The Private Rented Sector in Scotland

Proposals for a new research agenda

A paper for discussion

by

the Scottish Consumer Council

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The Scottish Consumer Council

The Scottish Consumer Council (SCC) was set up in 1975 by the government to promote the interests of consumers, particularly those who experience disadvantage in society. While producers and suppliers of goods and services are usually well organised and articulate when protecting their own interests, individual consumers very often are not. The people we represent are consumers of all kinds: they may be council tenants, patients, parents, solicitors' clients, or simply shoppers in a supermarket. We speak up for them by communicating with the professions, industry, business, local authorities and central government, using careful research and persuasive lobbying.

Our broad aims are to:

- represent, promote, and safeguard the interests of consumers in Scotland;
- promote the provision of advice and information, choice, representation and redress for the consumers of goods and services;
- identify issues and problems of specific consumer concern;
- monitor and report on services for consumers in the public and private sectors and recommend changes in practice where necessary;
- influence key decision-making processes, policy and practice;
- respond to proposals from government and other agencies affecting consumers;
- encourage consumer representation in the public services and privatised utilities;
- publicise ideas and information of consumer interest and concern;
- play a distinctive and leading role in Scottish affairs.

When we investigate the way goods and services are being provided we use six basic principles to guide our research: access, choice, information, safety, redress, and representation.
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**Introduction**

Less than 100,000 households in Scotland (some 5% of the total) rent from a private landlord. Yet, despite its relatively small size, much attention has been given to the private rented sector recently in terms of research priorities and policy development. There has been a growing recognition, over the past two decades, of the importance of a well-functioning private rented sector.

Why is the private rented sector important? The Inquiry into British Housing in 1985 concluded that the decline of the private rented sector has contributed to problems of availability of housing generally, to poor housing conditions, to a lack of choice in housing, to mobility difficulties that affect employment, and to a shortage of suitable housing for those with certain needs to meet.¹ Other writers have commented on the importance of a healthy private rented sector to the stability of the national economy.²

Much research has been funded in recent years to look specifically at the private rented sector, including major research programmes by Scottish Homes and by the Joseph Rowntree Foundation.

While Scottish Homes has undertaken some research into the characteristics and needs of tenants, overall, research into the future, or prospects, for private renting has tended to concentrate on how landlords might respond to various incentives. It is this emphasis - ie on the supply side - in the policy and research agenda to date that has led us to prepare this paper, at this stage in our work. We wish to explore the consumer perspective in the future of the private rented sector, seeing that this has largely been neglected. The SCC seeks to establish why this is so, given the "central dilemma" identified by the House of Commons Environment Committee in 1982 of the need to balance the interests of landlords and tenants, and despite agreement that the decline of the private rented sector is due to both supply side and demand side factors. In the words of one of the leading researchers in the field, "the main factor now inhibiting a return of investment in privately rented housing is, quite simply, the limited effective demand for this type of
accommodation." Our intention is to promote the consumer perspective in correcting the market failure of private renting.

The aim of this paper, therefore, is to persuade policymakers and research funders that to reap the full benefits of their investment made so far, they will have to give some detailed attention to the other side of the market.

The first two chapters of this paper will look at the development of the private rented sector in Scotland; the issues facing those who depend on it today; and views on the future or prospects for the sector.

The concluding chapter will pose a set of policy questions for discussion, with the aim of suggesting some new research priorities. We would be grateful for the opportunity to discuss your views on these questions. If you wish to comment on this paper, please contact:

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1. **Development of the private rented sector in Scotland**

The aim of this chapter is to provide a background to the private rented sector in Scotland, to set in context the issues that will be discussed in the next chapter.

The decline and changing role of the private rented sector is often described from the period since 1919, when 90% of households in Scotland rented privately from a landlord, until today, when some 5% of households (98,000) do so. Despite its small size now, the private rented sector plays a vital role in the housing system, evidenced by the attention given to it in terms of research and policy development.

To understand the position of the private rented sector today, it is useful to go back to the turn of the century and consider what was happening to housing then.

The Industrial Revolution, particularly over the 19th century, caused a move to urban living and rapid population growth. In Scotland the history of economic development over this period is a turbulent one, and this turbulence was reflected in housing. Populations migrated to the cities, whether it was to find work, because they were displaced from their Highland settlements, or because they fled from the famine in Ireland. The huge population growth had to be accommodated, and the housing solution was to cram as many people as possible into the smallest space. The spread of slum tenemental housing was the result (already a feature of the infamous “Garseyloo” streets of old Edinburgh), and with it squalor and disease.

