



A Housing Market that Works for Everyone

Rethinking the role of the private rented sector

A report by ChamberlainWalker Economics for the National Residential Landlords Association



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National Residential Landlords Association



The National Residential Landlords Association (NRLA) is the UK's largest membership organisation for private residential landlords in England and Wales, supporting and representing over 100,000 members. From landlords renting out a single property to those with larger portfolios, the NRLA provides their members with the expertise, support, and resources needed for a rental sector that works for everyone.

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Introduction

The private rented sector - and the private landlord in particular - has been much maligned in recent years and is often perceived poorly. Politically and culturally, Britain is a pro-homeownership society and this aspiration is cause for celebration. However, in the political discourse, the tenure debate is generally framed in terms of pitting the private rented sector against homeownership. This debate reflects a tension exacerbated by the shortage of housing stock in the country and has obfuscated our failure as a nation to build enough new housing for decades.

The ensuing argument runs that the private rented sector crowds out first-time buyers, that the rapid expansion of the private rented sector from the 2000s came at the expense of homeownership in the guise of runaway house prices that younger people today - even those on good incomes - cannot afford. The situation was exacerbated further by the Financial Crisis of 2007/08.

The core issue this report is trying to address, and change, is a policy approach that presumes the private rented sector is an inferior tenure that has encroached on homeownership, and consequently is much bigger than it ought to be. Recent governments have actively sought to promote homeownership through policies such as Help to Buy to support people to buy their own home, while at the same time making the private rented sector a less attractive investment proposition for buy-to-let landlords. A further issue is that public policy appears to have lost sight of the positive contribution that the private rented sector can make to a housing market that works for everyone.

This report calls into question the policy approach, and challenges some of the negative perceptions of the private rented sector. It does so not through a technocratic economic analysis of whether 'one for one' crowding out between the tenures occurs, or through some complex and contrived comparison of affordability between the tenures, but by going back to basics and reminding ourselves of what the private rented sector is for and why it is good to have one.

In fact, the private rented sector exists for good reasons. These reasons emanate from the private rented sector and owner-occupier sectors being very different offers, and it cannot be true that one offer is always better than the other for all of the people, all of the time.

In an overwhelmingly pro-homeownership society, the private rented sector is naturally painted as a third-rate tenure, a residual function of the owner-occupier and social rented sectors, for people who would much rather be living in those tenures instead. This report challenges that simplistic notion and through new survey evidence finds that, on the contrary, the private rented sector is the first-choice tenure for many renters.

Equally, that same new survey evidence finds there are significant numbers of private renters who would rather be owner-occupiers. For the latter, an affordable private rented sector - one with ample supply - is likely to be the best way to get them into homeownership sooner, whilst accepting that those on the lowest incomes may never be able to buy. This then becomes an argument about the size of the sector and its socio-demographic make-up, and how much the government wants to subsidise low-income households to get them into homeownership.

The private rented sector also serves an important economic role, and new spatial analysis for this report shows that the sector supports the labour market to function more smoothly in our towns and cities. A key value added of the PRS is to offer of the proximity of housing to workplaces - and the opportunities this brings - to a far greater extent than the other tenures.

Finally, accepting that getting overall housing supply up to the levels needed may take decades more, if we ever get there, the efficient use of our existing housing stock comes to the fore as a means of delivering a housing market that works for everyone. Otherwise, the reality is that incumbent housing affordability issues will pervade, no matter how the housing cake is sliced up between the tenures. This paper explores how a vibrant private rented sector could help to achieve this in the future.

Executive Summary

The main takeaways from this report are:

- There are social and economic benefits of having a well-supplied, high-quality, private rented sector (PRS).
- A smaller PRS - and larger owner-occupier sector - isn't always better and their ideal sizes should be heavily influenced by life-stages, or the 'life cycle', such as the age at which someone finishes full time education, gets a secure job, and/or settles down with a family.
- The size of the PRS will ultimately be determined by a combination of want and need, or 'preferences' and 'constraints', significant numbers of people want to live in the PRS and not be homeowners but, equally, significant numbers of people on low-incomes will never be able to own without ongoing public subsidy.
- The fairest way of easing constraints / improving affordability, including for first-time buyers, is to increase housing supply and/or improve the efficiency of the housing stock. One way would be to enable more older households to downsize where they want to. The PRS could be a conduit for this to happen.
- A punitive public policy stance towards the PRS, intent on shrinking it to grow the owner-occupier sector, could end up being counterproductive both socially and economically, and policy makers need to consider this carefully.

Background - Recent developments concerning the private rented sector

The private rented sector (PRS) roughly doubled between 2000 and its peak in 2016/17. However, the PRS has been viewed unfavourably by the Government in recent years, a position reflected in public policy since 2016, and has declined slightly from **4.7 m** households (**20.3%** tenure share) at that peak to **4.6 m** households (**19.1%** tenure share) today, according to the English Housing

Survey (2021-22). A political target of **70%** homeownership and commitment to get more first-time buyers on the housing ladder would imply the private rented sector falling as tenure share to below **15%**, if the social sector share is held constant.

Who does the private rented sector serve?

PRS households are relatively equally represented across the household income distribution, with close to **20%** of PRS households in each of the five income quintiles. Whilst there are a lot of younger households in the PRS, there are more 35-64 year old households living in it (**2.2 million**) than there are 16-34 year old ones (**2.0 million**). The rise in the PRS during the last 10 years has been driven mostly by a rise in households of middle age,

their numbers up **56%**. The PRS is a worker's tenure: **77.5%** of private renter households are in work, a far higher percentage than any other tenure. The PRS serves predominantly mobile people, with private renters living in their home for just over four years on average. **73%** of private renters say their last tenancy ended because they wanted to move.

Why have a private rented sector?

Want

80-90% of people – among them private renters - have an aspiration to buy a home at some point. This does not mean that **80-90%** of private renters want to be homeowners at the current point in their lives. An Opinium survey of private renters for this report shows that:

- **only 18%** of private renters would have bought already if they could have.
- **29%** of private renters state that they want to stay in the PRS during the next 12 months.
- **12%** want to buy during the next 12 months and can.

When asked what they like most about renting,

'convenience – not having to worry about property maintenance'

and 'flexibility – the ability to move relatively easily'

featured prominently.

Need

Affordability is driven by the housing market (prices, rents) and the labour market (wages, having a job), deposit requirements, and benefits for those on low incomes. The aforementioned survey shows that affordability is a significant issue for many wanting to buy a home:

- **45%** of private renters want to buy their own home during the next 12 months but cannot.
- **92%** of these cite at least one affordability reason stopping them from buying, but high house prices (including 'crowding out' by the PRS, if it exists) is not the biggest issue.

A significant number of these private renters also give affordability reasons to do with the labour market;

- **41%** say not having enough income is a reason they haven't bought already.
- **14%** feel that they do not have enough job security.

The state benefit system supports those on low incomes to rent privately or socially through housing benefit, and a quarter of PRS households receive support of some kind. Without similar support to help transition into homeownership, this cohort will need a functioning PRS to provide homes, especially given that only **6%** of private renters want to switch from private renting to renting social housing (e.g. a council home), according to the survey.

Optimal size of the private rented sector

The PRS could currently be around the right size if we believe the average age of a first-time buyer should be 30, assuming, simplistically, there are no changes to factors such as household formation going forwards. This does not mean everyone in the PRS should be 30 or under - some will be much older, some much younger. This suggests risks to shrinking the PRS further, but it is clearly subjective.

Further, if the attractiveness of the PRS could induce more older (65+ year old) households to downsize by renting, it could boost the efficient use of the existing housing stock by freeing up family sized homes for 'second-time buyers', in turn releasing housing for first-time buyers down the chain.

Labour Market

Across twelve major city local authorities analysed, **45%** of private renters live within 5km of their workplace and **29%** of owner-occupiers do. A PRS home is, on average, nearly 0.9 km closer to its respective town or city centre than an owner-occupier home. A flexible and city-based tenure that facilitates the movement of workers and matches them to nearby workplaces could be a major conduit of increased economic opportunity and productivity.



