Building the new private rented sector: issues and prospects (England)

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Summary

This briefing paper sets out measures taken by the Government, and policy proposals from those within the private rented sector, to increase the supply of privately rented properties in England.

Since 2012-13 private rental has been the second largest housing tenure in England behind owner occupation, overtaking social housing. In the context of this growth over the last 20 years, and in the context of a national shortage of housing stock, successive Governments have increasingly looked to the private rented sector (PRS) to play a greater role in providing more new build housing.

The Government has emphasised the importance of increasing institutional investment into the PRS to fund large-scale, professionally managed developments. In August 2012 the Montague review, *Review of the barriers to institutional investment in private rented homes*, was published. The Government accepted a number of its recommendations, which were announced in its *Housing Stimulus Package* in September 2012.

Despite the Government’s focus on institutional investment, the majority of PRS properties in England are currently built, acquired and managed by individual, buy-to-let landlords. This briefing also sets out the Government’s response to policy proposals from smaller landlords to help them boost the national supply of private rented housing.
1. The state of the private rented sector

The private rented sector (PRS) has expanded rapidly in recent years, with 4 million PRS properties housing 9.1 million people in England in 2012-13, 18% of the population. In 2011-12, the sector overtook social renting as the second largest tenure behind owner occupation.

There has been fairly consistent growth in the sector since the late 1980s. The Smith Institute and Centre for Cities argued this is largely a result of the Housing Act 1988, which introduced the assured shorthold tenancy regime, and by the introduction of buy-to-let mortgages in 1996. Other frequently cited explanations include price and availability constraints on the other two main tenure types, owner occupation and social housing respectively, and the requirement of an increasingly mobile workforce for a more flexible tenure.

Both the 2010 Government and previous Labour Government have highlighted the flexibility offered by the sector and its benefit for young professionals and a mobile labour market.

This vision of a high-end and flexible PRS market captures some of the benefits of the sector, however it is not a complete picture. Rugg and Rhodes (2008) identified a number of different renter types, from students to migrants to families priced out of owner occupation, creating a complex picture of the PRS in England.

Despite this recent growth in numbers, there is debate as to whether this has led to an increase in overall housing stock, or whether the

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1. These tenancies are not subject to rent control and offer no long-term security of tenure.
growth in the PRS has simply replaced developments that had previously been predominantly for owner occupation (see section 4.1).

The sector also remains a cottage industry. The Department for Communities and Local Government’s (DCLG) Private Landlords Survey 2010 showed that 89% of landlords in England are private individuals rather than companies or organisations, 92% of landlords are part-time, and just 2% of landlords have a portfolio of more than 10 properties. The nature of the industry can therefore make it difficult to regulate and to disseminate information, such as on legal duties around property maintenance.

The combination of aging stock and the cottage nature of the private rented sector, have prompted criticisms of parts of the sector. A 2013 Communities and Local Government (CLG) Select Committee report highlighted particular concerns about security of tenure, property standards and regulation of letting agencies.4

1.1 A sector growing in importance

In the context of a crisis in housing supply, there is increased focus on the role the PRS can play in housing people who cannot access social housing and who cannot afford to buy a property. Historically, the PRS has not been a ‘tenure of choice’ for most people. Concerns, including those around security of tenure and property conditions, as well as the cultural significance put on property ownership in comparison to other European countries, are all factors that have resulted in only 3% of the population choosing to live in the PRS.5 However, this may be changing.

The PRS is viewed as an essential part of a strong housing market; successive Governments have tried to create and promote a more professional PRS that is more attractive to tenants, developers and investors.

The previous Labour Government launched a consultation exercise in 2010 on measures to increase investment in the PRS, identifying it as a key component in solving the national housing shortage:

The Private Rented Sector (PRS) plays a critical role within the housing system, helping to meet growing demand and providing a flexible tenure choice. It has also played a disproportionate role in funding new-build supply in recent years. It is important that the sector continues to grow and develop to help meet the housing challenge, and that it is able to respond effectively to changing demand.6

The exercise requested submissions on how to stimulate interest in and increase lending for buy-to-let mortgages, which had been impacted by the economic downturn, to boost individual investment in the sector.

4 Communities and Local Government Select Committee, HC 50, First report of 2013-14, The private rented sector, 8 July 2013
5 Million Homes, Millions Lives, Nation Rent, 2014
6 HM Treasury, Investment in the UK private rented sector, February 2010, p3.
With regards to institutional investment, the exercise called for evidence to justify that this was a viable or desirable way to stimulate the sector:

6.21 It has been suggested that institutional investment will be beneficial, not only in helping to meet growing housing demand, and increase new-build housing supply, but also in encouraging the development of a more ‘professional’ PRS.

6.22 However, the position is not clear-cut. New institutional investment might simply substitute for supply that would otherwise have been delivered through individuals. Additional investment, particularly if geographically concentrated, and/or directed into the existing stock, could be expected to have some impact on house prices. In addition, the previous chapter explained that surveys of tenant satisfaction rates do not appear to support the argument that larger, more professional, landlords will necessarily provide a better service to tenants than individual landlords. The Government is therefore interested in any evidence of the net benefits institutional investment might bring to the housing market.7

Before a consultation response was published, the General Election saw Labour replaced by the 2010 Government. In its response to the consultation, the new Government argued that significant tax incentives would be necessary to guarantee substantial institutional investment in the PRS. In light of budgetary constraints, the Government in effect ruled out additional financial support to increase the supply of new private sector homes to rent:

3.21 The Government is committed to creating the best possible environment for a sustainable private sector led economic recovery, though the financial position means that priority must be given to maintaining the fiscal base. However, the Government will continue to keep all taxes under review and considers proposals for new reliefs carefully.

3.22 In this context the Government will be considering further the case for changes to the UKREITs regime in order to reduce barriers to entry to the regime and changes to the threshold for rent-a-room relief to encourage better use of the existing housing stock. To the extent that any such changes are likely to carry a cost to the Exchequer at a time when deficit reduction remains the Government’s main priority, these measures will need to be considered in the round, alongside other policy priorities, with any announcement made as part of the 2011 Budget.8

The issue of institutional investment in the PRS was raised again in February 2012 when Communities and Local Government (CLG) published a call for evidence for a review into removing barriers to institutional investment in the sector.

The findings of the Montague review, Review of the barriers to institutional investment in private rented homes, were published in August 2012. The review suggested that an increase in institutional investment could tackle some of the perceived historic weaknesses of the PRS, such as:

7 Ibid., p28.
Building the new private rented sector

- The potential to offer longer-term rented homes;
- A better service to tenants;
- Purpose-built accommodation to a high standard of construction.\(^9\)

The review also argued that given the current demand for PRS over home ownership, increased institutional investment could help to unlock stalled sites and therefore increase overall housing stock.