The development of private renting in Scotland differed to the rest of Britain in important ways, for example:

- Low incomes were more prevalent in Scotland than in England. Two views on reasons for this were: wages were kept low because of the popular view that if the working classes had more money they would squander it on drink; and low wages were used in an attempt to compete with English producers. Whatever the reasons, during the 1830s and 1840s Scottish workers received only 75% of the wages paid to their English counterparts; and the Board of Trade estimated in 1912 that Scottish
wages were 10% lower in real terms. The Scottish economy was marked by volatile boom and bust, making for erratic patterns of employment which added to problems of low income. Low income was a key cause of housing problems at the time.

- Feu-duties were a feature only of Scottish housing tenure. Landowners, upon selling their land, retained the indefinite right to collect an annual duty. The peculiarities of the feu-duty gave rise to incentives to push up the price of land and to set the duty itself at a high level. For example, feu-duties could not be altered once set, therefore they were most likely to be set at an initially high level, to retain their value for as long as possible.

- At the turn of the century the building industry in Scotland was characterised by small-scale operations, vulnerable to economic instability. This vulnerability, and in particular the need for builders to beat the threat of bankruptcy, encouraged rushed building at minimal cost.

The most visible effect of these particularly Scottish features was a particularly Scottish phenomenon: the tenement. Low incomes meant rental income was limited, and the way to maximise it was to crowd as many households into a small space, and to rent out as many properties as possible. Sometimes, when those who could afford it left their tenement flats, the flats were subdivided to squeeze in more families as a way of maximising profits. The system of feu-duties led to higher land prices, and in order to make the most of rental income on a given area of land, the solution was to build upwards.

But the effect was not simply the rise of the tenement: it was poor housing standards. Builders had incentive to skimp on the quality of building materials, to cut costs in workmanship, and rush the process to beat the next economic downturn. This created longer term maintenance costs for landlords as housing fell into disrepair or succumbed to conditions such as dampness. The combination of cramped housing space and poor standards of accommodation had adverse effects on the health of tenants, whose low incomes meant they had little option but to accept the slum conditions. Indeed, health professionals played an important role at the time in informing public opinion about housing issues.
If builders resorted to shoddy work as a way of protecting their interests, landlords too had their own interests to protect. Some of the ways in which they did this were:

- Many landlords paid a professional property manager, or a factor, to undertake the day to day landlord tasks such as rent collection and managing repairs. Factors were able to form viable professional associations, which strengthened the representation of landlords' interests. This was important in shaping housing policy during the 19th century: as ratepayers and through their professional associations, landlords had the ear of local policy makers and investigations. It is interesting to note that in Edinburgh, 80% of councillors in 1875 and 72% of them in 1905 were landlords.

- A unique system of long lets emerged in Scottish housing, whereby tenants were obliged to make a commitment to rent for a year at the beginning of a lease. This provided stability for landlords, but created mobility and other problems for tenants.

- Landlords had the right to sequestrate tenants' property to recoup rent arrears, and possessed considerable powers of eviction against anti-social tenants. The power to seize tenants' possessions for rent arrears existed in England, but went much further in Scotland, where a landlord had claim on the tenant's possessions even before they went into rent arrears - a security against potential arrears. There is a suggestion that tenants in urban Scotland at this time were unwilling to spend quite the proportion of their income on housing compared to their southern counterparts - they preferred to spend on other goods and services. Adding the mass of workers who simply could not afford to pay higher rents, landlords were faced with a problem. As a means of protecting their profits, many landlords were making heavy use of their legal powers by the beginning of the century. Other landlords, who saw court action as ineffective, were able to exert a form of social control over tenants: the unpredictability of income meant tenants could often be dependent on a landlord's reference for obtaining essential goods on credit. Cultivating this dependency was a good insurance for landlords.
The balance of power, therefore, through property ownership, the right to vote, and access to justice, was firmly in favour of landlords. However, this balance was beginning to shift, particularly into the early years of the 20th century. Tenants were more ready to challenge landlords' rights, employing tactics such as refusing to pay rent and "midnight flits". Tenants were increasingly appearing in court to defend eviction cases, and subtly, up sprang a body of articulate activists to represent them in court. The focus on housing issues, and the development of legal representation of tenants is closely linked to the growth of the Labour movement in the west of Scotland at this time. Housing became a key political issue, and a range of groups - as diverse as engineering unions and women's groups - gave active support for tenants' rights.

With the onset of World War I came workers from all over the country to Glasgow, and with them their higher wages. Enough was enough when landlords took their chance to increase rents, culminating in the Glasgow Rent Strike of 1915. The unrest of the Rent Strike provoked threats of a shipworkers' strike, which was too much of a risk for the wartime government to take, and the first rent controls were introduced.

The post war government took up the need for a subsidised national housing programme, and introduced measures, through the 1919 Addison Act, to subsidise housebuilding.