Chapter 1: Background - Recent developments in the private rented sector

It is probably fair to say that the PRS has been viewed unfavourably by the Government in recent years, a position naturally reflected in public policy. The PRS's inexorable expansion – broadly doubling in size from the 2000s to its peak in terms of tenure share – was seen as a problem because it corresponded with falls in homeownership, particularly amongst younger people suffering from the fallout of the Financial Crisis from 2007. This has engrained the idea that the PRS is in opposition to first-time buyers – and thus homeownership more broadly – in the political psyche. The social rented sector also declined modestly over this period.

From 2016, the Government has taken a tougher policy stance with PRS landlords. Mortgage interest tax relief for higher income tax payers has been reduced to that of standard rate payers¹, and a 3 per cent stamp duty surcharge on rental properties and other second homes has been introduced. The PRS has since declined slightly from 4.7 m households with a 20.3% tenure share, its peak, to 4.6 m households with a 19.1% tenure share today, according to the English Housing Survey.² The beneficiary tenure the owner-occupier sector, up from a 62.6% to a 64.3% tenure share.

Help to Buy has also been a mainstay policy instrument to help first-time buyers access homeownership; a means to give them a better footing in the face of buy-to-let competition in the housing market. In some ways it is easy to forget that Help to Buy was first introduced in response to the Financial Crisis, to provide deposit support for first time and other home-buyers, with the policy intent also to shore up housebuilding.³ The Financial Crisis saw hefty mortgage deposit requirements introduced by lenders freezing out first-time buyers especially, whilst investment in housebuilding plummeted. Help to Buy was subsequently restricted to first-time buyers only, but its endurance well beyond the era of lending restrictions was also telling in the homeownership debate.

Despite commendable efforts on the part of the government to ramp up overall new housing supply, with over 240,000 net housing additions in each of the two years before the COVID 19 pandemic, overall affordability has continued to worsen with house prices hitting new highs in 2022. In reality, net housing additions close to 300,000 a year for a sustained period are likely to be needed to impact affordability in any meaningful way. And whilst house prices now look set to fall in 2023, this is largely because mortgage interest rates are ramping up in an affordability quid-pro-quo.

Worsening housing affordability has presented alongside increasing numbers of young people living at home with their parents because they cannot afford to move out (to any tenure) – not good for these young people, and probably not great for parents either. In 1996, 21% of 20–34 year olds lived with their parents but by 2016 this had risen to 25%. The latest data for 2021 shows the percentage at 28%, some 3.6 million young adults, according to the Office for National Statistics.^{4 5}

In another significant development in the push to net zero and decarbonising the housing stock, since April 2020 landlords can no longer let a property with an EPC rating below an E, and the Minimum Energy Performance of Buildings Bill introduced last year could mean that new buy-to-lets will require a minimum EPC rating of C by 2025. The implication is added costs for landlords, generally running to many thousands of pounds, for each home currently below this rating.

¹ Announced in April 2016 but phased in from April 2017

² English Housing Survey 2021-22 English Housing Survey 2021 to 2022: headline report – GOV.UK (www.gov.uk)

³ Help to Buy works by providing a Government equity loan to home-buyers buying a new build home. It acts as a de-facto deposit with the Government bearing the risk

⁴ Families and households in the UK – Office for National Statistics (ons.gov.uk)

⁵ Young adults living with their parents – Office for National Statistics (ons.gov.uk)

The current cost-of-living crisis has brought to the fore another bugbear the Government has that some tenants get a raw deal. Summer 2022 saw the publication of the Rental Reform White Paper which will form the basis of a Bill to bring into law a ban on Section 21 evictions, as well as provide tenants stronger powers to challenge rent increases and enable them to be repaid rent for non-decent homes. The Decent Homes Standard will be extended to the sector. It will also be made illegal for landlords to have blanket bans on those in receipt of benefits. The White Paper will be introduced by the end of the current session of Parliament (by May 2023).

The negative sentiment, albeit towards a small minority of landlords, is best encapsulated by the Levelling Up, Housing & Communities Secretary Michael Gove MP, who remarked *“For too long many private renters have been at the mercy of unscrupulous landlords who fail to repair homes and let families live in damp, unsafe and cold properties, with the threat of unfair ‘no fault’ evictions orders hanging over them.”*

Some tenants do get a raw deal, and that's unacceptable. However, and as acknowledged by the Government, the vast majority of landlords are good landlords, and most tenants have a favourable experience of living in the PRS. PRS tenant satisfaction levels with their current accommodation remains high, at 80%, the same as satisfaction levels with services provided by their landlord, according to the English Housing Survey. These satisfaction levels are higher than amongst tenants in the social rented sector (72% to 75%).

Homeownership peaked at around 70% during the 2000 to 2006 period. It is believed that the current Conservative Government views this is the level of homeownership they would like to see, with homeownership one of their most fundamental values. Not to be outdone, the Labour party now has an explicit target of 70% homeownership and a commitment to get more first-time buyers on the housing ladder. It would imply that the intended policy consequence is the private rented sector falling as tenure share to below 15% – a significant decline on the current 19.1% position – if the social rented sector share remains broadly stable at 16.5%.

Crucially, this paper warns that a smaller private rented sector isn't always better, and that going too far in this respect risks adverse social and economic ramifications that policymakers need to consider carefully. This could include younger people having to live in the parental home longer, and further constricted access to PRS properties for those on benefits who are likely to be 'outbid' for rental properties by those further up the income scale. Key questions also arise about the positioning of buy-to-let and how inevitable emergent gaps in the PRS market are to be filled.



Chapter 2: Who does the private rented sector serve?

There are five important characteristics of those living in the PRS relevant to this report and that have policy ramifications within the tenure debate:

- 1 PRS households belong to all income groups, high and low
- 2 A lot of PRS households are young, but a significant number are not
- 3 PRS households are getting older on average
- 4 PRS households are more closely linked to the labour market than those of other tenures
- 5 Those in the PRS generally move often, usually because they want to

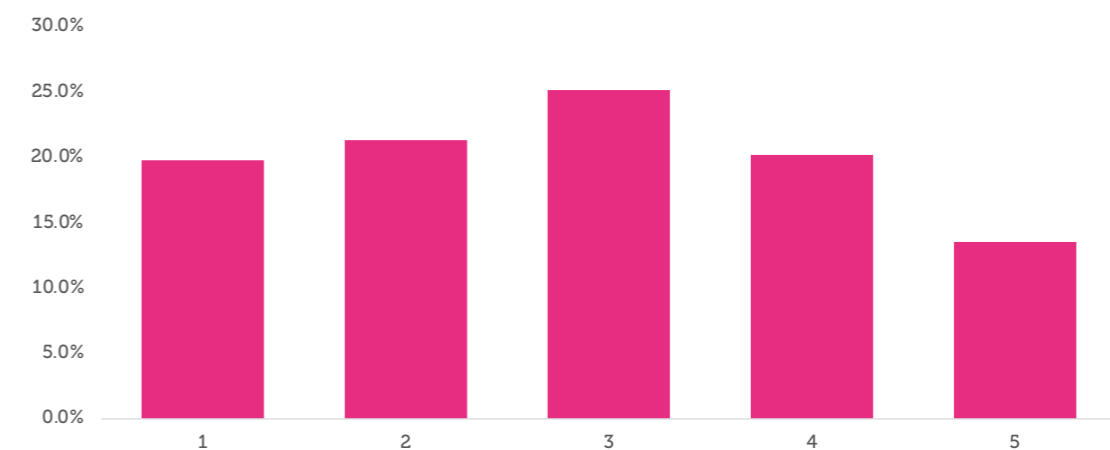
These characteristics are explored using the latest English Housing Survey (2021-22) data, unless otherwise stated. In the following descriptions of 'households', some characteristics (e.g. age) are defined by household representative person (i.e. the head of the household).

