



The Private Rented Sector in the East Midlands:

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Response to the Local Housing Allowance and the Impact of the Economic Downturn

Prepared by Decent and Safe Homes (DASH) East Midlands
on behalf of Government Office for the East Midlands

Summary

The Private Rented Sector (PRS) currently appears to be weathering the financial downturn well, but there are considerable variations from area to area. Whilst the outlook for the future is generally positive, the increase in new tenants negotiating market rent downwards introduced a note of caution, while some landlords had already noticed the rental decrease affect their income to a tangible degree. The full impact of the current scarcity of credit cannot be predicted at this time and should be re-evaluated later in 2009 and possibly again in 2010 and 2011. Many landlords seem to currently have a 'wait and see' attitude and are proceeding with business as usual.

Local Housing Allowance (LHA) however, is universally disliked by landlords and agents, and anecdotal evidence suggests some claimants also have a negative view. This is mainly due to monies being received by the tenant directly, and the wider implications of this method of payment.

Market forces and choice within the PRS allow those who have the available funds to secure a property that is specified to an acceptable standard, while those in receipt of LHA may be priced out of this market in some areas. Further research is required into the size and effectiveness of the Broad Rental Market Areas and whether or not they accurately reflect local variations in property rental rates.

Anecdotal evidence suggests that some LHA claimants actively seek out the cheapest properties, thereby fuelling the lower end of the rental market with public money, and possibly housing vulnerable people in non-decent, sub standard properties.

There is suggestion that LHA is used to feed drug, alcohol or gambling habits in some circumstances, and this could lead to a myriad of undesirable consequences. Some tenancies that were stable when Housing Benefit was paid have also become unstable under LHA. These trends need to be analysed further as a matter of urgency.

The number of Section 8 notices served appears to be rising. Landlords and agents who previously rented to Housing Benefit claimants have seen arrears and workload increase. Several have already stopped accepting LHA tenants, turning instead to the private rental market. Others have decided to increase deposits for LHA tenants or require a guarantor. Many more are seriously considering these options, potentially reducing LHA claimant choice further over the next 12 to 18 months.

This process raises serious questions about not only the location and type of housing available to LHA claimants, but also the amount of relief the PRS will provide to overstretched social housing provisions.

As the Government wishes to increase the number of LHA recipients renting through the PRS, action needs to be taken urgently to mitigate or prevent the undesirable consequences of LHA highlighted in this report.

Introduction

In response to the February 2009 publication of research by Shelter detailing concerns over the implementation of the Local Housing Allowance (LHA), Decent & Safe Homes East Midlands (DASH) was asked by Government Office for the East Midlands (GOEM), to compile a report on the implementation of the LHA in the East Midlands region.

The Shelter briefing, entitled 'A Postcode Lottery?' can be found by following the link http://england.shelter.org.uk/data/assets/pdf_file/0007/167434/A_Postcode_Lottery_LHA_Research_Briefing.pdf

The Shelter report highlights many concerns with LHA, including, but not limited to, availability of Private Sector rented accommodation for LHA recipients and the fairness or otherwise of monies paid to claimants and how this affects their employment prospects.

Scope of Research

DASH was established in 2005 as a regional support base for landlords and private rented sector housing staff across all 40 East Midlands local authorities. DASH is supported by the Government Office for the East Midlands and funded by the Regional Housing Group.

DASH has compiled contact lists of landlords, letting agents, local authorities, landlord associations and other relevant partners in the Private Rented Sector (PRS) over the past four years. This process remains ongoing, and these diverse and randomised contact lists were utilised for this research.

In addition to canvassing opinion on LHA it was also agreed that it would be timely to canvass the level of optimism within the sector and the perceived outlook for the future.

Methodology of Research

Eight basic questions were included in a questionnaire to the DASH contacts, plus the opportunity to raise any other comments. This report is based on responses to these questions received by Friday 20th February 2009.

1. Are landlords/agents deciding against taking tenants who are in receipt of LHA? Is this because the landlord does not receive the rent directly?
2. Have any landlords decided that LHA is 'the final straw' and decided to sell or otherwise dispose of their portfolios?
3. Is the 'going rate' that LHA pays fair? Does it reflect local rental differences accurately?
4. Has the introduction of LHA increased the workload for landlords/agents?
5. Are rental arrears more or less prevalent than this time last year?
6. Have you asked for LHA to be paid to the landlord/agent as the tenant has defaulted on rental payments?
7. In your experience, has the current economic situation resulted in any tangible effects on the rental market (less/more demand, increased/decreased prices etc)
8. What is your personal outlook for the rented sector for the next 12 months?