Another step taken in 1919 was to retain rent controls. It became clear that rent control was not the temporary measure expected by landlords, although some limited rent increases were permitted. Unfortunately this consent ran into a period of high unemployment in Scotland, and led to a fresh wave of rent strikes in the early 1920s. This time the landlords were better organised, and these strikes did not have quite the effect of the earlier rent struggles. Nevertheless, government policy had had little impact on Scotland's housing problems, and the housing campaign was still prominent. 1924 saw the first Labour government, with its commitment to rent controls, housing improvement, and large scale public sector housebuilding. Between 1919 and 1941, 70% of houses in Scotland were built by local authorities, compared to 28% in England and Wales. The domination of public sector housing in Scotland was taken root.
However, local authority housing, of good quality, was expensive to rent and was let out to better paid workers, while what was on offer to those on lower incomes was the cheaper slum property of the private rented sector.

Improved employment rights between the wars meant access to owner occupation for more people, further aided by the development of the mortgage market shortly after the war. It is interesting to note the rather different position in Germany, where the mortgage market remains much less accessible, and where private renting retains a very strong position of around 45% of the housing stock\textsuperscript{14}.

At the outbreak of war in 1939, rent controls were again generally applied.

Post war housing need in Scotland was severe, with over half a million houses needed to deal with unfit housing, overcrowding and newly formed households\textsuperscript{15}. The housing stock in Britain underwent rapid growth, both to cope with the housing shortages caused by the war, and to cater for the growing population, boosted by the post war baby boom. It was during the post war period (from 1945) of major housebuilding that successive governments gave particular emphasis to council housing. While in 1930 houses were built indifferently to buy or to rent\textsuperscript{16}, between 1945 - 51 more than 80% of houses completed in Britain were built for public authorities\textsuperscript{17}. There were various housing programmes in Scotland, with an emphasis on easing urban overcrowding. The building of New Towns to provide overspill was part of this.

Government policy then began to concentrate on housing quality, given that the increased housebuilding had eased the wartime shortages. So began a programme of slum clearances.

Large-scale demolition of older poorer housing stock, much of which was in the private rented sector, was begun. When such housing was demolished, newly constructed council accommodation was available for rehousing. Private landlords became unable (or unwilling) to invest sufficiently in their properties to bring them up to a reasonable standard, and were unable to raise higher rents from tenants to make it worthwhile. Therefore many of them sold their stock into owner occupation.
Two important problems were present in the Scottish housing context at this time:

- **Politics:** the central position occupied by the Scottish Special Housing Association (SSHA), set up in 1937 to tackle housing and industrial regeneration, was seen by local authorities as a threat. The resulting political conflict hampered the housebuilding programme in Scotland. For example, the SSHA had planned to build 4,000 new houses in Glasgow between 1945 and 1950, but managed to build only 400 in the face of local authority hostility. So was missed an opportunity to alleviate the acute housing shortage in Glasgow. Another political problem for local authorities was the need to keep popular support by keeping rents down, so much so that by the 1950s, local authority rents were less than half their pre-war levels. This created a low revenue base for local authorities, affecting their ability to provide services.\(^{18}\)

- **Building design:** local authorities began to experiment with non-traditional housebuilding, continuing into the 1960s. Local authorities were responding to the need at the time - rapid housebuilding in the face of shortages of traditional building materials because of the war. However, the experimental designs proved unsuitable for the Scottish climate, leading to longer term maintenance problems.

The slum clearances and rehousing to the public sector continued on into the 1960s, when a renewed emphasis on building for owner occupation surfaced. The government of the day saw owner occupation as the norm in an advanced industrial society, with public sector housing playing a particular role in meeting the needs of vulnerable groups\(^ {19}\). This further marginalised the private rented sector.

By the 1960s, severe localised housing shortages were being experienced, particularly at the bottom end of the rented market\(^ {20}\). It has been argued that private renting began to operate like a black market, with tenancies let out at a premium to households most likely to move on\(^ {21}\).

The effects of the 1957 Rent Act were beginning to show by now: under the Act, landlords with less expensive properties were only allowed to charge higher rents once the existing
tenant moved out. The incentive for these landlords, therefore, was to evict their current tenants by any means to create a new tenancy let out at a higher rent. Harassment of tenants, intimidation, evictions, homelessness and exorbitant rents for slum housing again came to be associated with private renting. To add a lasting impression to this image came the 1960s publicity surrounding notorious London landlord Peter Rachman. This led to a fresh imposition of rent controls and tenant protection. The Rent Act of 1965 introduced regulated tenancies, primarily to provide security of tenure, succession to tenancies, and a system of “fair rents”. Such was the impact of the fears of abusive landlords, personified in Rachman, that it was not until the late 1980s that deregulation was proffered.

Over the 1970s and into the 1980s a shift in economic policy took place. Spiraling inflation and heavy borrowing by the British government brought demands for a tight monetary policy, and with it a new emphasis on market-based policies. One thing this meant was a cut in public spending, and with the exaggerated size of the public sector in Scottish housing, here it hit hardest. Subsidy cuts throughout the 1980s led to increased council house rents, which led to a higher dependence on housing benefits. Furthermore, serious problems were emerging in council housing, such as problems of management and of concentrations of vulnerable populations in council estates.

