

# Where next for the private rented sector?

Amy Norman  
Aveek Bhattacharya

**SMF**

Social Market  
Foundation

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paragonThe logo for Paragon, featuring the word "paragon" in a serif font with a green starburst graphic above the letter 'a'.

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## EXECUTIVE SUMMARY

### Background: A housing market in flux and a sector under political scrutiny

- The past twenty years have seen dramatic shifts in the English housing market, chief among which has been the rise of the private rented sector.
  - Since the year 2000, the share of private renters has risen from 1 in 10 to 1 in 5 households.
  - Private renting has risen in all age groups under the age of 55, but the growth has been particularly strong among under 35s.
  - The causes of this change continue to be debated, but rising house prices (which have been linked to low interest rates and supply shortages) as well restrictions on mortgage credit have all played a role, as have deregulation of the private rented sector and the introduction of buy-to-let mortgages.
- These changes have led to societal concern and political consternation, with the word “housing” routinely suffixed with the description “crisis”.
- However, since the middle of the last decade, growth in the private rented sector has stalled and started to reverse, alongside a small uptick in home ownership (though the pandemic may have pushed back on this trend):
  - Between 2015/16 and 2000/21, the share of owner-occupiers rose from 63% to 65%, and the proportion of private renters fell from 20% to 19%.
  - There appear to be four main factors behind this shift: i) continued easing of lending to first-time buyers; ii) slowing house price growth; iii) government support for first-time buyers; iv) policies to reduce the attractiveness of buy-to-let landlording.
- The housing market is in a state of flux and under continued political scrutiny following the Levelling Up White Paper, with another white paper on the private rented sector expected in the spring. In this report we seek to understand how it might develop in the years to come, focusing in particular on the private rented sector, on the basis of:
  - A nationally representative survey of 1,376 adults in rented accommodation.
  - Modelling of possible future trajectories for the housing market.

### Is private renting so bad?

- Policy and societal attention (rightly) focuses on the minority of private renters (particularly those on low incomes) that have particularly bad experiences – for example, the 1 in 10 tenancies terminated through a no-fault eviction.
- Yet this can create a misleading impression – the majority of private renters express contentment with their situation: 81% say they are happy with their current property, and 85% say they are satisfied with their landlord.
- The greatest source of dissatisfaction is with “being a renter”, though still only a minority (34%) say they are dissatisfied with this status. This suggests in most

cases where people are unhappy in the private rented sector it is not about their living circumstances per se, but rather the mere fact of being a renter.

- Satisfaction with private renting is particularly high among older renters: nearly three-quarters (74%) of those aged 55 and over report being satisfied, compared to 58% of those aged 35-54.
- Private renters particularly value not having to pay for repairs, maintenance or insurance, and other costs, with over two-thirds citing this as a benefit of renting; some also see it as a way to afford more expensive locations or to live more flexibly.
- At the same time, there are clear disadvantages to renting:
  - 56% of private renters (and 63% of 18-34-year-olds) worry that it is a financially worse option in the long run.
  - Renters also dislike the lack of control they have over their property: over half of renters are unhappy about their inability to make decisions over furnishing and décor, to improve energy efficiency, or to keep a pet.
  - Despite the political focus on security and stability, this came lower down the list of concerns in our survey: 4 in 10 private renters said that they dislike the uncertainty of being on a fixed contract, rising to 45% of parents.
- Overall, most renters are happy to be where they are for now, but most do not see it as their ideal long-term option:
  - 50% (two-thirds of 18-34-year-olds, and 39% of 35-54-year-olds) expect to leave the private rented sector in the next 15 years.
  - 68% of those that expect to remain in the private rented sector would like to buy a property but do not think they will be able to do so.
  - 37% would be satisfied to still be in the private rented sector in 15 years, though this rises to 74% in over 55s.

## Recent trends are consistent with quite varied futures for the private rented sector

- We modelled three scenarios for the future of the housing market in England:
  - *High ownership*: projects forward trends in tenure between 2014 and 2019, assuming that rising home ownership is sustained
  - *Low ownership*: projects forward trends in tenure between 2004 and 2014, assuming that we return to the 'old normal' of rising private renting
  - *Mid ownership*: projects forward trends in tenure between 2009 and 2019, producing an outcome in between the high and low scenarios.
- This produces quite varied potential trajectories for the market:
  - If home ownership continues to rise at recent rates, the proportion of private renters will fall to 16%; if we revert to longer-running trends, it could be as high as 30%.
- While the age profile of the private rented sector varies between the different scenarios, it is clear that the private rented sector will be getting older:

- 25–34-year-olds are most sensitive to changes in the rate of home ownership and, depending on the scenario, between a fifth and two-thirds could end up renting privately.
- By 2035, we anticipate that over half of households in the private rented sector will be headed by someone over 45, up from around a third today.
- Couples and house shares will also account for a growing proportion of private renting households: up from 29% today to 36% in a decade and a half.

### How can the private rented sector be better for the renters of the future?

- These scenarios indicate that a number of disappointed people will remain in the private rented sector that would prefer not to – precisely how many depends on policy and wider shifts in the housing market.
- An important task for policy and the sector itself therefore is to try and address the needs of this group, and ensure renting is as good as possible for them.
- Analysis of what renters say they want from their properties shows that affordability, number of bedrooms, and convenient location for work, shops, and public transport are the top priorities, and will continue to be so in future.
- There is also a strong preference for houses over flats, with 62% saying they expect to live in a house in future – this may prove challenging to fulfil with much new build construction in the sector being in the form of flats: at present only 12% of build-to-rent properties are houses.
- The private rental sector can also adapt to the ageing of the renter population by providing more unfurnished properties and bungalows, which are more popular among older renters.
- Access to outside space is further likely to become a strong priority for renters, especially following the pandemic.

### Policy implications

- While satisfaction is generally high, and a significant minority is willing to keep renting long-term, most private renters want and expect to leave the sector eventually.
- This creates two challenges for policymakers: i) help and support as many people as is prudent and feasible to exit private renting; ii) make sure that the private rented sector is as good as possible for those that will inevitably remain.
- Our survey finds a clear appetite from renters for policy action – both to improve the experience of renting and to help more renters to buy.
- Policymakers should support future private renters by:
  - Enabling renters to accumulate wealth, addressing the number one concern around renting: its financial costs.
    - Several innovative schemes that could be explored, including ‘deposit builder ISAs’ that offer a financial return on deposits, or ‘rentership’ models that offer tenants stakes in their building.
  - Giving renters more control over their homes, making it easier to keep pets or make reasonable alterations.



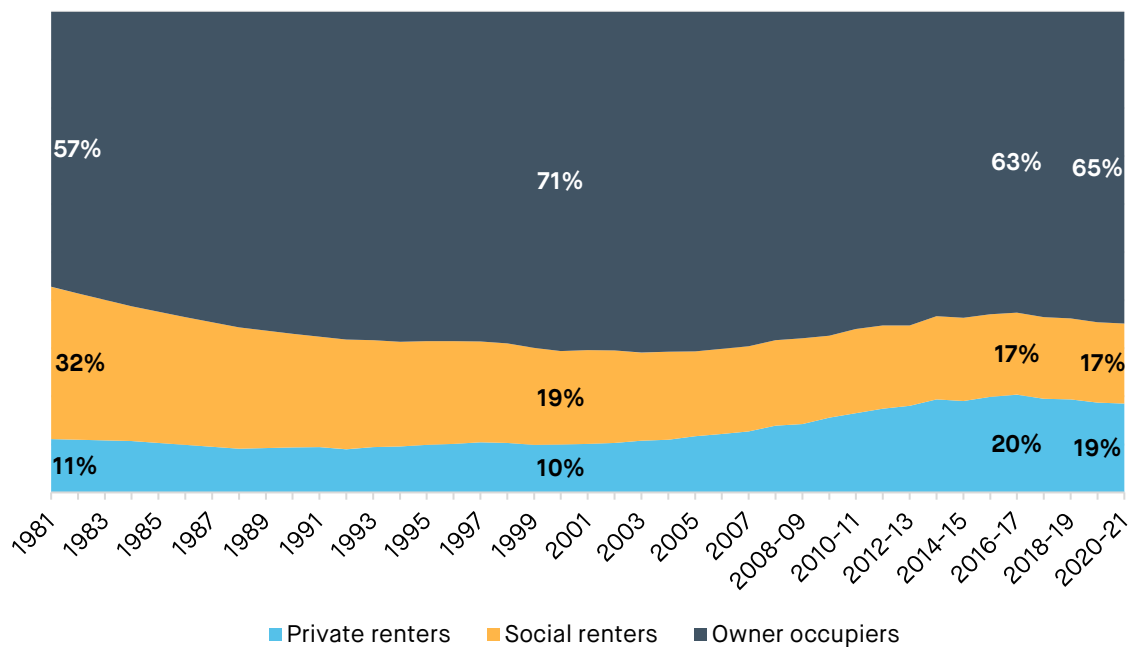
- Increasing the stability of tenancy agreements:
  - A large majority of renters support a fixed minimum contract length: 69% would be in favour of setting this at 24 months.
- Making landlords more accountable, through a 'Good Home, Good Landlord' kitemark scheme based on criteria developed through a deliberative process including renters.
- Improving the standards of private rented properties:
  - Offering tax incentives for landlords to invest in improvements that align with Good Home, Good Landlord kitemark standards including green investments.
- Policymakers should help those that want to leave the sector by:
  - Expanding supply of social housing.
  - Continuing support for first-time buyers, both through financial help and by reforming planning rules to increase housing supply.

## CHAPTER ONE – BACKGROUND CONTEXT

### The growth of the private rented sector...

The past twenty years have seen dramatic shifts in the English housing market, chief among which has been the rise of the private rented sector. Figure 1 shows that between 1980 and the year 2000, the proportion of households that rented from private landlords remained steady at around 10%, while homeownership rose, and social housing declined. Yet from the turn of the century, increases in home ownership were reversed, and the share of private renters rose from 1 in 10 to 1 in 5 households. As we shall see, that trend may or may not have ended, with a minor resurgence in owner-occupation and a slight decline in private renting from the middle of the 2010s.

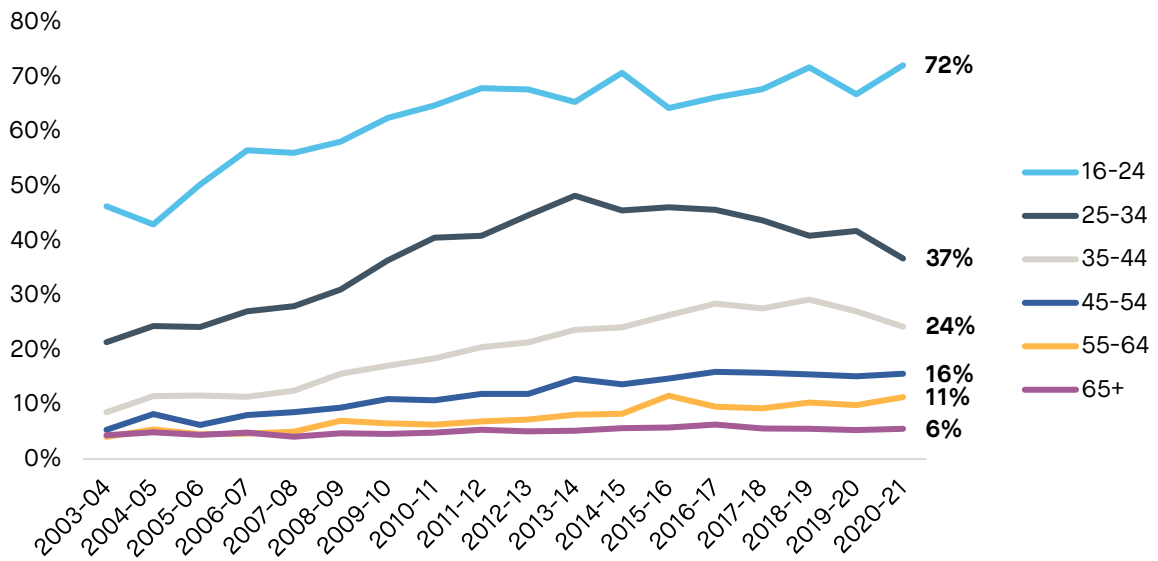
**Figure 1: English households by tenure**



Source: Ministry of Housing, Communities & Local Government, *English Housing Survey 2020 to 2021: headline report*

Growth in private renting has been greatest among younger populations. Two-thirds of households with a reference person ('head of household') aged 16-24 live in privately rented accommodation, as Figure 2 shows, having been less than half in 2005. The share of 25-34-year-old-led households in the sector rose even more, from 21% in 2003/04 to 48% a decade later, though it has fallen since. Populations aged between 35 and 55 have also seen significant increases in their likelihood of renting privately, albeit from a lower base. However, the proportion of private renters over 55 has remained relatively low.

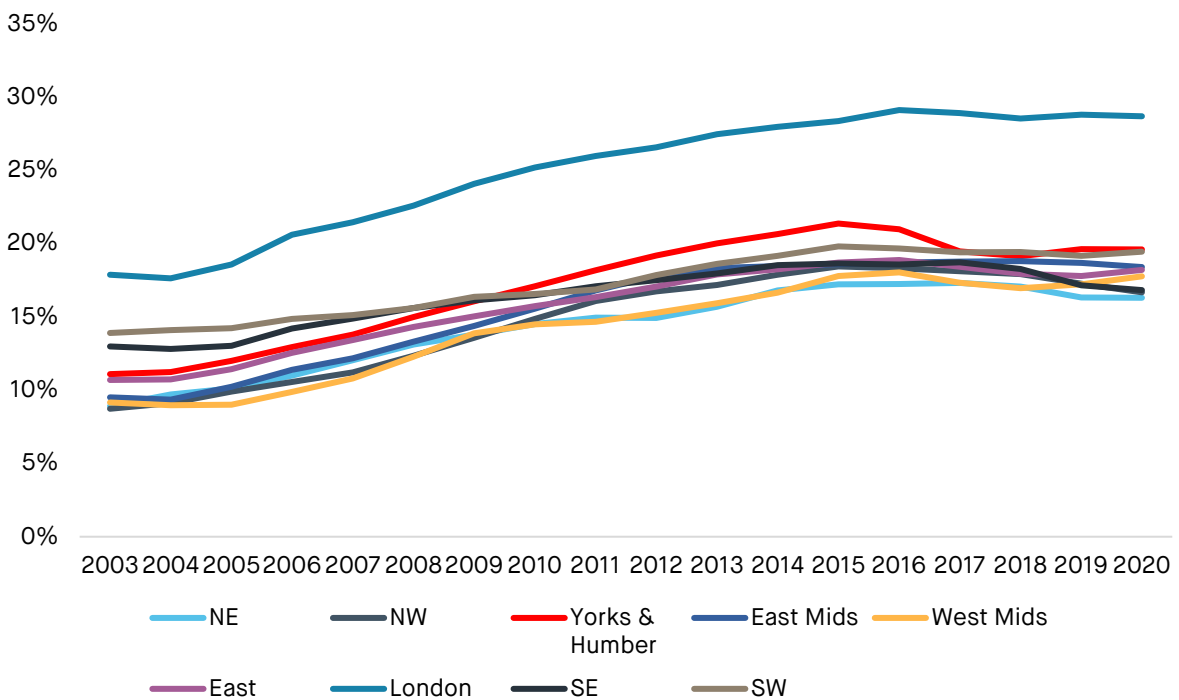
**Figure 2: Proportion of households in the private rented sector by age of household reference person**



Source: Ministry of Housing, Communities & Local Government, English Housing Survey 2020 to 2021: headline report

The shift has been strongest in the capital: the proportion of housing units in London in the private rented sector rose from 18% in 2003 to 29% in 2020. However, Figure 3 demonstrates that similar changes occurred in all parts of the country, albeit on a smaller scale, in the first part of the 21<sup>st</sup> Century.

**Figure 3: Share of housing stock in the private rented sector by region**



Source: Gov.uk, Live tables on dwelling stock (including vacants)

The reasons for the rise of private renting continue to be debated. The proximate causes of the drop in home ownership are the rapid growth of house prices (particularly in the early 2000s), followed by the constriction of mortgage lending and lower incomes (especially for younger people) following the financial crisis.<sup>1</sup> After a long period of stagnation in the early 1990s, house prices rose precipitously in the decade from 1997 to 2007. In those ten years, the average house price more than tripled, from £56,000 to £182,000.<sup>2</sup> Prices fell back in the aftermath of the financial crisis, though the value of the average house still increased by over 40% through the 2010s.<sup>3</sup> The crisis, however, also created a ‘credit crunch’, restricting potential first-time buyers’ ability to borrow the money they needed to own their home – for example, by requiring larger deposits. The number of new loans to first-time buyers almost halved between 2007 and 2008, and took the best part of a decade to recover.<sup>4</sup> At the same time, the decline and slow recovery in the earnings of people in their 20s and 30s – the most obvious candidates to be first-time buyers – further limited their ability to borrow.<sup>5</sup>

The deeper question is why house prices have risen so much. A number of analyses suggest that the main cause is the decline in interest rates<sup>6</sup>, which fell from around 11% on mortgages in 1992 to 2% in 2014.<sup>7</sup> This reduced the cost of borrowing, and as such, the expected return on investing in property, driving up prices. Others, however, point the finger at a shortage of housing supply, with new construction well below both historical levels, and the often-cited target of 300,000 new homes a year.<sup>8</sup>

At the same time, regulatory reforms and financial innovations supported the growth of the private rental market by making it more attractive and accessible to rent out accommodation. The Housing Act 1988 strengthened the rights of private landlords by reducing rent regulation and making it easier to evict undesirable tenants at the end of their fixed contract.<sup>9</sup> The introduction in 1996 of buy-to-let mortgages, a specialist product lending to would-be landlords, helped to substantially boost the supply of private rental property.<sup>10</sup>

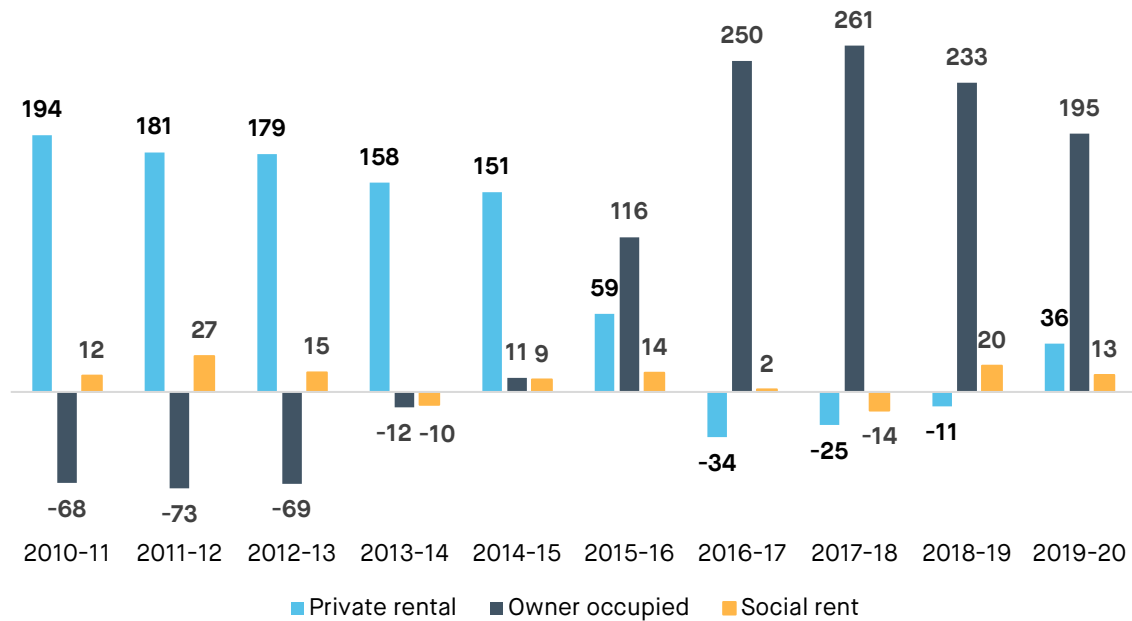
These changes have led to societal concern and political consternation. The word “housing” is routinely suffixed with the description “crisis”. Political leaders scrap to claim the mantle of being the “party of home ownership” by reversing the trends of recent decades.<sup>11</sup> It has prompted the commissioning of independent reviews.<sup>12</sup> The politics of home ownership is increasingly entwined with ideological divides, with the Conservatives considerably more successful among voters that own their own homes.<sup>13</sup> Landlords are prominent figures of cultural critique, sometimes extending into outright vilification.<sup>14</sup> Pressure groups have sprung up to protect the interests of renters<sup>15</sup>, and volubly argue for market regulations. Perhaps most prominently, the Scottish Government is exploring a national system of rent controls.<sup>16</sup>

### **...and the start of a decline?**

As noted above, since the middle of the last decade, growth in the private rented sector has stalled and started to reverse, alongside a small uptick on home ownership. Between 2015/16 and 2020/21, the share of owner-occupiers rose from 63% to 65%, while the proportion of households in the private rented sector fell from 20% to 19%.<sup>17</sup> Figure 4 illustrates the extent of the shift. For the first part of the 2010s, private rented accommodation accounted for almost all of the growth in the English housing stock,

with over 150,000 new properties coming onto the market each year, while the number of owner-occupied properties fell. Yet for the four years between 2016/17 to 2019/20, the best part of a million (938,000 to be precise) owner-occupied properties entered the market, and the number of private rentals declined by 33,000.