1. PRS households belong to all income groups, high and low

PRS households are relatively equally represented across the household income distribution, with close to 20% of households across the five income quintiles: 20% of private renter households are in

the lowest household income quintile, 25% are in the middle-income quintile and 14% are in the highest income quintile (though this was 18% in the previous year's survey).

PRS households by income quintile, 2021-22



Source: English Housing Survey 2021-22

There are slightly more private renter households in the lower income quintiles than otherwise for two reasons: the high percentage of very young people (16-24) in the private rented sector who tend to have lower incomes (including earned) than anyone else of working age because they are just starting out; and the very high percentage – well over 50% – of older people age over 65 in the private rented sector who are in the lowest income quintile.

At the lower end of the income spectrum, 25% of private rented sector households receive housing support (Housing Benefit) from the Government, with the majority of them in the lowest two income quintiles, who would not be able to access market housing (private renting or ownership) without government support.

The PRS, then, is a very diverse tenure income wise. It is not just a tenure for low-income households.

In London, private renter households are much more likely to be high income households than those in other tenures: 57% of the capital's private renter households are in the top two household income quintiles (i.e. top 40% income bracket)⁶.

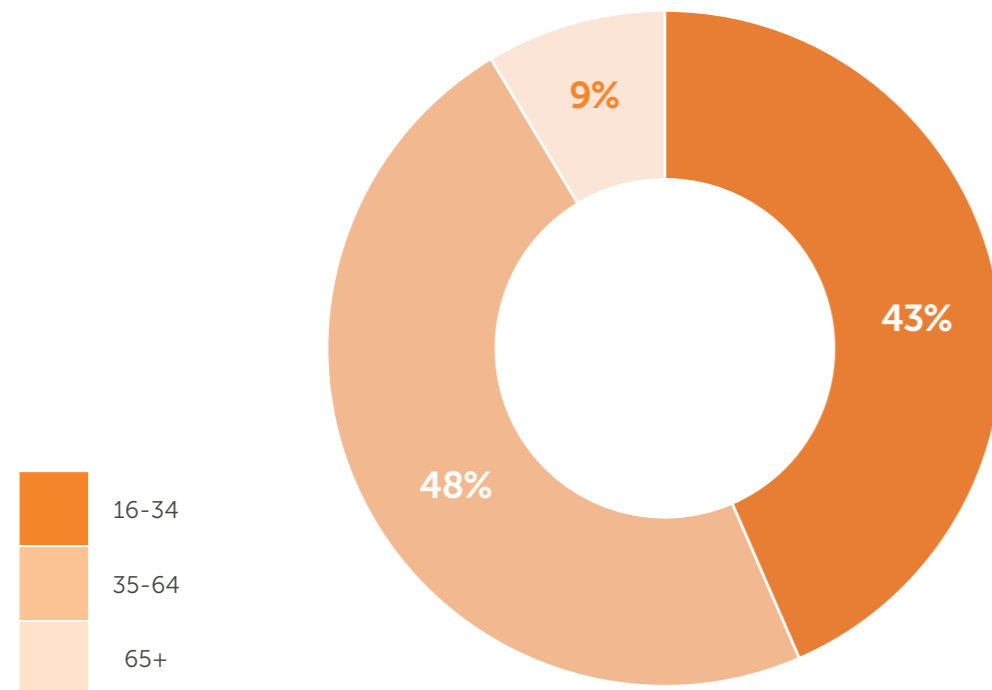
⁶ English Housing Survey 2020-21 data is used for this breakdown, 2021-22 data down to this level of detail is not published until next Summer.

2. A lot of PRS households are young, but a significant number are not

Whilst there are a lot of younger households in the PRS, there are more 35-64 year old households living in it (2.2 million) than there are 16-34 year

old ones (2.0 million). However, older 65+ year old households are massively under-represented - there are only around 400,000 of them.

PRS households by age cohort (HRP), 2021-22



Source: English Housing Survey 2021-22

However, the younger households are, the more likely they are to live in the private rented sector: 64% of 16-24 year old households live in it and 43% of 25-34 year old households do.

Successive falls in these percentages occur moving up the older age cohorts, with only 6% of those aged 65 or over living in the private rented sector.

3. PRS households are getting older on average

The 4.6 million households currently living in the private rented sector represents a rise of 20% on 3.8 million households a decade ago (2011/12), a rise that suggests people – e.g. first-time buyers – are unable to enter homeownership. However, surprisingly, the number of young private renters (16-34 year olds) has barely changed at all over those ten years – there are currently around

2.0 million young private renters, roughly the same number as a decade ago.

In fact, the rise in the private rented sector during this time has been driven mostly by a rise in households of middle age, namely 45-64 year olds, (+56%):

PRS households by age cohort (HRP), 2011/12 vs 2021/22

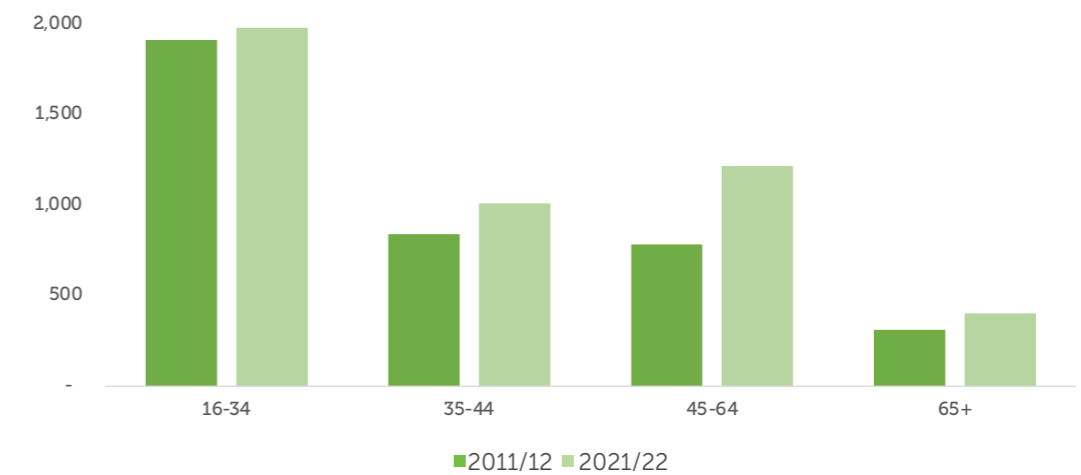


Table 1.1: Number of PRS households by age group, 2011/12 and 2021/22

	PRS households all ages, '000	PRS households 16-34, '000	PRS households 35-44, '000	PRS households 45-64, '000	PRS households, 65+, '000
2011/12	3,843	1,912	839	782	311
2021/22	4,611	1,981	1,010	1,217	403
Change	+20%	+4%	+20%	+56%	+30%

This middle-aged cohort is likely to include only a tail end of people who were of typical first-time buyer age (25-34) during the financial crisis from

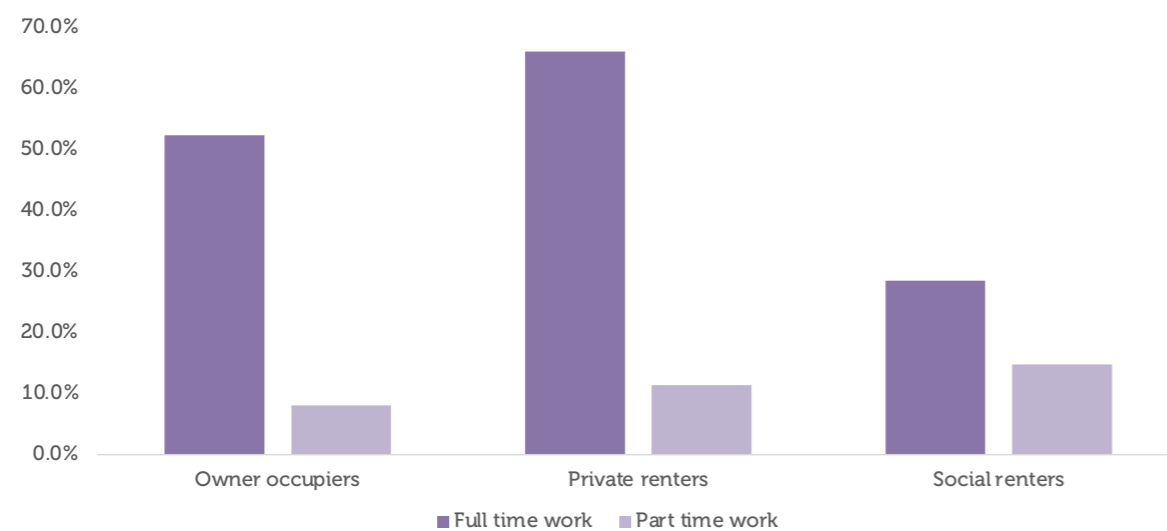
2007/08 who, 14 years on, would appear in the table's figures as 39-48 years old.