These problems were exaggerated in Scotland because of the sheer size of the public sector: by 1975 more than half of Scotland’s households belonged to the public sector, compared to 31% in Britain as a whole. One writer gives this assessment:

“The end result by the 1970s was a Scottish housing system overwhelmingly publicised, monolithic and monotonous in structure, inadequately managed and maintained, and providing precious little reward for decades of consumer loyalty.”

Solutions outwith the public sector were thus being sought for the housing problem, such as the drive for tenure diversification. The preferred tenure of the government was still owner occupation, and legislation was introduced to allow local authority tenants to purchase their home. While this led to an increase in owner occupation, as it extended the option further down the income scale, it also had the effect of discouraging council house
building. Increased housing association building did not meet the loss of local authority housing, exacerbating the problems of those who needed rented accommodation.\textsuperscript{26}

This period also charted demographic changes which were having an impact on the housing system. The government's consultation on Scottish housing in 1977 reported a sharp rise in the number of households and a fall in average household size. This was due to the increasing tendency of people to get married later, an increasing divorce rate, and longer life expectancy. As an example, the number of single person households rose by 73% between 1961 - 1971 and by 28% between 1971 - 81\textsuperscript{27}. This has had the effect of increasing the demand for smaller housing, and an unsuitable supply of larger housing. The last two decades have seen an unprecedented rise in homelessness, in part due to the increased demand for rented housing from demographic factors, and to a fall in available rented accommodation. Repossessions due to mortgage default increased dramatically and served as a warning that the owner occupied sector might not be capable of expanding much further.

These issues combined to revive interest in the private rented sector, ie:

- solutions to the unemployment problem pointed to a need for a mobile labour force, and the private rented sector was the obvious tenure of mobility;

- the need for rented accommodation was becoming greater than ever, with the re-emergence of housing shortages and the rise in homelessness and mortgage default. A reluctance to rely upon the public rented sector left a need to look at the potential role of the private rented sector.

There is a recognition that the private rented sector is important in allowing the overall housing market to operate effectively\textsuperscript{28}, and that an expanded private rented sector could be an important stabilising influence on the economy, by allowing the creation of a more sustainable home ownership market\textsuperscript{29}. The Inquiry into British Housing in 1985 also suggested that households were being forced into home ownership earlier than they would like, because of the lack of choice that can be corrected only by increasing the rented sector\textsuperscript{30}.
The government, in its 1987 White Paper, attributed the decline and decay of private rented accommodation to the various forms of rent control and regulation that had existed since 1915. In this, the government was following conventional economic analysis in blaming these for the shortage in rented housing and the disrepair of existing stock. Rent controls had the effect of "pricing" landlords out of the system, unable to collect rents high enough to make satisfactory returns, and flagging up better investment opportunities elsewhere. The economics literature regards rent control as something of an anomaly: for example one writer, on the post war New York experience of rent controls, comments that "next to bombing, rent controls are the most effective way of destroying cities". Security of tenure was seen as a further disincentive to landlords and therefore a deterrent to any increased supply of rented accommodation - landlords would prefer to sell their stock into owner occupation, where the returns were higher. The 1987 White Paper saw neither of these "protections" as really being in tenants' best interests after all, a significant reversal of thinking to date.

Therefore, the government's stimulation of the private rented sector was based on deregulation. The Housing (Scotland) Act 1988 introduced the assured tenancy, in two forms:

- the assured tenancy itself, with security of tenure and freely-negotiated rents; and
- the short assured tenancy, with no security of tenure beyond a defined period up to six months, and a statutory registration of rents at market levels.

The security of tenure under the assured tenancy allowed for easier repossession by landlords. Existing tenants with regulated tenancies were not to be affected by the changes, but no new regulated tenancies were to be created after the beginning of 1989.

Furthermore, in 1988 the Business Expansion Scheme (BES), an existing vehicle for raising venture capital, was applied to the private rented sector. It remained until 1993. Much has been written about the impact of the BES, which stimulated new investment in the private rented sector, for the first time in half a century. The BES allowed people to invest in companies which let out assured tenancies. This had the effect of bringing new
companies, rather than individuals, into letting, and many commentators confirm the provision of higher quality accommodation rented out under the BES.

Although the number of traditional, regulated, tenancies has continued to fall because none have been created since 1988, there has been a bigger increase in new tenancies which more than compensates for this fall\textsuperscript{33}. The 1990 Private Renters Survey showed a growth in new tenancies under the 1988 Act, only 2\% of which were BES tenancies. In other words, the growth was in unsubsidised renting\textsuperscript{34}.

This takes us to the present day, where it appears that at very least the private rented sector has seen a temporary pause in its decline, and perhaps at best the beginning of a modest but sustained growth.
2. Private renting in Scotland today

Who lives there?