The then Housing Minister, Grant Shapps, described it as a “blueprint” for reform of the PRS.\(^{10}\) The Government subsequently adopted a number of recommendations made by the review.

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\(^{10}\) *Inside Housing*, ‘Shapps: Montague is blueprint for PRS reform’, 23 August 2012.
2. Government initiatives to encourage increased supply

The Government response to the Montague review saw the acceptance of Sir Adrian Montague’s recommendations of a Build to Rent fund, a debt guarantee scheme, and a PRS taskforce:

**Dr Offord:** To ask the Secretary of State for Communities and Local Government what steps his Department is taking to encourage the delivery of more private rented sector accommodation.

**Kris Hopkins:** This Government are committed to a bigger and better private rented sector, which is why, following the Montague review, we have put in place the £1 billion Build to Rent fund, the £10 billion Housing Guarantees schemes, and the private rented sector taskforce.  

2.1 Build to Rent

One of the recommendations for effective intervention in the Montague review was a fund to support new larger-scale developments:

Recognising that institutional interest is likely to be mainly focussed on the take-out of completed and stabilised developments, Government should also consider seeding institutional funds in order to leverage in other private capital. This funding should be on the same terms as private investment, without any element of subsidy, and should be seen as a demonstration, through the power of example, of the Government’s determination to trigger a significant expansion of institutional interest in the sector.  

The Government’s Housing Stimulus Package, announced in September 2012, included a commitment to build an “additional 5,000 homes for rent at market rates in line with proposals outlined in Sir Adrian Montague’s report to Government on boosting the private rented sector.” These would be funded by a £200m Build to Rent investment fund.

The Build to Rent prospectus indicated that bids should include at least 100 private rented units and that the fund would not cover more that 50% of costs. These conditions could only realistically be met by large-scale institutional investors.

Budget 2013 contained an announcement of additional funding for the Build to Rent scheme:

The £200 million Build to Rent fund announced at Autumn Statement 2012 was significantly oversubscribed. Budget 2013 announces that this fund will be expanded to £1 billion to support the development of more homes in England. The fund will provide

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11 PQ 176101 [Private rented housing], 25 November 2013.
12 DCLG, *Barriers to institutional investment*, para 53.
13 Prime Minister’s Office, ‘Plans to boost UK housebuilding, jobs and the economy’, 6 September 2012.
equity or loan finance to support the development finance stage of building new homes for private rent.\(^\text{14}\)

The £1bn fund was intended to build 10,000 new homes for rent. The first round of bidding was significantly oversubscribed, with the Homes and Communities Agency (HCA) announcing £1.4bn of bids received.\(^\text{15}\) On 16 April 2013 the Housing Minister announced that £700m would be set aside for 45 first round bids.\(^\text{16}\)

It was subsequently reported that a large number of developers had withdrawn from the bidding process.\(^\text{17}\) The final allocation for round one was just under £150m, with eleven contracts awarded to ten developers.\(^\text{18}\) The first contract, for 102 private rental units at Centenary Quay in Southampton, was signed in July 2013.\(^\text{19}\)

Mark Farmer of EC Harris argued that this withdrawal was a result of a recovering homeownership market, which saw many developers involved in Build to Rent divert back to their core business area.\(^\text{20}\)

One of the developers to withdraw was Keepmoat. The group chief executive Dave Sheridan blamed “initiative overload,” with Build to Rent affected by the increased liquidity in the homeownership market as a result of Help to Buy, launched in October 2013.\(^\text{21}\)

A second round of Build to Rent was launched in September 2013, with a shortlist of 36 developers announced in March 2014 bidding for the remaining £850m.\(^\text{22}\)

Despite this reduction in initial interest, James Coghill of Savills said the fund had been a catalyst for new PRS builds:

> It got a bit of momentum into the market but institutional equity was heading that way anyway, so investors’ demand has probably overtaken [the fund] to some degree,\(^\text{23}\)

In his evidence to the [CLG Select Committee report on the PRS](https://www.gov.uk/government/publications/call-for-evidence-on-the-private-rented-sector), Neil Hadden of Genesis Housing Association, one of the successful bidders, argued that Build to Rent had not affected the number of properties they were building, but did impact on how many of these became private rental units:

> We already own the sites and we were going to develop them anyway. The issue was what tenure mix we would deliver on those sites. This fund came along, so we said, “Okay, we might as well see whether it works for us”.\(^\text{24}\)

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\(^{15}\) Homes and Communities Agency, *‘Build to rent round 1’*, (last accessed 23 January 2015).

\(^{16}\) DCLG, *‘Up to 10,000 new homes will improve the rental market’*, 16 April 2013.

\(^{17}\) *The Independent*, *‘Build to Rent scheme falls far short of target’*, 20 April 2014.

\(^{18}\) HCA, *Build to Rent: round 1 signed contracts*, 27 February 2014.

\(^{19}\) DCLG, *‘First rental deal yields hundreds of new homes’*, 24 July 2013.

\(^{20}\) *Construction News*, *‘Housebuilders abandon Build to Rent as Help to Buy drives market’*, 27 March 2014.

\(^{21}\) Ibid.

\(^{22}\) HCA, *Build to rent: round 2 shortlist*, 5 March 2014 (last accessed 23 January 2015).

\(^{23}\) *Financial Times*, *‘UK rental homes stimulus labelled a failure’*, 28 July 2014.

\(^{24}\) CLG Committee, *private rented sector*, p53.
The Committee concluded that the Build to Rent fund should be welcomed, but that the Government should ensure it made “a net addition to new housing, as well as speeding up the delivery of those homes already in the pipeline.”

In June 2015, three new Build to Rent funded developments were announced in London. This took the total number of homes funded to 4,200. It is not clear what percentage of funding the three developments applied for, although if it was the full 50%, it would mean that so far approximately £378m had been allocated by the fund.

2.2 The PRS Housing Guarantee

In addition to an investment fund, Montague also recommended:

- Equity or debt funding to support schemes that can be sold into the institutional market once completed and which would act as demonstrations of possible viability, particularly around yields.

As a result, the Government also announced in its Housing Stimulus Package, that it would be providing £3.5bn in housing guarantees to support the building of new homes for the private rented sector:

The private rented sector housing debt guarantee scheme supports the building of new homes for the private rented sector across the UK, offering housing providers a Government guarantee on debt they raise to invest in new privately rented homes. This will help to reduce their borrowing costs, increasing the number of homes they can afford to provide.

The debt guarantee is designed specifically to attract investment into the private rented sector from fixed-income investors who want a stable, long-term return on investment without exposure to residential property risk. The scheme rules for the private rented sector housing guarantee scheme were published in February 2013.

On 20 June 2013 the Minister announced that the full application process would “open shortly.” This announcement followed press reports stating that no private company had formally expressed an interest in running the scheme.