4. PRS households are more closely linked to the labour market than those of other tenures

The private rented sector is a worker's tenure - one overwhelmingly serving workers. 77.5% of private renter households are in work – part time or full time – a far higher percentage than any other tenure (52% owner-occupiers, 43.5% of social renters). A further 5% are in full-time education and the rest are economically inactive (including the unemployed and retired), so the proportion of students in the PRS is relatively small, with the rest in student specific accommodation.

Unsurprisingly, and linking back to item #1, whether households are in work or not has a huge bearing on their income. 26% of private renters in the lowest household income quintile are in work, whereas 96% in the highest quintile are⁷.

Households in work, by tenure, 2021/22



Source: English Housing Survey 2021-22

⁷ English Housing Survey 2020-21 data is used for this breakdown, 2021-22 data down to this level of detail is not published until next Summer.

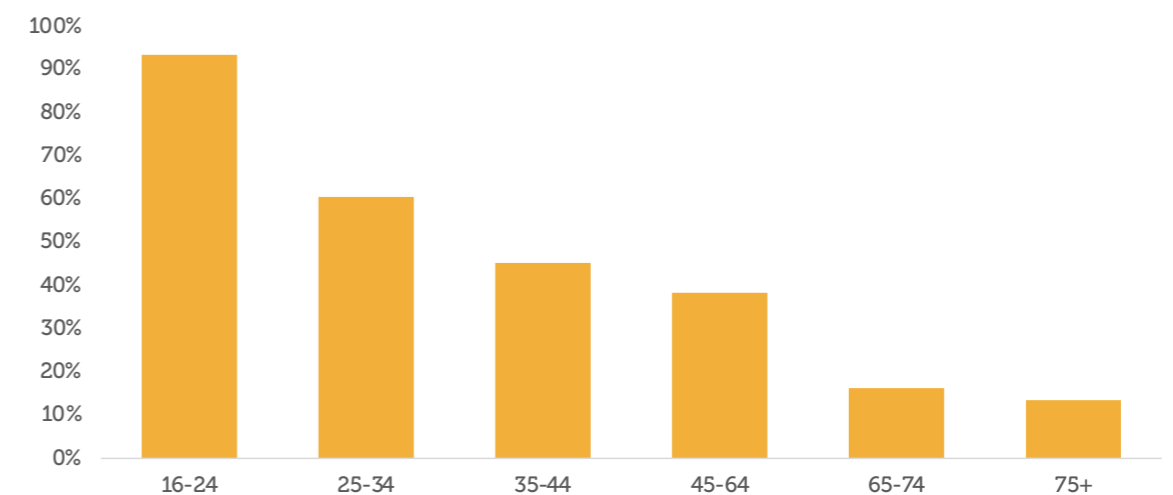
5. Those in the PRS generally move often, usually because they want to

The private rented sector serves predominantly mobile people, with private renters living in their home for 4.4 years on average. This is much lower than the other tenures: owner-occupiers 17.6 years and social renters 12.7 years.

20.5% of private renters – around 1 million - have lived in their current home less than a year. 52.3% have lived in their current home less than three years⁸.

Younger private renters move even more often: 94% of 16-24 year old households have lived in their home less than 3 years and 61% of 25-34 year old households have, the percentage falling successively up the age cohorts. This could be partly explained by new household formation being more prominent in younger age cohorts.

PRS households living in their current home for under 3 years, by age cohort, 2020/21



Source: English Housing Survey 2020-21

Nearly three quarters (73%) of private renters say their last tenancy ended because they wanted to move, whilst a further 10% say their fixed period tenancy ended⁹. Only 6% moved because their landlord or agent asked them to, one reason being

so landlords could use or sell the property - the latter possibly linked to landlords looking to exit the sector in recent years.

⁸ English Housing Survey 2020-21 data is used for this breakdown, 2021-22 data down to this level of detail is not published until next Summer.

Observations and interpretations

Many high-income households living in the private rented sector are in a better position to afford homeownership and are therefore more likely to be in the PRS through choice. This could be to do with life stage factors, for example, wanting to share with friends for social reasons, or wanting to settle down with a partner before buying, or perhaps for labour market reasons - because they are economic migrants, or working in the country or locality only on a temporary basis. Broadly, these people may not want to be in homeownership, at least for the time being.

A significant number of households in the PRS are low-income households – a quarter of them if housing benefit receipt is the yardstick. There is the genuine question, insofar of a homeownership subsidy, of how far down the income scale the government wishes to encourage people into homeownership and how sustainable that is. Ultimately, it's a political choice.

The stable number of younger people living in the PRS who are of typical first-time buyer age (25-34) suggests that expansion of the PRS over the last decade, at least, was not at the expense of first-time buyers. Further, 25-34 year olds today are nearly as likely to live in the owner-occupier sector than in the PRS: 41% of them are owner-occupiers (again, 43% are private renters). Access to social housing can also be difficult for this group.