The developments that have shaped the long decline and recently revived interest in the private rented sector give it a place in the housing system quite distinct from other tenures. Analysis of the 1991 Census reveals a picture of how the characteristics of privately renting households in Scotland differ from the population as a whole. Other research contains analysis of who lives in the sector, the role it plays, and the particular issues and problems inherent in taking forward today's private rented sector.

Five per cent (or 97,983) of Scotland's households are in the private rented sector. This does not include housing associations or tied housing, which are sometimes regarded as belonging to the private rented sector. The following chart shows the proportions of households belonging to the different tenures in Scotland:

![Pie chart showing tenures of Scottish households]

The 1991 Census reveals a private rented sector that is very much divided into two parts:

- a furnished part predominately made up of flatted and bedsit accommodation, containing large numbers of 18 - 29 year olds and a higher rate of unemployment (almost double the Scottish rate), and
• an unfurnished part, with more detached, semi-detached and terraced property, important for the older population (particularly the over 75s), and with higher levels of economically active tenants.

The most significant differences between the age distributions of the Scottish and private rented sector populations are that 18 - 29s and over 75s are over-represented in the private rented sector.

Most 18 - 29s in the private rented sector (72% of them) are in the furnished part, with still over a quarter in the unfurnished part: The furnished part is clearly more important for this age group, and is more likely to be of flatted or bedsit accommodation (70% of the furnished private rented sector is of this type).

The unfurnished sector is more important for the older population. For all older age groups (65+) the overwhelming majority (more than 8 out of 10) who live in the private rented sector are specifically in the unfurnished part. More than half the property in the unfurnished part is detached, semi-detached or terraced accommodation.

A greater proportion of households in the private rented sector (16%) than in Scotland as a whole (7%) are headed by a person who is either unemployed or a student. Almost a quarter of households in the furnished part are headed by unemployed people or students (but only 7% in the unfurnished part). The unemployment rate in the furnished part, at 19% of economically active tenants, is almost double the Scottish rate.

Research has identified the main groups for which the private rented sector is important:

• Elderly tenants (the traditional sector, ie those who have rented since private renting was the norm; as suggested by the Census data, these households are to be found mainly in the unfurnished part).

• Young and mobile households (who need quick access and low responsibility accommodation; these are mostly in the furnished part; Scottish Homes found that a third of tenants in the private rented sector had moved fifteen miles or more to their current address).
• Students: in some parts of the country, privately renting students make up a significant part of the housing market.

• Households who rent privately as a last resort (e.g. because they cannot gain access to social rented or owner occupied housing; low income households are over-represented in the private rented sector, a finding not related to the high incidence of elderly households).

• The luxury end of the market, where people who can afford to buy a home prefer to rent privately instead (there appear to be signs that this is on the increase).

Research into private renting in England reveals some trends which probably also apply in Scotland:

• A rising proportion of tenants (currently 67%) were renting from an individual rather than a corporate landlord. 85% of those with assured and short assured tenancies did so.

• The private rented sector was becoming younger: the proportion of tenants under the age of 30 rose from 29% in 1988 to 35% in 1990 to 39% in 1993. This compares with the 34% of tenants in Scotland found in the 1991 Census between 18 - 30.

• Unemployment is becoming more prevalent in the private rented sector. 5% of tenants in 1990 were unemployed, rising to 14% in 1993. The 1991 Census showed that 10% of household heads in the private rented sector in Scotland were unemployed, being 14% in the furnished part.

• The proportion of tenants in full time education more than doubled in a relatively short time, from 4% in 1990 to 9% in 1993. The figure for Scotland in 1991 was 6% of private rented sector households headed by a student (almost entirely in the furnished part). Students make up a significant proportion of the private rented sector in many cities, being a relatively captive market with poor expectations of the quality of accommodation.
56% of lettings in 1993/94 were assured or short assured (57% in 1994/95), while 19% were regulated tenancies (falling to 14% a year later). 8% of tenants had a resident landlord or other no-security tenancy.

Work exists which sheds some light on the experiences of private tenants. Scottish Homes found that 84% of private tenants were happy with their accommodation. However, a significant 9% expressed extreme dissatisfaction.

A recent survey found that most private tenants in Scotland (some 90%) were satisfied with their accommodation. However, in looking at the furnished part, a significant one in five tenants were not. A survey of English tenants found similar, although the overall satisfaction level was lower at 78%. Dissatisfaction increased the older the property and the poorer state of repair it was in. Both surveys found that most tenants were on good terms with their landlord, and no evidence of widespread harassment. However, 7% of the tenants in the English survey said their landlord had tried to get them to leave or had made them feel uncomfortable. Of the tenants on poor terms with their landlord, the most common reason (58%) was because of repairs. 41% were unhappy about the unpleasant or untrustworthy character of the landlord, while 36% found it difficult to contact the landlord. Two-thirds of tenants overall had asked their landlord to carry out repairs, and many of these (40%) had experienced difficulty in getting the work done.