**Figure 4: Net additions to housing stock by tenure (000 dwellings)**



Source: Gov.uk, Live tables on dwelling stock (including vacants)

Growth in home ownership was fairly evenly spread, with the number of owner-occupied properties rising by between 4% and 6% in every English region between 2016 and 2019.<sup>18</sup> However, the private rented sector did not decline everywhere over that same period – unsurprisingly, London bucked the trend, along with the East Midlands, but in both regions growth was subdued compared to previous years (Figure 3).

As Figure 2 shows, the decline in private renting has been primarily driven by the 25-34 age group. Nearly half of them (48%) were renting privately in 2013/14, but by 2019/20 this had fallen six percentage points to 42%. In other age groups, the pattern has been less clear, despite the slight overall decline.

There appear to be four main factors behind the resurgence of homeownership and the decline in private renting. First, the continued easing of lending to first-time buyers, with higher loan-to-value ratios reducing the size of the deposits they need to save and longer-term mortgages reducing monthly costs.<sup>19</sup> Second, growth in house prices slowed significantly: having been running above 8% a year in early 2016, by the end of 2019 it was down below 1%.<sup>20</sup>

Third, the government has implemented a range of schemes to help first-time buyers to secure their own home.<sup>21</sup> Help to Buy equity loans, introduced in 2013, offered people buying new build houses government loans worth up to 20% of the property value, interest free for the first five years. It subsidised shared ownership schemes,

whereby people buy a share of a property and pay rent on the remainder, targeted at lower income households. The government has topped up the savings of those trying to put together deposits through the Help to Buy ISA and then the Lifetime ISA. In the 2017 Budget, first-time buyers were exempted from stamp duty on houses worth under £300,000.

Fourth, government policies have reduced the attractiveness of buy-to-let landlording. From 2016, stamp duty rates were increased by three percentage points for buyers that already owned a home.<sup>22</sup> The number of new buy-to-let mortgages issued in England fell by 21% in 2017, the year following the change.<sup>23</sup> Tax reliefs for landlords on 'wear and tear'<sup>24</sup> and mortgage interest<sup>25</sup> have also been reduced or eliminated in recent years.

Other factors which have been linked to the decline in available private rental stock are the growth private second homes and short-term holiday lets (for example, those listed on platforms like Airbnb). Such properties have been the subject of concern in a number of recent parliamentary debates.<sup>26</sup> As of 2018/19, there were an estimated 451,000 second homes in England, up from 342,000 in 2013/14.<sup>27</sup> There is limited reliable data on holiday lets, but in 2020 research by the Guardian indicated that there were 257,000 active listings in January 2020, up from 76,000 in April 2016.<sup>28</sup> The full extent to which holiday lets squeeze out permanent rental accommodation is unclear, but there is evidence that this does occur. A 2017 survey by the Residential Landlords Association found that 7% of members had converted private rented properties to short-term lets.<sup>29</sup> Meanwhile, a 2019 survey of people offering short-term lets in Scotland found that a third had previously been residential properties.<sup>30</sup>

The ultimate impact of the COVID-19 pandemic on the housing market remains unclear, pushing back some of these trends, and accelerating others. House prices rocketed, rising 13% in the year to June 2021.<sup>31</sup> Young and first-time buyers began to find it harder to get mortgages. A May 2021 survey found that 81% of prospective first-time buyers had been rejected for a mortgage at least once, up from 53% the year previous.<sup>32</sup> Stamp duty was abolished on all house purchases up to £500,000 in value, eliminating the relative tax advantage that first-time buyers had.<sup>33</sup> However, in recent months, there is some evidence that we are returning to the pre-pandemic state. The stamp duty holiday for non-first-time buyers expired in September 2021. Even before that, August 2021 saw the highest share of house sales to first-time buyers in over a year, and the best August for first-time buyers since 2016.<sup>34</sup> Meanwhile, uncertainty around foreign travel has encouraged a rise in 'staycations', further incentivising landlords to shift their properties to short-term holiday lets.<sup>35</sup>

### **What is the future of the private rented sector?**

The housing market is therefore in a state of flux, and at the same time the subject of close political scrutiny. The Levelling Up White Paper in particular indicates that there is political appetite to further reduce the barriers to homeownership for first-time buyers and reform the private rented sector with a white paper due in the spring. In this report, we seek to understand how the sector might develop in the years to come and how policymakers should respond, focusing in particular on the future of the private rented sector.

Specifically, we attempt to address the following research questions:

- How will the profile of private renters change over the next 15 years?
- How could this profile be affected by different policy responses?
- How will the requirements and expectations of private renters differ from those of private renters today?
- What can policy do to help meet these requirements and expectations? How might landlords have to respond in terms of their “offer” to tenants?

We use two methods to investigate these questions. First, we have carried out a nationally representative survey of 1,376 UK adults who currently live in rented accommodation, distributed by Opinium and in the field in October 2021.<sup>i</sup> Second, we have drawn on a range of official and government statistics – in particular, the English Housing Survey – to model some possible future trajectories for the housing market.

The structure of the report is as follows:

- **Chapter Two** describes the experiences and satisfaction of current renters, based on responses to our survey.
- **Chapter Three** outlines the results of our modelling, setting out projections for the future of the housing market.
- **Chapter Four** considers the implications of the modelling for renter satisfaction and reflects on how the private rented sector can be made better for those that will be living in it in the years ahead.
- **Chapter Five** explores the policy implications that emerge from our findings.

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<sup>i</sup> Survey participants rent from: private landlord or letting agency; housing association, housing cooperative, charitable trust, registered social landlord; or council (local authority).

## CHAPTER TWO – IS PRIVATE RENTING SO BAD?

Much of the existing literature and research on the private rented sector focuses on renters' experiences of unaffordability, poor conditions, lack of security, and in some cases evictions. These are important issues that can have a significant detrimental impact on renters' finances and wellbeing.<sup>36</sup> For example, the private rented sector has the highest proportion (23%) of homes that fail to meet the Decent Homes Standard, compared to the social rented sector (12%) and owner-occupied homes (16%).<sup>37</sup> Additionally, mechanisms such as Section 21 allow landlords to end assured shorthold tenancies (ASTs) through no-fault evictions, leading to insecurity and homelessness for some tenants.<sup>38</sup> The English Housing Survey 2018 found that 7% of landlords evicted a tenant.<sup>39</sup> Analysis of the English Housing Survey 2015-16 by IPPR estimated that around 1 in 10 tenancies come to an end as a consequence of a landlord terminating the contract, typically through a no-fault eviction.<sup>40</sup>

It is clear, therefore, that a minority of private renters, particularly those on lower incomes, have a deeply unsatisfactory experience.<sup>41</sup> These issues were recognised and in part addressed through proposals published in the February 2022 Levelling Up White Paper and are expected to be explored further in a private rented sector White Paper in Spring 2022. Measures announced so far include a reaffirmed commitment to abolishing Section 21 'no-fault' evictions, a consultation on introducing a legally binding Decent Homes Standard in the private rented sector, and a National Landlord Register.<sup>42</sup>

Less research and policy attention has been given to the wider renter population. While the private rented sector is sometimes treated as a homogenous whole, the perceptions and experiences of the majority of renters are in many ways different to the minority that have the greatest difficulties. Addressing the problems of this minority should rightly be the focus of much of housing policy, but we should not forget about the rest either. In this chapter, we draw on our survey findings to try and understand the different types of private renter, and the benefits and drawbacks of private renting from their perspective, to provide a more holistic perspective.

### Satisfaction of private renters

Cultural and political narratives in the UK have tended to emphasise the importance of homeownership as an ambition, casting a more negative light on renting. The Financial Conduct Authority's Mortgage Market Review in 2009 observed this perception "that renting is bad and home ownership [is] good", and suggested a need to re-educate consumers away from this notion.<sup>43</sup> Yet despite these narratives and the negative experiences of some highlighted above, our survey findings indicate that satisfaction within the private rented sector is broadly high – as shown in Figure 5.

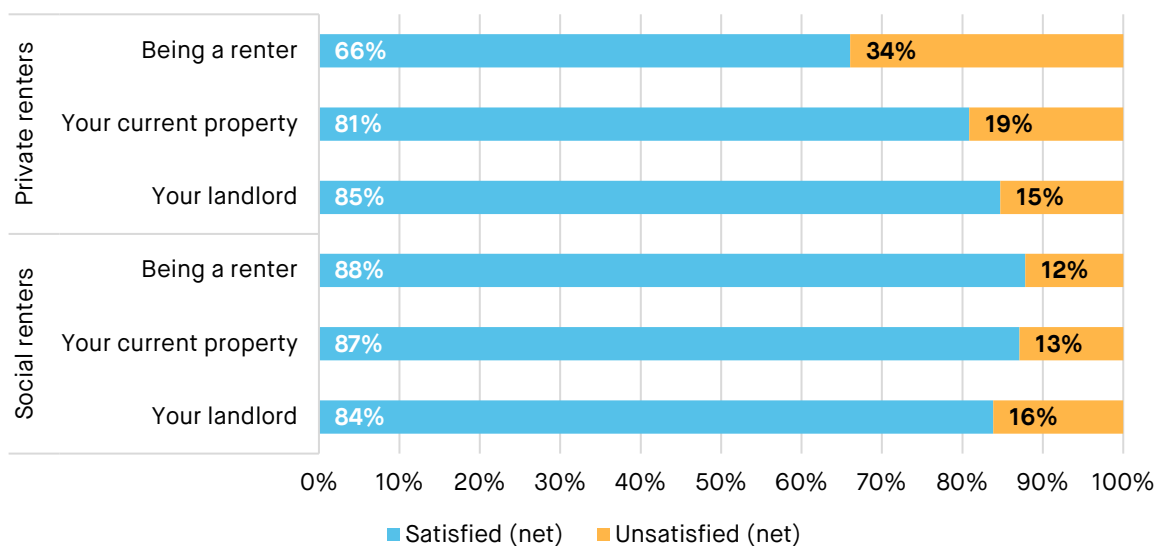
For all the negative tropes around landlords, the vast majority of private renters (85%) say that they are satisfied with their landlord. Around 81% say they are happy with their current property (in line with the English Housing Survey 2019-20, which finds 83% of private renters to be satisfied with their current accommodation).<sup>44</sup> By comparison, social renters are slightly more likely to be satisfied with their current property (87%),



and similarly satisfied with their landlords (84%). Initial data from the 2020-21 English Housing Survey does not include updated figures for satisfaction with tenure.<sup>45</sup>

The greatest source of dissatisfaction for those in the private rented sector is with “being a renter”. Even on this question, nearly two-thirds of people renting privately say they are satisfied with this status, but 34% are dissatisfied. This suggests that in most cases where people are unhappy in the private rental sector, the issue is not concretely about living circumstances (e.g. property standards, or the behaviour or practice of their landlord). Rather, the most common frustration is with the mere fact of being a private renter. Interestingly, social renters are more content with their tenure, with 88% saying they are satisfied with being a renter.<sup>ii</sup> However, neither can compete on this score with home ownership: the English Housing Survey 2019-20 finds owner occupiers to be the most satisfied with their tenure with 98%.<sup>46</sup>

**Figure 5: Satisfaction of private and social renters**



Source: SMF analysis, Opinium

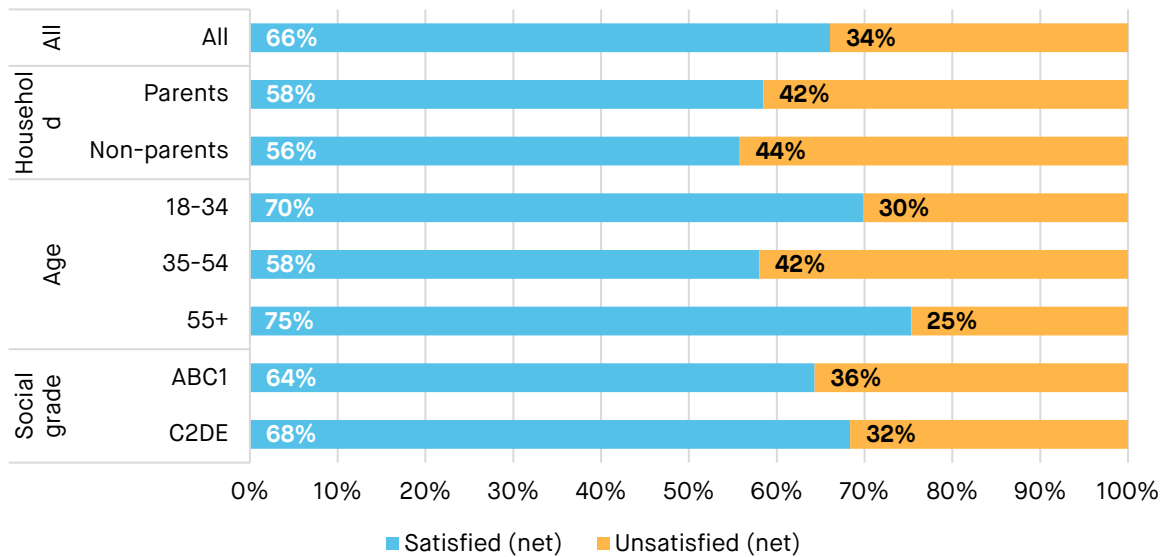
**Who is most satisfied?**

We have shown that at an aggregate level, satisfaction is relatively high among private renters. Figure 6 shows how this varies between different types of private renters. Older private renters are by far the most contented demographic, with nearly three-quarters (74%) of those aged 55 or older reporting that they are satisfied with being a renter. By comparison, early-middle-aged private renters (aged 35-54) are the least satisfied group of renters, at 58%.

<sup>ii</sup> These figures differ slightly from the most recent release of the English Housing Survey (2019-20) which finds that 70% of private renters and 80% of social renters are currently satisfied with their tenure.

The rise of young families in the private rented sector is often pointed to as an indicator of an evolving market with changing demands for property types and tenure security. Interestingly, parents renting in the private rented sector are similarly satisfied with being a renter (58%) to non-parents (56%). Additionally, private renters in lower social grades are marginally more satisfied with being a renter (68%) than their better-off counterparts in higher social grades (64%).

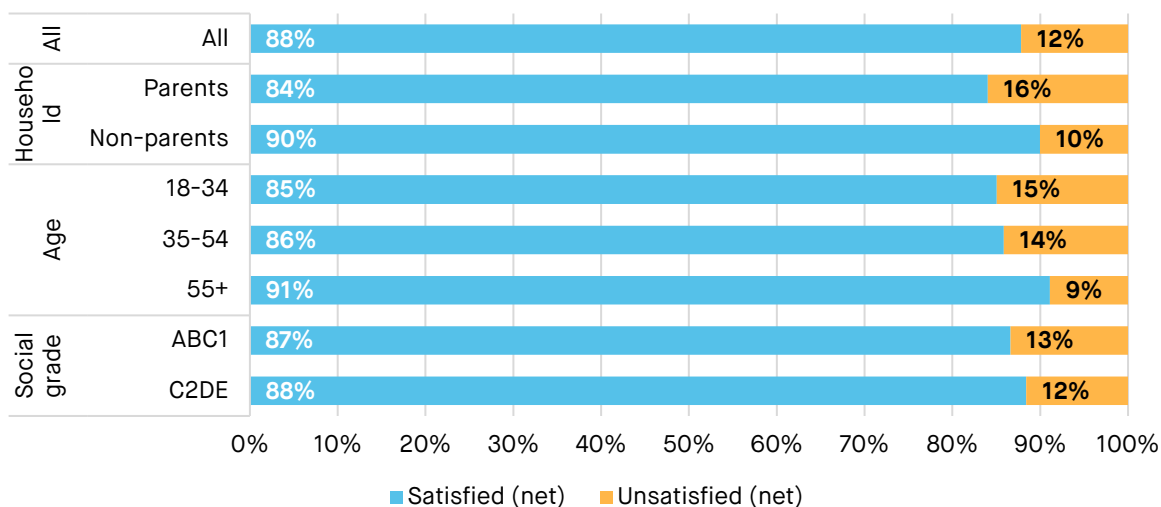
**Figure 6: Private renters’ satisfaction with being a renter, by demographic group**



Source: SMF analysis, Opinium

In comparison, nearly 9 in 10 renters in the social rented sector report being satisfied with being a renter – as shown in Figure 7. Satisfaction appears to be more consistent within the social rented sector with relatively little variation between different groups. The gap between the most satisfied (aged 55 and over) and least satisfied (parent households) demographic groups in the social rented sector is seven percentage points. This gap spans 17 percentage points in the private rented sector between renters 55 years old and over, and renters aged 34-55.

**Figure 7: Social renters’ satisfaction with being a renter, by demographic group**

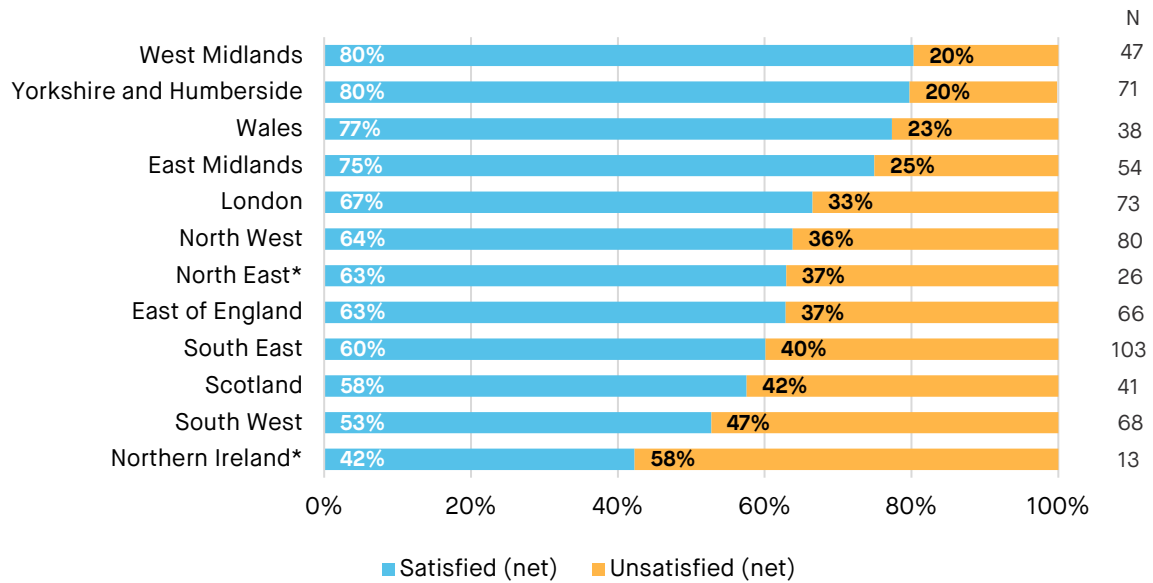


Source: SMF analysis, Opinium

There are a number of possible explanations as to why older renters are more likely to be satisfied in the private rented sector. Given that over 55s are also the most satisfied social renters, this may just reflect the fact that older people are more satisfied in general, with spillover effects for how they feel about renting. Subjective wellbeing research indicates that life satisfaction more generally may reflect a U-shape over a person’s lifetime with an upward inflection point from the 40s or 50s to the 70s.<sup>47</sup> However, this is unlikely to be the sole explanation.

Applying similar wellbeing theories to the private rented sector, older renters’ satisfaction could be explained by self-selection, whereby those who are happier renting may choose to do so for longer or to (re-)enter the sector later in life. In terms of the latter, private renting can provide older people with the optionality of freeing up resources by downsizing from owner-occupation, such as for the purpose of meeting the cost of retirement or social care. Alternatively, some older renters who previously wanted to exit the sector but were unable to (due to financial barriers or otherwise) may experience adaptation. In this case, it is conceivable that older renters may be more accepting of their living circumstances, knowing it is unlikely to change, compared to younger renters in their 20s, 30s, and 40s, who may retain stronger aspirations to buy. These potential ambitions are explored later in this chapter.

Satisfaction of private renters also varies by region, as shown in Figure 8, although we exercise caution in interpreting these findings due to small sample sizes. Private renters in West Midlands (80%) and Yorkshire and the Humber (80%) are most satisfied with being a renter. Despite the well-documented issues of affordability in London’s housing market, private renters in the capital are relatively satisfied with being a renter at 67%, just above the sector’s national average of 66% as found in our survey. Similarly, the English Housing Survey 2019-20 also finds that 66% of private renters in London are satisfied with their tenure.<sup>48</sup> Private renters in Northern Ireland are least satisfied with just two in five (42%) reporting that they are satisfied with being a renter – although, this finding may be an outlier due to small sample size.

**Figure 8: Private renters' satisfaction with being a renter, by region**

Source: SMF analysis, Opinium. Note: \* denotes small sample sizes <30

## Attributes of renting

Each tenure has benefits and disadvantages. In their paper, *Towards a sustainable private rented sector* for the London School of Economics, Scanlon and Kochan draw on Monk and Whitehead's work to identify these pros and cons.<sup>49</sup> Table 1 sets out the main positive and negative attributes for each of the main tenures and ranks them on a high, medium or low scale according to the extent to which the attribute is present. Scanlon and Kochan's analysis suggests that these features help to explain how an individual or household feels towards different tenures. As such, they may help explain our findings regarding the satisfaction of private renters.