Housing Minister Brandon Lewis announced on 11 December 2014 that PRS Operations, a subsidiary of Venn Partners LLP, would be managing the scheme. Following this announcement the scheme rules were published again. They stipulated that a project must have a minimum value of £10m, with the loan covering up to 80% of the project’s value.

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25 Ibid., p54.
26 DCLG, '1,000 new homes for private rent in London’, 10 June 2015
27 DCLG, Barriers to institutional investment, para 53.
28 DCLG, Improving the rented housing sector, (last accessed 23 January 2015).
30 Financial Times, ‘Build to let plans fall flat after investors show scant interest’, 10 June 2013.
31 DCLG, ‘£3.5 billion funding boost for new rented homes’, 11 December 2014.
32 DCLG, Private rented sector housing guarantee scheme, December 2014.
In his evidence to the Committee, Sir Adrian Montague indicated the amount set aside for the guarantee had gone beyond what he had anticipated in his report:

**Q114 Chair:** I understand why you have given qualified support to the £200 million build-to-let fund, which is about trying to stimulate a market—trying to get examples going that others can then follow. However, you were absolutely categorical in your review when you talked about being urged to get the Government to provide guarantees of different kinds as a way of stimulating the market. You said, “We do not advocate guarantees of any of these descriptions as they tend to distort the market.” That is pretty categorical, yet £10 billion is hardly a kick-start, is it? It is a massive great wodge of money, and you are quite happy for that to act as a guarantee.

**Sir Adrian Montague:** I was not concerned with the policy decision to implement the housing guarantee scheme. I conducted the review; I have not had the responsibility of implementing it. I think that was motivated by the desire to stimulate the flow of funding into the sector, beyond what might be achieved by the build-to-let scheme. I think reasonable men can differ on the desirability of guarantees.

**Q115 Chair:** Right. So you would rather it was done another way?

**Sir Adrian Montague:** I think it is a step in the right direction; it may be a bound in the right direction rather than the modest step I was envisaging.  

As the scheme had not been launched before the publication of the CLG Committee report on the PRS, it was not able to assess its effectiveness. The Committee requested that the Government’s response provide details on the number of applications received and the number of new homes it anticipated the scheme would produce.

The **Government’s response** in October 2013 did not provide this information. The response did however confirm that in addition to the £3.5bn, £3bn extra would be held in reserve either for this scheme or the affordable housing guarantee scheme, depending on demand.

Concerns were raised in the CLG Committee report about likely uptake of the scheme. Neil Hadden told the Committee:

There will be a fee that goes to the [Homes and Communities Agency], and there will be a fee that goes to the aggregator. By the time you have totted all that up, with the guaranteed low cost of borrowing it will perhaps not be much different from what we can borrow at anyway.

Additionally, Savills’ James Coghill said that “the market didn’t really respond to the aggregator role [the Government] wanted to put in place.”

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35 CLG Committee, *Private rented sector*, p54

The then Housing Minister, Mark Prisk, told the Committee that even before the scheme was launched, by simply announcing its intentions the Government could have affected the PRS market.\textsuperscript{37} Outside of the housing guarantee scheme, in December 2014 Venn agreed a £20m debt facility with Essential Living, an institutionally-backed PRS developer established in late 2012.\textsuperscript{38}

It was reported in March 2015 that Venn would be opening applications within a month, with the intention to issue the first bonds under the scheme later in 2015.\textsuperscript{39}

2.3 PRS Taskforce

In order to support developers in utilising these new initiatives, Montague recommended that a PRS taskforce be set up to act as “an enabler.”\textsuperscript{40} The taskforce was established in April 2013.

A DCLG press release stated that the taskforce had helped to identify aspirations to invest over £10bn of equity in the private rented sector.\textsuperscript{41} In his response to a PQ on the housing guarantee scheme, the then Housing Minister Kris Hopkins drew attention to the taskforce’s involvement even before the scheme had been officially launched:

In relation to the Private Rented Sector Guarantee, we are currently in direct commercial negotiations with a number of borrowers with large enough projects to raise their own finance. The Private Rented Sector Taskforce is supporting this, and the separate Build to Rent fund, by engaging with the market and encouraging key players to invest to kick-start the new private rented sector.\textsuperscript{42}

The term ‘kick-starting’ came up again in the Government’s response to the CLG Committee’s report on the PRS:

The core mission of the Taskforce is to kick-start the new private rented sector in the UK. This will provide an abundance of good, small scale private landlords but it will be characterised by a growing number of large scale, professionally managed developments, owned and managed by institutional investors and private sector organisations.\textsuperscript{43}

This clearly set out the Government’s interpretation of the ‘new private rented sector’, defined largely by a significant increase in institutional investment.

2.4 National Planning Policy Framework

In March 2012 the Government published the \textit{National Planning Policy Framework} (NPPF) with the intention of streamlining the planning

\begin{itemize}
\item \textsuperscript{37} CLG Committee, \textit{private rented sector}, p54.
\item \textsuperscript{38} Inside Housing, ‘Residential landlord signs £20m loan with Venn’, 19 December 2014.
\item \textsuperscript{39} Inside Housing, ‘Housing associations eye PRS guarantees fund’, 23 March 2015
\item \textsuperscript{40} DCLG, \textit{Barriers to institutional investment}, para 54.
\item \textsuperscript{41} DCLG, ‘£3.5 billion funding boost for new rented homes’, 11 December 2014.
\item \textsuperscript{42} PQ 184930 [Housing bond guarantee scheme], 27 February 2014.
\item \textsuperscript{43} HM Government, \textit{Government response}, para 41.
\end{itemize}
process and speeding up developments. As the then Planning Minister Greg Clark said in his ministerial foreword:

Development that is sustainable should go ahead, without delay –
 a presumption in favour of sustainable development that is the
basis for every plan, and every decision.44

Sir Adrian Montague commended the “flexible and permissive
approach”45 to planning in the NPPF, although he noted that it needed
to specifically recognise the role of the private rented sector.

Although the role of the PRS was not specifically focused upon, the
major changes to planning regulations will impact upon any new private
rented sector development. The House of Commons Library has
produced a standard note with further information on the NPPF.46

Specific changes to section 106 obligations are discussed further in
section 3.2.

45  DCLG, Barriers to institutional investment, para 49.
46  House of Commons Library, National Planning Policy Framework, SN/SC/06066, 30
March 2012.
3. Institutional Investment – progress & issues

The Government’s vision of a new private rented sector characterised by a growing number of large-scale, institutionally-backed developments emerged out of a position of weakness compared to a number of other European countries. The graph above shows over 47% of the Netherlands’ institutional real estate investment is held in the residential market compared to less than 1% in the UK.

This comparative lack of institutional investment was highlighted in 2004 in the Barker review of housing supply, which proposed US-style Real Estate Investment Trusts (REITs). These were introduced by the previous Government in 2007, however by April 2011, only 1 of 23 listed REITs was investing in residential property.