As with the general population, private tenants on the whole aspired to home ownership, and regarded their current accommodation as transitory rather than permanent. However, more recently, Scottish Homes found evidence of an increasing preference for renting, particularly among younger households. It is interesting to note the finding in another Scottish Homes survey that 23% of people would now consider private renting.

The central dilemma

"The nature and problems of the PRS today are in many respects a product of the long history of decline and decay. The current difficulties are deep-seated and complex; they are not amenable to easy or quick solutions."
Supply of accommodation: one of the important functions of the private rented sector is to provide quick access affordable accommodation for mobile households. However, there is not a level playing field upon which to encourage investment (and therefore a ready supply) in the private rented sector. The tax advantages of owner occupation mean landlords are often better off selling their properties instead of renting them out. This leads to housing shortages, which pushes up rents.\textsuperscript{44} In one important survey, 38\% of tenants reported difficulties in finding accommodation\textsuperscript{45}. Research has indicated that the shortage of rented housing depressed labour mobility by up to 15\%, and adds two points onto the unemployment figures\textsuperscript{46}. There is evidence that the more vulnerable groups who need the private rented sector as a last resort may find access difficult, as most landlords in Scotland admitted a preference for couples without children, and people in work\textsuperscript{47}.

Affordable rents: tenants need accommodation at a rent they can afford, while landlords need a return on their investment that makes letting worthwhile. Not all existing tenants could pay the rent levels needed to produce the yields that would attract new investors. This has been referred to as the "economic weakness" of the private rented sector\textsuperscript{48}, or the "central dilemma"\textsuperscript{49}. Affordability problems are especially acute for younger tenants: in recent years students and people under 25 - key demand groups for the sector - have been severely disadvantaged by changes to the housing benefit rules. One survey found that, on average, tenants were spending 27\% of their income on rent, with one in four paying much more than this. A third of the tenants thought their rent was too high\textsuperscript{50}. However, a fifth of Scottish landlords thought rents were not high enough, despite being able to set them at the market rate\textsuperscript{51}.

Security of tenure: tenants need some security of tenure, while landlords need quick eviction procedures in the event of rent arrears and the ability to repossess the property if they want to sell it. Security of tenure is still a problem despite the range of statutory protections, largely due to the shortage of accommodation\textsuperscript{52}. The Inquiry into British Housing in 1985 argued that security of tenure would not be a problem if tenanted property kept at least the same value as vacant property. As it is worth considerably less, landlords have an incentive to evict their tenants and sell the empty property.
**Disrepair:** most of the housing in the private rented sector was built before 1919, and a high proportion of the unfurnished stock - typically housing older tenants - lacks at least one amenity. There is evidence of a high incidence of disrepair in the private rented sector. Landlords claim they cannot afford to make improvements without charging higher rents, while tenants cannot afford to pay the higher rents required.

There is inevitably less agreement as to the specific solutions to be adopted. Differences of opinion emerge, for example, over whether to achieve growth or halt further decline, what role the private rented sector should perform in the housing system, and whether to deal with existing stock or introduce new landlords. Despite this, it has been possible to summarise the areas of broad consensus, among academics, practitioners and policymakers, for the way forward:

- the private rented sector is important, and solutions need to be found to ensure it is able to play its vital role in the housing market;
- funding has to be sought from the major investment institutions, and made available to housing associations and private landlords alike;
- there has to be some form of subsidy for the private rented sector - whether by grant or by tax incentive - to achieve the problematic balance of affordable rents for tenants and acceptable returns for landlords;
- there has to be a level playing field, in terms of tax advantage, between the private rented sector and owner occupation;
- there has to be an improved housing benefits system, available to all adults irrespective of age;
- there should be investment in the social rented sector, to make the private rented sector a tenure of choice rather than of necessity;
- corporate investment in long term renting should be encouraged;
• there has to be some form of regulation of landlords who receive subsidies. A range of monitoring and registration options are put forward to ensure protection regarding the suitability of landlords and the quality of property;

• the dilemma of tenure security has to be resolved: longer letting should be encouraged, although this is less attractive to landlords. It can therefore best be stimulated if measures are introduced to make house prices the same whether they are vacant or tenanted;

• procedures to deal with rent arrears have to be streamlined, as a further measure necessary for landlord confidence in longer term letting;

• the luxury end of the private rented sector - where people have higher incomes and therefore choice - should be exempt from subsidies and new regulation.