**Table 1: The major attributes of tenure for the individual**

|                                  | Owner Occupation | Private renting | Social renting |
|----------------------------------|------------------|-----------------|----------------|
| Control                          | High             | Low             | Low            |
| Security/stability               | High             | Low             | High           |
| Wealth accumulation              | High             | Low             | Low            |
| Choice                           | High             | Medium          | Low            |
| Protection from rent risk        | High             | Low             | Medium         |
| Financial flexibility            | Medium           | Medium          | Low            |
| Ease of access and exit/mobility | Low              | High            | Low            |
| Protection from house-price risk | Low              | High            | High           |

Source: Monk & Whitehead in LSE

### Benefits of renting

Renting within the private rented sector has some advantages. The tenure is broadly characterised as providing higher levels of mobility than other tenures, meaning that households may have a greater range of options in terms of their location and property type. Renters are more likely to be protected from volatility in house prices. Additionally, renting may provide households with the financial flexibility to choose standards, locations, properties, and living situations which may not be available in other tenures.<sup>50</sup> Some of these themes are reflected in the survey findings, as well as additional attributes related to property management and maintenance – as shown in Table 2.

Overall, renters appreciate not being having responsibility for repairs or maintenance (72% agree), or for buildings insurance or ground rent costs<sup>iii</sup> (67% agree). To a lesser extent, they value the ability to rent in areas where they could not afford to buy in (56% agree). Just over half (52%) of private renters like that renting allows them to move freely between locations. This indicates that a large proportion of renters do not see the benefit of mobility in the private rented sector, even among younger renters (where 59% of 18–34-year-olds agree).

<sup>iii</sup> Landlords are legally required to repair and maintain basic utility systems and the structure and exterior of the property nor pass on the costs of this work to the tenant. Landlords are not required to have buildings insurance.

These findings are broadly consistent across different demographic groups. However, older renters (aged 55 years old and above) again show higher levels of satisfaction across factors relating to repairs and maintenance, building insurance and ground rent costs. Most notably, older renters are significantly more likely to agree that renting is a financially better option for them in the long-term, with 51% of 55-year-olds and above agreeing, compared to just 30% of all renters. This again may reflect the possibility that some older renters have entered the sector later on in life, where perhaps they have made a financial decision to move out of owner-occupation into private renting. Alternatively, those who have stayed in the sector long-term may have done so because their renting circumstances were financially more favourable and/or owner-occupation was not an option.

**Table 2: % of private renters who agree with the following statements, by demographic group**

|  | All | Parents | Non-parents | 18-34 | 35-54 | 55+ | ABC1 | C2DE |
|--|-----|---------|-------------|-------|-------|-----|------|------|
| I like that I am not responsible for repairs or maintenance of the property I rent | 72% | 68%     | 74%         | 71%   | 69%   | 82% | 75%  | 68%  |
| I like that I do not have to cover buildings insurance or ground rent costs        | 67% | 62%     | 69%         | 65%   | 65%   | 78% | 67%  | 66%  |
| I like that renting allows me to rent where I cannot afford to buy                 | 56% | 56%     | 56%         | 59%   | 51%   | 60% | 54%  | 59%  |
| I like that renting allows me to move freely between locations                     | 52% | 50%     | 53%         | 59%   | 47%   | 45% | 53%  | 51%  |
| Renting is financially better option for me in the long term                       | 30% | 28%     | 31%         | 24%   | 29%   | 51% | 24%  | 37%  |
| I like that I do not need to make decisions on furnishings or décor                | 28% | 27%     | 29%         | 30%   | 25%   | 27% | 30%  | 25%  |
| Some or all of my utilities are included in my rent, and I like this               | 24% | 22%     | 25%         | 30%   | 20%   | 16% | 25%  | 23%  |

Source: SMF analysis, Opinium

### Disadvantages of renting

There are also disadvantages to renting in the private rented sector. The tenure is characterised by low levels of control over the property, security of tenure, and uncertainty around future wealth accumulation as well as rent prices.<sup>51</sup> These themes are echoed in the survey findings, which indicate that renters are unsatisfied with aspects of renting that relate to accumulating savings, a lack of autonomy (over décor, pets, energy efficiency), and to a lesser extent, security of tenure – as shown in Table 3.

Overall, the most prominent disadvantage of renting relates to its economic consequences. Over half (56%) of private renters dislike renting because they deem it to be a financially worse option in the long term, rising to over three in five for 18-34-year-olds (63%), ABC1 (62%), and parent renters (61%). Additionally, over half (52%) of renters dislike the fact that renting prevents them from saving for a deposit. Renters aged 35-54 are most concerned about (59%) this aspect of renting, again followed by 18-34-year-olds (58%), ABC1 (58%), and parents (58%).

A lack of autonomy and control over their property and living situation is also a key disadvantage for private renters. As highlighted in Table 1, renters in general dislike being unable to make decisions on furnishings and décor, particularly young renters (aged 18-34) and those in higher social grades. Over half (52%) of renters also dislike being unable to make energy efficiency improvements to their home, rising to three in five (60%) among parents. Over 60% of homes in the private rented sector have an Energy Performance Certificate (EPC) rating of D or below.<sup>52</sup> From 2025, landlords will be required to meet an EPC rating of at least C. The private rented sector also has the highest concentration of fuel poor households (18%), compared to owner-occupied (8%) and social housing (9%) households.<sup>53</sup>

Additionally, over half of private renters (53%) dislike the fact that renting makes it harder for them to have a pet. Evidence on the relationship between owning a pet and an individual's mental and physical wellbeing is mixed. Research indicates that pet ownership is associated with lower blood pressure, increased survival rates following a heart attack and lower levels of depression, although not alleviating loneliness.<sup>54</sup> There is also evidence that pet owners are more satisfied with their lives than non-owners, although it is unclear how far this relationship is genuinely causal, rather than merely the consequences of happier people being more likely to have a pet.<sup>55</sup>

Though much of the political debate around renting is concerned with security and stability, this came lower down the list of concerns of private renters in our survey. Four in ten private renters said that they dislike that renting makes them uncertain if they will be able to extend their contract once the tenancy ends, rising to 45% of parents. Conceivably, parents may be more concerned due to factors such as school catchment areas. Two in five (40%) parent renters said that the shortness of their contract makes it harder to feel secure in their child's schooling or childcare.

**Table 3: % of private renters who agree with the following statements, by demographic group**

|   | All | Parents | Non-parents | 18-34 | 35-54 | 55+ | ABC1 | C2DE |
|---|-----|---------|-------------|-------|-------|-----|------|------|
| Renting is a financially worse option for me in the long term   | 56% | 61%     | 54%         | 63%   | 58%   | 28% | 62%  | 48%  |
| Renting makes it harder for me to have a pet  | 53% | 55%     | 53%         | 58%   | 56%   | 32% | 55%  | 51%  |
| I dislike renting because I need to rely on the landlord/landlady to arrange repairs and maintenance            | 53% | 57%     | 51%         | 59%   | 53%   | 35% | 55%  | 50%  |
| I dislike renting because it prevents me from saving for a deposit  | 52% | 58%     | 50%         | 58%   | 59%   | 19% | 58%  | 45%  |
| I dislike renting because I cannot make decisions on improving the energy efficiency of a property              | 52% | 60%     | 49%         | 56%   | 55%   | 32% | 56%  | 47%  |
| I dislike renting because I am uncertain if I will be able to extend my contract once my tenancy agreement ends | 40% | 45%     | 38%         | 42%   | 43%   | 27% | 41%  | 39%  |
| The shortness of my rental contract makes it hard to feel secure in my child's schooling/childcare              | 21% | 40%     | 12%         | 26%   | 19%   | 8%  | 19%  | 22%  |
| I dislike renting because it makes it harder for me to be part of a community                                   | 18% | 22%     | 16%         | 22%   | 19%   | 5%  | 18%  | 19%  |

Source: SMF analysis, Opinium

## Looking ahead

Private renters' expectations for their future tenure, and how satisfied they feel about this, matters for the future of the private rented sector. Ultimately, there will be some renters who will exit the sector and some who stay. Anticipating those changes – and the potential disappointment of those who might not be able to move out of private rentals as they expect – is of importance to both policymakers and the industry itself.

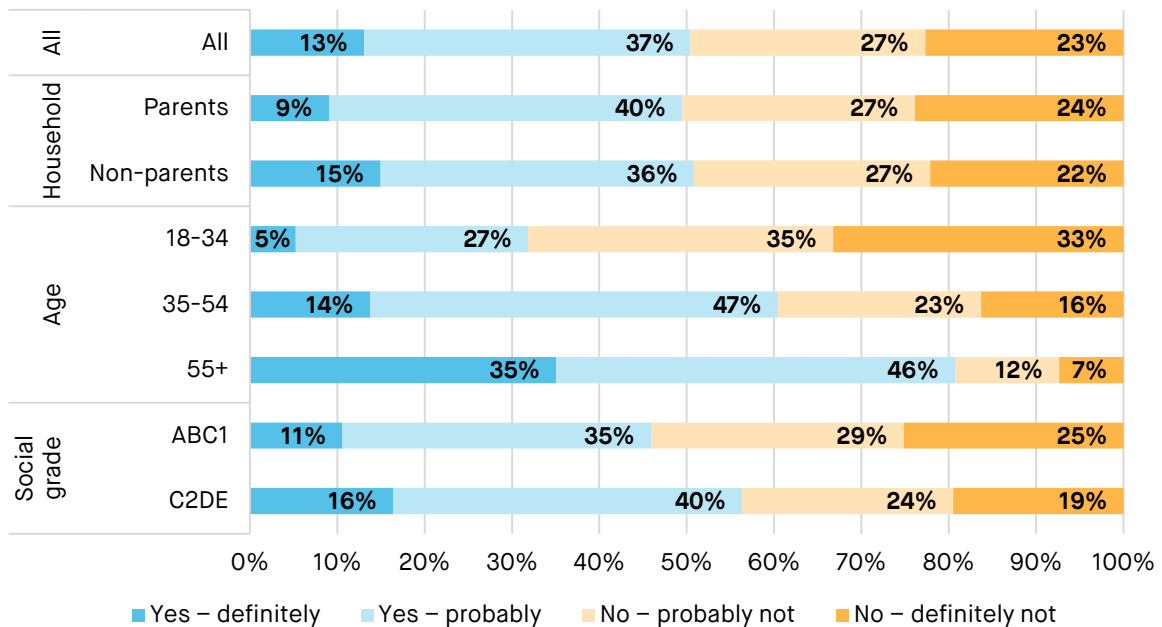
### Expectations of renting in future

Half of renters (50%) expect that they will be renting in future – as shown in Figure 9. This figure rises with age. Just under a third (32%) of young renters (aged 18-34) expect to be renting in 15 years' time, in comparison to 61% of 35-54-year-olds and 81% of 55+ year olds. In 2020-21, the average age of first-time buyers was 32.<sup>56</sup> It is therefore conceivable that 35-54 and 55+ year old renters expect to continue renting because they prefer the private rented sector, or because they have accepted that they are unlikely to own a home – illustrated in Figure 10.



Over half of private renters in social grade C2DE (56%) expect to be renting in future, compared to 46% of their better-off peers in social grade ABC1. There is little difference between parents (49%) and non-parents (51%).

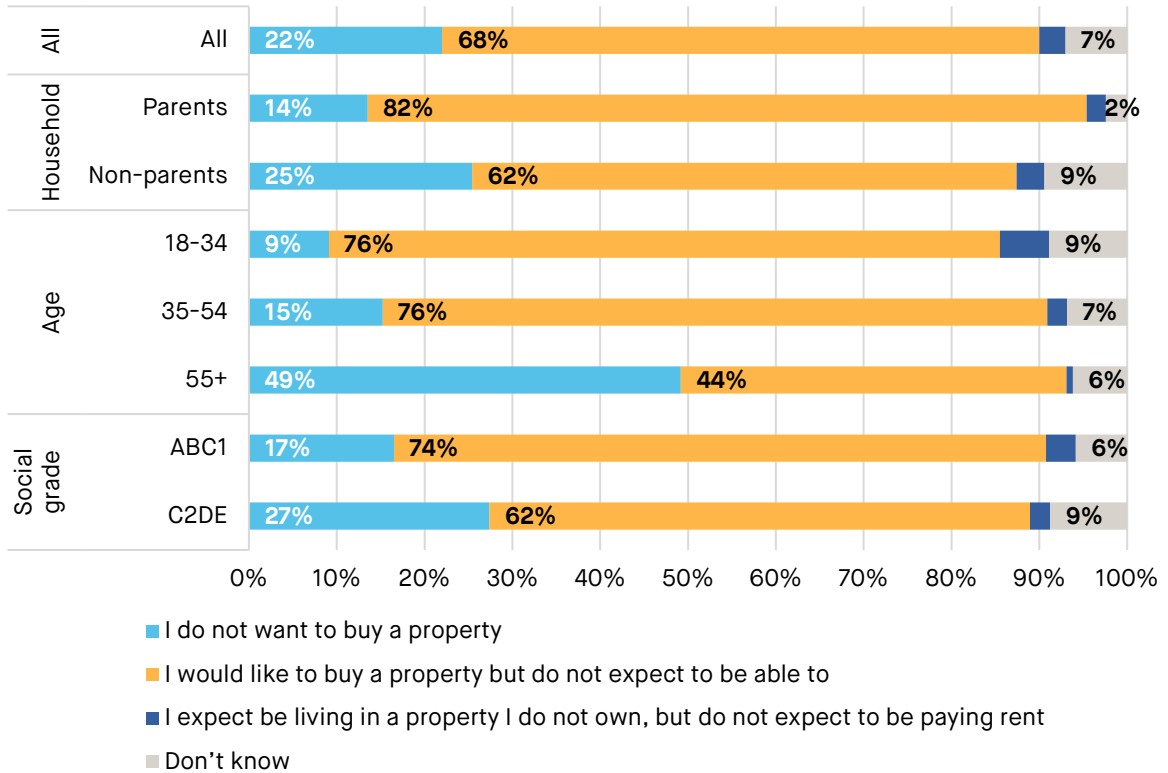
**Figure 9: Private renters' expectation whether they'll be renting in 15 years' time, by demographic group**



Among those who expect to be renting in future, the most common reason (68%) is because they would like to buy a property but do not expect to be able to – as shown in Figure 10. This is most common among parents (82%), renters aged 18-34 (76%) or 35-54 (76%), and in social grade ABC1 (74%). This expectation is largely attributable to the fact that the majority of private renters (65%) do not expect to be able to afford a deposit, while nearly half (46%) also do not expect to be able to afford a mortgage – as shown in Figure 11.

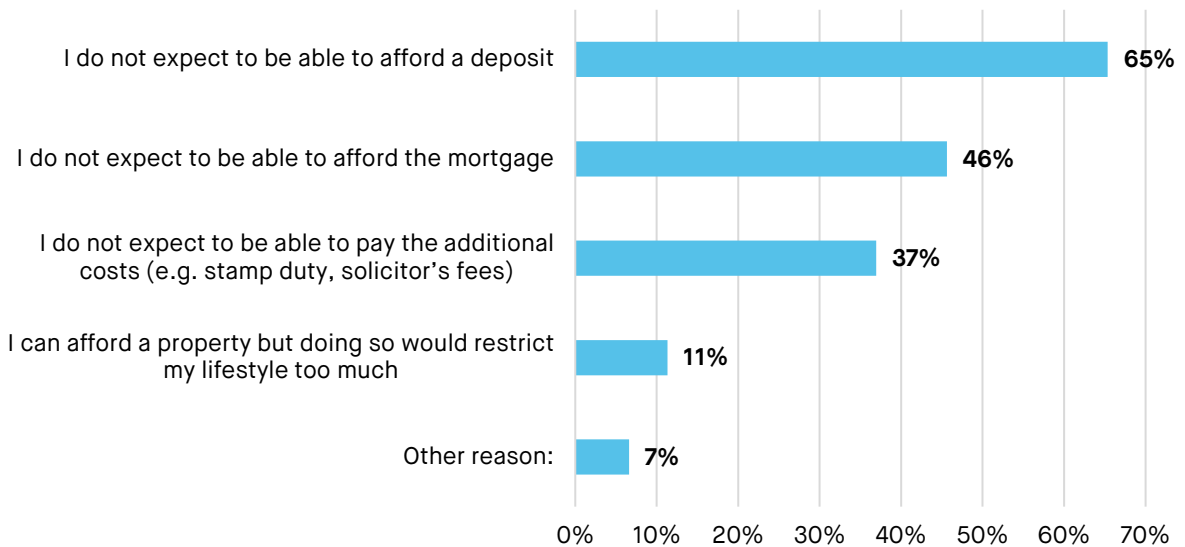
The second reason why private renters expect to be renting in the future is because they do not want to buy a property, although this was the case for just one in five renters (22%) – as shown in Figure 10. This is most common among older renters (aged 55 and above), with nearly half (49%) of private renters aged 55 years old and above saying they expect to rent because they do not want to buy a property. This supports the theory that older renters are more likely to stay in the private rented sector because it is their preferred choice of tenure, rather than being locked in by financial barriers of homeownership.

**Figure 10: Reasons why private renters expect to be renting in 15 years' time, by demographic group**



Source: SMF analysis, Opinium

**Figure 11: Reasons why private renters do not expect to be able to buy a property in 15 years' time**

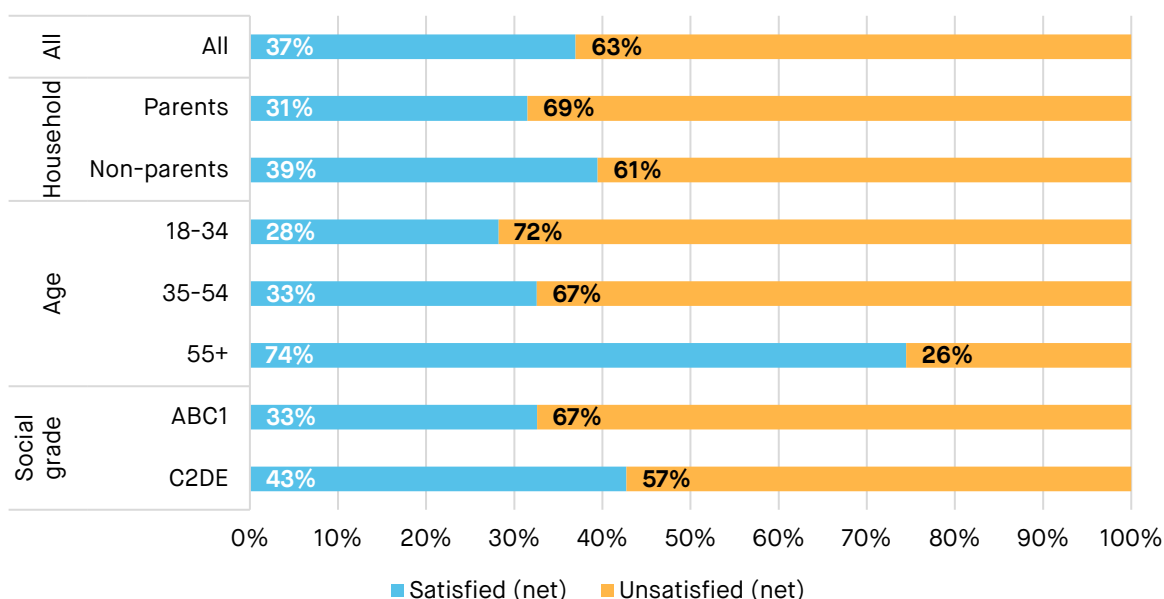


Source: SMF analysis, Opinium

### Satisfaction with renting in the future

We are also interested in whether private renters would be happy with renting in the future. Our survey findings indicate that nearly two in five private renters would be satisfied with renting for the foreseeable future (in 15 years' time) – as shown in Figure 12. Across the different demographic groups, renters aged 55 or above (74%), C2DE (43%), and non-parents (39%) are most likely to be satisfied with renting in the future compared to their counterparts, including renters aged 18-34 (28%) or 35-54 (33%), ABC1 (33%), and parents (31%). As a result, greater consideration is needed for the over three in five private renters (63%) who will be unsatisfied with renting in the future and what policymakers can do about that.

**Figure 12: Satisfaction of private renters about renting in 15 years' time, by demographic group**



Source: SMF analysis, Opinium

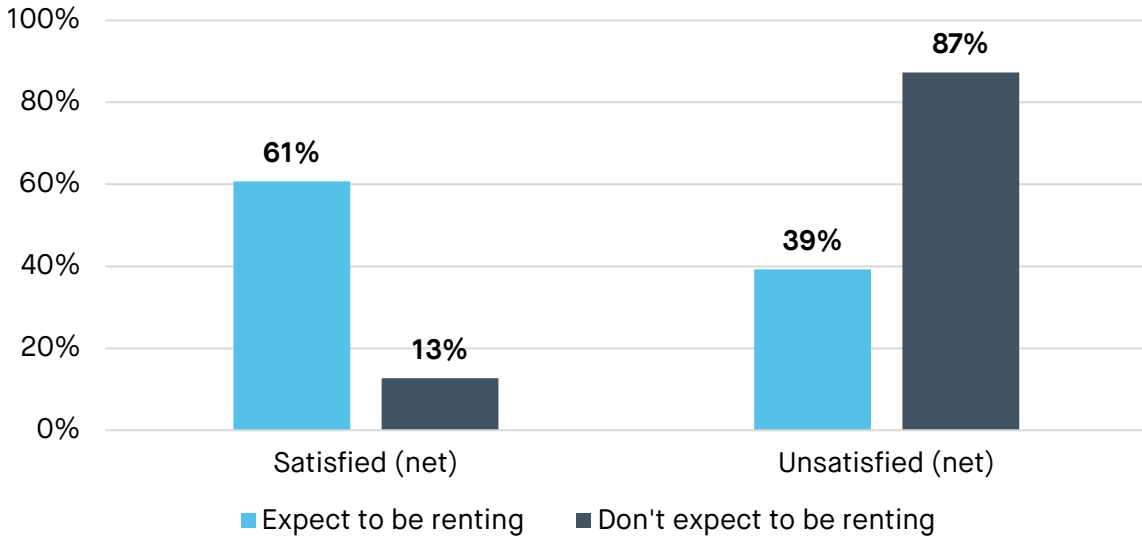
Conceivably, some of the 63% of private renters who would be unsatisfied with renting in future do not actually expect to be renting, and will likely exit the tenure. However, this therefore means that there is a group of renters who expect to be renting in future and would be unsatisfied with this – as shown in Figure 13.

