

# Longer Term Tenancies in the Private Rented Sector

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## What is this research about?

This research explores the experiences and attitudes of private landlords to longer-term tenancies in the private rented sector (PRS). We focus on the current barriers to landlords offering longer tenancies and their thoughts on the UK Government's proposed three-year tenancy model.

## What is the key take away message?

The findings of this research, along with our previous research, show that landlords in principle do not oppose longer term tenancies. However, to be encouraged to offer a longer tenancy to those tenants that desire or need them, there needs to be broader reform. For longer-term tenancies to be successfully implemented, there needs to be:

1. Joined-up policy making across different Government departments that harnesses the potential of the private rented sector
2. Comprehensive reform of the current routes to regain possession, including the speed and cost of the Section 8 process and the development of a new housing court. 77% of landlords reported this was the main barrier to longer-term tenancies
3. Positive taxation measures of private landlords that compare with other modern private rented sectors, such as Germany. These measures should encourage landlords to invest in their portfolios over the long-term

## The context of this research

Over the past century, the PRS in the UK has changed significantly, declining sharply from providing a home to 76% of households in 1918 to 10% of all households in 1996 (DCLG, 2017).

This decline was associated with the introduction of rent controls and changes to regulations relating to security of tenure (Whitehead & Williams, 2018).

Since the deregulation of rents and the creation of the Assured Shorthold Tenancy (AST), investment in privately rented homes has been reinvigorated and the sector now provides a home to 20% of all households in England.

With this growth, the sector has expanded and evolved with a significant transformation in those who look to the sector for a home. The PRS has developed a perception of providing homes to those who need flexibility, are not looking for a long-term home, and are perhaps more transient.

However, over time the type of tenants that call the sector a home has diversified. Across nearly all age groups the number of private renters has increased, with the largest increase occurring for 35-44 households, where there has been a 243% increase of these renting in 2016-17 in comparison to twenty years ago.

The PRS has also undergone change in the type and composition of households. There has been a substantial increase in the number of families that live in the PRS, with the second main household in the PRS being couples with dependent children (24% of all households) (MHCLG, 2018). Between 1996-97 and 2016-17, there has been a 274% increase in the number of households

**274% increase in the number of families with dependent children in the PRS over the last 20 years**

with dependent children who privately rent.

This rapid growth and changes in tenant demographics, along with wider economic conditions including the decline of home-ownership, is generating tension both politically and socially.

There is increasing concern that families are unable to put down roots in their communities and that potential insecurity in the PRS is having a negative impact.

The Government has recently launched a consultation on the barriers to longer-term tenancies in the PRS (MHCLG, 2018). This research explores these barriers and the experiences of private landlords.

## Our key findings

### Experiences and Attitudes to Longer-Term Tenancies

Our research explored whether landlords had offered a longer-term tenancy in the past. We found that a minority of landlords (22%) had previously offered a tenancy longer than 12 months.

This is not surprising and is in line with the findings of the latest English Housing Survey, which show the majority of tenancies are either 6-month or 12-months (MHCLG, 2018).

The main barrier for private landlords to offer a longer-term tenancy was found to be the time and cost to regain possession of the property (77% of landlords).

**77% of landlords report the main barrier to offering a longer tenancy was the time and cost to regain possession of their property**

This is then followed by the lack of financial incentives (45%) and the fact that tenants do not want them (37% of landlords). Interestingly, 27% of landlords reported they had mortgage conditions that prevented a longer-term tenancy, while 9% reported that Letting Agents advised against this.

When asked what change would most encourage the landlord to offer a longer-term tenancy, the majority (57%) reported that more efficient processes to remove a bad tenant or recover their property if needed would encourage them. This was followed by financial incentives (23%) and 13% of landlords reported they would be happy to offer them already if tenants requested them.

Landlords were asked what they would consider to be the main benefits of a longer-term tenancy for a landlord. The top benefit identified by the sample would be less risk of void periods for landlords, followed by landlords saving on costs of finding new tenants, with finally, tenants more likely to take care of the property.

The findings show that landlords are in general not against longer-term tenancies and that reform to the process for regaining possession of their property and financial incentives would significantly encourage the uptake of longer-term tenancies across the private rented sector.

### The difficulties faced by landlords when regaining possession of their properties

46% of landlords reported that they experienced difficulties regaining possession of their property.

We found that on average it cost £2,867 for landlords to regain possession and it took on average 6 months. When analysing the data, the maximum amount reported for the cost to the landlord was £30,000.