The striking point to note about these proposals is that they concentrate almost exclusively on stimulating the supply of privately rented accommodation, with very little reference to stimulating demand. This is puzzling, given the clear role of both landlord investment and consumer demand in shaping the private rented sector.
3. **Conclusions for discussion**

Private renting today is important in meeting the needs of particular types of households - the elderly population who are the "traditional" tenants of the sector; households who need quick access to housing to aid mobility; and households on low incomes who cannot afford home ownership but who cannot access or do not want social rented housing. The evidence suggests a trend towards lower incomes among private tenants, towards renting increasingly from individual landlords rather than corporate ones, and towards younger households.

There is also a luxury end of the market, where those who could afford home ownership have chosen private renting instead. There appears to be preliminary evidence of an increase in demand from this group.

According to the evidence, there appears to be an increasing preference for private renting, particularly among younger households. This accords with the realisation that home ownership has risks - although most of the population still aspire to it. Furthermore there appears to be greater sympathy for private renting than would be expected - 23% in one survey claiming they would consider it.

The private rented sector, meeting these various needs, also occupies a pivotal role in the overall housing system, and may even have an effect on the stability of the national economy: a whole range of housing problems have been attributed to the dramatic decline in private renting over this century. It is clear that the government wishes to enhance the role of the private rented sector, and there appears to be general agreement that a more effective private rented sector is a desirable thing.

The research on prospects, or the future, for private renting has one thing in common: it tends to concentrate on incentives for new landlords, and pays little regard to the consumer perspective, other than to speculate occasionally on the need for tenant protection. This is despite the "central dilemma" identified by the House of Commons Environment Committee in 1982 of the need to balance the interests of landlords and
tenants. It is also despite agreement that the decline of the private rented sector is due to both supply side and demand side factors.

The SCC wishes to explore the consumer perspective in making the private rented sector function more effectively: to consider supply-side intervention alongside demand-side intervention. In order to take forward the private rented sector, we need to begin from where we are, i.e. with the legacy of rent control, poor image, investment risk, and political controversy.

We suggest exploring the following broad issues:

Affordability and preference

The first rent controls were applied, as a matter of necessity, in 1915. The underlying problem was short housing supply caused by rapid population growth, and low incomes leading to affordability problems. It can be argued that without rent control many people will be unable to afford the rents charged by private landlords. However, it is now clear that rent control led to problems worse than high rents: housing shortages, properties in poor states of repair, and victimisation of tenants. These circumstances, quite apart from cost, act as a deterrent to demand. For example, poor repair has been identified as the biggest cause of housing dissatisfaction.\(^57\)

Affordability: the supply-side response to the affordability problem - rent control - did more harm than good. Affordability is still a problem, as the research shows, and if supply-side solutions do not work, perhaps demand-side ones will. This implies the need for reform of, or an alternative to, the current housing benefit system. In addition, housing policy might be closely linked to employment and wealth creation policies. Work is currently being undertaken to look at the future of housing benefits\(^58\), and there exists a body of research in the economics literature looking at choice, consumer behaviour, and the working of housing markets, \(^59\) which can provide a theoretical framework and empirical basis for exploring these issues in mainstream housing research. We are not aware of any work attempting to link housing with employment and wealth creation policies.
Preference: The question has to be asked as to whether government should favour any particular tenure. There is an argument that it should, since many more people express a preference for owner occupation than actually achieve it. Given a clear gap between reality and preference, the government perhaps has a responsibility to concentrate on making owner occupation accessible to more and more households. However, it is not at all clear how far the consumer preference for owner occupation is a function of the problems of gaining access to other tenures. There is evidence, for example, that the higher incidence of owner occupation among the ethnic minority population in Scotland does not reflect active choice, but rather the inaccessibility of other tenures. An important question to address is how demand and preferences would develop in a system marked by an equal treatment of tenures.

Investment incentives (supply)

Enabling consumer demand is a necessary but not sufficient condition for encouraging an effective private rented sector. For demand to be satisfied, there has to be a related development in the supply of suitable housing. There clearly exists at the moment a shortage of affordable rented housing, and a mismatch between what is available and what is deemed suitable by consumers. Only when supply can respond to consumer demand will there be choice. A lack of choice is responsible for many of the problems encountered by tenants, therefore any demand-side proposals must clearly be linked to supply-side proposals. This means, for supply, that there must be no disincentives to building for rent as opposed to owner occupation. Therefore, as we have argued for demand-side policies, there is a need for the equal treatment of tenures. Housing was once built indifferently to rent or to buy. A shift in government policy towards tenure equality in terms of fiscal incentives to investment and access to capital and repairs or improvement grants should make no more demands on the policy process than the current efforts expended on various fiscal, subsidy and tenure discrimination policies.

Supply-side proposals will not be addressed here - many writers have already done so. It is important, however, to stress that neither supply- nor demand-side policies can stand
alone without each other. Much attention has been given in the research to supply-side proposals. This paper aims to redress the balance.