Nearly two in five (39%) private renters who expect to be renting in 15 years' time are dissatisfied about this. This equates to nearly 1 in 5 of all private renters (given that 50% of all private renters expect to be renting in future – as shown in Figure 9). This report considers how policymakers and the private rented sector could address this dissatisfaction through two key mechanisms of helping them to buy a home or to improve their experience private renting – discussed further in Chapter Four.

In order to ensure that any policy or industry intervention is well targeted, it is important to identify what this group looks like in terms of their demographics. Figure 14 suggests that early-middle-aged renters, parent renters, and ABC1 renters expect to be most unsatisfied with their tenure in future.

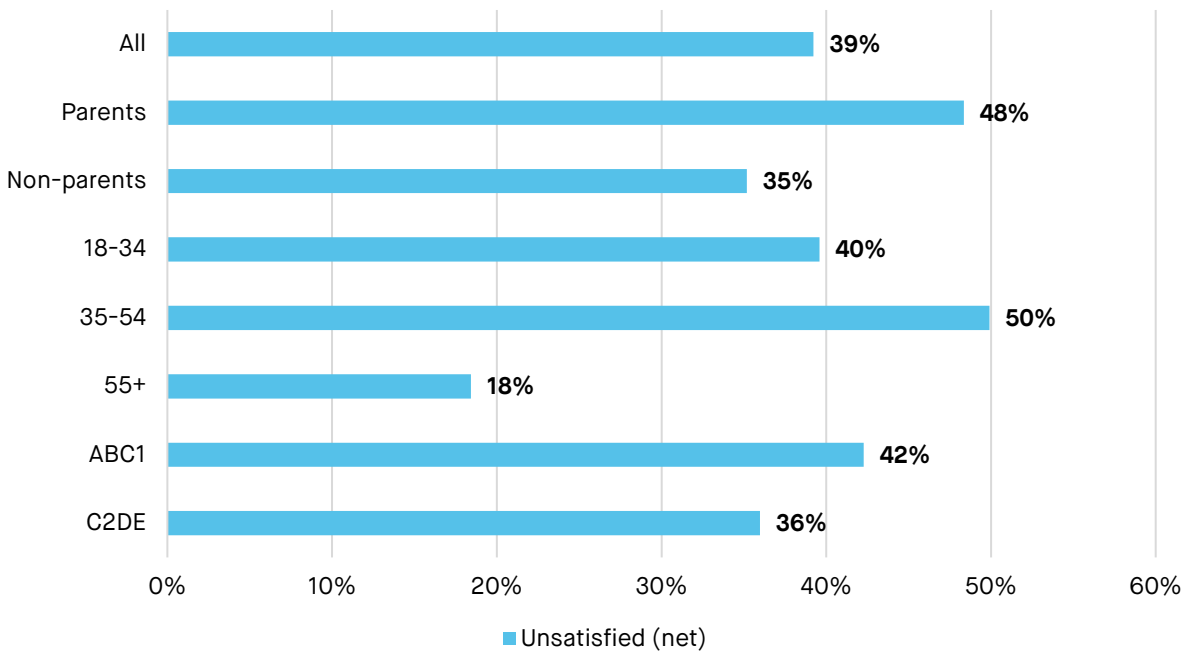
Half (50%) of private renters aged 35-54 that expect to be renting in 15 years' time would be unsatisfied with doing so, equating to a quarter (25%) of all private renters in this age group. This attitude is present in nearly half (48%) of parent renters and over two in five (42%) of ABC1 renters who expect to be renting in the future. Across the overall private renter population, this equates to nearly a quarter (24%) of parents and one in five (21%) of those in social grade ABC1.

**Figure 13: % of private renters who would be satisfied with renting in 15 years' time, by their expectation of renting in 15 years' time**



Source: SMF analysis, Opinium

**Figure 14: % of private renters who expect to be renting in 15 years and are unsatisfied with the idea of renting in 15 years' time, by demographic group**



Source: SMF analysis, Opinium

### How has this changed since COVID-19?

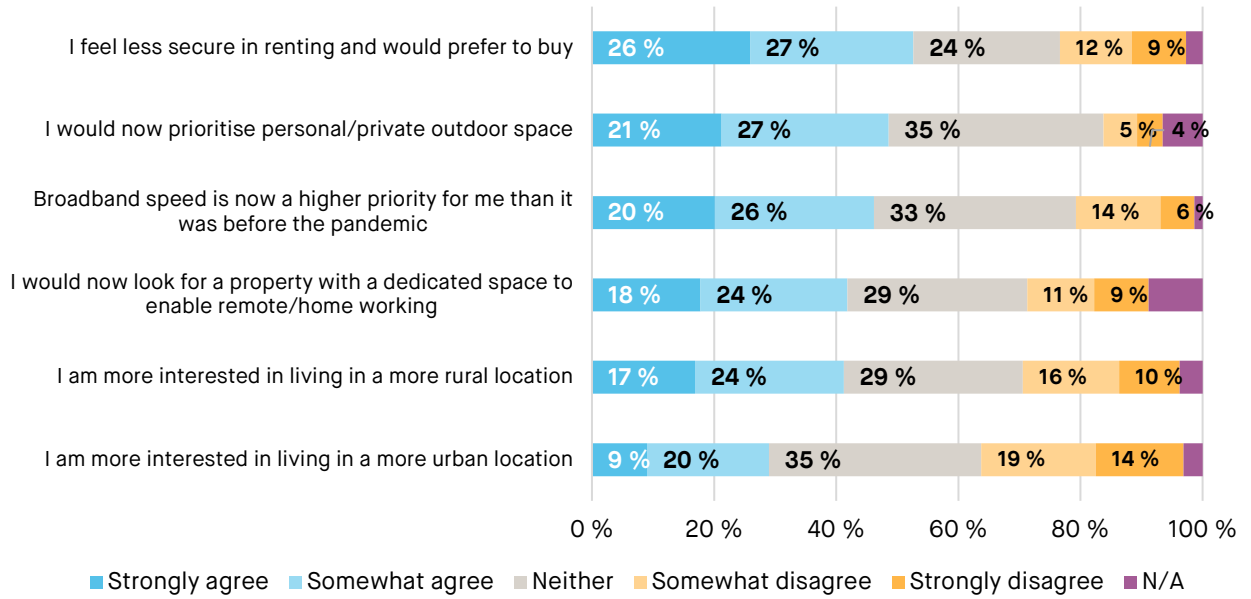
One of the implications of the COVID-19 pandemic and the associated lockdowns is that people have generally spent more time in their home. With the rise of homeworking for some, and limits on public outdoor activities, there has been much speculation as to whether this has led some to reconsider and reprioritise where they live, and what they want in a home.<sup>57</sup>

Overall, the survey findings indicate that the pandemic has had a considerable effect on the attitudes of renters towards their rental property and location – as shown in Figure 15. On average, over two in five (43%) private renters agree that COVID-19 has changed their priorities for renting. Most notably, over half (52%) now feel less secure in renting and would prefer to buy a home, indicating that the pandemic could heighten dissatisfaction with the private rented sector.

Nearly half of private renters would also now prioritise having more space, both outdoor leisure space (48%) and indoor homeworking space (42%). It is also unsurprising then that 46% of renters would now prioritise a higher broadband speed, given that they likely expect to be working from home more frequently.

The notion that the pandemic may lead to an exodus of city dwellers to the countryside has also been questioned by analysts across the property industry and policy spheres. Our survey findings show that private renters in general would be more interested in living in a more rural location (41%) than a more urban area (29%). This fits with recent analysis of ONS data for the *New Statesman*, which found that population growth has slowed in four of the five largest cities in England and Wales.<sup>58</sup> Though this is partly explained by the post-Brexit return of EU nationals to their home countries, there is also evidence of a shift to the countryside, particularly among younger people. Prior to the pandemic, no age group exhibited a significant amount of net migration into rural areas. However, between 2019 and 2020, under 18s and people aged 40-65 were more likely to leave towns and cities than move to them. This shift was seen most prominently in more deprived urban neighbourhoods, suggesting that this ‘exodus’ may not be a “retreat of the urban middle class to their country homes, [but] growing inaccessibility of major cities”.<sup>59</sup> Looking ahead, it is unclear to what extent this modal shift will be a lasting effect of the COVID-19 pandemic and what this will mean for renters more specifically.

**Figure 15: Private renters' preferences following the COVID-19 pandemic**



Source: SMF analysis, Opinium

## CHAPTER THREE – POSSIBLE FUTURES FOR THE PRIVATE RENTED SECTOR

As described above, this is a moment of great uncertainty for the housing market. Going into the COVID-19 pandemic, it was already unclear whether the mid-2010s represented a genuine inflection point with homeownership rising once more or whether this was just a blip before a return to the inexorable growth of the private rented sector. The disruption of the last couple of years makes the future even harder to predict, given the dramatic spike in house prices, economic upheaval, and a possible rise in interest rates. And that it is before we even consider policy ambiguity, with the outcome of the government's proposed planning reforms still unknown.

In this context, we do not offer a confident prediction for the future trajectory of English housing. Instead, we model three different scenarios that represent possible futures, depending on how policy and the market develop. These are not comprehensive, holistic models of the housing market, but rather relatively simple projections, exploring the implications of extrapolating different trends from the past. Specifically, the three scenarios we model are as follows:

- **High ownership:** projects forward trends in tenure between 2014 and 2019, assuming that rising home ownership is sustained
- **Low ownership:** projects forward trends in tenure between 2004 and 2014, assuming that we return to the 'old normal' of rising private renting
- **Mid ownership:** projects forward trends in tenure between 2009 and 2019, producing an outcome in between the high and low scenarios

These scenarios provide us an indication of the uncertainty and range of possible outcomes that are plausible for the future housing market. However, they also demonstrate that certain demographic shifts are likely to change the shape of the private rented sector in any plausible future.

### Modelling approach and assumptions

In our model, demand for housing is exogeneous (i.e., it is taken as a given, rather than being modelled directly). We use household projections from the Office for National Statistics to estimate the number of households of different types (by number of members, children, age of reference person) in each English region in 2035.<sup>60</sup> We assume that each household will need a house. This is an oversimplification: in practice, the number and makeup of households will respond to some extent to housing supply – for example, with more available and affordable housing, children may be able to move out from their parents' homes, but that is beyond the model. Nor do we model the existence of second homes for personal use (as opposed to rental properties).

We model the supply of housing by projecting forward the average annual net additions of homes of each tenure in each region under each scenario to 2035 (based on English Housing Survey data).<sup>61</sup> For example, the number of owner-occupied homes rose by 172,000 a year between 2014 and 2019, so in the high ownership scenario, we assumed that trend continues to 2035. By contrast, in the low ownership scenario, reflecting net additions from 2004 to 2014, we assume that the number of owner-occupied properties *falls*, by 63,000 a year.

For each region, this leaves us with estimates of the number of homes of each type of tenure (owner-occupied, private rent, social rent) on the one hand, and the number of each type of household on the other. The next stage is to reconcile them by allocating homes to households. We begin by assuming that the number of homeowners in a given cohort in 2035 reflects the number of homeowners in that cohort today. So, for example, we estimate an initial number of homeowners in households headed by people over the age of 65 in 2035 based on the number of homeowners aged 45-54, 55-64 and 65+ today, since people in those age bands will be over 65 in 2035. We do the same for social renters, and the remainder are initially allocated to the private rented sector. That leaves a 'surplus' of owner-occupied or social housing to allocate, with the size of the 'surplus' varying by scenario (in some cases, the 'surplus' is negative: we initially allocate more homes of a given tenure than are supplied in that region). Social housing is allocated proportionately to the share of social housing a household type already has in a region – for example, if single under 25s have a certain percentage of existing social housing, they get that percentage of additional social housing. Owner-occupied housing is allocated according to the number of households of a particular type initially within the private rented sector – but households that are particularly likely to be first-time buyers (in particular, 25–34-year-olds) are given a higher probability of moving out of the private rented sector into home ownership.

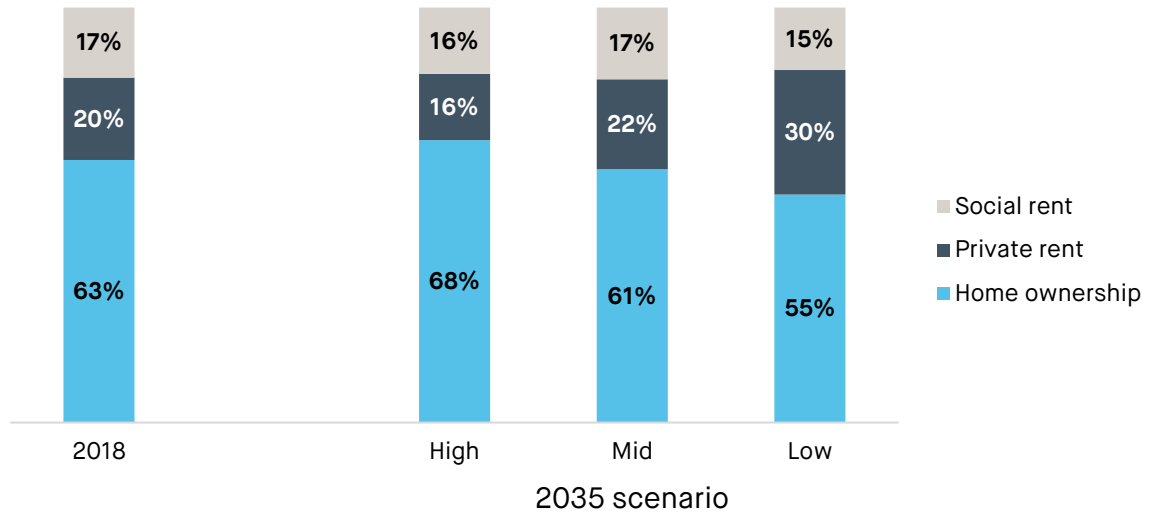
## Modelled outcomes

### Overall market

Figure 16 highlights the range of modelled outcomes for the housing market. If home ownership continues to rise as it did in the late 2010s, the proportion of households that own their homes could rise to 68% – levels last seen around the financial crisis – and the share of private renters could fall to 16%. By contrast, if private renting continues to surge as it has done for most of the 21<sup>st</sup> Century, 30% of households could be renters by 2035, and the home ownership rate could fall to 55%. In any case, none of our scenarios suggest that the growth in private renting would be fully reversed back to the level of most of the 1980s and 1990s, when 1 in 10 households were renting privately. But recent trends are consistent with a private rented sector that grows to cover almost one in three households, or a much smaller one half that size.



**Figure 16: Housing tenure by modelled scenario**

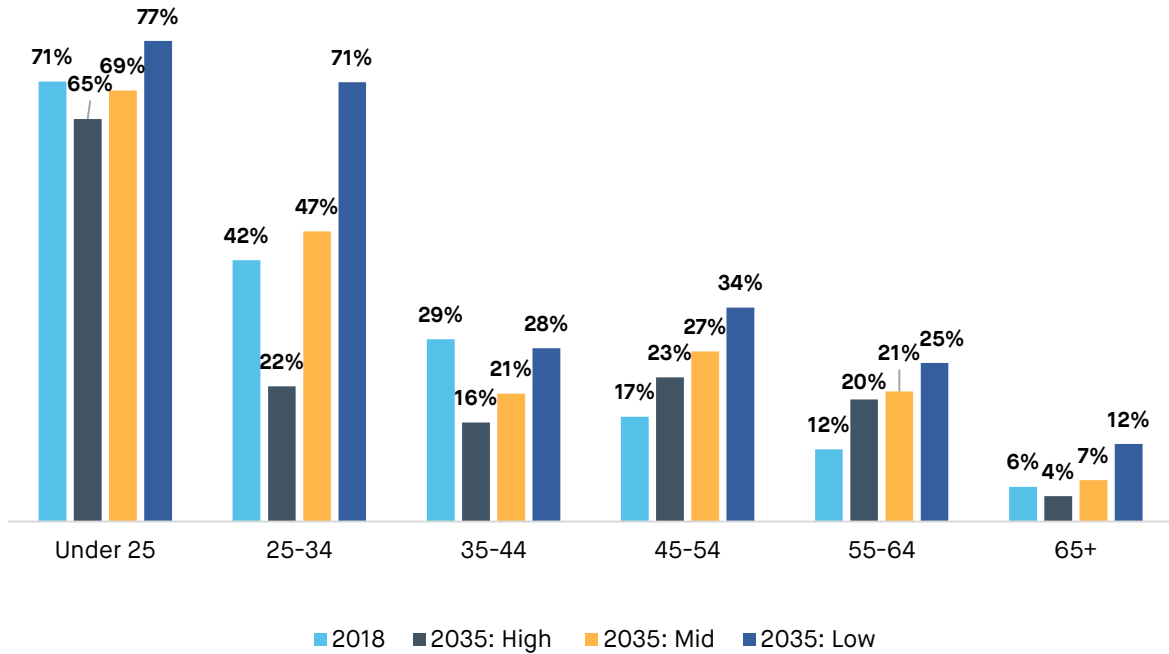


Source: SMF modelling

### Outcomes by Age

Figure 17 compares the rate of private renting in different age groups across the modelled scenarios. It indicates that 25–34-year-olds are most sensitive to changes in the rate of homeownership. This is unsurprising, given that people in this age group comprise the majority of first-time buyers (65% in 2019/20), and have seen the biggest decline in renting in recent years.<sup>62</sup> Our modelling suggests a wide spread of potential outcomes for younger households: from a dramatic decrease (down to 22%) in the proportion of households headed by a 25–34-year-old in the private rented sector, to an increase to 71%. The range of outcomes is narrower (though still quite wide, with a spread of around 10 percentage points between the different scenarios) for other age groups. However, it is notable that even in scenarios where overall home ownership rises, we expect to see the share of private renters rise among those aged 45–64.

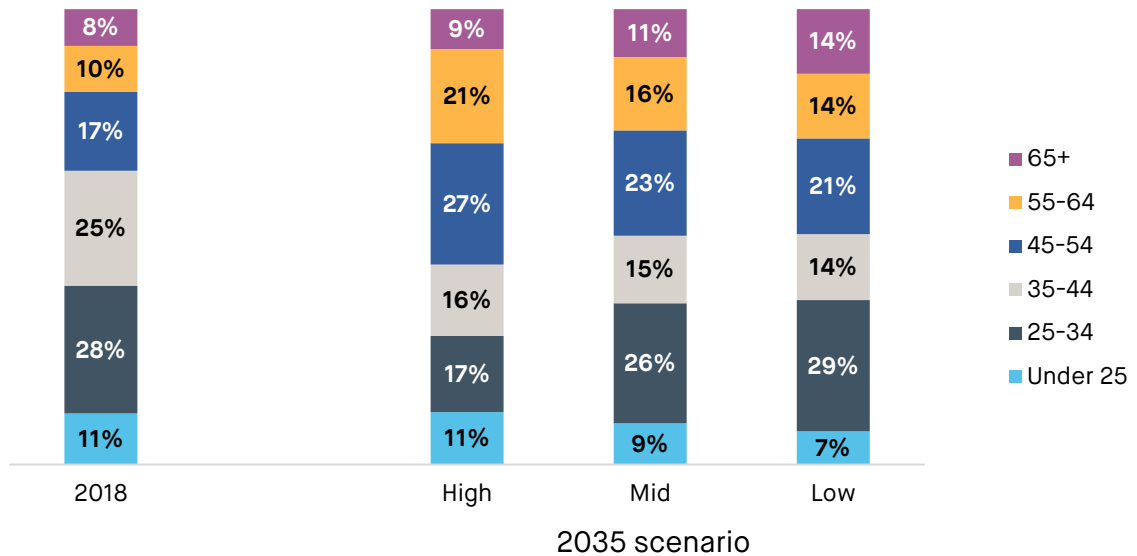
**Figure 17: Proportion of households in private rented sector in each modelled scenario, by age of household reference person**



Source: SMF modelling

The impact on the age profile of the private rented sector is clear: it will be older. As Figure 18 shows, the question is how much older. In 2018, 35% of privately renting households were headed by a person over 45. By 2035, we anticipate this will rise to around a half or even as high as 56%.