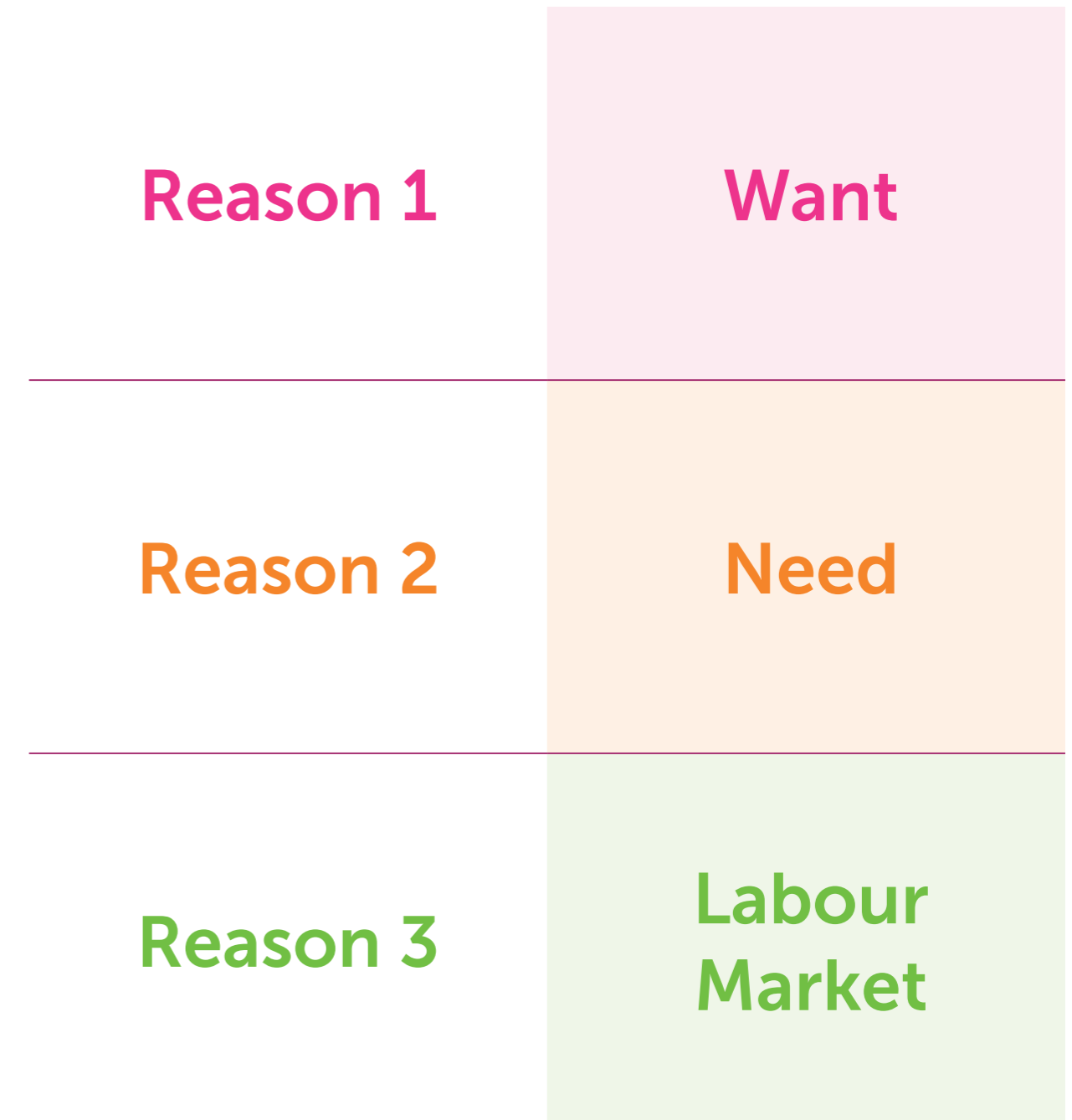
The significant increase in the number of 45-64 year olds in the PRS is likely to lead to an increase in older people – those aged 65 or over – in the sector during the next 20 years, as the current 'middle-age' cohort ages. Demand for the PRS amongst older households then is likely to rise and remain strong overall, and the PRS may need to adapt to accommodate their differing needs.

Younger people early on in their careers appear willing to pay a premium to be closer to where they work and socialise – in other words this is something that they value. This is consistent with the notion in economics of opportunity cost, for example, a long commute means forgone time spent either working or in leisure. They may forego housing space to do this. All in all, the PRS is an efficient and affordable means of housing supply in proximity to workplaces. For example, groups of adults are more able to share accommodation – around 6% of PRS households are lone persons sharing with other lone persons, according to the English Housing Survey, versus 1-2% in the other tenures⁹.

Those in the PRS move often because they want to or need to, highlighting the PRS as a good tenure for those with changeable / changing circumstances. Moving home is costly, but moving home within homeownership is particularly costly, and slow, given high transactions costs such as legal fees and stamp duty.

Chapter 3: Why have a private rented sector?

Three reasons are presented in what follows for why it is good to have a private rented sector. New evidence, and some existing, is presented underpinning them:



⁹ 2020-21 figures used for this breakdown, 2021-22 figures are not published until next Summer.

Reason 1: because some people want it

It is broadly recognised that 80-90% of people – among them private renters – have an aspiration to buy a home at some point in their lives. Such aspiration is a good thing.

However, this does not mean that 80-90% of people want to be homeowners at the current point in their lives. It is important to recognise that what people want right now may be different to what they want, or aspire to, in the future. This dynamic is important in thinking about the optimal size of the private rented sector.

David Miles, former member of the Bank of England's Monetary Policy Committee put it another way: *"The view that owner-occupation is a form of tenure that people should aspire to at the earliest possible point in their lives is deeply flawed."*¹⁰

We commissioned Opinium to conduct a survey for this report to take an in-depth look at the tenure preferences of private renters and some of the reasons for these. The headline result is that, in thinking about the ideal time to buy a first home, only 18% of private renters say they would have bought already if they could have:

Table 2.1: When would be, or would have been, the ideal time to buy your first home? (tick one)

	(all)	(18-34 years old)
I'd have bought already if I could have	18%	17%
Within the next 5 years	40%	17%
In 5-10 years	13%	53%
In over 10 years' time	4%	19%
I have previously bought a home	10%	5%
I don't intend to buy	14%	4%
TOTAL	100%	100%

These results also show that 76% of private renters want to buy at some point in the future – most within the next 5 years – and a further 10% have previously bought a home, suggesting 86% have (or had) homeownership aspirations, in line with wider 80-90% homeownership aspiration findings over the years. Amongst younger renters (18-34), a similar 17% would have bought already if they could have, but an overwhelming 96% of this age group clearly have a preference for homeownership at some point in the future, with only 24% saying they only want it beyond 5 years from now. Homeownership aspiration appears to diminish amongst older renters.

A key point then is that for many private renters – including those wanting to be – living in the PRS is intended to be a transitory part of their lives. But just because it is transitory, it doesn't mean that being in the PRS is something to be endured, or that private renters always want to minimise the time they spend in it. It implies that, in an absence of homeownership affordability constraints, the preference of many private renters would still be to live in the PRS for a period of their lives.

Interestingly, 29% of private renters, a significant minority, state that they want to be in the PRS for up to the next 12 months:

Table 2.2: Thinking about the next 12 months, which of the following best describes your situation? (tick one)

I want to buy, and can	12%
I want to buy, but can't	45%
I want to continue renting a home	29%
I want to switch from private renting to renting social housing (e.g. a council home)	6%
Don't know	8%
TOTAL	100%

Amongst those wanting to continue to rent and the reasons for this, 21% don't want the hassle of homeownership and 21% don't want to be tied down to homeownership at the current time. Career reasons are cited by 18% and social reasons by 16% wanting to be in the PRS for now, even though they intend to buy in the future. Significantly, these percentages are much higher

amongst younger private renters (18-34): 25% don't want to be tied down to homeownership, with career reasons cited by 30% and social reasons by 26% for wanting to stay in the private rented sector. The transitory nature of PRS preferences, therefore, are more salient among younger private renters:

Table 2.3: You mentioned that you would like to continue renting for the time being. Why is that? (tick all that apply)

	Want to continue renting (all)	Want to continue renting (18-34 y/o)
It suits me best and I don't ever intend to buy	29%	12%
I don't want to hassle of homeownership at the current time	21%	21%
I don't want to be tied down to homeownership at the current time	21%	25%
It suits me for career reasons, but I intend to buy at some point	18%	30%
It suits me for social reasons, but I intend to buy at some point	16%	26%
I am only living in the local area / country temporarily	14%	22%

¹⁰ BLOG: The war on the rental sector has no winners | Residential Landlords Association (RLA) | Official Press Release (wired-gov.net)

When asked what they like most about renting, 52% of those wanting to continue renting selected 'convenience – not having to worry about property maintenance'. 37% selected 'Flexibility

– the ability to move relatively easily'. These are crucial aspects of the PRS offer that owner-occupation does not have:

Table 2.4: What do you like most about renting? (select up to three)

	(all)	(want to continue renting)
Convenience – not having to worry about property maintenance and repairs	45%	52%
Flexibility – the ability to move relatively easily	33%	37%
I can live in an area where I may not be able to afford to buy	31%	30%
Cost / level of rent compared to owning	20%	29%
Convenience – not having to worry about furnishing and decorating	18%	19%
Decent choice of properties to rent from	11%	11%
I don't like anything about renting	14%	5%

A further 12% of private renters say they want to buy within the next 12 months and can, suggesting they are at a point of transition from the private rented sector and into homeownership. It is difficult to determine whether or not these people want to be in the PRS or homeownership at precisely the current point in time. On the one hand they could have been saving years for a deposit to get out of the PRS as soon as they could, but on the other hand exiting within the next 12 months might reflect what they wanted all along, with the affordability of entering homeownership not having been an issue for them. For example, 'timing the market / waiting for house prices to fall' was cited by 22% of those wanting to buy within the next 12 months as a reason for not having already bought - a percentage that is likely to increase near term

given the current uncertainty in the housing market. However, longer term, this factor may be less significant.