These findings show that a large proportion of private landlords have experienced difficulties in the past with regaining possession of

**46% of landlords have experienced difficulties regaining possession, with an average cost of £2,867 and taking on average 6 months**

their property, and on average at a significant cost to themselves.

These difficulties help to explain why landlords have perhaps been reluctant in the past to offer a longer tenancy. Therefore it is likely that significant reform to the process of regaining possession would encourage landlords to offer longer tenancies.

### Landlord views of the proposed Government 3-year longer-term tenancy

The Government's suggested longer-term tenancy model is a 3-year tenancy with a 6-month break clause.

The main components of this include the following:

- 3-year tenancy but an opportunity for the landlord and tenant to leave the agreement after the initial 6-months if dissatisfied. If both are happy, the tenancy continues for a further two and a half years.
- Following the 6-month break clause, the tenant would be able to provide 2 months' notice.
- Landlords would be able to recover the property if they have reasonable grounds, including the current grounds through the Section 8, and if the landlord wishes to move back into the property or sell the property. These grounds would require the landlord to provide 2 months' notice.
- Rent could only be increase once per year at whatever rate the landlord and tenant agree, but this needs to be clear when advertising

### 43% of landlords thought the Government's proposed 3-year tenancy model with a 6-month break clause was workable

the property.

- Exemptions could be put in place for tenancies which could not realistically last for three years.

Our findings show that the current model is not workable without reform to how landlords can regain possession.

We found that 43% of landlords think that the three-year tenancy agreement with a 6-month break clause was workable. However, only 40% of landlords reported that they would be willing to offer the proposed Government model as it stands.

38% of landlords reported that they thought the initial fixed term period should last 6 months, while 36% believe this should be 12 months.

The majority of landlords (57%) think 6 months is an appropriate length of time for a break clause.

Our analysis of the data also indicates that the majority of landlords (54%) agree that 2 months is an appropriate notice period for when landlords want to recover their property to sell or move into. In contrast, 15% reported a 3-month notice period as being appropriate, and 2% thought a 6-month period should be required.

A large proportion of landlords (44%) believe that tenants should be required to provide 2-months' notice to the landlord when the tenant wants to leave their tenancy. While 34% believe this should only be 1-month.

90% of landlords think that the grounds to recover their property under any longer-term tenancy

agreement should mirror those in Schedule 2 of the Housing Act 1988 with the addition of the right for the landlord to recover their property when they wish to move in or sell it.

In regards to restrictions on how often and by what level the rent should be increased in a longer tenancy agreement, 90% reported that there should be restrictions of some sort.

When we split these by the type of restriction:

- 58% thought rent increases should be limited to once per year
- 3% thought that rent increases should be limited to once every 18 months
- 5% thought that rent increases should be limited to once every two years
- 9% thought that rent increases should be limited in frequency but not in the amount that can be charged
- 12% thought that rent increases should be linked with inflation measures (e.g. Consumer Price Index (CPI))
- 13% thought that rent increases should be linked to local market averages

### 90% of landlords thought there should be restrictions of some sort on how often and by what level the rent should be increased

Landlords were asked which way they thought was the best way to ensure that landlords offer longer tenancies to those tenants that want them or need them.

The majority of landlords believed that financial incentives (such as tax relief) was the best way (57%).

### 57% of landlords thought that financial incentives would be the best way to ensure landlords offer longer tenancies

However, 22% of landlords thought that the law should be changed to require all landlords to offer these as default with the option to choose a shorter term.

19% of landlords thought voluntary measures should be the best way to ensure this happened, and 2% of landlords thought that the law should be changed for landlords and all tenancies should be longer tenancies as standard.

Finally, landlords were asked if any type of tenancy should be exempted from the proposed system. In the Government consultation, 5 types of tenancy were identified that may have a need for an exemption.

Landlords were asked if they thought these types of tenancy should be exempted from the proposed longer-term tenancy model, of which the majority of landlords reported that all five types should be exempted. In detail these types of tenancy are:

- Purpose Built Student Accommodation (65% thought should be exempt)
- All Student Accommodation (80% thought should be exempt)
- Holiday Lets (82% thought should be exempt)
- Tenancies for those with visas ending in the next 3 years (74% thought should be exempt)
- Tenancies for those with short term work contracts (77% thought should be exempt)

Overall, the findings show that landlords are in general not opposed

to longer-term tenancies. However, there are current weaknesses in the private rented sector that pose too great a risk for landlords to offer longer tenancies.

