

Understanding private landlords' financial and regulatory incentives for property investment

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Key Findings

- It is important to understand that private landlords are a very diverse group and the vast majority are private individuals owning one or two properties. This often means that they have very different motivations, priorities and management approaches.
- The landlords surveyed for this research comprised a purposive¹ sample to ensure that the different types of landlord were sufficiently represented. As a result, there was a high proportion (93%) of 'deliberate' rather than 'accidental' landlords. The findings help to understand what motivates a landlord to follow different aspects of good practice.
- Overall, 88% of respondents said they put a set amount of money aside for repairs and maintenance on a regular basis.
- Almost 12% of all respondents made no specific financial provision for repairs and maintenance. However, they overwhelmingly reported that they were able to carry out necessary maintenance from existing resources.
- Of those who set aside a regular amount, landlords in high demand areas set aside significantly less for repairs and maintenance than those in lower demand areas.
- Over 50% said that the main reason for regular upkeep was to maintain the capital value of their property and only 14% said it was to sustain the rental income or enable regular rent increases.
- One of the main reasons for upgrading a property was thought to be the well-being of the tenant or wanting to be a good landlord (21%). The proportion was even higher when thinking about repairs and maintenance – 32% gave this reason (multiple choices were allowed).
- The results of the econometric modelling undertaken for this research showed that landlords who set aside specific amounts of money for repairs and maintenance were more likely to:
 - Be experienced landlords (more than ten years)
 - Have experienced recent costs from voids
 - Be letting either flats or larger properties
- The modelling also showed that landlords who spent more than the median on repairs and maintenance were more likely to:
 - Pay above average fees to a letting agent
 - Be members of a council leasing scheme
 - Have experienced costs from evictions in the past 12 months
 - Have small portfolios
- Landlords who let older properties or experienced recent costs from arrears were significantly less likely to set aside specific amounts of money for repairs and maintenance.

¹ A purposive sample is one where sample members are deliberately selected to reflect certain characteristics that would not be fully reflected in a random sample due to relatively small numbers. It is used when the researcher wishes to find out more about these particular characteristics.

- Those who let to Housing Benefit recipients *because of the greater reliability of income* (but not those renting to such tenants generally) were more likely to set aside money for repairs and maintenance.

1. Introduction and background

The private rented sector (PRS) in England has been growing rapidly over the past ten years or so, from less than 8% of all tenures in the mid 1990s to over 16% in 2012 (DCLG, 2012). The likely drivers of this growth include the deregulation of the sector and changes to tenancies in the late 1980s, the introduction of new lending instruments in the late 1990s, constraints on the other two main tenures, social housing and owner occupation, and economic and social factors leading to increased demand for more flexible forms of tenure (Select Committee, 2013).

However this rapid growth has highlighted some important issues identified by the Parliamentary Select Committee for Communities and Local Government's Inquiry into the sector. These are: standards of property quality and management in some parts of the sector; concerns about the lack of regulation of letting agents; calls for greater security of tenure; and a widespread lack of awareness among both tenants and landlords about their respective rights and responsibilities and the law covering the private rented sector.

In particular, the English Housing Survey (DCLG, 2013) showed that the private rented sector had the highest proportion of non-decent homes (33%) while the social rented sector had the lowest (15%). Meanwhile, 20% of owner occupied homes failed to meet the decent homes standard in 2012. Almost one in five homes in the private rented sector contained a Category 1 hazard according to the Housing Health and Safety Rating System (HHSRS)..

In this context Shelter has commissioned this research project into understanding private landlords' financial and regulatory incentives for property investment. The purpose of the project is to contribute to a wider programme of work to inform a series of options for reform by improving our understanding of what motivates private landlords to upgrade and maintain the quality of the housing stock they both manage currently and will acquire in the future.

The key research questions guiding the project are:

1. What financial provisions do private landlords make for initial upgrade of a property upon purchase; modernisation; and ongoing repairs and maintenance?
2. What factors affect the economic behaviour of landlords when deciding whether or not to improve and maintain the condition of their properties?
3. To what extent does non-rational behaviour play a role in their decision making?
4. How do their business models differ depending on the type and circumstance, housing market / geographical location of the landlord, property and tenants?
5. What are the typical costs and revenues facing different types of landlord?
6. To what extent do licensing schemes affect landlords' business models and impact on the conditions and standards of homes in the private rented sector?
7. How far are landlords aware of current responsibilities and standards in the sector?