Finally, it is sometimes argued that a significant number of private renters would much rather be in living the social rented sector. However, our Opinium survey shows that only 6% of private renters want to switch from private rented to renting social housing (e.g. a council home) within the next 12 months, suggesting the social sector's 'overspill' into the PRS may be only very modest. However, this low percentage may be a reflection that social housing is not a reality for many because of its scarcity, so people don't consider it a genuine option, though the same might be said of owner-occupation.

Reason 2: because some people need it

It is equally important to recognise that a significant number of private renters want to buy their own home but cannot do so, and that this is often because of affordability constraints. Going back to the Opinium survey commissioned for this report, 45% of private renters want to buy their own home within the next 12 months but cannot (table 2.2).

The reason most often given by this group of people for not being able to buy is affordability, with 92% citing at least one affordability reason stopping them from buying their own home. The most common affordability reason is not having a sufficient deposit, at 63%:

Table 2.5: You mentioned that you want to buy your own home. What, if anything is stopping you? (tick all that apply)

	Want to buy (all)	Want to buy (but cannot)
I don't have a sufficient deposit for a mortgage	55%	63%
Because prices are too high	51%	57%
I don't have enough income for a mortgage	35%	41%
I am timing the market / waiting for house prices to fall	22%	15%
I don't feel I have enough job security	14%	14%

This suggests that the mortgage market - not high house prices (and crowding out by the PRS, if it exists) - is the main reason for these people remaining in the PRS, though the two are interrelated. That is not to say there is anything wrong with the functioning of the mortgage market, merely that its position reflects the risks associated with secured borrowing and government regulation.

Further, a significant number of private renters wanting to buy and not being able to also give reasons to do with their income and the labour market, rather than just the housing market. Significantly, 41% say not having enough income is a reason they haven't bought already. Related to this, 14% feel that they do not have enough job security. Notably, these responses were very similar amongst younger renters aged 18-34 (37% income and 15% job security). Further, the high number of multiple responses

(ticking more than one answer) – 2 responses by each person surveyed on average - suggests many of these renters face multiple, albeit interrelated, barriers to homeownership.

Around 10% of renters wanting to buy but cannot are not in work. For these, affordability constraints featured as prominently with the same 92% citing at least one affordability reason for them not having bought already, but with the most common affordability issue now being not enough income, at 71% (versus 41% for the whole sub-group).

Clearly, at a certain point down the income scale, people cannot afford to buy a home of their own or rent one without government support. For these people certainly, low household income and specifically the inability to get a big enough mortgage, rather than unaffordable housing per se, is likely the biggest barrier to homeownership.

A significant number of households in the PRS fall into this category. The state benefit system supports those on low incomes to rent privately or socially through housing benefit and a quarter of PRS households receive it. Government support for homeowners through the benefit system is quite limited and only for those who already own, such as government loan support for mortgage interest payments. Social housing providers also offer limited shared homeownership options.

Realistically, the only way to open-up homeownership to these households is either through increased government subsidy (continuing Help to Buy alone wouldn't be sufficient), increased earnings, or by improving housing affordability overall. Tightening PRS supply runs counter to this because it could act to

push up rents for those least able to afford them. Perversely, it could create increased competition for limited PRS homes between those on housing benefit and those not on housing benefit – the latter in a far better position to outbid the competition. Worse still, it could further squeeze the provision of temporary accommodation provided by the PRS.

It may also be counterproductive in the push for homeownership. For those wanting to buy, higher rents may impair the ability to save for a deposit and the move into homeownership. When asked what they like least about renting, 48% of all private renters wanting to buy a home within the next 12 months say the cost / level of rent and 24% say a lack of choice of properties to rent:

Table 2.6: What do you like least about renting? (select up to three)

	(all)	(want to buy)
Cost / level of rent	43%	48%
Insecurity of tenure	33%	37%
Dealing with landlord	22%	24%
Not being able to decorate	22%	25%
Lack of choice of properties to rent	21%	24%
Not being allowed at pet	20%	21%
I like everything about renting	10%	5%

23% of private renters wanting to buy also said the affordability of their rent was poor or fairly poor. This proportion is similar to those on housing benefit and a significant overlap seems likely.

Reason 3: because it supports the labour market

As in many other countries, the private rented sector in Britain has a much heavier presence in towns and cities. Towns and cities are also, obviously, where the heaviest concentrations – agglomerations - of workplaces are.

Labour mobility has traditionally focused on the ability of workers to move from one part of the country (generally an area of high unemployment) to another part to gain employment, with such moves often taken to be between regions. The private rented sector can support a more seamless home move in this regard – given the lower transactions costs of moving to / within the PRS already touched upon. It is also noted that 14% of private renters in our commissioned Opinium survey say they are only living in the local area / country temporarily. The English Housing Survey shows a significant number of private renters are from the EU.

Another aspect of labour mobility is the proximity of homes to workplaces. Living near workplace agglomerations means that, within a given distance or 'reach', a worker has more opportunities for employment and may also be able to change jobs more seamlessly when new opportunities arise, without even having to move home. Being closer to the workplace and the avoidance of long commutes also has economic value in terms of potentially positive ramifications for worker productivity.

A 2017 study of more than 34,000 British employees across all UK industries conducted by VitalityHealth with the University of Cambridge, RAND Europe and Mercer, found that workers with a commute of less than half an hour gain an extra seven days' worth of productive time each year when compared to those with commutes of 60 minutes or over.¹¹ Being in the private rented sector could therefore help certain workers – particularly young professionals - get on in their careers.

We commissioned the Office for National Statistics (ONS) to conduct an analysis of the Census 2011 dataset to determine the average distance that workers commute, broken down by tenure, for a dozen major city local authorities in England and Wales. The results are published by the ONS and have been made available on their website.¹²

The results show that the share of private renters living in proximity to their workplace – defined here as within 5km - is consistently much higher than the share of owner-occupiers doing so. For example, 41% of private renters working in Birmingham live within 5km of their workplace, whereas only 29% of owner-occupiers working in Birmingham do so.

On average, taken across the twelve major city local authorities analysed, 45% of private renters live within 5km of their workplace and 29% of owner-occupiers do. However, the private rented sector is bested by the social rented sector where 47% of social renters live within 5km of their workplace, though with varying results between one place and another:

¹¹ Long commutes 'increase risk of depression, obesity and damaging employees' productivity' | The Independent | The Independent

¹² <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/adhocs/15132ct12202011censusworkplacetabledistancetravelledtoworkbytenureexcludinglivingrentfree>

Table 2.7: Share of those in each tenure living within 5km of their workplace, by major city local authority

