice this does not act to control rents.

In general, calls for the reintroduction of rent controls (either absolute caps, or caps on uprating) are met with considerable opposition, as it is anticipated that such measures would see many landlords exiting the sector.<sup>83</sup>

Landlord licensing is not compulsory at the UK level, although there are some differences in the devolved nations (see below). Local authorities also have the power (under the 2004 Housing Act) to instate selective licensing of landlords in their area if there are problems of anti-social behaviour, or the area is one of low-demand.<sup>84</sup> The London Borough of Newham, for example, is introducing compulsory registration of landlords, with the aim of tackling unscrupulous practices and slum rentals in their area.<sup>85</sup>

Despite their large role in the private rented sector, letting agents are also not subject to any statutory regulations with respect to practices, or charges made to tenants and landlords (with the exception of Scotland, where administrative charges to tenants are illegal<sup>86</sup>). Research has shown that this leads to widely varying administrative charges, with some letting agents charging administration fees of up to £375 and credit check fees of around £50 per tenant.<sup>87</sup> This can be in addition to holding fees, tenancy renewal fees and 'check in' and 'check out' fees. This array of fees can substantially increase the cost of renting - particularly in high-demand areas where tenants have little choice about properties available – and are generally unrepresentative of the actual costs incurred by letting agents.

There is one particular type of private rented accommodation that is subject to more significant regulation: Houses in Multiple Occupation (HMOs). HMOs are subject to mandatory licensing if the property is of three or more storeys, and occupied by five or more persons living in two or more households. This regulation was introduced in the 2004 Housing Act. An HMO will be licensed if the local authority is satisfied that the property is fit for purpose, the landlord is a fit and proper person and suitable management arrangements are in place.<sup>88</sup>

## Differences between devolved nations

The picture of regulation given above is true of the private sector in the UK, but with an emphasis on England. In recent years, the devolved nations have begun to take different approaches to regulation, and these are highlighted here.

- **Scotland** has taken a stronger approach to regulation of the sector, introducing compulsory registration for all private landlords, which requires the landlord to be a fit and proper person and to provide details of all properties they let. There is also a degree of regulation of letting agents, who are prohibited from charging tenants administrative fees.
  
- **Northern Ireland** also plans to introduce compulsory landlord registration.<sup>89</sup> The Private Tenancies (Northern Ireland) Order (2006) also contains legislation with regard to property conditions and tenancies:
  - New tenancies are defined according to their fitness for human habitation: an unfit tenancy will be subject to rent control until it is made fit.
  - District Councils have been given new powers to ensure that unfitness and serious disrepair are addressed.
  - New tenants have to be supplied with a written statement of the terms of their tenancy. Where a tenancy agreement fails to clarify repairing obligations, the law provides default terms.
  
- Housing became a devolved power in **Wales** in 2010, so specific strategies and legislation are only just emerging. However, early indicators are that the government is pursuing an approach more similar to that of Scotland than of England. The white paper, Homes for Wales,<sup>90</sup> proposes the creation of a national mandatory registration and accreditation scheme for private landlords and lettings agents based on an agreed code of practice.

# Appendix 3: Cluster analysis

This appendix outlines the technical aspects of the cluster analysis conducted.

## Factor Analysis

Prior to clustering, the data were factor analysed using. This enabled the identification of the underlying factors and addressed the wide range of variable types in the data used (e.g. categorical and nominal variables of different scales). Although widely used in research,<sup>91</sup> this form of data preparation has been criticised by some researchers for reducing variability in the data, making the clustering less effective.<sup>92</sup> Therefore, both factor analysed and raw variables were clustered in this analysis to see which produced the most consistent and meaningful results. The strongest results were found for factor analysed data and so this approach was used for the research.

## Clustering

The cluster analysis used was the **Two-Step Cluster** algorithm used in SPSS.<sup>93</sup> The algorithm works with both categorical and continuous data and is effective in handling very large datasets. It also calculates the optimal number of clusters from the data. The two stages are as follows:

- Step 1: the cases are scanned sequentially and either allocated to an existing cluster or assigned as a new cluster based on the distance between points. This creates a number of sub-clusters that is significantly smaller than the original number of cases, but still too numerous to constitute a true clustering of the data.
- Step 2: the sub-clusters resulting from the first step are then grouped into the desired number of clusters. Since the number of sub-clusters is significantly smaller than the number of original cases, it is possible to use traditional clustering methods effectively. Agglomerative hierarchical clustering is used because this enables the automatic identification of the most appropriate number of clusters

## Classification

Following the clustering process, the data were examined to identify the key features of the clusters in terms of each of the initial input variables. This enabled clear descriptions or **classifications** to be developed for the clusters. These were

then applied to the original data to examine the size and characteristics of each group. Eighty-four per cent of data points were in the same sub-sectors as clusters following the classification. Classifications were used instead of the original clusters because the clusters varied slightly from year to year, preventing an analysis of trends, and the classifications can also be applied to novel data. Specific classifications are also more useful in discussing the characteristics of private rented sector and policy implications of these characteristics. Clusters are more statistically valid, but classifications have more practical applications.

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ISBN 978-1-901742-47-3



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