**Figure 18: Share of private rented sector in each modelled scenario by age of household reference person**

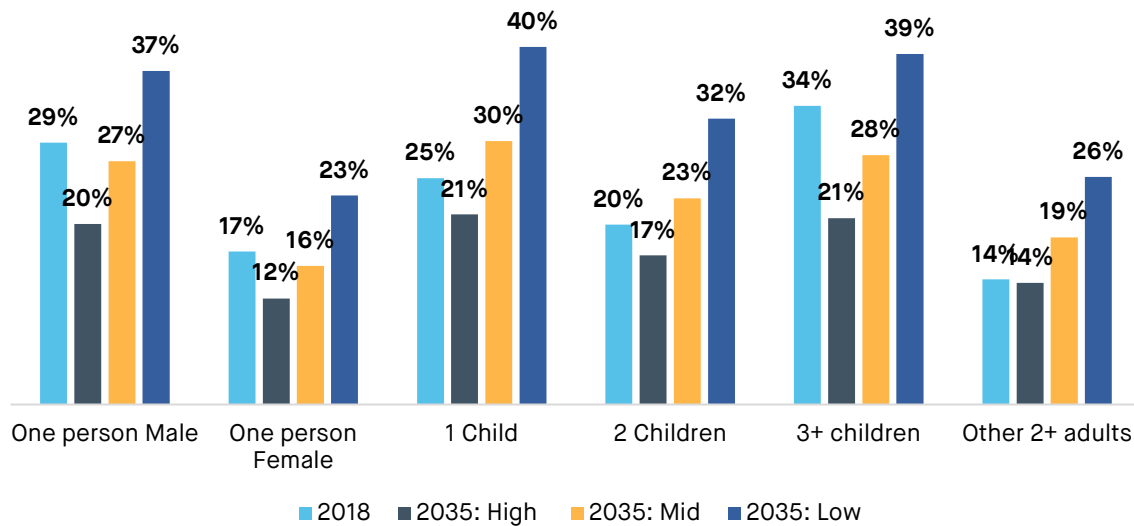


Source: SMF modelling

### Outcomes by Household Type

Figure 19 shows the rate of private renting of different types of household under each of the modelled scenarios. This time, there is less of an obvious difference – household types with a high initial share of private renters (single men, families with three children) tend to have the highest share in every scenario.

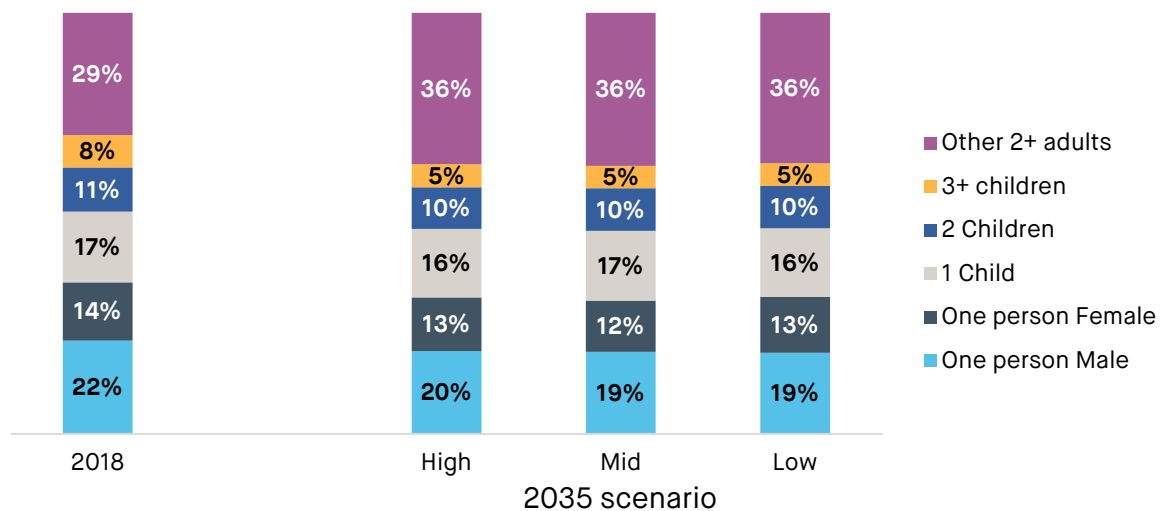
**Figure 19: Proportion of households in private rented sector in each modelled scenario, by household type**



Source: SMF modelling

Figure 20 confirms that the relative share of the private rented sector for each household type remains fairly constant across the different scenarios. However, one trend is apparent: an increase in couples and house shares without children, which our models suggest will comprise 36% of privately renting households in 2035, up from 29% today.

**Figure 20: Share of private rented sector in each modelled scenario by household type**

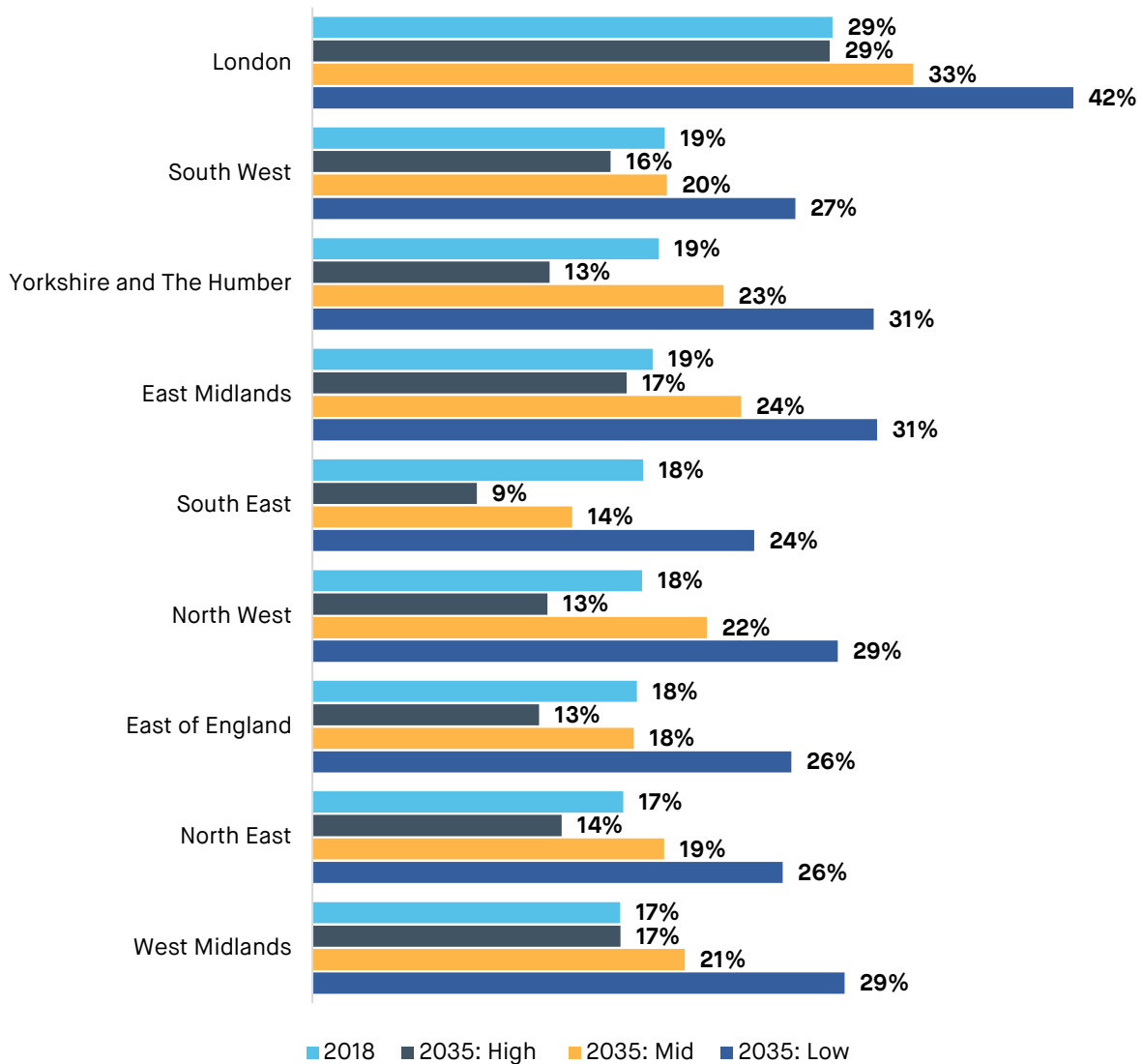


Source: SMF modelling

**Outcomes by region**

Figure 21 highlights regional differences in the modelled scenarios. Unsurprisingly, London has the highest rate of private renting in every case. Even under our ‘high homeownership’ scenario, the proportion of households in the private rental sector remains flat at 29%. In the ‘low homeownership’ scenario, that rises to 42%. If there is a decline in private renting, our modelling suggests it will be greatest in the South East, where in one projection the share of households in the private rented sector halves from 18% to 9%. That reflects the fact that the South East has seen proportionately the biggest decline in private renting in recent years. On the other hand, if the private rented sector grows at the rate of 2004 to 2014, our model suggests the increase will be greatest in London, the Midlands, Yorkshire and the Humber and the North West.

**Figure 21: Proportion of households in private rented sector in each modelled scenario, by region**



Source: SMF modelling

## CHAPTER FOUR – HOW CAN THE PRIVATE RENTED SECTOR BE BETTER FOR THE RENTERS OF THE FUTURE?

We saw in Chapter Two that half of current private renters do not expect to continue renting in 15 years' time. An even higher proportion – 63% – would be dissatisfied to find themselves in the private rented sector in the mid-2030s. Younger people are particularly likely to hold such views, with older private renters more likely to be content to stay where they are. The modelling in Chapter Two indicates that many households will get their wish and leave the private rental sector: the prevalence of private renting naturally falls as people get older and are more likely to own their homes. Precisely how many depends on policy and wider shifts in the housing market. Around half of households led by under 35s currently rent, and 28% of them would be satisfied to still be renting in a decade and a half. If they were the only ones to remain, around one in eight households led by people in their 30s and 40s would be in the private rented sector come 2035. Even in our high home ownership scenario from Chapter Two, private renting does not fall that low, being closer to one in five. In our low home ownership scenario, closer to a third of young people today would still be renting.

What that means is that there are likely to be a number of disappointed people remaining in the private rented sector, though ideally they would prefer not to. That means that an important task for policy and for the sector itself is to try and address the needs of this group, and ensure that renting is as good as possible for them, a genuine consolation prize that might even, in some cases, outdo the first prize.

How that might be achieved is the subject of this chapter, which considers what different groups of renters want in terms for their home and neighbourhood both now and in the future, based on findings from the SMF-commissioned Opinion survey.

### **What do renters want?**

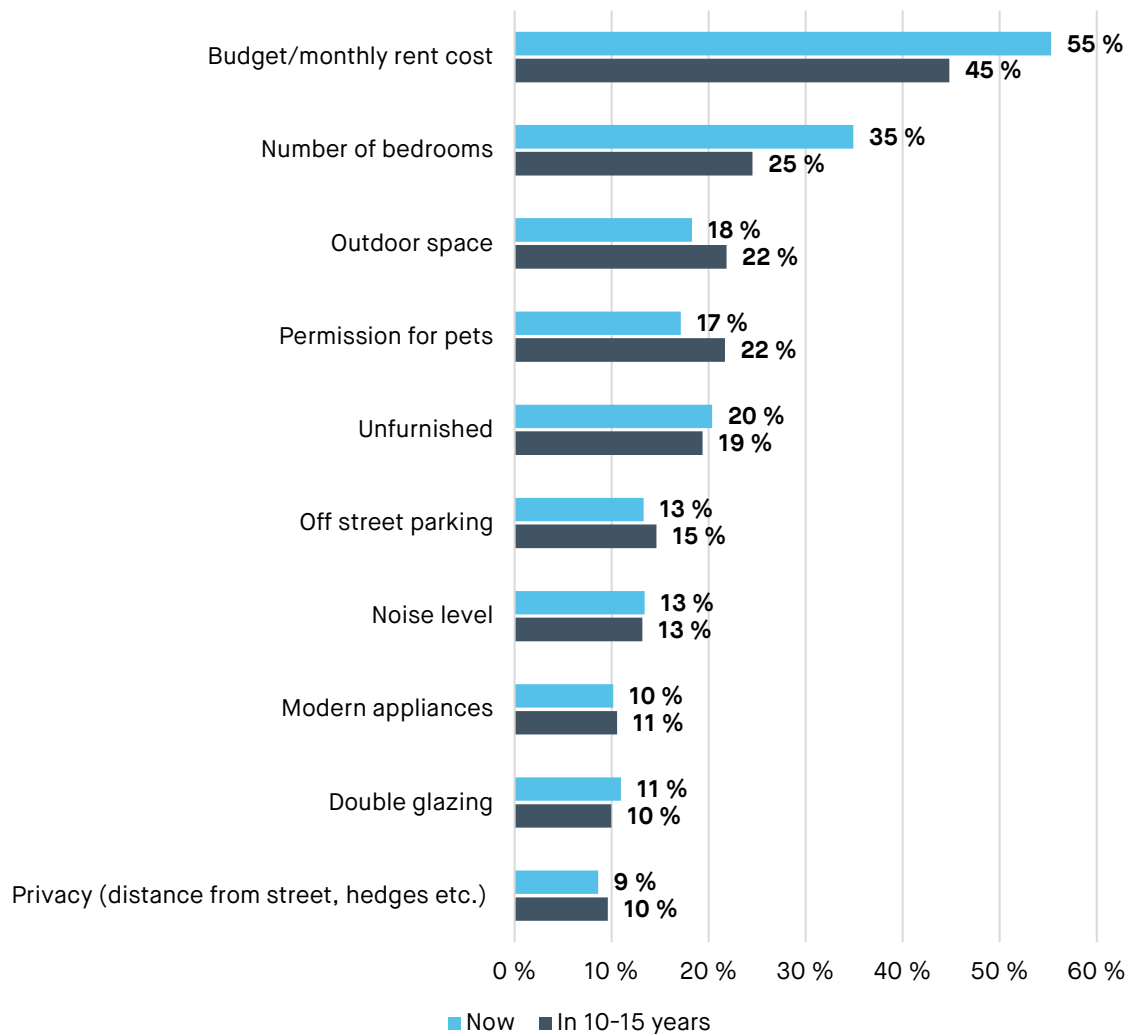
In our survey, we asked renters to tell us what they look for in a property, and what considerations they expect will guide their housing decisions in 10-15 years' time. Figure 22 illustrates the ten most commonly selected priorities out of 22 listed options (of which respondents picked their top three) – see the Annex for the full list of options. Overall, the most important priority when renters choose their rental accommodation both now and in future is the monthly rent cost. Over half (55%) of renters said their budget is among their top three priorities. Although this figure falls to 45% for renters' future priorities, it still remains top. Thus, current renters expect to put less emphasis on affordability in future, but only slightly less.

The second top priority for renters – both now and in future – is property size, in terms of bedrooms. Again, though, this declines in significance as people look out to the future: the proportion of respondents putting it in their top three priorities falls by 10 percentage points between now (35%) and in 10-15 years' time (25%).

Key priorities also include outdoor space and permission for pets, which renters say will be more of a priority for their future rental accommodation than currently. Over one in five (22%) of renters said outdoor space and permission for pets would be one of their top three priorities for choosing a home in 10-15 years', compared to 18% and 17% (respectively) now.

Across the remaining most important ten priorities – unfurnished, off-street parking, noise level, modern appliances, double glazing, and privacy – there is limited variation between their perceived importance now and in future.

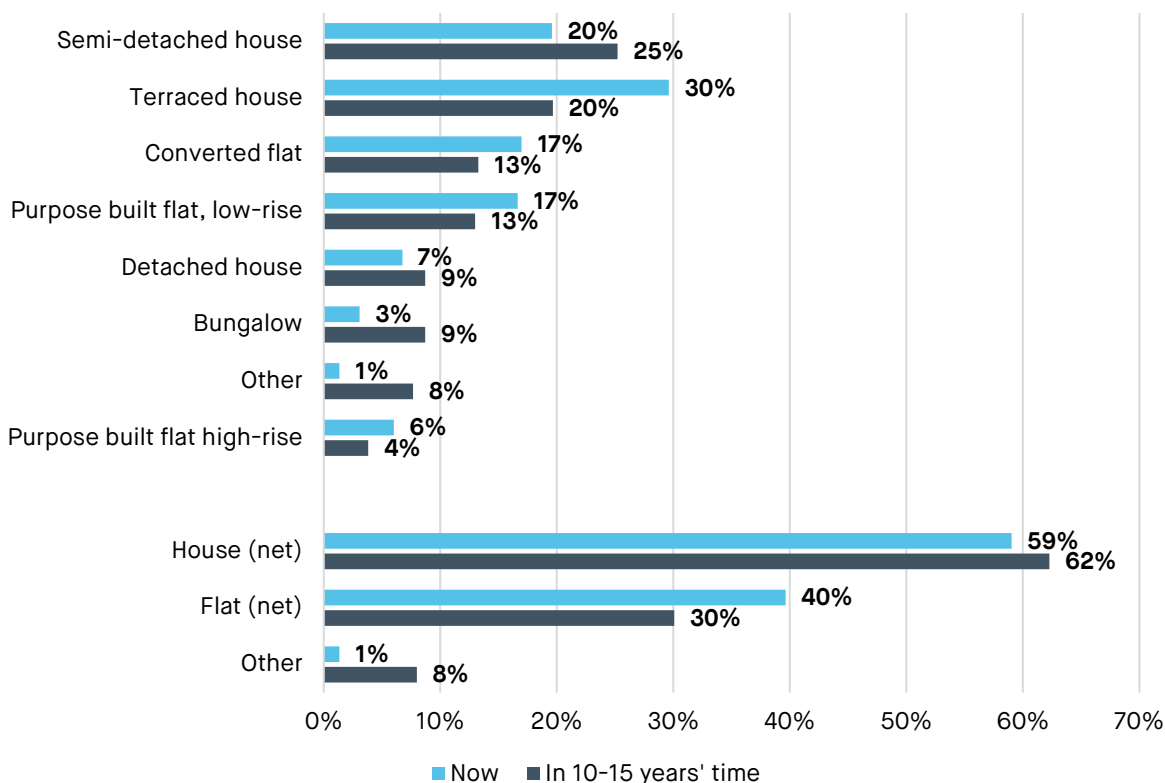
**Figure 22: Most important property priorities as a % of private renters' that selected it in their top 3 priorities, now vs in the future**



Source: SMF analysis, Opinium

Overall, more private renters expect to rent a house in future than a flat – as shown in Figure 22. The majority (59%) of private renters in the UK currently live in a house – most commonly a terraced house (30%) or a semi-detached house (20%). In 10-15 years’ time, 62% of private renters expect to be renting a house – most commonly a semi-detached house (25%). In comparison, two in five (40%) private renters currently live in a flat – most commonly a converted flat (17%) or a purpose built low-rise flat (17%). In 10-15 years’ time, renters expect this figure falls to just 30%.

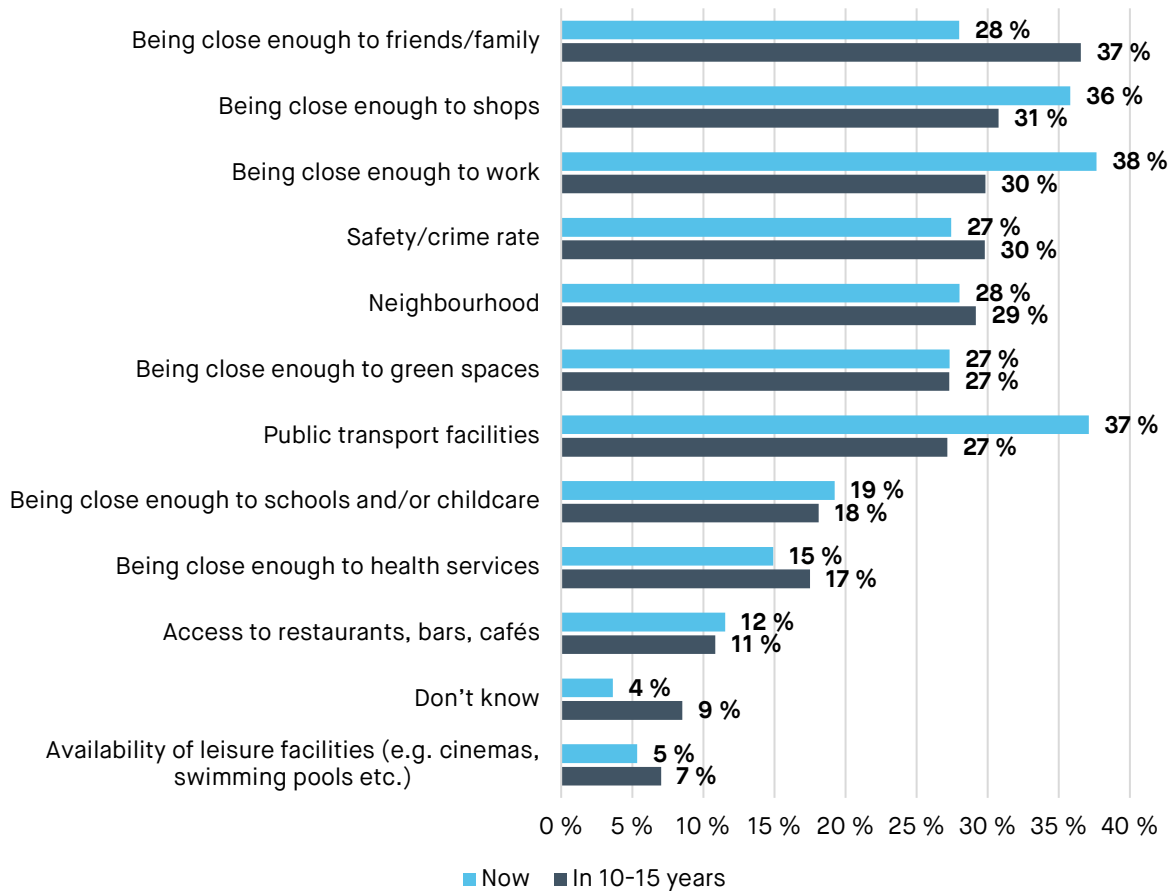
**Figure 23: What property type do private renters currently rent vs what do they expect to rent in future**



Source: SMF analysis, Opinium

Private renters were also asked about their top three priorities they consider for an area when choosing a rental accommodation, both now and in future – as shown in Figure 23. Currently, renters’ top priorities are being close enough to work (38%), public transport facilities (37%) and shops (36%). Looking ahead, the most significant change is that renters are less likely to prioritise public transport (-10 percentage points) and are more likely to prioritise being close to friends and family as the most important feature of their area (+9 percentage points from 28% to 37%). Being close to the shops or to work remain as top priorities for the future, although they are likely to be less important with a -5 and -8 percentage point decrease respectively.

