Department for Levelling Up,
Housing & Communities

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House of Commons
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Dear Clive,

It was a pleasure to appear before the Committee earlier this month and to discuss the *'A Fairer Private Rented Sector'* White Paper. I value the Committee's scrutiny ahead of the introduction of the Renters Reform Bill and look forward to your fuller report at the conclusion of your inquiry. I promised to follow up on some of our discussion and share the Government's data and thinking in more detail.

The Committee raised some important questions regarding data in the Private Rented Sector (PRS).

<u>Data in the PRS</u>

During the hearing, I mentioned that the private rented sector had remained stable in recent years and agreed to provide further information on the basis of that statement. As you would expect, understanding what is happening in the sector is complex and there are multiple causes for changes. Our analysis is also complicated by limitations to English Housing Survey data collection due to the pandemic. With those caveats, I hope the following information is helpful.

The role of the PRS has changed in recent decades, as the sector has doubled in size, with landlords and tenants becoming increasingly diverse. English Housing Survey data shows that after a period of expansion, the proportion of PRS households has remained relatively stable for nearly a decade – it represented 19% of total households in 2013-14 and continues to be at 19% according to the latest data for 2021, collected during the pandemic. This suggests that there has been a broad equilibrium in the overall number of landlords leaving and entering the market.

I know that Committee members will have inboxes and postbags detailing the difficulties faced by PRS tenants firstly in finding a PRS property and then being able to afford increasing rent rates, which is linked to supply in the sector. I recognise that demand is currently outstripping the supply of properties available to let. The reasons for this are difficult to disentangle, but we believe it is due to a mixture of demographic changes, including domestic and international migration, and pent-up demand from the pandemic (including delayed household formation). We further believe some households have been returning to cities following the pandemic movement to suburban/rural areas, leading to an increase in demand for central city housing. There will also be local factors such as increasing student populations and a buoyant short term lets market; and individual landlord circumstances such as the planned end of their investment period.

The English Housing Survey for 2020/21 suggests that, within the context of 4.4 million households living in the PRS, there were 260,000 fewer households, compared to the high point in 2016/17. While the Committee may be concerned that this represents a reduction in PRS stock, we believe it may be due, at least in part, to household formation and behaviours during the pandemic – for example, adult children previously in the private rented sector moving in with parents, or multiple households ‘bubbling up’. We cannot equate a reduction in households to an equal reduction in PRS stock as these are two different things.

Total dwelling counts would be the best measure of any changes in PRS stock. Unfortunately, the COVID 19 pandemic required us to change how we collected English Housing Survey data for 2020/21 and we could not estimate vacant (unoccupied) dwellings during this time. As a result, the most recent data (which shows a reduction in occupied dwellings of 100,000 compared to 2016/17) will not be able to tell us the exact size of the sector. This is because we cannot say with certainty the extent to which any reductions in occupied dwellings are the result of properties moving out of the sector or simply becoming empty, since we only have observations for occupied dwellings rather than all dwellings.

It is also challenging to understand the individual and collective impacts that factors such as mortgage changes are having on the sector right now, and it is similarly difficult to know whether properties that are being sold by one landlord are entering private ownerships or are remaining in the PRS with a different landlord.

I should add that the English Private Landlord Survey gives data on landlord intentions, including, in the latest data for 2021, that around 11% of landlords planned to increase their portfolios compared to 12% who planned to decrease their portfolio and 10% who were planning to sell their portfolio. We do not consider this a good predictor of PRS supply levels, however, because it does not tell us by how much landlords plan to increase or reduce their portfolios, nor does it factor in potential new landlords who may be about to enter the market.

I can assure the Committee that we continue to monitor the PRS market, talking actively to stakeholders, and use a range of data from various sources to support our understanding. This includes Department-commissioned research, such as the annual English Housing Survey and the English Private Landlord Survey mentioned above.

Data used to examine Buy to Let Mortgages

I understand that increased mortgage costs are a real concern for landlords. The Committee asked about data on landlord mortgages and highlighted Bank of England data on Buy to Let mortgages as a potential valuable source.

The English Private Landlord Survey is a survey of over 9,000 landlords in England. It takes place every two years and asks landlords about their characteristics, practices, portfolios, and future concerns. 41.7% of landlords surveyed reported having an interest only Buy to Let mortgage in 2021, while 15.2% reported having a repayment Buy to Let mortgage.

The Bank of England publishes Mortgage Lenders and Administrators Statistics. The Mortgage Lenders and Administrators Return (MLAR) is a quarterly statistical release aggregated from data on mortgage lending activities provided by around 340 regulated mortgage lenders and administrators. The latest report (Q2 2022, published on 13 September 2022) shows that the share of gross mortgage advances for Buy to Let purposes (covering housing purchase, re-mortgage, and further advance) was 13.6% in 2022 Q2, an increase of 2.2pp from 2021 Q2, and the highest seen since 2020 Q2, suggesting that landlords continue to invest in the sector.

