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About Improving Private Renting

In 2011 some 26.5% of London dwellings were rented (vs 16.7% in the rest of England) —a near-doubling from 12.7% in 1991. The main drivers of this shift to private renting include London's population growth (both natural and through migration), its age profile (the capital has higher proportions of young people and students than the rest of the country), and the fact that would-be first-time buyers face increasing house prices and tightened mortgage conditions.

On the supply side, deregulation of rents in 1988 and the introduction of buy-to-let mortgages in the mid-90s boosted investment in the sector. Although there are a few companies with significant PRS holdings (Grainger being the largest), most landlords are private individuals. Most PRS lets are Assured Shorthold Tenancies (ASTs); these generally last for 6 or 12 months, after which the landlord can ask the tenant to leave.

There is enormous variation across London in the scale of the sector: in four wards in Westminster over 56% of households rent, but in much of outer London (especially Croydon and Bromley) the proportion is under 10%. Similarly, the median monthly rent in London in 1Q2014 was £1300 but the borough figure ranged from £2350/month in Kensington & Chelsea to £822 in Barking and Dagenham.

What are the issues?

which was traditionally seen as most suitable for the young and mobile, is now increasingly accommodating families and other households who would prefer a permanent home but cannot buy their own. And rents have been rising—average private rents in London rose 1.4% in the year to June 2014, according to the Office for National Statistics's index of private rents—but rents for *new* lets have risen by about 8%. This has led to calls from politicians and others for the reintroduction of rent regulation, which was abolished for new leases in 1989. Others counter that this would lead to disinvestment, particularly given that many UK landlords seek capital growth rather than steady income streams.

Government has long wanted financial institutions to get involved in the PRS in order to increase new investment, drive up quality and introduce more professional management. On average standards are improving but still seen as worryingly uneven. Institutions have been wary—the returns are not high enough given perceived risks (including reputational risk, a genuine issue) and the lot sizes of existing portfolios are too small. On the other hand there has been strong interest from overseas investors who buy new-build flats off-plan and rent them out, as many new schemes are marketed first—or sometimes only—in the Far East.

Institutional investors could be attracted if more PRS-only blocks were available, as the lot sizes would be big enough and they lend themselves to efficient professional management. Such blocks are typical in many countries but haven't been built here since the 1930s. The rest of the country is now looking to London, where there are some new PRS-only blocks; the best known is probably the former Olympic athletes' village in Stratford, whose PRS component is known as East Village. But PRS-only developments are hard to deliver here because the valuation of land is driven by owner-occupation, and they only work in certain locations—good transport access etc—where densities can be high.

Historically, many of the low-income/vulnerable London households who couldn't get into social housing lived in the private rented sector, with their rents paid by housing benefit. Now, though, caps on Local Housing Allowance for new leases mean that tenants on housing benefit will no longer be able to afford to live in large parts of central and inner London.

Proposed solutions include:

- Encouraging buy-to-let lenders to follow the example of Mortgage Express (among others) and stop requiring that properties be let on short tenancies
- Requiring that some new-build blocks be used as private rental for a specified period ('covenanted private rental')
- Exploring whether the model of purpose-built student accommodation could be employed to accommodate other types of household
- Re-imposing rent regulation.

The solutions depend, of course, on how the problem is defined—and the solution to one problem (say, tenure security) might worsen another one (say, affordability).

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