The current Government has put a major focus on securing institutional investment to increase the quantity and quality of PRS housing stock and commissioned the Review of barriers to institutional investment in private rented homes (the Montague review), the recommendations and outcomes of which are discussed in sections 2.1-2.4 and 3.2 of this note.

3.1 Economic viability of the private rented sector

There are a number of reasons for the lack of large-scale, institutionally backed developments in England. Of significant importance is the historic demand for owner occupied properties over PRS homes. In

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47 Resolution Foundation, Making a rented house a home: housing solutions for generation rent, August 2011.
48 HM Treasury, Barker review of housing supply, March 2004, p95.
addition, the investment model of the PRS, which is one of long-term financial yields rather than the short-term capital value from sale of owner occupier properties, creates an investment opportunity that presents greater risks for investors.

As Mark Hafner of US PRS investor Greystar argues:

The answer is very simple and very obvious; the reason PRS hasn’t flourished in the UK to date is because the for-sale market is so robust here.

For virtually any piece of land you are going to achieve a higher return faster from a for-sale strategy than you are with rental.50

Particularly with new-build PRS developments, which require a significant investment of capital up front, the issue of yields that are susceptible to changes in the market rent rates are significant for institutional investors. The Montague review identified this concern from potential investors:

We were given a range of figures for yields that would be acceptable to investors. Much of the information given to us was commercially confidential. But there seemed to be a reasonable consensus that the base historic net yield of 3.5% p.a. would be too low to prompt much investor appetite, without the boost to total returns from capital appreciation (which implies sale to owner occupation within a reasonable period after acquisition). 51

The review noted that given the novelty of the large-scale PRS market, yields would have to be particularly high to tempt investors into being the “first movers” in the sector, as well as highlighting necessary changes to increase yields:

A change of paradigm to a long-term residential investment market dependent only on income returns is therefore likely to require higher rents, or lower land, construction and management costs, or some combination of all of these.52

The Government’s initiatives are aimed at removing the concerns of “first movers” by providing financial support, as well as a taskforce to promote best practice and therefore lower construction and management costs.53

Whilst there has been demonstrable interest in the Government’s Build to Rent initiative (section 2.1), the improving owner occupier market, in part as a result of Help to Buy, has attracted some risk averse investors away from PRS, particularly as the market’s recovery is likely to impact on rental yields. A 23% drop in gross yields between 2009 and 2013 has been directly attributed by commentators to a recovery in the housing market.54

50 Social Housing, ‘Overseas investors target London PRS as UK groups focus on market sale’, 12 September 2014.
51 DCLG, Barriers to institutional investment, para 33.
52 Ibid.
53 The prospectus for round 2 of the Build to Rent fund spelled out this hope: “the Government welcomes bids that include innovative design and construction techniques including, but not limited to, off site construction.”
54 Inside Housing, ‘Rental yields drop as housing market rebounds’, 7 March 2014.
A report by EC Harris on the viability of the build to rent model calculated that reducing capital delivery costs such as construction or marketing by 5% (when combined with smaller unit sizes), would make some form of PRS viable in 74% of English local authorities. This compares to 53% of local authorities with neither reduced capital delivery costs nor reduced unit sizes.  

The report argues that, unlike owner occupation, the PRS model is not viable across the country, and that geographical variations do exist.

Source: EC Harris

The EC Harris report identified the highest residual land values in areas with high employment, rental affordability and a high 25-35 year old demographic (Warwick was the only authority deemed to have all three characteristics). It follows that the most attractive areas for profitable PRS developments were identified as major cities, ‘satellite towns’ commutable to centres of employment and some university locations.

In areas without these characteristics, there appears to be little market appetite for new build PRS given the yields involved. Derwentside Homes in County Durham (a local authority EC Harris calculated no build-to-rent viability for in any of its models), received funding from round 1 of the Build to Rent fund. This was however on a rent to buy model, rather than a permanent PRS development, highlighting concerns about yields solely from rental income raised in the Montague review.  

**London**

The EC Harris report was keen to stress that its calculations were not definitive, and that variations in viability affected by local characteristics often take place within local authority areas. The most viable regions were identified as the South East, and particularly London.

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55 EC Harris, *Build to rent: pushing the boundaries*, 2013.

56 HCA, ‘Housing Minister unveils North’s first ‘build to rent’ scheme’, 11 November 2014.
London’s younger, more mobile labour force, and greater availability of technical and professional employment means that, compared to the 18% national average, 25% of the population live in private rented accommodation (forecasted to rise to 37% by 2025).  

Although EC Harris assesses no London borough as having rental affordability, one of the three local authority characteristics deemed important in the report for build-to-rent viability, this is countered by a shortage in supply and a high demand. The research concluded that 31 out of 33 London local authorities can support high-rise PRS developments, without yield improvement measures on unit size or capital delivery costs. 80% of projects submitting bids for round 2 of the Build to Rent fund were in London. 

In terms of institutional investment, the London market saw the establishment in 2012 of the UK’s first institutionally backed PRS-only developer, Essential Living, a partnership between Essential Land and M3 Capital. 

Although the London PRS build-to-rent market is larger than much of the rest of the country, it is still vulnerable to changes in the market. Rental returns are higher in London but this is often off-set by the comparatively higher cost of land. Between 2013 and 2014, land values in central London rose 18.7% and in outer London 13.2%, compared to the next biggest regional rise, 3.9% in the West Midlands.60

Grainger, a major developer of PRS stock, told Inside Housing that their approach to PRS, particularly in London, is to not compete in the open land market. Instead the company negotiates deals with local authorities for public sector land. 

The recovery in the owner occupation market has also attracted risk averse London investors away from PRS, particularly housing associations (see section 5.1), but also some institutional investors. Press reports in July 2014 said that the UK’s tallest PRS tower development, Newington Butts, was under threat as the developer sought to change the tenure mix to predominantly for-sale units. However, in June 2015, it was announced that Newington Butts, with funding from the Build to Rent fund, would be developing 278 homes for rent. 

3.2 Additional initiatives to attract further investment

The Government’s Housing Stimulus Package, which followed the publication of the Montague review, announced the introduction of a number of the more tangible measures from the review.

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58 DCLG, Build to Rent to offer greater choice for tenants, 5 March 2014.
60 Knight Frank, Residential Development Land Index, 2014 (Q3).
61 Inside Housing, The private rented sector divide, 23 October 2014.
62 Property Week, Blow to Boris as PRS scheme opts for private sales, 11 July 2014.
63 DCLG, 1,000 new homes for private rent in London, 10 June 2015
The review made several additional recommendations beyond those announced in the stimulus package. In 2013 two industry reports on the future of the PRS, Savills’ *Montague, one year on: unlocking potential in the private rented sector*, and BNP Paribas’ *Housing the nation*, examined these recommendations in more detail.