Protection

The provision of subsidies and other public money (such as grants to compete with housing associations) has become related to the question of conditions upon landlords for tenant protection. Unfortunately, however, in a fragmented and transient sector, conditions are likely to be either unenforceable or bureaucratic. Furthermore, in the absence of choice, tenants are hardly in a position to enforce their rights. Rather, protection for tenants would be enhanced by the following:

*Information and advice:* if the policy developments proposed above were taken forward, consumer preference would stimulate supply and therefore choice. Choice would be based on factors related to physical housing preference, which would be straightforward for consumers. However, choice would also be based on types of contract offered and styles of housing management, which would be more complicated. Therefore an important element in tenant protection would be the availability of high quality impartial housing information and advice.

*Redress:* redress is hampered by two factors: the lack of choice, meaning tenants cannot "vote with their feet" and go to another landlord if their current one does not meet reasonable expectations; and the inaccessibility of the civil legal system, for those needing to dispute contractual arrangements. Lord Woolf, in his review of civil justice in England and Wales, singles out housing as being particularly poorly served by the civil justice system. The above policy proposals are intended to result in greater choice for consumers, but this is likely to come about only after a long development period. In the meantime, access to justice is an important protection, and the most important development would be a reform of the civil justice system itself, so that it is available to all who need it. Another option might be to develop housing-specific dispute resolution procedures. One suggestion has been for a simple arbitration system to deal with contractual disagreements, such as the relatively inexpensive New York Housing Courts that sit in the evenings. Given the current shortage of rented accommodation, dispute
resolution might usefully be closely linked to the provision of information about alternative accommodation in an area. For example, a dispute resolution body linked to an accommodation agency.

*Representation:* private tenants' interests need to be articulated to housing policymakers. This is the subject of a current piece of research being carried out by the SCC.

*Protection of landlords' interests:* landlords can be victims too, and disincentives to letting include the risk of bad tenants and unpaid rent. If landlordism is perceived as a risky business, with little in the way of protection, supply of rented accommodation will not rise to meet demand. There is already evidence that landlords avoid renting to people likely to need housing benefit, and these are the people whose interests most need protecting. Therefore safeguarding the interests of landlords will be an important element in protecting tenants. The idea of a rental deposit board has been put forward (eg by the National Consumer Council[83]), and this could be designed to act as a protection equally for landlords and tenants. For example, a rental deposit board might be created in such a way as to perform a capital lending function for landlords, and is proposed as a method of dispute resolution over rental deposit returns. Another protection for landlords would come in the form of political consensus, to remove the fear that future governments might reintroduce rent controls.

**Questions for discussion**

1. Is it fair to say that supply-side policies are necessary but not sufficient to develop the private rented sector?

2. Is there evidence that research funders or policymakers see the consumer perspective as a priority in looking at the future of the private rented sector?
   
   (a) If yes, where is this happening?

   (b) If not, are there particular reasons for this?
3. Is it fair to suggest that housing research and economics research could be more closely linked to produce useful information about consumer reaction to various policies?

4. Is work being carried out that looks at linking housing policy with employment and wealth creation policies?
   
   (a) If yes, where is this happening?

   (b) If not, are there particular reasons for this?

5. Are alternatives to housing benefit being suggested for testing?

6. Is it fair to suggest that discriminatory treatment of tenures hampers consumer expression of housing preference?

7. How might the information and advice needs of consumers be tested and developed, were demand-side policies to be adopted?

8. Have alternative redress mechanisms for private tenants been piloted?
   
   (a) If yes, what were these?

   (b) If not, are there particular reasons for this?

9. Could rental deposit boards be developed, with a capital lending function, offering benefits to tenants and landlords alike?

10. Are there important issues that we have missed out or misunderstood?

    This is our first step. Your views will help us form a view on the merits of pursuing these questions further, with policymakers and research funders.
References


7 Hanley (1986)

8 Rodger (1989: 26)


12 Melling 1989: 65

13 Melling 1989


16 Coleman 1992: 26


18 Rodger & Al-Qaddo 1989: 195 - 208

19 1965 White Paper

20 Kemp (1994)

21 Coleman (1992)
22 Gibb 1989: 177
23 For example, see references in Coleman (1992: 25)
24 White Paper 1977: 13
27 Bazlinton 1985: ix
30 Bazlinton 1985: xviii
31 Lindbeck
32 Kemp 1992
33 Coleman 1992: 35
34 Coleman 1992: 33
40 Carey (1995)
41 Young (1994)
43 Kemp (1992: 13)
45 Carey 1995: 61
46 Coleman 1992: 29

48 Bovaird et al (1985: 22)


50 Carey 1995: 52


53 Bovaird et al 1985

54 Carey 1995; Scottish House Condition Survey; Young 1994

55 Whitehead et al (1985)


57 Wood (1993: 13)

58 At the time of writing, a review of housing benefits was underway.

59 see Eatwell et al 1987


61 Lord Woolf (1996), Access to Justice. HMSO.

62 Whitehead et al (1985)