Response Rate

In all, 26 replies were received via email, and 14 responses were via telephone. While this represents a response rate of less than 10%, two mitigating factors should be borne in mind.

Firstly, the email that was sent to the DASH contact lists was not targeted solely at landlords or agents who have LHA tenants. Several of the larger letting agents do not accept LHA tenants, for example, so would be unlikely to respond.

Secondly, the time allowed for responses was one week from distribution of the initial email. This did not allow time for chasing responses, sending reminders or the full utilisation of partner organisations with members in this region, such as landlord associations. However, East Midlands Property Owners

(EMPO) did forward the initial email to their members, and several of them responded with comments. Their help and cooperation in this regard is acknowledged and greatly appreciated.

It is fair to assume that only those parties who felt strongly about LHA have responded. Further canvassing of opinion at landlord forums and events is recommended, though personal experience of such events suggests that the opinions expressed in this report are representative of the majority view.

Analysis of Responses

➤ 1. Are landlords/agents deciding against taking tenants who are in receipt of LHA? If so, is this because the landlord does not receive the rent directly?

Overwhelmingly, the evidence appears to be that landlords are turning away from LHA. Several respondents pointed to colleagues that had decided against taking LHA tenants recently, and in direct response to the way it is paid. Of those that have chosen to continue with LHA tenants, there is a growing number who will only accept them if they have a guarantor who will undertake full responsibility for the LHA claimant.

There are numerous examples of agents and landlords taking action to regain property where stable tenancies existed under Housing Benefit rules, but went into arrears when the tenant switched to LHA. Often, tenants pay their first months rent then default immediately. Local authorities have received criticism for being slow to act on such cases and refusing requests from landlords to have LHA paid directly to them.

Landlords and agents appear to be changing their customer base away from LHA to private tenants – despite some respondents reporting a rise in LHA tenants seeking properties and a fall in the number of private tenant enquiries. Agents also report an increase in landlords contacting them and asking them not to let their properties to LHA claimants. The main reason given for this is the way that LHA is paid.

The overall attitude amongst the respondents towards the payment method of LHA was very negative. The perception is that having LHA tenants is a very high risk strategy, and many landlords or agents are not prepared to take that risk.

➤ 2. Have any landlords decided that LHA is ‘the final straw’ and decided to sell or otherwise dispose of their portfolios?

The number of landlords disposing of their portfolios is currently very low, no doubt in part influenced by the current weakness in the housing market. As mentioned above, rather than removing themselves from the private rented sector altogether, some landlords and agents who had previously accepted Housing Benefit tenants seem to be adjusting their business models away from LHA and towards private tenants.

➤ 3. Is the ‘going rate’ that LHA pays fair? Does it reflect local rental differences accurately?

It would appear that the amount of LHA paid is in some cases seen as fair and in other cases less so. Whilst some respondents stated that the payment is fairer than Housing Benefit, others believed it was not, particularly the one and two bed rate.

This view encourages a belief that the local variation in rate levels is not adequately taken into account by the Broad Market Rental Areas that are used to gauge LHA payments. At a local level, this may encourage LHA tenants to search for property in the cheaper and therefore potentially less desirable areas.

Some respondents observed that LHA recipients may decide to live in a smaller, cheaper property so that they do not have to top up their rent. This is the tenant’s choice, but can lead to LHA claimants gravitating to the lower end of the PRS. This has several social, health and employment implications that need to be researched further.

➤ **4. Has the introduction of LHA increased the workload for landlords/agents?**

LHA appears to have increased the workload for both landlords and agents. Far more time is now spent chasing tenants for rent. Several comments were also received about increased paperwork due to these arrears and the difficulty in proving the arrears to local authorities.

Another issue was the additional paperwork caused by the increase in the service of Section 8 (Housing Act 1988) notices to end the tenancy due to arrears. One respondent had served more Section 8 notices in the last six months than in the last four years.

The implication is that some tenants who may have had a stable tenancy under housing benefit could eventually find themselves homeless under LHA, or at the very least, these tenants would put extra pressure on already stretched local authority resources.

➤ **5. Are rental arrears more or less prevalent than this time last year?**

Overall, it would appear that arrears have increased, not across the whole of the rented sector, but most strongly amongst LHA recipient tenants. Several landlords blamed LHA directly for their increased arrears, particularly the delay in organising direct payments if the tenant defaults.

There is some suggestion that LHA payments have been used by tenants to buy Christmas presents, feed a drug habit or pay off existing debts, and the arrears may escalate as the year goes on.

➤ **6. Have you asked for LHA to be paid to the landlord/agent as the tenant has defaulted on rental payments?**

Most landlords and agents know that they can request direct payment in certain circumstances, and several have done so.