**Section 106 obligations**

The Montague review raised concerns that the specific characteristics of the PRS investment model were not being taken into consideration when setting section 106 (s106) and Community Infrastructure Levy (CIL) “planning obligations” charges (charges for infrastructure associated with development):

In principle, the planning system does not distinguish between private rental and owner occupation. But, in practice, people told us that it was generally assumed that homes which were not specifically set aside for affordable housing would be sold to owner-occupiers, or perhaps to small buy to let investors. This assumption is built into calculations of the value of land, including when assessing planning gain for the purposes of determining section 106 and Community Infrastructure Levy agreements.

BNP Paribas agreed with this point, arguing that “PRS should become a User Class in its own right in planning terms and that local policy should be amended to require ‘a mix of uses’ to include PRS”.

The 2014 *Lyons Review*, commissioned by the Labour Party, highlighted the example of Wandsworth council, which had used s106 conditions to require the delivery of 114 PRS units on a 510 home development. The review recommended extending the scope of local plans in the NPPF to explicitly include an assessment of local need for market rented housing.

Montague expanded on his argument regarding s106 and CIL charges to focus specifically on affordable housing requirements. He argued that land values based on rental tenure “will often not be strong enough to support the imposition of excessive affordable housing obligations”.

In September 2013, Savills raised this issue again:

In order to increase supply of privately rented homes further, Local Planning Authorities must be open to negotiations regarding affordable housing provision. Although flexibility surrounding Section 106 requirements was a key recommendation by Montague, there is little evidence that this is happening in any meaningful way.

Although Savills argued that this was not happening, on 18 October 2012, shortly after the publication of the Montague review, the

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64 More information on s106 and CIL obligations can be found in the House of Commons Library Standard Note *Community Infrastructure Levy*, SN/SNIC/03890, 26 February 2014.
65 DCLG, *Barriers to institutional investment*, para 35.
67 The Lyons Housing Review, *Mobilising across the nation to build the homes our children need*, October 2014.
68 DCLG, *Barriers to institutional investment*, para 49.
Government introduced its *Growth and Infrastructure Bill*. Clause 5 included a requirement to reconsider affordable housing requirements where they rendered a development unviable.\(^70\)

This requirement became section 7 of the *Growth and Infrastructure Act 2013*, which received Royal Assent on 25 April 2013. The Government’s *guidance* on this change required PRS developments to be considered on their own terms:

> For market sales and private rented housing, viability appraisals should be supported by scheme specific evidence from comparable development schemes, taking into regard type of property, location and delivery.\(^71\)

BNP Paribas welcomed Government changes to the planning system, but raised concerns over the effectiveness of their implementation:

> Whilst Planning Officers follow policy, including the NPPF, and make recommendations for approval; Planning Committees are often too political and ignore these recommendations resulting in too many schemes having to be appealed and go to Inquiry.\(^72\)

The report instead proposed removing planning decisions from locally elected members, replacing them with permanently employed local officials.

**Regulatory stability**

One of the major attractions for investors of the UK PRS market, according to Montague, is the stability of the regulatory framework for the sector over the past 20 years, which has given investors confidence in stable returns. Montague recommended not only regulatory stability, but for the Government to explicitly commit to this stability to reassure investors:

> Equally, they (investors) warned of the dangers to the attractiveness of the sector were that stability to be undermined. In the 1970s rent controls and restrictions on regaining vacant possession caused institutional interest in the sector to evaporate, and strong Government endorsement of the current status quo in these areas would help to bolster the market.\(^73\)

Harry Downes of Fizzy Living, a PRS operator, told BNP Paribas that the professionalism of the large-scale build to rent sector means there is little tenant demand for legislation on longer-term tenancies:

> FizzyLiving offers tenants flexible lease terms, but not one tenant has taken us up on this offer. They are confident that we will not kick them out, and they prefer to retain the flexibility of being able to move out when it suits them. So they stick with a standard 12 months Assured Shorthold Tenancy (ASTs) with a six month break clause.\(^74\)

Andrew Cunningham of Grainger argued that as well as little demand from tenants, legislation would affect asset value for investors:

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\(^{70}\) *Growth and Infrastructure Bill*, 2012-13, clause 5.

\(^{71}\) DCLG, *Section 106 affordable housing requirements, review and appeal*, April 2013.

\(^{72}\) BNP Paribas, *Housing*, p11.

\(^{73}\) DCLG, *Barriers to institutional investment*, para 26.

\(^{74}\) BNP Paribas, *Housing*, p9.
Government intervention in tenancy structures is not required. Longer tenancies are often not offered because of a lack of demand among tenants or because of the negative impact that a longer tenancy would likely have on an asset which is valued based on its vacant possession value. As PRS expands, and assets begin to be valued on their net operating income rather than vacancy, longer term tenancies will naturally be made more available by landlords. Legislation is not required.  

In contrast, a 2010 CLG report argued that investors in other countries may actually be attracted by more secure, longer-term tenancies:  

In Germany, Switzerland and the Netherlands institutional investors are not put off by the strong security of tenure that tenants have. In fact long term tenancies are attractive in keeping down voids and management costs and maintaining a secure long term return.

When the Labour Party announced a manifesto commitment in 2014 to legislate to make three year tenancies the standard for the private sector, this received both criticism and support from different PRS investors.

The Government appears to support Grainger’s approach, encouraging family-friendly tenancies rather than legislating for them. For example with family friendly tenancies, these can be requested based on a model tenancy agreement developed with the sector. Secretary of State for Communities and Local Government Eric Pickles stated that this approach would avoid “strangling the sector with unnecessary rules and red tape.” Applicants for round 2 of the Build to Rent fund were also encouraged to offer longer-term tenancies.

Rent controls are also opposed by the sector, with rental income as the predominant source of yields for investors. In its evidence to the CLG Committee, the Young Group, a PRS consultancy, stated that:

It is our view that rent controls would have a detrimental impact on the PRS; reducing both the quality and quantity of accommodation available to residents. It is widely acknowledged that there is a cavernous gap between housing demand and supply. Rent controls/caps will do nothing to alleviate this imbalance and would act against efforts to encourage investment into the sector to boost supply.

A response from David Cameron during Prime Minister’s Questions in July 2014 highlighted the Government’s strong opposition to any form of rent controls:

Q8. [904595] Jeremy Corbyn (Islington North) (Lab): …Will he give me an assurance that, in addition to any regulation of the agencies, serious consideration will be given to the need to bring

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75 Ibid.
76 CLG, Promoting investment in private rented housing supply: international policy comparisons, November 2010.
77 New Statesman, Ed Miliband’s speech on Generation Rent: full text, 1 May 2014.
78 Inside Housing, ‘Ed Miliband’s speech on Generation Rent: full text’, 1 May 2014.
81 CLG Committee, Vol III, Private rented sector, Ev w277.
back rent control to protect people and ensure they have somewhere secure and decent to live?