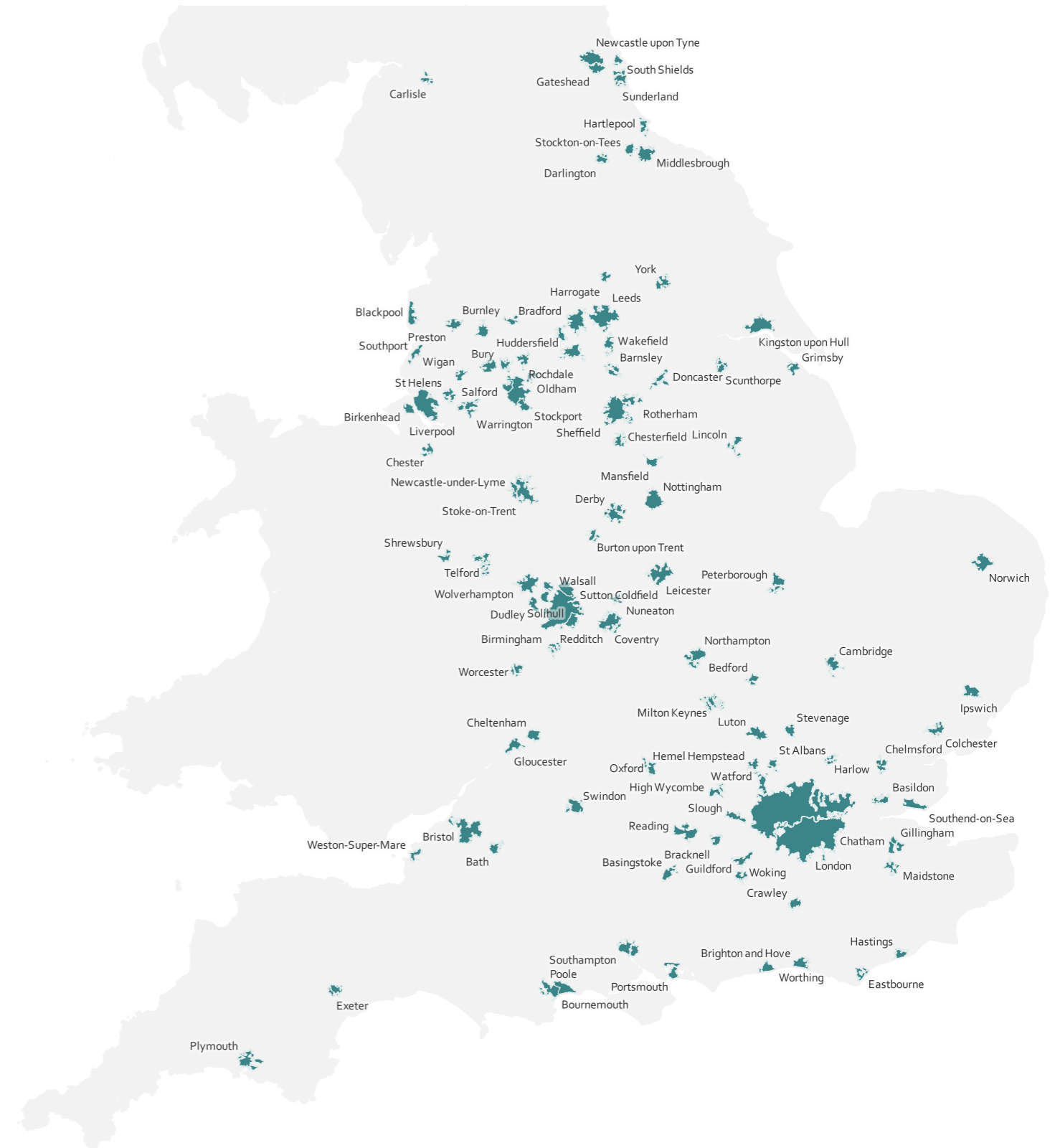
City where the workplace is	City worker population*	% of workers in each tenure living within 5km of their workplace		
		Owner-occupier	Social renter	Private renter*
Birmingham	483,338	29%	43%	41%
Bristol, City of UA	234,376	39%	54%	58%
Cardiff	197,596	33%	45%	56%
City of London	354,756	7%	32%	24%
Leeds	405,940	27%	48%	44%
Liverpool	233,579	33%	52%	51%
Luton UA	89,675	41%	49%	47%
Manchester	315,701	24%	51%	47%
Milton Keynes UA	143,386	31%	46%	40%
Newcastle upon Tyne	168,447	30%	49%	51%
Nottingham UA	172,408	36%	56%	55%
Westminster	573,478	10%	34%	25%

*excludes those living 'rent free'

Further analysis was undertaken using the ONS boundary definition of major towns and cities (MTCs), of which there are 109 in England covering

a workplace population of over 13 million workers – approaching half the national total in work:

Major Towns and Cities (England)



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This further analysis used the home locations and tenures recorded across circa eight million Energy Performance Certificates (EPCs) and mapped them to the above geography. The distance was taken between each home EPC and the centre of the major towns and cities as defined by the ONS.

The results show that a private rented sector home is, on average, nearly 0.9 kilometres closer to its respective town or city centre than an owner-occupied home. This 'distance premium' is nearly 1.6 kilometres in London and Leeds:

Table 2.8: top 10 PRS 'distance premium' MTCs

	Town / City	PRS distance premium to work (meter)	Resident working population	Workplace population	Net 'in' commuters
1	Leeds	1,578	214,478	288,356	73,878
2	London	1,562	3,981,486	4,480,432	498,946
3	Sheffield	1,360	227,101	251,445	24,344
4	Reading	1,121	127,847	123,430	-4,417
5	Leicester	1,029	166,442	188,619	22,177
6	Southport	1,004	41,193	37,099	-4,094
7	Derby	988	116,254	124,591	8,337
8	Rotherham	963	46,524	48,827	2,303
9	Birmingham	956	425,713	484,990	59,277
10	Doncaster	918	49,541	71,169	21,628
A	Average (of 109)	857	109,700	122,103	12,403

The results of the analysis also show that the private rented sector tenure share within MTCs is 26% and this is much higher than the 17% of homes outside them. This contrasts to owner-

occupied homes; 52% of homes within MTCs are owner-occupied whereas 67% outside them are.

Table 2.9: tenure shares of homes within and outside of major towns and cities

	Within MTC (%)	Outside MTC (%)	Overall (%)
Private rented sector	26	17	21
Owner-occupied	52	67	60
Social rented sector	22	16	19

The overall share of the private rented sector indicated by the EPCs is 21%, slightly higher than the 19.1% of the latest English Housing Survey (2021/22).¹³

The Opinium Survey of private renters for this report found that 41% of private renters rated the affordability of their rent as excellent or good. A further 38% rated it as fair:

Table 2.10: On a scale of 1 to 5, where 1 is poor and 5 is excellent, how would you rate the affordability of your rent?

	(all)	(want to buy)
1 – poor	6%	7%
2 – fairly poor	15%	16%
3 – fair	38%	39%
4 – good	26%	25%
5 – excellent	15%	13%

The private rented sector is therefore one of labour market - and wider city living - amenity. Unlike homeownership, it is an affordable (and flexible) way of giving people access to these things. Proximity of people and firms and amenity is also heavily influenced by the availability of local transport and communication. However, it seems likely that the benefits of physical proximity cannot

be entirely substituted away, again because of the opportunity cost of commuting and travel time. In this context, a flexible and city-based tenure that facilitates the movement of workers and matches them to nearby workplaces could be a major conduit of increased economic opportunity and productivity.

¹³ The EPC data are likely to overstate the size of the PRS compared to the owner-occupied sector, because EPCs must be lodged on a re-let whereas EPCs are required on owner-occupied properties only on resale

Chapter 4: Optimal size of the private rented sector

Much of the 'homeownership versus private renting' debate in recent years has focused on younger people and the perfectly reasonable assertion that young people should be able to access homeownership. Most people, including PRS landlords, would accept that a person on an average income should be able to buy a modest first home by the time they are in their early 30s.

However, it is important to recognise that many young people don't want to buy until this age (sometimes beyond) because they are not yet ready to settle down or make the commitment. The underlying assertion that a younger average age of a first-time buyer is always better needs to be reconsidered: some will want to be a first-time buyer at 25, others at 35 or 40. Then there are those whose family circumstances change, for example, separation or divorce, which may mean entry into homeownership is delayed or may necessitate leaving it.

The point is that everybody is different, and the age at which private renters want to buy is not decided by affordability alone, but also by life-stage factors. The Opinium Survey of private renters commissioned for this report shows that 37% of private renters would be more likely to buy their first home – and by presumption more likely to buy it sooner – if they had a stable, secure job. This figure rises to 50% amongst young renters (18-34), suggesting that the labour market is a big determinant of when people first buy. Spending longer in further education will, in turn, have some bearing on this.