The Department recognises the importance of robust data to inform policy decisions and support our reforms of the PRS. We continue to explore opportunities to enhance our understanding of the sector, including on the financial position of landlords and including data on buy-to-let mortgages.

Data used by Tribunals

The Committee also requested information on rent increase data used by tribunals, specifically on the potential discrepancies between data sets such as those from Rightmove and the Office for National Statistics (ONS).

As set out in HM Courts & Tribunals Service guidance on rent cases[1], when determining a rent the tribunal will look at the market or 'comparable' rents payable for similar properties in the locality. Parties are encouraged to provide evidence of comparable rents. The tribunal will ignore any improvements made by the tenant to make sure that they don't have the effect of inflating the rent. In many cases, members of the tribunal will conduct an inspection of the tenant's property.

Our White Paper, 'A Fairer Private Rented Sector'[2], outlines our proposed reforms to the rules governing rent increases during tenancies. These include strengthening tenants' rights by preventing the tribunal from increasing rent beyond the amount landlords initially asked for when they proposed a rent increase; limiting rent increases

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[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/711008/t540-eng.pdf

[2] https://www.gov.uk/government/publications/a-fairer-private-rented-sector/a-fairer-private-rented-sector

to once a year; and increasing the minimum notice landlords must provide of any change in rent to two months. The White Paper says we will end the use of rent review clauses which can lock tenants into automatic rent increases. The reason for not locking tenants into these types of rent increases, regardless of how they are indexed, is that rents linked to inflation or wages may exceed market prices.

For example, according to ONS data, private rental prices in England grew by 3.7% in the 12 months to October 2022. This is compared with a CPI Annual Inflation Rate of 11.1% in the 12 months to October 2022. Therefore, linking rents to inflationary measures is not always in tenants' interest.

We will update guidance, to make sure tribunal users have the information they need to engage with it effectively. This includes helping parties understand how they can provide evidence of comparable rents.

The Committee noted the discrepancies between data sets that record rents. This is due to the different methods used by organisations and businesses who publish data on rents such as Zoopla, Rightmove and the ONS. Zoopla's measure of rents tend to report higher rent growth than ONS measures as they only consider advertised properties, rather than all properties. The ONS' rental price index is based on administrative data from several Government agencies (the Valuation Office Agency, Scottish Government, Welsh Government and Northern Ireland Housing Executive (NIHE)) and reflects price changes for all privately rented properties, rather than just newly advertised rental properties. We know that the majority of landlords do not raise existing tenants' rents - 64% of landlords surveyed in the 2021 English Private Landlord Survey kept the same rent when renewing tenancies. This means that over a longer term, using data on rents derived from sites such as Zoopla or Rightmove often shows greater fluctuation in rents, whereas the ONS tends to show slower, steadier growth. While it is a matter for the Tribunal to decide which evidence they will consider, we will ensure updated guidance will help tenants and landlords understand the means by which decisions are reached. We are committed to monitoring the success of our reform programme and this will include a clear approach to handling data.

Cost of Selective Licensing, and income from fines

When we discussed Local Authority Enforcement, the Committee asked for further information on the cost of selective licensing nationwide and the income derived from enforcement fines.

DLUHC does not collect data from local authorities on the income derived from enforcement activity and we therefore cannot confirm how much is raised nationally. Our understanding is that this varies significantly from local authority to local authority, with some councils issuing a considerable number of fines and incorporating the resulting income into their enforcement funding model, and others issuing very few. The Secretary of State last week announced a series of enforcement pilot projects with local authorities: among the aims of these pilots is to trial ways in which authorities can use an initial investment in targeted enforcement to generate more income from fines and adopt an increasingly self-financing model for PRS enforcement. We will then share this best practice across the country to support as many authorities as possible to take this approach.

The 2019 Independent Review of selective licensing reported the average cost of a licence fee to be approximately £600 for a five-year licence not taking into account any discounts offered by many LAs for 'early bird' applications or membership of landlord accreditation schemes. Around a third of this cost goes toward processing applications. The rate at which fees are set will be based on several factors such as the set-up costs of the scheme, the cost of assessing applications and issuing licences, and the cost of inspecting properties.

Local authorities are not permitted to profit from licensing; licensing fees can only be used for enforcement and administration of schemes themselves. Money raised through enforcement sanctions can only be used to further enforce standards in private rented properties.

As I said at the time, I am grateful for the Committee's thoughtful questioning, and I will be looking into the concerns raised as we develop our reforms ahead of legislation.

Yours ever,

Felicity Buchan

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