### What does this research mean for policy-makers?

Over the past few years, there has been considerable regulative changes from across multiple Government departments from tax changes to the potential banning of tenant fees. The current policy approach towards the PRS could be categorized as piecemeal and lacking a coherent vision (Whitehead & Williams, 2018).

The current Government consultation on the barriers to longer-term tenancies offers an opportunity for a constructive debate on the future private rented sector.

Our research explores the experiences and attitudes of landlords to longer-term tenancies and provides the opportunity to develop an understanding of the barriers preventing landlords offering longer tenancies.

The findings show that private landlords are not against longer-term tenancies in principle, however broader reform is needed before landlords would be encouraged to offer a longer tenancy.

The main barrier for private landlords to offer a longer tenancy was the time and cost required to regain possession of the property. We found that 46% of landlords had experienced difficulties, at an average cost of £2,867 and on average taking 6 months.

Our previous research found that the majority of landlords who had regained possession of a property was due to rent arrears (Simcock, 2018a). Therefore, this means that longer-tenancies could be a significant financial risk for landlords if they need to regain possession.

The findings of the present study found that 77% of landlords think

**For longer-term tenancies to be successfully implemented and provided to those that want or need them, based on the findings of this research, there needs to be:**

- 1. Joined-up policy making across different Government departments that harness the potential of the PRS**
- 2. Comprehensive reform of the current court system, with the introduction of a new Housing Court that will speed up and reduce the cost of the current Section 8 process**
- 3. Positive taxation measures that support landlords to operate in the PRS and which compare with other modern private rented sectors such as Germany.**

the current cost and time to regain possession was the main barrier to offering longer-term tenancies. A majority of landlords reported that more efficient processes to regain possession would encourage landlords to offer a longer-term tenancy.

This is similar to our previous research findings, where we found that improvements to the Section 8 process would encourage landlords to offer a longer-term tenancy (Simcock, 2018b).

Therefore, policy-makers need to introduce significant reform of the current legal processes to ensure landlords are able to cost-effectively and quickly regain possession if there is a significant breakdown such as rent arrears. The introduction of a new housing court system, as has occurred in Scotland, would need to be introduced to ensure private landlords have the confidence to continue to operate in the PRS and to offer longer-term tenancies.

Policy-makers should also take note of the financial climate that private landlords are operating within and

the additional tax burden introduced in 2015. Our previous research has highlighted that changes to tax relief are putting pressure on landlord finances and reducing investment into the PRS (Simcock, 2018b).

45% of landlords said the lack of financial incentives were a barrier to longer-tenancies, and in our previous research we found that 63% of landlords would offer a longer-tenancy if there was tax relief (Simcock, 2018b). This increased to 73% when landlords were asked about both tax relief and court reform.

Therefore, policy-makers should consider positive taxation measures to encourage landlords to offer longer-term tenancies as are currently in place in established private rented sectors worldwide.

Finally, policy-makers should be careful about introducing piecemeal legislation in the private rented sector. There has been significant reform over the past few years with more set to be introduced. The full impact of this reform has not been evaluated from a holistic approach.

The government's consultation provides an opportunity to develop a modern private rented sector that works for both tenants and landlords.

For this to be achieved, there needs to be:

1. Joined-up policy making across different Government departments that harness the potential of the PRS
2. Comprehensive reform of the current court system, with the introduction of a new Housing Court that will speed up and reduce the cost of the current Section 8 process
3. Positive taxation measures that support landlords to operate in the PRS and which compare with other modern private rented sectors such as Germany.

### Research Methodology

This research used a mixed-methods survey design in order to develop an understanding of landlords' experiences and attitudes towards the Government's proposed three-year tenancy model. A national online survey was distributed to landlords known to the RLA and was shared widely online over the course of two weeks. A total of 4,970 responses were received and analysed.

### References

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For more information

TO CITE THE PEARL RESEARCH, PLEASE REFER TO:

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### About the Author

The research was undertaken by Dr Tom Simcock MBPsS, Senior Researcher for the RLA. Tom leads the RLA's research lab, PEARL. His expertise lies in researching change in society, public policy, and quantitative and qualitative research methodologies. Tom's research on housing has received national media coverage, featuring on the front pages of *The Times*, has influenced government policy making, and, has been cited in debates in the House of Commons, House of Lords, and by the London Mayor.

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