Table 3.1: if you've not previously owned a home and intend to buy later in life, would any of these life events make you more likely to buy property? (tick all that apply)

	(all)	(want to buy)
Receiving a large sum of money (e.g. an inheritance)	51%	59%
Having a stable, secure job	37%	41%
Being in a long-term, stable relationship	28%	32%
Starting a family	21%	23%
I have previously bought a home	10%	2%

In fact, the lifecycle, and what different people want at different stages in their lives, is a fundamental reason why the PRS is needed and why it is not in competition with homeownership. It provides housing for groups of people for whom homeownership is not the best tenure at the current point in their lives.

For many, the PRS acts an entry point to the housing market, helping younger people gain their footing and independence when they leave the parental home without the bigger jump and commitment of homeownership. Similarly, the PRS is a mainstay housing option for many younger people whilst at university and for many as they move away from where they grew up to enter the world of work for the first time and pursue opportunity.

The PRS is a good first step to housing independence for many of these young people. More new households formed in the PRS than in any other tenure last year: nearly 219,000 households, compared to under 109,000 new households forming in homeownership and under 36,000 in social renting, according to the English Housing Survey. Again, the average age of leaving home is now nearly 25, and many would agree it should be younger than this, and probably would be, were overall housing affordability better.

Turning from new households formed to households moving into homeownership, the private rented sector is often painted as a blockage to homeownership – the argument being that the large numbers entering it simply get stuck there. However, it appears to be a better springboard into homeownership than other housing options such as remaining in the parental home or being in social rented housing: 192,000 households moved into homeownership from the PRS last year, nearly double the 109,000 moving into homeownership as new households (i.e. moving out of the parental home), and a negligible number from the social rented sector.

The current average age of a first-time buyer in the UK is 31, according to the Halifax, up from 29 in 2010. Different 'optimal' average ages of first-time buyers have different implications for the optimal size of the private rented sector. This can be modelled by making assumptions about average life stages, as shown on page 30.



Illustrative average life cycle

18 

Average age of going to university or entering work full time

50%

Share of 18-21 year olds going to university or other full-time education

 **50%**

Share of 18-21 year olds entering work full time

50% | Hall of residence
Share of 18-21 year old students temporarily living in the PRS **50%**

25% | In parental home
Share of 18-21 year old workers temporarily living in the PRS **75%**

 **23**

Average age of leaving home permanently

 **30**

Average age of buying first home

81 

Average life expectancy

22.5%

Share of adult population (18+) that cannot ever afford homeownership

12%

Share of adult population (18+) in social rented housing

Simple modelling of this illustrative average life-cycle implies that 18% of the adult population will be in the private rented sector whereas 65% will be in homeowner occupation. 12% will be in the social rented sector and 5% will be living with their parents. Adjusting further for the differing number of adults per household by tenure - and removing those living with their parents - to get household tenure shares, the private rented sector tenure share rises to 19%, the owner-occupier sector to 66% and the SRS to 15%.

These figures suggest that the PRS could currently be around the right size (at 19.1%) if we believe the average age of a first-time buyer should be 30 and that of leaving home 23. This suggests risks to shrinking the PRS further, but it is clearly subjective.

Again, this is an average position and does not mean that everyone in the PRS should be 30 or younger. Everyone is different and some will want or need to remain in the PRS longer according to their individual circumstances, whilst others will exit it at a much younger age.

Further, the simple modelling does not take account of future changes in: average life expectancy, immigration levels, and household composition or formation. All would have a bearing on the optimal size of the PRS.

Again, the modelling is illustrative and merely undertaken to point out that a smaller PRS may be inconsistent with what many might regard as a reasonable average life cycle.

Finally, whilst politicians place great store on young people and homeownership, less attention is given to the other end of the life cycle: older people aged 65 or over. The general presumption is that people want to live in the owner-occupier sector and stay there for the rest of their days.

There are two issues with this. The first is the increasing number of older people living in the private rented sector and this looks set to increase, as noted in chapter 2. The second is there can be issues with homeownership in old age, with some older homeowners struggling with the maintenance and upkeep of a generally larger, family-sized, home. Particularly, there are more non-decent homes (as a share) amongst owner-occupied homes of older households than younger ones, and the average energy efficiency (EPC) rating is also worse.

There is an acute need, both to support housing supply and to meet the needs of older people, to provide housing that enables older households to downsize. Around 3 million older people in the UK aged 65+ want to downsize.¹⁴

Survey evidence shows high transaction costs, including stamp duty, are a key blockage, as well as availability of choice of suitable homes. 2.5 million homes owned by people aged 65 or over are under-occupied using the standard definition.¹⁵

If the PRS could be made a better conduit and option for downsizing to happen, it could boost the efficient use of the existing housing stock by freeing up family sized homes for 'second-time buyers', in turn releasing housing for first-time buyers down the chain. This would also have implications for the optimal size of the PRS – it would need to be bigger than currently but probably with fewer younger people in it.

The upshot then is that the private rented sector could actually support first-time buyers and help younger people meet their homeownership aspirations, whilst better meeting the housing needs of older people: a housing market that works for everyone.

¹⁴ Report-2-Final.pdf (homesforlaterliving.org)

¹⁵ Report-2-Final.pdf (homesforlaterliving.org)

Conclusions

The research findings of this paper show that the private rented sector has attributes that make it the tenure of choice for many private renters, and that a high-quality and well-supplied PRS is likely to be a good thing both socially and economically. By extension, a smaller PRS is not always better and needs to take account of life stages; the analysis here shows that its current size could feasibly be about right if we believe the average age of a first-time buyer should be 30 and that of leaving home 23. The policy question then should not be how we grow the owner-occupier sector at the expense of the PRS, but how we can build a PRS that works for those that want and need it. The PRS can be further improved, but policy needs to support the PRS and good landlords to achieve this.

It is clear from the new survey evidence that a significant number of people – including younger people – want to live in the PRS at the current point in their lives, even if they aspire to become homeowners. The reason stems from the fundamental PRS offer of being of housing in city centre locations close to amenity, as well as the convenience and flexibility of the tenure. These are fundamental reasons for why there are so many young people in the private rented sector; it isn't simply that younger people have to somehow 'endure' the PRS while they save up for a deposit to get into homeownership.

It is also clear that there are significant numbers of private renters – many on housing benefit - who need the PRS because their incomes are low and because they don't want to be in social housing, or have never properly considered it because they do not expect to be accommodated. Unless public subsidy (or the benefit system) is much more generous to this group – and such an approach would be fraught with difficult risk issues for the government and sustainability of homeownership – then this seems unlikely to change anytime soon.

Economically, the PRS supports the efficient use of the housing stock for workers in proximity to places of work and, in so doing, could be supporting opportunity, career progression and productivity. PRS households on average have more workers in them, and the utilisation of housing space in proximity to workplaces for the labour market is highly efficient.

In the political drive to push for 70% homeownership we ignore these things at our peril. If private renting is taxed (or regulated) too highly relative to owner-occupation – via taxes on landlords or otherwise - then it inevitably means one or all of three things: (1) there is less of it, (2) it is more expensive (3) it is a lower quality offer. That, it seems, is deeply unfair to those that want to live in the PRS at the current stage in their lives, and to those that need to because they are low-income households or cannot access the social rented sector. It seems at odds with enabling a housing market that works for everyone.

Public policy could benefit from reconsidering the role of the PRS and act more constructively to ensure the PRS offer is the best it can be. Few would disagree that landlords should be good landlords without exception; again, public policy has a key role to play in this but equally must strike the right balance.

Crucially, despite the way it has been framed over recent years, the PRS need not be in competition with first-time buyers and can work alongside homeownership. It may even have a future role to play in housing solutions in other spaces - such as housing for older people currently in owner-occupation wishing to downsize - in a way that actually supports first-time buyers.





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