The study aimed to classify landlords into different types and therefore the review of literature, stakeholder interviews and secondary data analysis were conducted with a view to informing the survey questions so as to produce a typology of landlords. In particular, Shelter wanted to ensure that the following categories were addressed:

- Landlords who rent properties to tenants in receipt of housing benefits
- Landlords who rent properties to people who have been accepted as homeless by the local authority and placed in the PRS
- Landlords renting out properties which are over 70 years old
- Landlords who are relatively new to the PRS or have only one property
- Landlords who are more experienced and have been letting properties for ten years or more
- Landlords with a range of portfolio sizes

Methods

The methods selected to conduct this research were driven by the need to identify gaps in understanding and to avoid replicating existing, robust research findings. Therefore four main sources of information were used:

- a review of relevant literature (Appendix A);
- interviews with key stakeholders (Appendix B);
- analysis of existing data (Appendix C); and
- BDRC/Shelter research undertaken through a specially commissioned survey of landlords (Appendix D).

The survey was undertaken by BDRC, a leading market research company with an existing panel of landlords that could be used as a sampling frame. It is referenced here as the 'BDRC/Shelter research'.

Because the evidence suggests that standards and repairs are more of an issue at the lower end of the market, the study placed particular emphasis on landlords who let to tenants on housing benefits or other claimants. The survey sample was selected to ensure that almost half of the respondents either let to, or were prepared to let to, such tenants.

The most recent existing evidence also shows that over 70% of landlords are individuals with just one property (Lord et al 2013, estimate using the Wealth and Assets Survey). The DCLG Private Landlords Survey 2010 showed that a third of the stock was owned by companies or 'other' organisations so it is important to include these landlords).

Therefore the survey sample was selected to ensure that the findings covered all types of landlords, those with one or two properties as well as those with a range of properties. This means that it is not a representative sample in the statistical sense but ensures that the different categories are large enough to draw conclusions from. A random sample of this size would not have been able to include many landlords in these other categories.

Thus the survey is not reflective of all landlords, but focuses on what motivates good practice, particularly in relation to maintenance and upkeep.

2. Typology of landlords

Stakeholder interviews suggested that the main types of landlord were:

- Large scale landlords (more than 50 properties)
- Professional landlords
- Experienced landlords
- New landlords
- Accidental landlords

While these categories overlap, the general view was that larger, more experienced landlords were more likely to be professional and to invest in their portfolio over the longer term, while newer, small and 'accidental' landlords were less likely to be so professional.

The DCLG's 2010 Private Landlord Survey (PLS) divided respondents into three main types, cross analysed by new, long term, full time, and part time (which are overlapping categories):

Table 1 Type of landlord (%)

	New	Long term	Full time	Part Time	All
Private individuals	98	89	79	91	89
Companies	1	3	13	3	5
Other organisations	1	8	8	6	6
Total	100	100	100	100	100

Source: PLS

The PLS (2010) found that just under nine-tenths of all private landlords (89%) were private individuals who were responsible for 71% of all dwellings (2.1 million) in the private rented sector (page 10). In the 2003 survey 67% of all dwellings in the PRS were the responsibility of private individual landlords so this category has increased.

In 2010 the PLS found that company landlords (5%) and 'other organisation' landlords (6%) accounted for just over a tenth of all private landlords and were responsible for less than a third of all dwellings (company landlords, 15%, and 'other organisation' landlords, 14%) in the PRS. In the 2003 survey, 17% of dwellings in the PRS were managed by company landlords and 16% by 'other organisation' landlords. This reflects the growth in the number of private individuals who are private landlords.

Analysis of the PLS conducted for this research looked at:

- landlords' financial provision, in terms of sources of funds and borrowing costs,
- their awareness of responsibilities and standards, in terms of the Housing Health and Safety Rating System (HHSRS) and the Energy Performance Certificate (EPC), and
- their incomes and transaction costs, in terms of rental income as a proportion of gross income and whether certain types of cost were a particular problem, such as costs of borrowing and costs of letting or managing agents.

This analysis confirmed that for those owning just one property, rental income was much less likely to be a large proportion of total gross income, suggesting that for many, being a landlord is a part time occupation because it was not their main

source of income. For large landlords, the reverse was the case. However, large landlords were most likely to outsource inspection and day to day repairs and more likely to see agency fees as a problem. The small landlords were more likely to do these tasks themselves. This is consistent with other findings. Crook et al (2013) found that most Scottish landlords lived close to their properties precisely because they could keep a close eye on them and conduct repairs and maintenance in good time. The details of the PLS analysis are in Appendix C.

The sample from the BDRC/Shelter survey commissioned by Shelter for this research was, as mentioned above, purposive in that rather than attempting a random sample it aimed to achieve specific quotas for different types of landlord. This means that its findings are different from national figures such as those for the PLS. Of the 225 responses, 100 were from landlords screened to ensure that they let to tenants in receipt of Housing Benefit (in practice, Local Housing Allowance in the private rented sector) while 34 said they let to benefit claimants more generally.