**Figure 24: Top area priorities by % of private renters that selected it in their top three, now vs in future**



Source: SMF analysis, Opinium

### What do different groups of renters want?

For the most part, renters share a common set of priorities, with keeping rental costs within their budget top of the list. However, renters are not a homogenous group. Subgroups within the sector have distinctive requirements that may vary in terms of what they want from their rental accommodation and the area in which they live.

The modelling presented in Chapter Three highlights that the age profile and household composition of the private rented sector may likely change in future with more older renters and (possibly) families renting for longer. In this section we consider the priorities of four key groups of renters and how these may change in future, including: older renters, younger renters, families, and longer-term renters.



**Older renters:** Our ageing population means that older renters will likely be a key feature of a future private rented sector and will bring different requirements and preferences for their home – this is recognised in both the House of Lords Built Environment Committee’s recent report on meeting housing demand and the Levelling Up White Paper.<sup>63</sup> Some of the older renters of 2035 will currently be in their 30s and 40s. It is highly likely that more of them will be renting than those in late middle age today. However, a key question is whether this group’s preferences and satisfaction will remain much the same, or evolve to look like people in older age groups today. This is hard to predict, so we present the data from both age groups.

**Younger renters:** 18–34-year-old renters are currently one of the most satisfied groups with being a renter (as shown in Chapter Two). However, looking ahead, they are one of the least satisfied with the idea of renting in 15 years’ time. The average age of a first-time buyer was 32 years old in 2019–20, therefore it is likely that some of this group will exit the private rented sector in future. However, given the modelled trajectory presented in Chapter Three, this group may be most sensitive to changes in homeownership rates, and therefore could also stay renting for a longer period of time.

**Families:** Parents have some of the most distinctive priorities for their home and area given that they must also factor in the needs of their children. In our medium and low ownership modelling scenarios, the proportion of families in rental accommodation is expected to increase. In this section, we examine the survey data for parents with a child (under the age of 18) living at home. Some of these may expect that their children will have grown up and moved out in 10–15 years’ time, which may influence their responses.

**Longer-term renters:** In future, private renters are likely to remain in the sector for longer. Across our survey sample, private renters had on average rented within the private rented sector for around seven years. Therefore, we define longer-term renters as those who have been renting for longer than seven years.

### ...from their property?

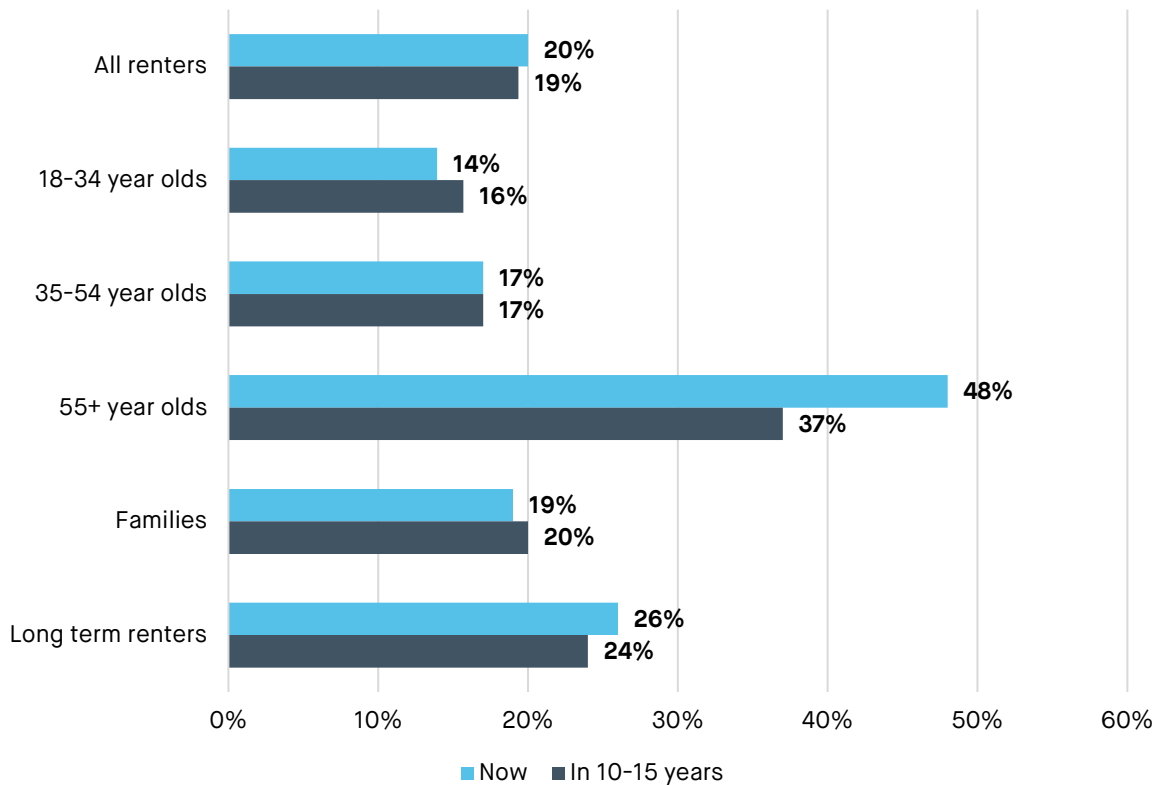
Across the different subgroups of renters, affordability is consistently the most significant factor in choosing a home both now and in future. The only exception to this is parents who are only slightly more likely to consider the number of bedrooms they will need (56%) over their budget (53%). However, looking ahead 10–15 years, we see families’ priorities shift a little, with a decline in the number of respondents prioritising the number of bedrooms they may need (from 56% to 34%) and instead primarily choosing their home based on their budget (45%).

Bedrooms are also a key factor for all subgroups of renters, ranking as the second most important priority for younger renters, families, longer-term renters, and those aged 35–54 years old, both today and in 10–15 years’ time. However, this is not the case for 55+ year old renters, where it ranks third currently (30%) and fourth in 10–15 years’ time (19%).

There are also clear differences between different types of renters in terms of whether they favour their homes to come furnished or not. Younger renters are the only subgroup to prefer renting a furnished property both now (28%) and in 10–15 years’

(16%), although this proves to be less important as they look to the future. Conceivably, this could be related to the cost of furniture and/or mobility: as highlighted in Chapter Two, younger renters are more likely (59%) to appreciate the flexibility that renting provides in moving between locations. By contrast, all other subgroups would prefer unfurnished properties, particularly among 55+ year olds both now (48%) and in future (37%).

**Figure 25: % of private renters who selected unfurnished rental accommodation in their top 3 priorities for their rental accommodation, by subgroup**

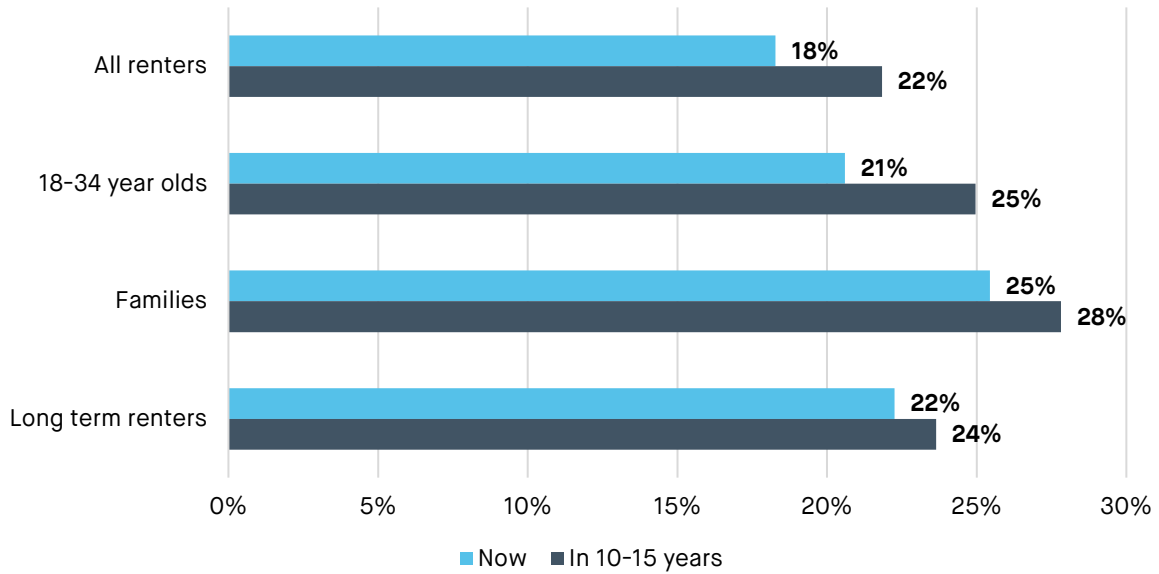


Source: SMF analysis, Opinium

As renters look towards the future, their priorities for what they want from their home shifts slightly. For most subgroups, there is a clear decline in the relative importance of budget and property size, and other considerations, most prominently outdoor space and pets, take on greater significance.

Having access to outdoor space, such as a garden, is important to many renters, although different groups vary in terms of the priority they give it. Younger renters, families and long-term renters are more likely to say that they would prioritise their home based on whether they had outdoor space now, and in even more so in the future. As shown in Figure 26, families are most likely to prioritise a home with outdoor space (25% now and 28% in 10-15 years). Looking ahead, the biggest change in priority is seen in younger renters: 20% say outdoor space is a top priority now, 25% in future.

**Figure 26: % of private renters who selected outdoor space in their top 3 priorities for their rental accommodation, by subgroup**

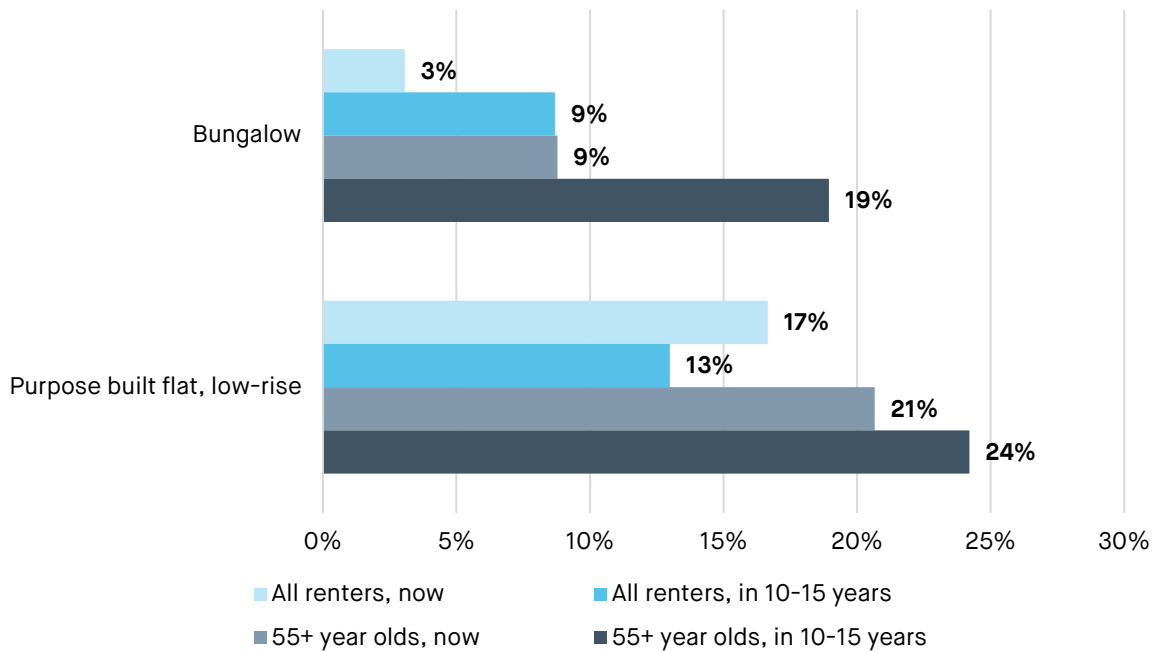


Source: SMF analysis, Opinium

The ability to keep a pet is something all types of renters value. It is most common as a priority among renters aged 35-54 (21%) and 55+ (21%). Younger renters put less emphasis on it now (13%), but are as likely as older groups to want to keep pets in 10-15 years' time (24%).

Older renters will also require housing that meets their changing needs. A previous SMF report highlights that the UK housing stock is currently poorly placed to meet the needs of an ageing population, to the detriment of both physical and mental health.<sup>64</sup> The findings show that renters aged 55+ are more likely to prioritise accessibility features in their property in 10-15 years, compared to now – as noted in Table 4 in the Annex.

The majority in all groups of renters would expect to live in a house in 10-15 years' time. In most cases, the preference is specifically for a semi-detached house, but this is particularly strong for families (37%) and 18-34 year old renters (37%). In comparison, older renters aged 55+ are more likely to say they would expect to live in a bungalow (19%). Additionally, though this group of older renters are more likely to expect to live in a house (53%) than a flat (40%) in future, there is interest in purpose built low-rise flats (24%).

**Figure 27: Most popular property preferences of older renters**

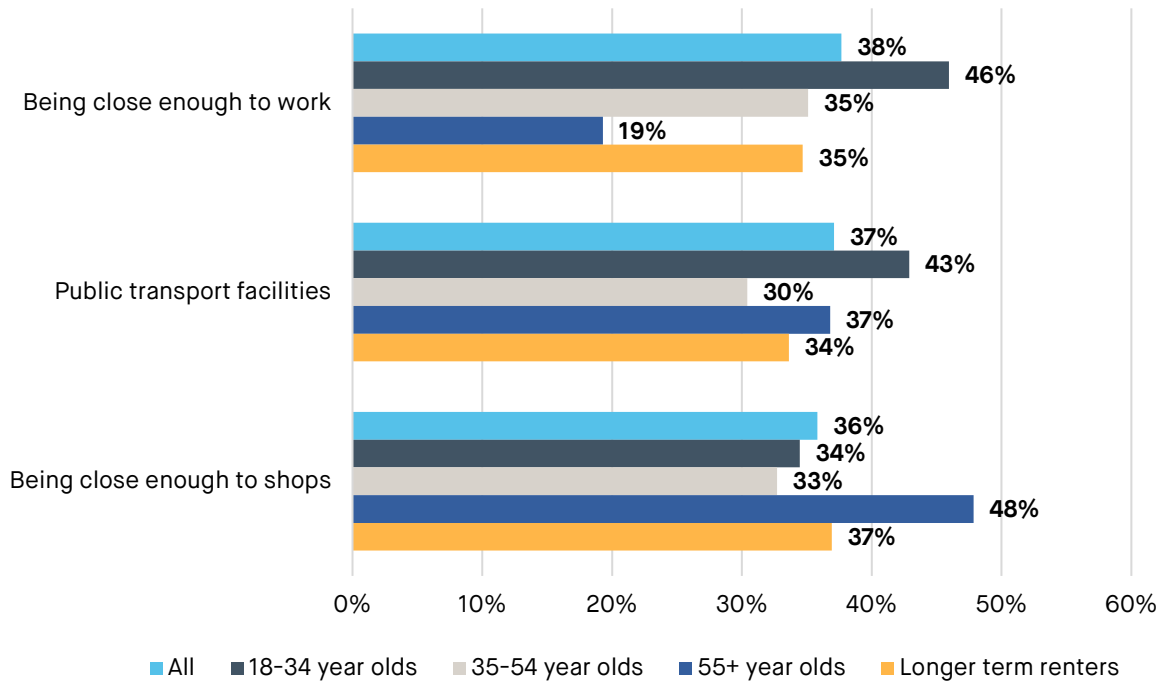
Source: SMF analysis, *Opinium*

### ...from their area?

As well as the property itself, renters also make decisions on where to live based on priorities and preferences for their location and neighbourhood. Across different subgroups of renters this can vary as their needs change over their lifespan or in different circumstances, most notably for parents.

There are three predominant location priorities that rank most important for most groups of renters, with minor differences by age. These include proximity to work, public transport facilities, and shops. As shown in Figure 27, being close enough to work is most important for younger (46%) and early-middle-aged renters (35%), although this unsurprisingly declines as renters grow older and near retirement. While the future of work is particularly uncertain at the moment, we might expect younger renters to put greater value on living near the office as we move beyond the acute phase of the pandemic and people work from home less. Renters aged 55+ years old are much less likely (19%) to prioritise living near work. In comparison, this older group of renters is most likely to prioritise living near the shops (48%), as are longer-term renters (37%). Older renters aged 55+ years old are also more likely to choose where they live based on their neighbourhood (38%), more so than any other subgroup. For all groups, being close to public transport facilities is also a key priority, seen most strongly in younger renters aged 18-34 years old (43%).

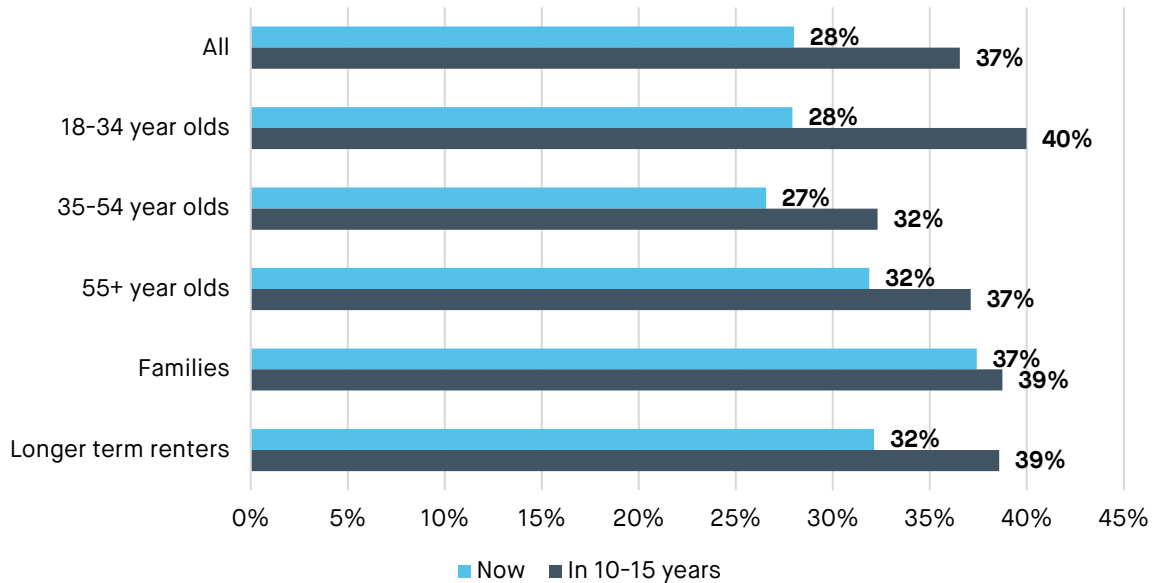
**Figure 28: Most important current location priorities, by % of private renters' who selected it in their top 3 priorities, by subgroups**



Source: SMF analysis, Opinium

Looking ahead, renters want different things from where they live, and their preferences for location change more than their accommodation preferences. In general, there is a shift away from wanting to live near public transport facilities for younger, older, and longer-term renters towards wanting to live closer to their friends and family – as shown in Figure 29. This shift is seen most notably among younger renters aged 18-34 years old, rising from 28% now to 40% in 10-15 years. As well as this, older renters aged 55+ years old say that they will place greater emphasis on being near to health facilities in future, rising from 27% to 40%. Longer term renters would also prioritise proximity to green spaces, such as parks, in future.