The most highlighted issue was time taken for the direct payments to be set up – by the time this is complete the landlord may well be owed four to five months rent. In a typical six month tenancy, the agreement could be close to expiry before any monies are received by the landlord.

It is therefore possible for a LHA tenant to be in the fifth month of a six month tenancy agreement, without the landlord having received any monies, and by the time the system has been set up correctly, the tenant could leave.

Other issues raised include a lack of cooperation from local authority housing benefits offices when asking for LHA to be paid direct. Complaints of unreturned phone calls and unanswered letters were made by some respondents.

The notion that the lack of cooperation could have been due to local authorities trying to reach direct payment targets set by Government was also mentioned.

➤ **7. In your experience, has the current economic situation resulted in any tangible effects on the rental market (less/more demand, increased/decreased prices etc)**

Respondents reported a whole range of market conditions and it is difficult to establish a trend from these responses. Some respondents reported an increase in speculative enquiries from LHA claimants, hinting that LHA claimants are finding it more difficult to find a good choice of properties.

Further studies in this area are recommended to establish where within the region demand is rising and falling. Further research could also determine whether or not landlords in areas of low demand are turning to LHA tenants, thereby contributing to marginalisation, or if, as some respondents reported, they would leave their properties empty or severely reduce rates to continue to attract private tenants rather than take on LHA claimants.

8. What is your personal outlook for the rented sector for the next 12 months?

Overall, the responses were very positive, with confidence seemingly quite high within the sector. A rise in demand was noted by many, while nearly all noted a rise in the number of properties being offered for rental.

Some concern was expressed that while the increased supply and demand was manageable at current levels, towards the end of the 12 month forecast the situation may be different, with supply outstripping demand, resulting in deflationary pressures on rental prices. Some respondents reported that this was already happening, with downward negotiations on advertised rental prices becoming more commonplace.

This concern is partially offset by the widespread belief that interest rates will remain low for at least the next 12 months, relieving pressure on those landlords with variable rate mortgages.

One factor that was barely touched on by any respondents was the difficulty buy-to-let landlords may also encounter when approaching banks and building societies for credit to purchase further homes to be offered for rent. The supply and demand situation will need to be monitored carefully in the short to medium term to help influence policy decisions.

Increased demand is most likely to come from young professionals who would normally look to buy but choose not to because of the property market, or are unable to due to the current difficulties in obtaining credit. Some respondents predicted a rise in rental prices, but overall the feeling is that prices will remain static or drop slightly.

Other issues raised by respondents

Very few respondents raised any other points other than those directly asked. Some respondents used this as an opportunity to criticise the Energy Performance Certificates, as none of their tenants or potential tenants had paid any attention to them. This comment echoes other comments that DASH have received while attending landlord forums and similar events.

Other issues centred on a perceived over regulation of landlords, and tenant bias by local authorities and the justice system when there are tenancy issues. An example is the standard advice given to tenants by Housing Options staff to wait for an eviction notice before leaving a property, rather than vacating on the expiry of a notice to quit. This forces the landlord to go through court procedures, whether or not the tenant is in arrears, and was seen as an unfair practice. One respondent noted the regulation of landlords is in apparent stark contrast to LHA claimants who face very little possibility of any sanction for not paying rent to the landlord.

Local Authority Tenancy bond schemes also received criticism as respondents observed they do not cover unpaid rent, and claiming through the local authority for damages can be difficult.

Conclusion ---

This research set out to ascertain landlord's opinions of LHA, their experiences with it and their view of the private rented sector in general over the next 12 months.

Current and future demand in the Private Rented Sector

Confidence within the PRS appears to be reasonable, with the worst forecast from any respondent being a 10% drop in rental prices over the next 12 months, while the majority saw supply and demand increasing and rental prices remaining static, dropping slightly, or even increasing in some areas. There does not appear to be any sense that the rental market is about to collapse, helped in no small part by low interest rates and the poor condition of the housing market.

There are signs that there may be problems in the future however. With increased rental price negotiation by tenants and the possibility of supply outstripping demand through properties flooding the sector, there could well be a greater change in rental prices than those currently forecast.

The other, though less likely, possibility is that demand will outstrip supply as landlords find that they, like would-be first time buyers, do not have access to credit to purchase further properties to cope with increased demand from the would-be first time buyers.

Clearly the PRS faces an uncertain 12 months and the full effects of the current financial crisis have not yet been determined. What does seem clear however is the more private tenants are available to landlords, the less likely they are to house LHA tenants.

Has LHA been well received by landlords and agents?

The response to LHA is universally negative amongst respondents to this research. While the author freely acknowledges that research of this type will usually only provoke a response from parties with either a strongly positive or strongly negative view, the strength of negative feeling was very high, while few neutral or positive comments were received on any aspect of LHA. The views expressed herein also echo the views from landlord forums and events attended by DASH in the recent past.