**The Prime Minister:** …Where I part company with him is on the idea of introducing full-on rent controls. Every time they have been tried, wherever they have been tried in the world, they have failed. That is not just my view; it is also the view of Labour’s own shadow housing Minister, who is on the record as saying that she does not think rent controls will work in practice. Perhaps he might want to have a word with her before coming to me.⁸²

### Land availability

The limited availability of suitable sites for PRS developments was identified by Sir Adrian Montague as a major constraint to the development of a volume of stock sufficient to attract institutional investment. He suggested that public sector land could be freed up to address this.⁸³

The Government’s public sector land programme aims to release land for 100,000 homes by March 2015, and has claimed to have released land for 90,000 homes as of September 2014. The programme however has no specific measures for the PRS.⁸⁴

BNP Paribas also highlighted a lack of available sites, and proposed a relaxation of planning regulations on Greenfield sites, particularly those on town boundaries.⁸⁵ The Housing Minister Brandon Lewis, in response to a parliamentary question on 15 December 2014, confirmed that this approach was not a Government priority:

**Mr Jim Cunningham (Coventry South) (Lab):** Does the Secretary of State agree with me that greenfield sites can be very highly valued by local residents and are important for protecting natural habitats and heritage? As we look to build the much-needed houses, will he take steps to assist local authorities to make sure that brownfield sites and inner-city spaces are fully exhausted before any greenfield sites are built on? [906611]

**The Minister of State, Department for Communities and Local Government (Brandon Lewis):** I agree with the hon. Gentleman. He is absolutely right that local authorities should be looking to develop brownfield sites first. In fact, we are looking at that with the new starter homes programme that the Prime Minister announced today. We have also put in more money over the summer to encourage local authorities to develop those brownfield sites first and to make them more viable.⁸⁶

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⁸² PQ 904595 [Prime Minister], 2 July 2014.
⁸³ DCLG, *Barriers to institutional investment*, para 50.
⁸⁶ PQ 906611 [House building], 15 December 2014.
4. Individual landlords

Despite recent efforts to increase institutional investment and large-scale PRS development it remains a fact that the sector is dominated by small-scale landlords. As previously stated, the PRS is frequently described as a ‘cottage industry.’

The CLG Committee’s 2013 report questioned the then Housing Minister, Mark Prisk, on the issue of whether the Build to Rent scheme was focused on the development of new housing for the middle classes. The Committee recommended that the Government should boost supply across the sector as a whole, if it could not be demonstrated that this was already happening.87

The economic profile of the PRS is not dissimilar to the population as a whole, according to a 2013 Building and Social Housing Foundation (BSHF) study, Who lives in the private rented sector?, with a slight over-representation of the lower income groups.88 The build to rent model, with market rents, may not be suitable for a large proportion of the PRS market.

Shelter’s response to the Montague review criticised it for focusing solely on institutional investment at the expense of the rest of the PRS:

It (the review) misses a trick in offering nothing for the millions of people already in the sector, paying sky-high rents and living under constant threat of eviction or further rent rises. No solutions for our rental market could be complete without measures to address this lack of stability.89

As well as new, large-scale, institutionally backed developments, the other aspect of the Government’s private rented sector policy is “an abundance of good, small scale private landlords.”90 89% of landlords in England are private individuals and 98% of private landlords own fewer than 10 properties and 70% of all dwellings.91

With the significant majority of the existing PRS stock owned by individual investors, developing the Government’s ‘new private rented sector’ involves changes to individual landlord practice as well as the promotion of large-scale, professionally managed build-to-rent developments.

4.1 The buy-to-let market

Much of the recent growth in the PRS has been from individual landlords, and a major driver of this has been the availability of buy-to-let mortgages. A study by the Intermediary Mortgage Lenders Association (IMLA) found that since the introduction of buy-to-let mortgages...
mortgages in 1996 they have financed 1.4m of the additional 2.6m homes in the PRS.\textsuperscript{92}

Critics of buy-to-let argue that the growth in the PRS is at the expense of homes for owner occupation. IMLA figures show that in contrast to the rapid growth of PRS, the stock of owner occupied homes between 2000 and 2012 grew by only 400,000 and has been shrinking since 2007.\textsuperscript{93}

Alex Hilton of Generation Rent criticised the lack of a level playing field between owner occupiers and buy-to-let investors, who can qualify for interest-only deals and can offset mortgage interest against tax.\textsuperscript{94}

4.2 Initiatives to attract further individual investment

Land supply and rent controls

The Residential Landlords’ Association (RLA) \textit{2015 election manifesto} sets out a number of policy initiatives it claims will boost the supply of PRS dwellings by encouraging individual investment. Two of these, releasing public sector land and opposing any form of rent controls, are similar to those put forward by institutional investors (see section 3.2).

With regards to land, the RLA calls on the Government’s public sector land programme to extend its reach from just large plots to include smaller plots that can be quickly developed by individual landlords.\textsuperscript{95}

As mentioned previously, the public sector land programme does not specifically focus on the PRS, nor as the RLA mention on smaller plots. With regard to smaller developments however, the Government has implemented measures to encourage their development.

Following a consultation in March 2014, the Government announced in its November 2014 response, \textit{Planning contributions (section 106 planning obligations)}, that it would introduce a 10-unit minimum threshold for s106 affordable housing requirements on any new housing development.\textsuperscript{96} These changes are now reflected in the National Planning Practice Guidance’s pages on planning obligations.

In July 2015, the High Court ruled that the 10-unit minimum threshold was unlawful. The DCLG is currently seeking permission to appeal the decision.\textsuperscript{97}

Taxation reform

Critics of buy-to-let such as Alex Hilton have pointed to advantages in the tax system compared to owner occupiers. IMLA have dismissed these arguments as “erroneous”, highlighting comparative

\begin{itemize}
  \item[I. M. L. A. (; 2014a)]{Reshaping housing tenure in the UK: the role of buy-to-let}, May 2014, p3.
  \item[Ibid. (; 2014b)]{Ibid., p5.}
  \item[The Times (; 2015)]{“Britain becomes a nation of renters as buy-to-let prices out new buyers”, 1 January 2015}
  \item[R.L.A. (; 2015)]{Election manifesto 2015, January 2015, p27-8.}
  \item[DCLG (; 2014)]{Planning contributions (Section 106 planning obligations): Government response to consultation, November 2014.}
  \item[Local Government Chronicle (; 2015)]{“DCLG loses high court battle over section 106 exemptions”, 4 August 2015}
\end{itemize}
disadvantages such as buy-to-let sales being subject to Capital Gains Tax (CGT).  

