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Time to grasp the private rented housing nettle?

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Buy to let is a phrase that tends to meet with varying degrees of hostility in certain quarters of the housing sector. The argument goes that speculative purchasing of low value property in renewal areas has increased the complexity of interventions in these areas, while a high proportion of investment buying on new build schemes has raised fears that a growing proportion of this stock is never or rarely occupied.

There's no getting away from the fact that these are real and thorny issues for those trying to balance and manage housing markets and communities in the areas affected. However, the increasingly negative perceptions of buy to let are in danger of cutting off any debate about the contribution that the private rented sector can make in balancing housing supply and easing affordability problems. The ownership, financing and management of private rented stock are important but secondary matters.

A fundamental problem in this whole area stems from a basic mis-use of terminology. Buy to let has become synonymous with the private rented sector when it's really just a term for the financing of rented housing by private individuals. While there is around £100bn of outstanding buy to let loans, not all this new investment has added to rental supply. In 1996 when buy to let mortgages were introduced there were already 1.3 million market rented properties in England. The advent of cheaper finance in the form of buy to let mortgages simply enabled existing private landlords to re-finance their assets in a more cost effective manner.

Furthermore the buy to let lending data from the Council of Mortgage Lenders includes relatively high levels of re-mortgaging activity. Only half of the lending activity quoted in this data is finance for new purchases of investment property by landlords. As such we estimate that nationally, buy to let investors account for just 7% of property transactions a year compared to 30% for first time buyers.

It is important that policy makers and strategists focus on the overall supply of private rented homes and the role that this type of housing can play in balancing housing supply and easing affordability pressures. In terms of headline supply, the data shows that the private rented sector accounts for 11.3% of housing supply in England. However, stripping out rented housing that is not publicly available, reveals a 'true' open market rented sector that accounts for just 8.4% of housing supply or 1.83m dwellings in England. This is very low when compared to other major western economies where rental supply tends to be much higher and where there is a greater choice between tenures.

This lack of choice in Britain not only limits labour mobility but is likely to be forcing people onto the housing ladder much sooner than they would like. This is important as the private rental market is already catering for those who could be described as intermediate households. Based on incomes data for private tenants' from the Family Resources Survey, we estimate that 71% of renters cannot afford to buy an average property priced at the lower quartile level. A combination of high house prices and a decline in the level of new affordable housing development (relative to the level of the late 1990s) has changed the nature of the private rented sector.

The reality is that the private rented market we have today is really just an extension of the affordable housing sector. To say we have seen £100bn of private finance flow into the intermediate housing sector puts quite a different perspective on the so-called 'buy to let boom'. Looking forward, we estimate that there is the need for a similar level of new investment to meet future demand for rented housing over the next 15 years – this is based on new household formation numbers and the different propensity to rent between types of household.

The key challenge now is how to stimulate a long term and sustainable increase in the supply of rented homes where they are most needed. The quantity and location aspects will flow from Strategic Housing Market Assessments which local authorities are beginning to produce. It is a question of who delivers and owns these homes which relates back to the current debate about the role of buy to let investors.

What the sector really needs is more bespoke rented housing designed to meet the needs of renters in blocks that will remain in the sector long term. Institutional investors are the answer in terms of long term ownership but it is from the development market where supply will originate. With Housing Market Assessments informing local planning policies it is the local planning system that can do most to encourage supply. Rather than thinking in terms of the high level split between 'private' and 'affordable' housing on a scheme it is time to consider the split between housing for sale and rent in both the private and affordable markets. It will be a challenge to limit the activities of private investors but encouraging the development of bespoke blocks of rented housing held for the long term will add an important extra dimension to what is currently a two-dimensional housing market.