**Figure 29: % of private renters who selected being close to friends and family as one of their top 3 area priorities, by subgroups**

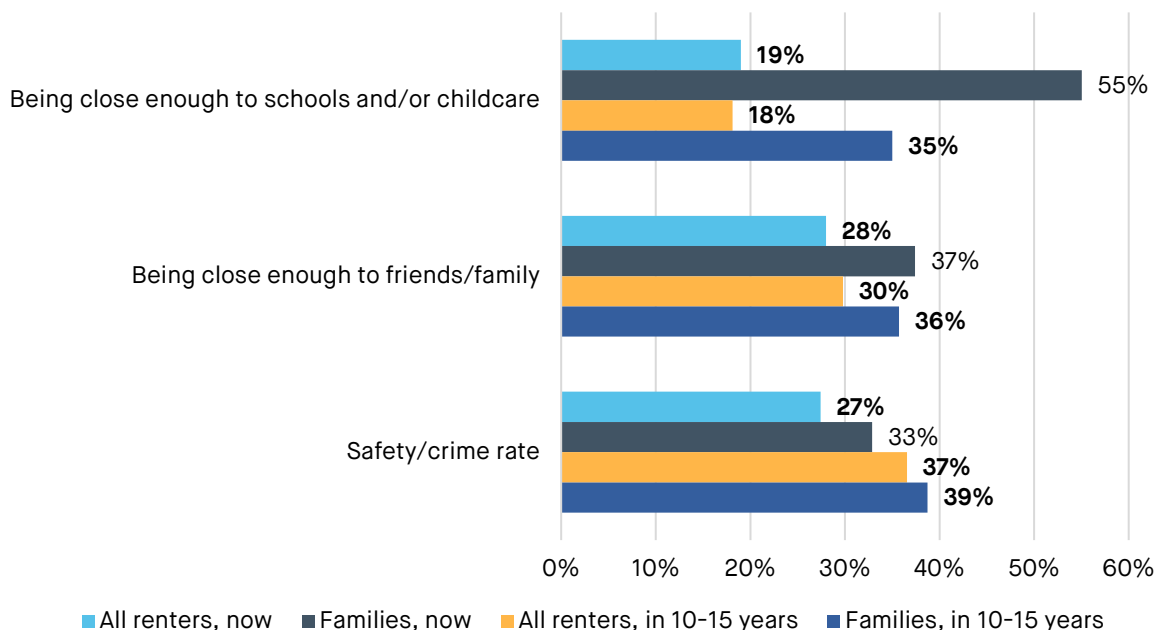


Source: SMF analysis, Opinium

Understandably, this picture looks very different for families who are more likely to choose where they live based on factors related to their children – as shown in Figure 30. Primarily, parents in the private rented sector prioritise being close to schools and childcare (55%). Second, families want to be close to their friends and family (37%). This is unsurprising given that families may need to rely on their social networks for support with childcare responsibilities, particularly in the case of working parents. In 2018, 20% of families used grandparents as a source of childcare during the school holiday periods.<sup>65</sup> Third, parents also currently consider the safety of the neighbourhood they will live in, more so than other groups of private renters.

Thinking about what they want in 10-15 years, families' priorities are somewhat unchanged in that proximity to schools and childcare, friends and family, and the safety of an area, remain as the most important priorities. However, within these factors there is a shift away from a stronger weighting on schools and childcare, towards a more similar emphasis on all three.

**Figure 3030: Most important area priorities for families, by % of family private renters who selected it in their top 3 area priorities**



Source: SMF analysis, Opinium

### Implications for the developers, landlords and policymakers

These findings present useful insights for the developer and landlord community as well as policymakers who may be considering how to improve or expand their housing stock to meet the needs to existing and future renters.

For most groups of renters, the monthly rental cost and the number of bedrooms are the most important factors in choosing a home to rent both now and in future. Beyond this, the most common current priorities are to have an unfurnished property (although younger renters tend to prefer furnished), outdoor space for families and the permission to have a pet for older renters. In future, almost all groups of renters would put more emphasis on having outdoor space. For existing builds such as flats in urban areas, it is highly unlikely that landlords can create outdoor space that does not already exist. However, there are some areas where landlords may have discretion to respond to the needs of their type of tenant, for example allowing pets and offering unfurnished properties to families and older renters or furnished to younger renters. Developers building new properties should consider how to incorporate outside space, whether that be gardens, balconies, or alternative communal facilities in urban areas where space may be more constricted.

The area where one lives is also an important feature of renters' experiences of the private rented sector. Overall, we see a shift in priorities in where people want to live as they look to the future. Currently, private renters primarily want to be close to transport links, work, and shops. But looking ahead, renters are much more likely to also prioritise being close to friends and family and green spaces. Older renters more specifically also want to be closer to health facilities, while families want to be near

schools and childcare services and are concerned about the safety of their neighbourhood. Increasing the supply of homes is necessary, but developers must also ensure that these homes are located where renters want them. This means being connected to transport links, close to amenities and schools or childcare provision, green space, and in neighbourhoods that can flourish. Ultimately, this requires a much broader approach than developers or landlords alone can provide, entailing national and local government investment in transport, education, communities, and public spaces. Developers should work with these relevant authorities to ensure that private and public investment is complementary in creating decent homes and neighbourhoods for renters to live in.

Overall, it is clear that more renters expect to live in a house (62%) than a flat (30%) in future. These figures broadly reflect the proportion of dwellings in the private rented sector, whereby houses comprise 63% and flats comprise 37%.<sup>66</sup> More specifically, renters generally prefer semi-detached houses, although older renters prefer bungalows. Data on the specifications of new builds in the private rented sector is limited. Across all tenures for 2018/19 nearly 80% of dwellings were houses and over 20% were flats.<sup>67</sup> Among Build to Rent new developments from institutional investors, just 12% of dwellings are houses compared to 88% that are flats. Though currently Build to Rent represents around 1.5% of the private rented sector at less than 64,000 completed homes,<sup>68</sup> it is expected to grow in future. Consequently, Build to Rent developers may want to consider how their projects can meet the general demand for houses as well as, in the case of some older renters, purpose-built low-rise flats.

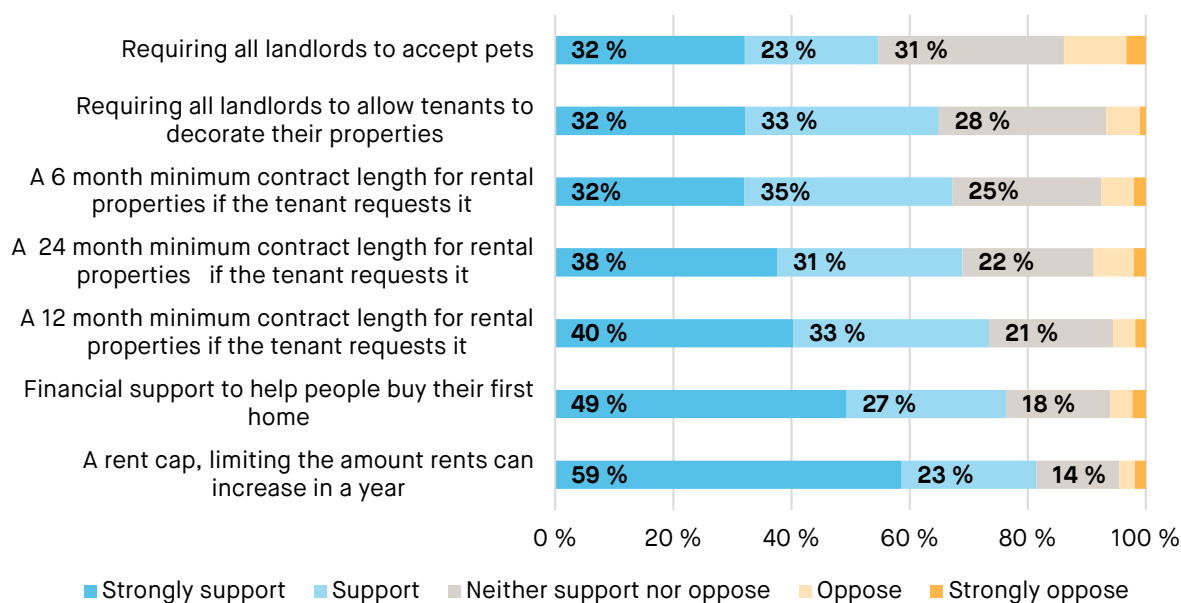


## CHAPTER FIVE – POLICY IMPLICATIONS

In this report, we have discussed how the private rented sector may grow and change in future. While we have found that renter satisfaction is generally high and a significant minority are willing to keep renting long-term, we also see that most private renters want and expect to move into other tenures eventually. This creates two challenges for policymakers. First, to support as many people as possible that want to leave the sector to do so, within the bounds of prudence and feasibility. Second, to make sure that the private rented sector is as good as possible for those that remain in it, as many surely will, even if homeownership does increase.

The attitudes of existing private renters give us some guidance on how to achieve this. The key findings from the survey highlight that renters are less satisfied with the features of renting that relate to control, wealth accumulation, security and stability. In light of recent policy proposals announced in the Levelling Up White Paper and the upcoming private rented sector white paper, this chapter considers how policymakers may be able to further address these issues for the benefit of current and future renters. It also discusses what government might do to support those that want to leave the private rented sector.

Figure 31 presents survey respondents' attitudes towards commonly proposed policy options for the private rented sector. Overall, there is a clear appetite from the majority of renters for policy action – both to improve the experience of renting and to help more renters to buy. Private renters are overwhelmingly supportive (82%) of a limit on the amount that rents can increase in a year. At the same time, over three-quarters (76%) of private renters support financial support to help people to buy their first home. The majority of private renters also favour the idea of a standard minimum contract length for tenancies. The most popular option, backed by 73% of renters, is a 12-month minimum, followed by 69% for a 24-month minimum, and 67% for a 6-month minimum. There is also demand for greater control, with the majority of renters positive towards a requirement for landlords to allow tenants to decorate their property (65%) and accept pets (55%). These policies are considered further below.

**Figure 3131: Private renters' attitudes towards different policy options**

Source: SMF analysis, *Opinium*

## Supporting future private renters

In order to improve the situation of private renters, the Government ought to take steps to:

- Enable renters to accumulate wealth through renting
- Give renters more control over their homes
- Increase the stability of tenancy agreements
- Improve the standards of private rented properties
- Increase the accountability of landlords

### Enable renters to accumulate wealth through renting

Considering the future of the private rented sector, it is likely that households will be renting for longer. For many, this is a cause for some financial concern – as highlighted by the survey findings in Chapter Two. Not only can renting make it harder to save for a deposit and thus enter homeownership, it also prevents households from accumulating property wealth. In comparison, provided house prices continue to increase, homeownership provides households an appreciating asset as well as a place to live. For some, this asset may then be used to provide security later on in life as a source of income (such as by downsizing) for retirement or to fund social care costs. This therefore raises the question of how younger, longer-term renters of today may accumulate wealth over their lifetime, if it is not to be through homeownership. It is a question of particular political and policy importance given the increasing concerns over an ageing population and the associated care costs.

Government schemes already exist to support renters to either raise money for a deposit (such as Help to Buy ISA) or to gradually enter homeownership (such as Rent to Buy schemes). However, both types of schemes only work for those that are able and willing to buy a home. The **Government should therefore consider innovative schemes that would enable renters to build wealth without the final goal of being an owner-occupier.**

The anticipated White Paper for the Renters' Reform Bill announced in the Queen's Speech 2021 is set to include a lifetime deposit for private renters to help reduce the financial barriers to moving.<sup>69</sup> The details of the scheme remain to be seen, but it could provide an opportunity for renters to earn returns on their savings. A similar idea has been proposed by the NRLA as part of their proposals for the White Paper. The deposit builder ISA would function like the Help to Buy ISA (a government protected savings pot) with restricted access which would need to be approved by a tenancy deposit protection scheme or account closure. Tenants would then be able to save in this account beyond the minimum deposit requirement. Although this is still primarily envisaged as a way of helping renters save for a deposit,<sup>70</sup> policymakers should consider allowing these savings to be used for other purposes. Such a scheme could enable renters to save over the long-term, though current low interest rates may limit the level of return it generates.

In comparison, in the US there are examples of innovative schemes developed by the market which could provide renters with the benefits of property yields. Rhome, a start-up from Columbus, Ohio partners with apartment complexes to offer tenants "rentership". Upon moving into the building, tenants are offered a \$50 financial stake in the building with an additional \$50 granted for every year that they stay, and the option to buy more. The tenants (now also stakeholders) then earn a 5% return on their investment paid out of the rent that the property owner collects from the building, with the shares increasing in value as the property appreciates. This offers tenants some of the financial benefits of being a homeowner with the flexibility of renting.<sup>71</sup>

This type of scheme is likely to work best in the case of institutional landlords with large portfolios, such as Build to Rent developments. While this currently makes up a small percentage of the UK's housing stock (just 1.5%), forecasts from Savills expect the sector to grow to make up a third of the UK's private rented sector at full maturity – although it is unclear when this will be.<sup>72</sup> In the US and Germany where the private rented sector is larger than the UK, the market for Build to Rent is far more developed.<sup>73</sup> This may indicate that this type of development may become a feature of a larger private rented sector in the UK in future, and thus a stakeholder scheme for renters may become more relevant.

Additionally, Real Estate Investment Trusts – bundles of property (commercial as well as residential) open to individual investors, are a way for non-owners to benefit from the rising value of property.<sup>74</sup> Though they have existed in the US since the 1960s, they are a relatively recent development in the UK, launched here only in 2007. However, investing in such a portfolio likely requires higher levels of capital and resources than most renters will possess. There could be a case for policymakers to explore a government-assured accessible property investment scheme with reasonable

protections for non-homeowning renters facing barriers to savings and wealth accumulation.

### Give renters more control over their homes

As highlighted in this report, one of the greatest perceived drawbacks of private renting is the lack of control renters have over their home, particularly in relation to making decisions on furnishings or décor, and having pets. With the private rented sector likely to grow in future, with more households renting for longer periods, it is reasonable that renters should be able to have more control over these factors. The UK saw a surge in pet ownership over the last year, conceivably as a result of the pandemic, from 42% of households in 2019/20 to 59% in 2020/21.<sup>75</sup> However, just 7% of private landlords in 2020 advertised pet friendly properties.<sup>76</sup>

The Government's model tenancy agreement sets out that tenants can keep pets by default. Renters must seek prior written consent to keep pets which a landlord must not unreasonably delay or withhold without considering the request. The agreement encourages landlords to *“accept such a request where they are satisfied the Tenant is a responsible pet owner and the pet is of a kind that is suitable in relation to the nature of the premises at which it will be kept.”*<sup>77</sup> Landlords cannot charge a fee, but may increase the deposit amount within the boundaries of the Tenant Fees Act 2019 deposit cap.

The model tenancy agreement also indicates that tenants may be able to make changes with the landlord's prior written consent, and would be subject to the costs of removing or reversing any such addition or alteration.<sup>78</sup> However, given that this agreement is not required to be used by landlords, the extent to which they will reasonably permit these requests (pertaining to pets or decoration) in practice depends on the individual relationship between the landlord and the tenant.<sup>79</sup> As a result, the experience of renters will largely vary, with some feeling more 'lucky' than others. In comparison, it is much more common in commercial leases for the tenant to be permitted to undertake non-structural amendments (such as painting) so long that the property is returned to its original state.<sup>80</sup>

An introduction of longer leases (see below) could potentially mean that landlords and tenants are able to build more established and trusting relationships, and the cost incurred of reversing any changes may be less frequent. As a result, social norms around allowing decoration or pets may evolve. However, until then **policymakers should consider encouraging landlords to be more permissive through a voluntary kitemarking scheme** (see Box 1). **This scheme recognises the behaviours of landlords that align with tenants' preferences and, in this case, as set out in the Government's model agreement.**

### Increase the stability of tenancy agreements

As discussed in Chapter One, the policy debate over the private rental sector focuses to a large extent on the issue of insecurity. Our survey indicates that this is less widespread as a problem within the private rented sector than some of the discourse might suggest. As Table 3 showed, more renters are concerned about the level of control they have over their property and the financial implications than about security. At the same time, a large minority – 40% - of private renters say that they dislike the

uncertainty of not knowing what will happen at the end of their contract. That figure is even higher for parents (45%), not least because of the greater impact of such disruption on children and their education. Thus, while security is not first on the list of issues private renters worry about, many would still benefit from greater stability.

In comparison to both UK and European neighbours, England's private rented sector is characterised by lower levels of regulation and security. This is not only just in terms of the termination of a lease (e.g. evictions), but also its length.<sup>81</sup> Following the Government's consultation on renters' security in 2018, legislative action has been announced to abolish one source of insecurity: the ending of tenancies via Section 21 ('no fault' evictions) and reforming Section 8 eviction process (where a tenant has breached the Assured Shorthold Tenancy agreement or fallen into rent arrears). This is an important development that stands to benefit as many as one in ten private renters.<sup>82</sup> Other forms of instability arising from short-term contracts can also have direct negative consequences on renters, such as frequent high moving costs and disruption, especially for families. Research from Shelter in 2018 found that 29% of private renters have moved three or more times in the preceding five years.<sup>83</sup> The average social renter in England has lived at their current address for 10.8 years in 2020-21 (falling from 12.2 years in 2019-20), the average private renter 4.2 years.<sup>84</sup>

In part, this reflects the fact that the Assured Shorthold Tenancy (AST) is the default tenancy agreement in England and Wales since 1998, and comprises the majority of rental contracts. While there is no legal limit to how long an AST can be, in 2018 the Government stated that 81% of rental contracts are ASTs with a minimum fixed term of just 6 or 12 months.<sup>85</sup> In 2018, the Government's consultation into improving the security and stability of the private rented sector set out a model for a three-year tenancy with a six-month break clause.

There is widespread recognition from the Government and across the sector that renters want longer tenancies to provide greater certainty and stability to plan for the future. Survey findings from the Government's consultation found that 63% of tenants favoured tenancies of three years, five years, or tenancies of unlimited length.<sup>86</sup> However, 72% of landlords prefer shorter tenancies (6-12 months) due to the flexibility and access it grants them over their property, particularly in the case of removing unwanted tenants. While renters preferred longer tenancies to be implemented through legislation, landlords preferred financial incentives. The consultation concluded that the AST regime is outdated and does not meet the changing needs of today's PRS. However, given the range of needs and circumstances of renters, it was stated that a one-size approach to the length of a tenancy is unlikely to be of benefit. As a result, there has been no legislative or incentive-based action on tenancy length.

The Government's own model agreement provides landlords with a guide for an AST contract with details on setting break clauses for tenancies over two years. However, it is unclear how far this guide is used in practice or acts as a signal to landlords to increase their tenancy length. Our survey findings indicate that there is appetite for a standard minimum tenancy length, as well as an appreciation for the flexibility that renting can afford.

Looking to other countries, we can learn lessons from more mature and secure private rented sectors. In Germany, leases are of unlimited duration and tenants are able to leave after three months' notice. In practice, these tenancies tend to last five to six years.<sup>87</sup> The Swiss private rented sector operates similarly, with tenants allowed to enter a limited duration or indefinite duration lease, although the latter is more common with a 3 month notice period and legally-determined specific reasons for a landlord to terminate a contract.<sup>88</sup> In 2004, Ireland established four-year tenancies under the Private Rented Tenancy Board with a notice period of one month in the first six months and guaranteed security for the remaining three and a half years unless there's a breach of contract.<sup>89</sup> More recently, in 2016, Scotland also introduced the Private Residential Tenancy with no end date whereby the tenant can only be evicted on 18 specified grounds.<sup>90</sup>

An increase in tenancy duration could also benefit professional landlords and institutional investors who have relatively longer investment horizons, by giving them the greater financial certainty of longer leases.<sup>91</sup> This may encourage higher investment and professionalisation of the sector, which could ultimately benefit renters.

The Government has made progress on addressing security of tenure in England by reforming Section 8 and abolishing Section 21. However, this does not address the wider instability that renters face as a result of short-term contracts. **There is a case for implementing a legislated minimum tenancy length of two years, although longer tenancies would be possible. This would include a six-month break clause and two months' notice period as favoured by respondents to the Government's survey, in order to offer renters flexibility should they choose to leave, and landlords the ability to evict tenants in the case of specified circumstances (as set out by the anticipated reformed Section 8).** There may be political barriers to introducing such legislation, in which case policymakers should also consider how longer tenancies may be encouraged through the proposed voluntary kitemarking scheme, discussed in Box 1.

### Improve the standards of private rented properties

We should not underestimate the current standards of the private rented sector. The vast majority (81%) of private renters are satisfied with their property and with their landlord (85%). At the same time, measures should be taken to address the minority of properties and landlords that are not up to scratch.

Homes in the private rented sector are more likely to be of lower quality and standard than other tenures. The private rented sector has the highest proportion (21%) of homes that fail to meet the Decent Homes Standard<sup>iv</sup>, compared to the social rented sector (13%) and owner-occupied homes (16%) in 2020.<sup>92</sup> Unlike the social rented sector, the private rented sector is currently not required by law to meet this standard, although it serves as a benchmark for the quality of the housing stock. The recently-published Levelling Up White Paper indicates that this may change, pledging to consult

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<sup>iv</sup> A home meets a standard if it, a) is free from Category 1 hazards as assessed by the HHSRS; b) is in a reasonable state of repair; c) has reasonably modern facilities and services; and d) provides a reasonable degree of thermal comfort.

on applying this legally binding standard to the private rented sector in a new white paper this spring.<sup>93</sup>

Beyond this, landlords are subject to certain legal minimum safety and energy efficiency standards. From 2028, all existing private tenancies<sup>v</sup> must reach a minimum energy performance certificate (EPC) rating of C.<sup>94</sup> Media coverage following the Government's updated EPC announcement suggests that some buy-to-let landlords may choose to leave the sector rather than pay for improvements to meet the standard.<sup>95</sup> Further, landlords report that the Government's ambition to phase out gas boilers from 2035 may also be a barrier to staying in the market without greater incentives to make these changes.<sup>96</sup>

These measures will raise standards in line with decent, energy efficient homes. But there is scope to incentivise landlords to go further to invest in improvements for good, green homes in line with renters' preferences – as outlined in our proposed kitemarking scheme (more details in Box 1).

Prior to 2016, landlords in the UK were able to claim a tax allowance of up to 10% of net annual rents from furnished properties for the wear and tear of furnishings.<sup>97</sup> In 2017, the 10% Wear and Tear Allowance was abolished and replaced with Replacement Relief, which allows landlords to deduct expenses from their taxable rental income for maintenance and repairs only where the replacement is a like-for-like swap.<sup>98</sup> This does not apply to improvements, as it does in other countries, such as Germany and France. Additionally, in Denmark, improvements specifically to achieve a good standard of energy efficiency are fully deductible from rental income.<sup>99</sup>

The UK has some of the oldest and most poorly insulated homes in Europe, which not only contributes to fuel poverty but also makes achieving net zero goals more challenging.<sup>100</sup> Previous research from the SMF highlights that tenure could be a key challenge within the just transition to net zero, given that without incentives, landlords are unlikely to make green investments (which fall outside of the EPC rating) such as heat pumps and EV charging points.<sup>101</sup> Additionally, there is renter demand for this – the survey findings presented in this report indicate that there is a desire for energy efficiency improvements among the majority of private renters.