The 2015 Budget saw an announcement that some of these advantages would be reduced:

This Budget… restricts relief for mortgage interest for individual landlords to the basic rate of income tax, phased in over 4 years, limiting the advantage that these individuals currently enjoy over those purchasing their own home.  

The RLA have called for taxation reform in a number of areas to reduce perceived disadvantages in comparison to owner occupation, including extension of the Value Added Tax (VAT) relief on goods and services related to the construction of a new dwelling, which is not currently permitted on new build dwellings intended for rent.  

Another perceived disadvantage relates to CGT, for which buy-to-let sales are liable, whilst a number of owner occupier sales qualify for Private Residence Relief. The RLA argue for the introduction of CGT relief when sale proceeds are reinvested, and when properties are sold to first time buyers. The German PRS market operates a similar system of re-investment relief to that proposed by the RLA.  

Press reports indicate that HM Revenue and Customs (HMRC) have recently stepped up enforcement of CGT avoidance by buy-to-let property owners, leading to a 24% increase in 2013-14 collections compared to the previous year.  

A further concern of the RLA is the lack of relief in the tax system for re-investment in and improvement of property standards. The LSE study Towards a sustainable private rented sector notes that a similar ‘depreciation allowance’ exists in a number of European countries including Germany, the Netherlands, Ireland and Finland (although in Finland this is only for institutional landlords).  

The Government has not currently indicated any intention to implement any of these proposals. In the 2014 Autumn Statement however it did announce changes to Stamp Duty Land Tax (SDLT):

To reduce distortions and improve the fairness of the tax system, Autumn Statement announces that the government will reform SDLT on residential property with immediate effect. From 4 December 2014, SDLT rates will only apply to the part of the property price that falls within each band, similar to the structure of Income Tax. The effective rate of SDLT will rise steadily as property values increase, removing the distortions created by the existing system, where the amount of tax due jumps at the thresholds. Transitional rules will allow buyers who have already exchanged on a home but not completed before 4 December.

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98 IMLA, Reshaping, p9.
99 HM Treasury, Summer Budget 2015, 8 July 2015, p3
100 RLA, Manifesto, p27.
101 HM Revenue & Customs, Private Residence Relief, HS283 2014.
102 LSE, sustainable private rented sector, p25.
103 The Telegraph, HMRC investigations into buy-to-let spark surge in tax receipts, 10 January 2015.
104 LSE, sustainable private rented sector, p26.
2014 to choose whether to pay SDLT under the existing or new rules.

1.209 As part of the reform, the government is introducing new rates and thresholds for SDLT on residential property to ensure this change is introduced in a fair way. As a result, SDLT will be cut for 98% of people who pay it.\textsuperscript{105}

These changes were welcomed by the National Landlords Association (NLA), which had campaigned for SDLT reform:

We are delighted that the Chancellor has listened to the NLA and recognised the inequity of the SDLT ‘slab’ system…

The introduction of a straightforward marginal system of taxation will mean private landlords will now not only face lower costs when acquiring property, but also have funds to implement property improvements and keep rents down.\textsuperscript{106}

Houses in multiple occupation

The RLA manifesto also called for reform of planning regulations to get rid of ‘Article 4 Directions’ with regards Houses in Multiple Occupation (HMOs).\textsuperscript{107} Since October 2010 local authorities have been able to use their direction making powers to restrict changes of use (from family homes to HMOs) by requiring planning applications where they deem it necessary.\textsuperscript{108}

The RLA say the number of councils making these directions is growing, and that this is restricting the growth of HMOs, which it argues are required to address the housing need of groups such as young professionals.\textsuperscript{109} The NLA is also opposed to the use of Article 4 Directions and agrees that they are restricting the provision of a much-needed PRS type.\textsuperscript{110}

In its response to the CLG Committee report on the PRS the Government indicated it would not be looking to change the regulations:

\textbf{Recommendation 16}

Where there are community concerns about high concentrations of houses in multiple occupation, councils should have the ability to control the spread of HMOs. Such issues should be a matter for local determination. We therefore consider it appropriate that councils continue to have the option to use Article 4 directions to remove permitted development rights allowing change of use to HMO.

The Government agrees with the Committee’s recommendation. Councils will continue to have the option to use Article 4 directions where there are concerns from the local community about high concentrations of houses of multiple occupation.\textsuperscript{111}

\textsuperscript{105} HM Treasury, \textit{Autumn Statement 2014}, Cm 8961, December 2014.
\textsuperscript{106} NLA press release, ‘\textit{NLA welcomes stamp duty reform}’, 3 December 2014.
\textsuperscript{107} RLA, \textit{Manifesto}, p28-31.
\textsuperscript{108} House of Commons Library, \textit{Houses in multiple occupation & the Use Classes Order}, SN/SP/05414, 30 December 2013.
\textsuperscript{109} RLA, \textit{Manifesto}, p29.
\textsuperscript{110} NLA, \textit{Article 4 Directions}, 2014.
5. Social landlords’ PRS initiatives

5.1 Housing associations

The 2010 Spending Review set out the Government’s intention to continue with capital investment in social housing, but on a much more modest scale than before. The review also brought in a new intermediate rent for social tenants, set at 80% of market rents.\(^{112}\)

The National Housing Federation’s (NHF) response to the review expressed concern that rental income was now expected to play a much larger part in funding social housing than previously:

> We are extremely disappointed that the Government has chosen to impose such significant cuts on the levels of capital funding available. It appears that Government has chosen to move at a rapid pace to a system of personal subsidy to deliver new homes at scale.\(^{113}\)

Although housing associations using PRS income to cross-subsidise their social objectives is not a new occurrence (a Joseph Rountree Foundation (JRF) report from 2003 examined this housing delivery model\(^{114}\)), reduction in housing association budgets since 2010 have encouraged more to look at cross-subsidisation.

The Montague review noted the potential of housing associations to impact upon the build to rent market:

> The potentially important role of housing associations deserves special mention. Among the larger associations, there is starting to be considerable interest in market rent developments as a natural complement to their existing activities in affordable housing. The associations have the potential to become key players in the development of bespoke private rented schemes, as the balance sheets of at least the strongest among them will support standalone capital raising to finance developments. In addition, their existing affordable housing portfolios give them both asset management expertise and a strong platform to offer a professional service to tenants.\(^{115}\)

A 2012 Resolution Foundation report also noted that the scope of larger associations may mean they can avoid some of the difficulties of attracting investment due to a lack of sites for large scale-developments:

> Units could be built by the consortium (of housing associations) on sites across the country to generate the scale of investment required by investors without that having to be delivered on a single site. For example, 10 sites that could accommodate 100 units each could create a fund of £100 million to attract large scale investors.\(^{116}\)