The main objection appears to be that rent can be paid directly to the tenant; what one respondent referred to as a 'lottery system'. This view is echoed by several other respondents. LHA was termed 'a national disgrace' and 'legalised theft' amongst other descriptions, with several landlords who used to accept housing benefits tenants no longer doing so under LHA.

The long term implications of this trend need to be examined further, but may result in an increased number of properties available to private tenants, further widening the gap between supply and demand. This potentially reduces rental income, while also reducing the number of properties available to LHA tenants.

Whether this trend would lead to more landlords once again accepting LHA tenants, offloading their portfolios, or just accepting deflation in the rented sector would need to be the subject of further research.

What experiences have landlords and agents had of LHA?

Some landlords who have tried to have LHA paid directly to them due to tenant arrears have found the process time consuming and difficult, while local authority staff and the legal process in general come in for criticism for slow handling of such cases. Some respondents claimed that LHA tenants were spending the money on Christmas presents, then borrowing from family and friends to make ends meet. Others suggested that LHA money was being used to directly fund drug habits, with the increased money available to LHA claimants potentially resulting in a worsening of their addiction.

Are LHA claimants marginalised in some of the worst housing stock?

It would be inappropriate to directly ask LHA landlords whether or not they see the properties they let as being 'the worst stock'. The question would also be most unlikely to illicit a true response. What can be achieved through this report is to infer that this could indeed be the case, and that the trend could worsen in the short to medium term.

Letting agents are less likely to support LHA tenant applications due to the perceived increase in workload and possible loss of income if the tenant is not forthcoming with the rent. By its very nature, this greatly reduces the amount of properties available to LHA claimants. This view has only been exacerbated with the switchover from Housing Benefit to LHA, so is likely to become more prevalent as time goes by.

The common perception among landlords is similar, with one respondent stating they would rather see their houses empty for the medium to long term than let to an LHA tenant. As more landlords and agents turn away from LHA, the marginalisation, and the competition for housing, will increase. This has severe implications for Government policy, pressure on social housing and the health and welfare of LHA claimants not only in the East Midlands, but across the country.

Suggestions for Further Research

1. Establish whether or not there is a tangible increase in drug use amongst LHA recipients over and above Housing Benefit levels. Involve Primary Care Trusts, Social Workers etc. in evidence gathering. Ideally, LHA claimants with known drug problems should be evaluated to see if direct LHA payment has resulted in escalation of dependency.
2. Incurred bank charges may become more prevalent; further analysis of this is warranted as they can substantially reduce an LHA claimant's available income and encourage further and deeper debt. Approved analysis of LHA tenant accounts and involvement of the financial services sector is recommended.
3. Some tenants appear to dislike direct payment. Further research into the prevalence of this opinion is warranted, and also an investigation into the most cost and time effective method of opting out of direct payment, and the implications of such an opt-out.
4. This research does not focus directly on any 'hurdles' put in place by landlords to deter LHA claimants, such as higher deposits or the need for guarantors. Further research into such practices and the reasoning behind them is recommended.
5. Several respondents to this survey stated they were about to, or had recently decided against accepting LHA tenants. Further evidence of the extent of this issue should be gathered and a trend for the availability of houses to LHA claimants projected for the medium term.
6. A great deal of suspicion of LHA was raised by respondents. More needs to be done to provide landlords with readily accessible information. This can be achieved in part through organisations such as DASH, attendance at landlord forums and the strengthening of links between CLG and local stakeholders.
7. This research did not canvass the views of front line Housing Options staff, concentrating instead on landlord perception and the private sector. To build a full picture of LHA and its consequences, a full and frank dialogue with front line Housing Options staff should be undertaken as soon as practicable.
8. Sample tenants in receipt of LHA to establish why they chose their current property. The perception that LHA is a 'postcode lottery', and the observation that some LHA claimants actively seek out the cheapest and therefore possibly worst properties can then be evaluated. The research should include the incidence of LHA claimants living in properties that do not comply with the Decent Homes Standard. The implications of public money being given to landlords of the lowest standard of housing via LHA should be considered in detail.
9. Evaluate the role that partnership working between housing options centres, local authority housing standards teams and local, regional and/or national accreditation schemes could play in the reduction of the incidence of LHA tenants living in non-decent homes.
10. It is possible that short term loans from family and friends are hiding the true picture of LHA recipient debt. Comparative study of arrears directly related to LHA payments versus Housing Benefits payments – using the same tenants if possible, could be a worthwhile exercise later in 2009, once short term loans have been recalled and any arrears become more obvious to detect.

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