**Policymakers should consider introducing tax incentives for landlords to invest in improvements that would bring properties in line with a voluntary kitemark scheme, including green investments such as to low-carbon and smart heating, and EV charging.**

Building on the UK's existing framework for tax-based incentives would likely be a more effective tool for encouraging investment from landlords than a bureaucratic grant-based scheme, as operating through HMRC would likely boost uptake and lower administration costs. Among a host of reasons for the failure of Green Homes Grant scheme, the Committee for Public Accounts noted that the design was overly complex with reports of poor customer experience and delays in processing applications.<sup>102</sup>

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<sup>v</sup> All new private tenancies must meet EPC rating of C by 2025.

### Increase the accountability of landlords

The Government recognises that central and local authorities have limited information on the 2.3 million landlords who own the 4.4 million properties rented in the private rented sector.<sup>103</sup> It also observes that private tenants currently have little ability to investigate their landlord prior to signing a tenancy agreement.<sup>104</sup>

In order to address this challenge and ensure that standards of properties and landlords are more closely monitored, there have been calls from both landlord and tenant associations for a National Landlord Register enforced locally by councils.<sup>105</sup> The Levelling Up White Paper indicates that such a policy will be explored in the white paper coming this spring.<sup>106</sup>

Research by the Centre for Public Data finds that where these schemes exist, they have broadly been effective with lower anti-social behaviour and higher standards in the areas where implemented.<sup>107</sup> Scotland, Wales and Northern Ireland all have compulsory national registration schemes, and selective licensing schemes run by some 40 local authorities in England currently exist. These schemes are limited in scope and consistency, however, covering a total of just 7.4% of properties in the English private rented sector.

Introducing such a register would be an important step towards empowering renters and increasing accountability within the private rented sector. For a National Landlord Register to be a success, it is important to build on the lessons learnt from existing registers and include appropriate data.

Existing registers, both at a local level or across the devolved nations, differ in the level of detail of information that is held and published. A register could include the name and address of the licence holder as well as a detailed property description. The Centre for Public Data recommends that such a database should be public and searchable by landlord or letting agent name, property address, postcode, or license number to enable and empower tenants with more information about their prospective landlord.

Research indicates that there is demand for a register to include more detailed information, including rent levels, landlord behaviour, and the types of rented accommodation.<sup>108</sup> Policymakers should consider what data will be most beneficial for central and local government, as well as renters, to have access to without being cumbersome on councils to collect and enforce. This may include data on both the property (such as property type, standards, EPC rating etc.) and the landlord (license details, number of evictions and reasons given etc.). Our research indicates that it would also be useful for renters to know whether a landlord is open to considering multi-year tenancies, pets, and non-structural decoration prior to entering into any formal letting agreements (e.g. paying holding deposits). It is unclear how far the existing mechanism of the Government's model tenancy agreement influences landlord behaviour on these issues. Given the already limited information available on landlords within the private rented sector, it is likely that the take-up of the agreement (and the defaults it includes) would be difficult to monitor. As a result, **policymakers should consider building on a National Landlord Register to develop a voluntary kitemark scheme that recognises landlords who meet specified criteria, informed by**



**renters, for a more secure and stable private rented sector that meets tenants' preferences and gives them greater control over where they live.**

### Box 2: Kitemark scheme – A Good Home, Good Landlord Kitemark Scheme

Regulatory changes to the Decent Homes Standard and the introduction of a National Landlord's Register as proposed in the Levelling Up White Paper are welcome measures to improve standards and practice within the private rented sector. However, there is a case for incentivising landlords to go beyond achieving mere decency, and encouraging them to make investments necessary to provide good, green homes in line with renters' preferences through a voluntary kitemarking scheme.

Central to establishing the criteria of this kitemarking scheme should be a deliberative democratic process that consults key groups of renters on what they want from their landlord and rental accommodation. The findings of our research here suggest that this may include permission for pets and decoration, tenancy length, as well as landlord standards and property standards.

Prospective tenants would be able to search the national landlord registration and identify landlords with a kitemark. Estate agents and online searching platforms would also be able to use an accredited logo to signal to renters who may not engage directly with the registration database. Policymakers should also review the existing market-based accreditation scheme developed by the National Residential Landlords Association to see how far their existing criteria aligns with renters' preferences.

Additionally, investments made by landlords that go towards meeting good standards outlined in the criteria should be incentivised through tax relief, as seen in other European countries.

### Supply constraints

While the demand for the private rented sector may grow and change in future, we should be careful not to take the existing supply of housing stock for granted. For example, there is some evidence of private rented properties being converted to short-term and holiday lets, as noted in Chapter One, though data is limited.

### Short-term and holiday lets

The growth of the short-term and holiday let market (through platforms such as Airbnb) and its impact on the availability and affordability of the private rented sector has been the subject of concern. This is evident not just in recent UK parliamentary debates<sup>109</sup> but in similar political discussions worldwide.<sup>110</sup>

Recent tax and regulatory changes in the UK private rented sector have also encouraged speculation as to whether more landlords will exit the sector. While some may choose to sell to owner-occupiers, others may consider renting their property in the short-term let market. In 2016, stamp duty increased by 3 percentage points on

purchases of additional residential properties. Additionally, since 2017, landlords have seen a reduction of mortgage interest relief, which is due to be phased out entirely by 2020/21. The introduction of higher energy efficiency regulatory standards and the removal of Section 21 (no fault evictions) have also placed pressure on landlords.<sup>111</sup>

The tax treatment of short-term lets means they may be seen by some landlords as more attractive than long-term lets. The Rent-a-room scheme allows homeowners to benefit from an annual tax-free threshold of £7,500 when letting out a room within the property that they live. This falls to £1,000 for people letting out an entire home. It is unclear how far this would help professional landlords who tend to rent an entire property, for which the median annual rent was £9,060 in 2020/21.<sup>112</sup> However, the desire to limit regulatory burdens may act as an additional incentive for private landlords to shift to short-term lets, which have lower health and safety standards and therefore may require less levels of investment.

Initial survey data indicates that a non-trivial proportion of landlords are seriously considering such a move. Research from Capital Economics in 2020 finds that 10% of landlords surveyed said they were ‘very likely’ or ‘fairly likely’ to offer short-term lets in the future in properties that are currently used for long-term tenancies. Based on their modelling, this would be the equivalent of up to 8.7% of the private rented sector stock in Britain.<sup>113</sup> It is therefore likely to be a key area for policymakers to monitor in future to ensure renters have access to decent and affordable homes in the long-term let market. Already in London there is a 90-day limit on the letting of a residential property for temporary/short-term accommodation without specified planning permission, although across the rest of England no further measures currently exist. In Scotland, Edinburgh city council is set to introduce measures to curb this trend, whereby landlords would have to apply for planning permission to change the use of the property.<sup>114</sup> In future, policymakers may consider taking a place-based approach towards local markets with increasing levels of short-term holiday lets, such as in the South West.<sup>115</sup>

## **Wider measures to support some renters to leave the private rented sector**

Ultimately, there are some existing private renters who, despite the improvements outlined above, may still wish to exit the private rented sector. Policymakers should support these households by addressing barriers they may face in doing so.

### **Increase the supply of social housing**

The issue of social housing and its reduced housing stock in England is well-documented in research and official figures.<sup>116</sup> Investment in the building of social housing has not kept pace with demand, forcing many low-income households to live in the private rented sector and, for some, claim housing benefit.<sup>117</sup> Improving affordability for these households may ultimately mean enabling some to leave the private rented sector.

The affordability of the private rented sector is a key concern for many renters. In 2020, average rent in the private rented sector was equivalent to 38% of income for the poorest quarter of households, compared to 23% of income for those on average earnings.<sup>118</sup> As shown in Figure 39, the majority of private renter survey respondents would support rent caps that would limit the amount that rents could increase in a year. However, literature on the effects of rent control is extensive and highlights complexity of the regulatory systems in which the controls are enacted.<sup>119</sup> Scotland introduced a policy of setting Rent Pressure Zones (RPZ) in 2016 to address rising rents and affordability concerns. As such, within identified RPZs, a rent cap would be set for up to five years for private renters, limiting rent increases to 1% above the consumer price index (CPI). In practice, though, this measure has not had any impact – no councils have yet been able to meet the criteria for establishing an RPZ and plans are now underway to reform the policy.<sup>120</sup> Evidence of similar policies in Ireland and Germany also indicate that where pressure zones have been identified, these have then been extended into ‘less pressured’ areas, suggesting that this policy approach may not be suitable for addressing underlying affordability issues across the sector as a whole.<sup>121</sup>

Research by Ian Mulheirn suggests that the problems some people face with housing affordability are caused a combination of slow wage growth for young people, erosion of the social housing stock, and housing benefits cuts.<sup>122</sup> Addressing these issues more directly will more likely help to improve affordability, for instance by building more social housing for low-income families, and addressing shortfalls in housing benefit for those who stay in the private rented sector.

The Government’s target for boosting housing supply more generally by 300,000 a year in England does not include a clear designation for social housing. To meet housing need, the National Housing Federation estimates that it will be necessary to build 145,000 social homes, including 90,000 for social rent, every year over the decade from 2021.<sup>123</sup> Shelter estimates that 155,000 more social homes will need to be delivered every year for the next 20 years, totalling 3.1 million by 2040.<sup>124</sup> The Levelling Up White Paper reiterates the government’s commitment to build “more genuinely affordable housing” most likely through the existing funding for the Affordable Homes Programme, although stakeholders still express concern around the failure to address issues around the supply of homes for social rent.<sup>125</sup>

**Policymakers should therefore make necessary investments to increase social housing building and enable lower-income renters to exit the private rented sector.**

### Maintain effective support for first time buyers (FTB)

As we have seen, many renters would like to leave the private rented sector and enter homeownership, but do not expect to be able to do so. As described in chapter one, the government has introduced a number of measures to help people into homeownership, of which a number remain in place<sup>126</sup>:

- Help to Buy: Equity Loans, introduced in April 2021 and set to run until March 2023, under which the Government loans first-time buyers up to 20% (40% in London) of the value of a new-build property, with the loan interest free for the first five years

- Help to Buy: Shared Ownership, under which home buyers buy a share of a property and pay rent on the rest, with the intention being to increase their equity over time
- Rent to Buy schemes under which homes are rented for up to 80% of local market rent, to help tenants save for a deposit
- Government Mortgage Guarantees to lenders offering 95% mortgages, under which buyers only need to provide a 5% deposit, which is planned to run until December 2022.
- Lifetime ISAs, savings accounts which can only be used for a deposit on a house or accessed in retirement, in which the government contributes an additional 25p for every pound saved (up to a maximum government contribution of £1,000 a year)
- The First Homes scheme, targeted at key workers, which offers first-time buyers a discount of between 30% and 50% of market value on affordable homes<sup>127</sup>

The Levelling Up White Paper has also committed to increase the number of first-time buyers in all areas of the UK by limiting the competition that they face and learning from international comparators.<sup>128</sup> What this means in practice for policy remains to be seen.

As described above, these measures appear to have had some success in reversing the decline in home ownership in the last five years or so, and thus helping private renters to achieve their aspirations. At the same time, they remain somewhat controversial, and their impact is disputed. For example, one analysis of the original Help to Buy Equity Loan scheme found that it had a positive effect on construction and did not lead to higher prices on the English/Welsh border, where there is plenty of land for development, but that in London where land is scarcer, it merely succeeded in driving up house prices.<sup>129</sup> Such evidence suggests that the myriad schemes in place should be carefully monitored and refined to ensure that they are not counterproductive.

These results emphasise the need to support construction of new housing, particularly by easing planning restrictions in areas of high pressure. For example, a recent paper written by John Myers and published by the SMF argued that greater use of ‘peer-to-peer’ decision making, allowing small local areas such as streets and mewses to vote on development permission in their areas, could help expand housing supply and help more people to own their homes.<sup>130</sup>

## ANNEX

**Table 4: Private renters' property priorities for their rental accommodation (top 3 selected), by subgroup**

|  | All renters |                | 18-34-year-olds |                | 35-54-year-olds |                | 55+ year olds |                | Families |                | Long term renter |                |
|--|-------------|----------------|-----------------|----------------|-----------------|----------------|---------------|----------------|----------|----------------|------------------|----------------|
|  | Now         | In 10-15 years | Now             | In 10-15 years | Now             | In 10-15 years | Now           | In 10-15 years | Now      | In 10-15 years | Now              | In 10-15 years |
| Budget/monthly rent cost   | 55%         | 45%            | 56%             | 43%            | 55%             | 47%            | 52%           | 45%            | 53%      | 45%            | 58%              | 52%            |
| Number of bedrooms   | 35%         | 25%            | 31%             | 26%            | 41%             | 25%            | 30%           | 19%            | 56%      | 34%            | 40%              | 25%            |
| Unfurnished  | 20%         | 19%            | 14%             | 16%            | 17%             | 17%            | 48%           | 37%            | 19%      | 20%            | 26%              | 24%            |
| Outdoor space  | 18%         | 22%            | 21%             | 25%            | 16%             | 19%            | 16%           | 20%            | 25%      | 28%            | 22%              | 24%            |
| Furnished  | 18%         | 10%            | 28%             | 13%            | 12%             | 7%             | 6%            | 7%             | 12%      | 6%             | 9%               | 5%             |
| Permission for pets  | 17%         | 22%            | 13%             | 24%            | 21%             | 20%            | 21%           | 18%            | 18%      | 16%            | 20%              | 20%            |
| Noise level  | 13%         | 13%            | 16%             | 13%            | 12%             | 14%            | 10%           | 11%            | 8%       | 6%             | 9%               | 10%            |
| Off street parking   | 13%         | 15%            | 11%             | 16%            | 12%             | 14%            | 22%           | 12%            | 12%      | 19%            | 13%              | 14%            |
| Length of tenancy agreement available  | 13%         | 9%             | 9%              | 4%             | 14%             | 12%            | 20%           | 18%            | 9%       | 13%            | 15%              | 9%             |
| Double glazing   | 11%         | 10%            | 8%              | 7%             | 14%             | 13%            | 12%           | 13%            | 12%      | 12%            | 11%              | 12%            |
| Modern appliances  | 10%         | 11%            | 12%             | 12%            | 9%              | 10%            | 6%            | 9%             | 6%       | 10%            | 9%               | 9%             |
| Privacy (distance from street, hedges etc.)                                  | 9%          | 10%            | 9%              | 10%            | 8%              | 8%             | 10%           | 11%            | 8%       | 8%             | 7%               | 10%            |
| Broadband speed  | 7%          | 9%             | 7%              | 8%             | 7%              | 10%            | 4%            | 9%             | 5%       | 6%             | 8%               | 9%             |
| Insulation   | 7%          | 9%             | 7%              | 8%             | 6%              | 9%             | 7%            | 14%            | 8%       | 10%            | 5%               | 9%             |
| Internal storage (e.g. loft storage, airing cupboard)                        | 5%          | 6%             | 5%              | 7%             | 7%              | 5%             | 4%            | 4%             | 4%       | 8%             | 6%               | 5%             |
| On street parking  | 5%          | 3%             | 7%              | 5%             | 3%              | 0%             | 4%            | 2%             | 5%       | 2%             | 3%               | 1%             |
| Number of bathrooms  | 5%          | 4%             | 6%              | 5%             | 5%              | 4%             | 1%            | 1%             | 4%       | 6%             | 5%               | 3%             |
| Number of flatmates (e.g. enough rooms for the number of flatmates you have) | 5%          | 3%             | 8%              | 4%             | 3%              | 2%             | 1%            | 1%             | 4%       | 3%             | 1%               | 0%             |
| Work space (e.g. desk / home office space)                                   | 5%          | 4%             | 9%              | 5%             | 1%              | 5%             | 2%            | 1%             | 1%       | 5%             | 1%               | 3%             |
| EPC rating/energy efficiency   | 3%          | 7%             | 2%              | 9%             | 6%              | 6%             | 1%            | 3%             | 4%       | 10%            | 3%               | 5%             |
| Secure bicycle storage   | 3%          | 2%             | 4%              | 2%             | 1%              | 2%             | 1%            | 1%             | 4%       | 1%             | 1%               | 1%             |
| Don't know   | 2%          | 10%            | 0%              | 9%             | 3%              | 11%            | 2%            | 9%             | 1%       | 6%             | 3%               | 11%            |
| Accessibility features (lift, ramp etc.)                                     | 1%          | 3%             | 1%              | 2%             | 1%              | 3%             | 2%            | 7%             | 1%       | 2%             | 1%               | 2%             |

Source: SMF analysis, Opinium

**Table 5: Private renters' area priorities for their rental accommodation in 10-15 years (top 3 selected), by demographic group**

|  | All renter |             | Parents |             | 18-34 year olds |             | 35-54-year-olds |             | 55+ year olds |             | Long term renters |             |
|--|------------|-------------|---------|-------------|-----------------|-------------|-----------------|-------------|---------------|-------------|-------------------|-------------|
|  | Now        | 10-15 years | Now     | 10-15 years | Now             | 10-15 years | Now             | 10-15 years | Now           | 10-15 years | Now               | 10-15 years |
| Being close enough to work   | 38%        | 30%         | 46%     | 39%         | 35%             | 28%         | 19%             | 7%          | 30%           | 28%         | 35%               | 26%         |
| Public transport facilities  | 37%        | 27%         | 43%     | 24%         | 30%             | 29%         | 37%             | 31%         | 24%           | 19%         | 34%               | 27%         |
| Being close enough to shops  | 36%        | 31%         | 34%     | 25%         | 33%             | 34%         | 48%             | 42%         | 25%           | 29%         | 37%               | 37%         |
| Neighbourhood  | 28%        | 29%         | 25%     | 28%         | 29%             | 31%         | 35%             | 27%         | 26%           | 30%         | 27%               | 28%         |
| Being close enough to friends/family                                   | 28%        | 37%         | 28%     | 40%         | 27%             | 32%         | 32%             | 37%         | 37%           | 39%         | 32%               | 39%         |
| Safety/crime rate  | 27%        | 30%         | 29%     | 33%         | 28%             | 29%         | 22%             | 22%         | 33%           | 36%         | 22%               | 25%         |
| Being close enough to green spaces                                     | 27%        | 27%         | 27%     | 25%         | 27%             | 28%         | 32%             | 31%         | 27%           | 28%         | 30%               | 29%         |
| Being close enough to schools and/or childcare                         | 19%        | 18%         | 19%     | 28%         | 25%             | 13%         | 7%              | 0%          | 55%           | 35%         | 22%               | 14%         |
| Being close enough to health services                                  | 15%        | 17%         | 12%     | 10%         | 14%             | 18%         | 27%             | 40%         | 9%            | 15%         | 14%               | 18%         |
| Access to restaurants, bars, cafés                                     | 12%        | 11%         | 14%     | 12%         | 9%              | 9%          | 10%             | 13%         | 2%            | 4%          | 8%                | 10%         |
| Availability of leisure facilities (e.g. cinemas, swimming pools etc.) | 5%         | 7%          | 6%      | 8%          | 5%              | 7%          | 2%              | 3%          | 5%            | 8%          | 5%                | 4%          |
| Don't know   | 4%         | 9%          | 2%      | 7%          | 6%              | 10%         | 4%              | 10%         | 3%            | 8%          | 5%                | 11%         |

Source: SMF analysis, Opinium

## ENDNOTES

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- <sup>1</sup> Redfern Review (2016), The Redfern Review into the decline of home ownership.
- <sup>2</sup> <https://landregistry.data.gov.uk/app/ukhpi/browse?from=1980-01-01&location=http%3A%2F%2Flandregistry.data.gov.uk%2Fid%2Fregion%2Fengland&to=2021-09-01&lang=en>
- <sup>3</sup> Ibid.
- <sup>4</sup> <https://blogs.lse.ac.uk/politicsandpolicy/tackling-the-uk-housing-crisis/>
- <sup>5</sup> House of Commons Library (2021), Average earnings by age and region.
- <sup>6</sup> Redfern Review; <https://blogs.lse.ac.uk/politicsandpolicy/tackling-the-uk-housing-crisis/>; <https://bankunderground.co.uk/2019/09/06/houses-are-assets-not-goods-taking-the-theory-to-the-uk-data/>
- <sup>7</sup> Redfern Review.
- <sup>8</sup> Hilber, C.A.L. & Vermeulen, W. (2014), The impact of supply constraints on house prices in England, *Economic Journal* 126:591; <https://www.brookings.edu/essay/uk-rental-housing-markets/>; <http://spatial-economics.blogspot.com/2019/12/housing-no-shortage-is-it-nonsense.html>
- <sup>9</sup> <https://landlordlawblog.co.uk/2018/08/15/explaining-housing-act-1988/>
- <sup>10</sup> Paragon Banking Group (2021), 25 years of buy-to-let
- <sup>11</sup> <https://www.conservatives.com/news/2019/more-homes--more-homeowners--and-a-better-deal-for-renters-under>; <https://news.sky.com/story/labour-make-pitch-to-be-party-of-home-ownership-ahead-of-conference-12416510>
- <sup>12</sup> Redfern Review.
- <sup>13</sup> <https://www.newstatesman.com/politics/uk-politics/2021/05/how-tory-dominance-built-home-ownership>
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