\(^{112}\) HM Treasury, Spending Review 2010, Cm 7942, October 2010.
\(^{113}\) NHF, Comprehensive Spending Review – Briefing for National Housing Federation Members, October 2010.
\(^{114}\) JRF, Developing and managing market renting schemes by housing associations, February 2003.
\(^{115}\) DCLG, Barriers to institutional investment, para 28.
\(^{116}\) Resolution Foundation, Making institutional investment in the private rented sector work, July 2012.
In January 2014 in response to a PQ, the then Housing Minister, Kris Hopkins, confirmed that 13 out of 95 total bidders for round 1 of the Build to Rent fund, and 6 out of 125 bidders for round 2, self-identified as social landlords.\(^\text{117}\)

As well as directly bidding for funding, some housing associations are creating subsidiary companies to act as their commercial arm in the PRS, with profits reinvested in social housing objectives. In 2014, one of the largest such commercial organisations, Fizzy Living, a subsidiary of Thames Valley Housing Association (TVHA), secured £200m of institutional investment from Silver Arrow, an entity owned by the Abu Dhabi Investment Authority.\(^\text{118}\)

Housing associations entering the PRS are however subject to the same concerns over yields and sustainability as institutional investors. Notting Hill Housing Group reportedly scaled back its PRS target after deciding that putting properties up for sale would generate more money for cross-subsidisation.\(^\text{119}\) Keith Exford, Chief Executive of Affinity Sutton raised similar concerns:

We remain unconvinced that [PRS] is a worthwhile activity for us,’ he says. ‘We don’t believe that private renting is a charitable activity. Therefore, it is a commercial one, and we don’t view the returns on PRS as sufficient. Why would we want to take the profit slowly? The only reason we want the profit is to build more affordable homes.\(^\text{120}\)

Where housing associations are operating successfully in the PRS it is often where they are not doing so solely for the purpose of cross-subsidising affordable housing but because they believe the provision of PRS is in itself beneficial. Elizabeth Froude of Genesis told Inside Housing:

We always say we are here – particularly in London – to provide housing for people in the squeezed middle as much as people at the bottom end. It’s not a great big commercial activity for us, but we build enough to create some return in cross subsidy.\(^\text{121}\)

Similarly Clarendon Living, a subsidiary of Watford Community Housing Trust, emphasises the benefit its ‘ethical’ approach as a landlord can have for tenants, as well as the benefits of cross-subsidisation.\(^\text{122}\)

## 5.2 Local authorities

Some local authorities have also begun to develop a greater involvement in the PRS. Unlike housing associations however, their role has largely been to facilitate an increase in PRS stock, rather than developing market rental properties themselves to cross-subsidise social housing objectives.

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\(^\text{117}\) PQ 177357 [Private rented housing: construction], 26 November 2013.

\(^\text{118}\) TVHA press release, ‘Fizzy Living raises new capital commitment of £200m’, 10 March 2014.

\(^\text{119}\) Social Housing, ‘Overseas investors target London PRS as UK groups focus on market sale’, 12 September 2014.

\(^\text{120}\) Inside Housing, ‘The private rented sector divide’, 23 October 2014.

\(^\text{121}\) Ibid.

A report from the London Assembly in 2013 recommended that councils could be “introducing flexibilities over social rented stock use (for example by renting out under-utilised properties at market rents) providing the resultant income is reinvested back into council homes”.\(^{123}\)

There does not appear to be any evidence that this is happening on any significant scale (although Manchester City Council and the Greater London Authority both made it onto the shortlist of bidders for round 2 of the Build to Rent fund). As the report itself notes, in the last 10 years, councils have built less than 0.5% of new homes in England, therefore any moves by local authorities in this direction would likely have little impact on the overall PRS.

Yet although direct property development by local authorities may be limited, the market is beginning to anticipate greater local authority involvement in the near future. In June 2015, a £200m per year investment fund was launched by Legal & General for local authorities to help them counter one of the main problems in developing built-to-let housing stock, sourcing adequate funding.\(^{124}\)

Whilst direct provision of PRS stock may currently be limited, local authorities are developing different approaches. A Local Government Association (LGA) report gives the example of Ashford, which has set up a council owned housing company to deliver new PRS stock.\(^{125}\)

Inside Housing reports that the “power of competence” introduced by the Localism Act 2011 has encouraged a number of authorities to set up housing companies, with Newham and Ealing cited as examples of companies providing some new PRS stock within mixed tenure developments.\(^{126}\)

As well as arms-length development, some local authorities have also been utilising institutional investment such as local Government pension funds. The high rent levels in Leeds prompted the West Yorkshire Pension Fund to begin discussion with Leeds City Council over release of land for new developments.\(^{127}\)

In 2014, Manchester City Council (MCC) entered into a formal partnership with Greater Manchester Pension Fund (GMPF) to provide new developments on council land, including new PRS units. Although GMPF will receive priority returns, the council will receive secondary returns to recover its land value costs.\(^{128}\)

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127 Inside Housing, *Councils consider PRS land handover plan*, 7 September 2012.
The LGA report cites a number of other approaches by councils to deliver new PRS stock, including Eastleigh’s guaranteed purchase model and Kent’s land release deal with the Kier Group.\(^{129}\)

The release of public sector land to PRS developers also allows local authorities to attach conditions for higher standards of property management, such as the required implementation of the London Rental Standard at the Pontoon Dock development on released Greater London Authority land.\(^{130}\)

\(^{129}\) LGA, *case study guide*

\(^{130}\) Greater London Authority (Housing Investment Group), ‘Agenda item: Pontoon Dock (part reserved)’, 10 September 2014.
6. Prospects for future growth

The Government’s response to the CLG Committee report, published in October 2013, reiterated an investor-friendly approach for future policy, without the need for what it felt would be excessive regulation:

The Government does not support a wide-ranging review to consolidate legislation covering the private rented sector at this time. We are firmly of the view that a wide ranging review would introduce uncertainty into the sector and would slow down investment at a time when it is most needed. It would also provide significant and unwarranted upheaval for tenants and landlords.

However, the Government does recognise that both tenants and landlords would benefit from more information and an improved understanding of the flexibilities which exist within the existing legal framework.  

The Government welcomed support for its Build to Rent fund, but did not announce plans for any further extensions or budget increases beyond the £1bn for 10,000 homes. It also confirmed that a minimum of £400m would be allocated for round 2. On 22 January 2015 the HCA announced the remainder of the £1bn would be allocated through continuous market engagement, rather than opening a third round of bidding.  

The Government’s hesitance to announce increases beyond the £1bn already announced, or an increase in capital for the housing guarantee, reflect Montague’s approach for Government to kick-start the new PRS rather than provide it with “enduring subsidy”.  

With regards to the PRS taskforce, the Government’s response confirmed an intention to disband it in March 2015 to prevent it becoming “just another quango”.

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132 HCA, Build to rent fund: Continuous market engagement – prospectus, January 2015.  
133 CLG Committee, Vol II, Private rented sector, Ev 22.  
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