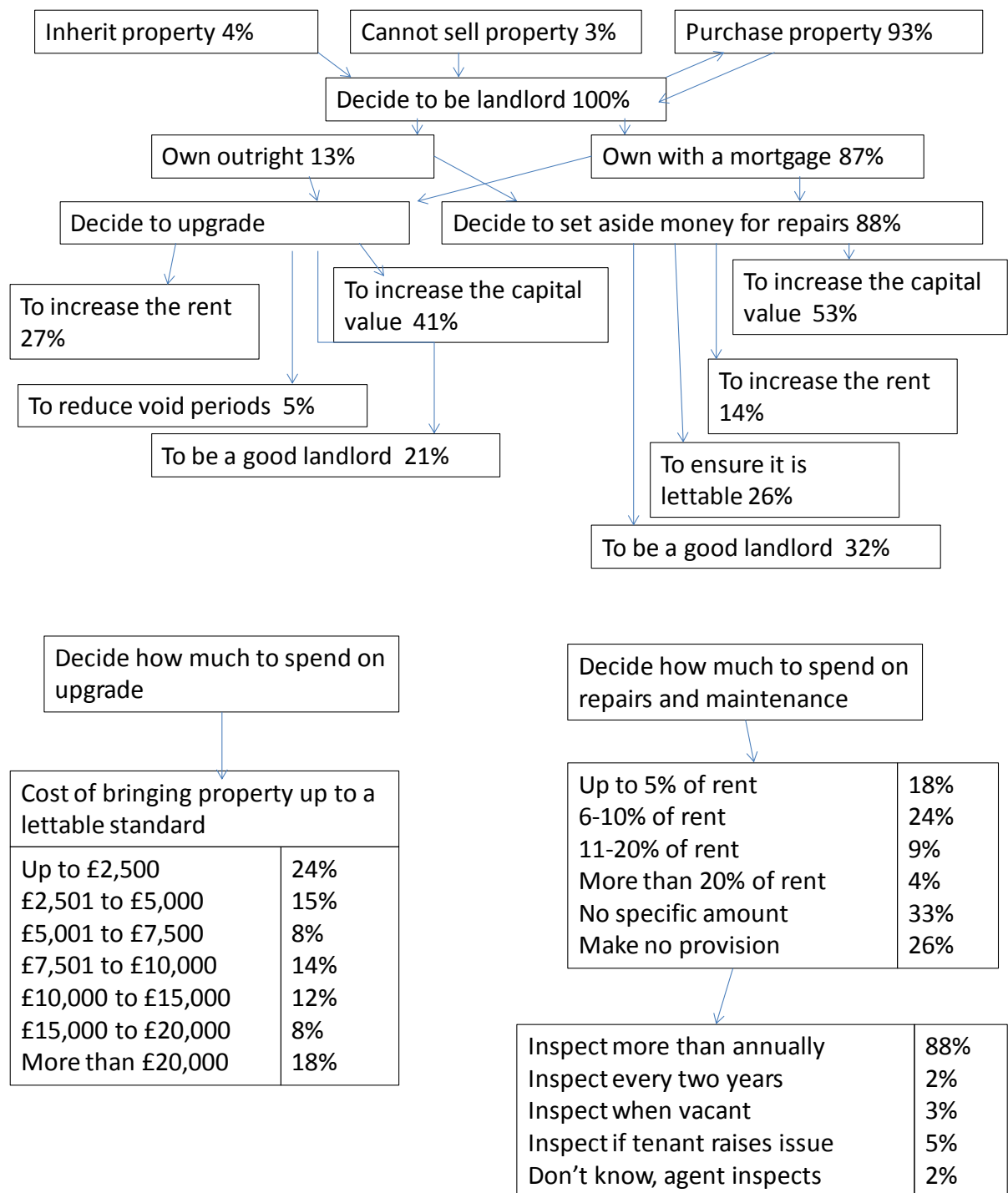
One concern was that it would be difficult to obtain survey responses from the types of landlords that do not generally maintain or improve their property, such as absentee landlords or those who are in some sense below the radar or government or other surveys – such as those letting to illegal immigrants, for example. The survey results confirm this concern – even where landlords do not conform to health and safety standards for the properties, for example, they consider themselves to be ‘good’ landlords. Stakeholders reported that landlords who maintained or upgraded their rental property to the same standards as their own home will invariably describe themselves as good landlords, and are shocked to discover that these standards, while acceptable for owner occupiers, do not meet legal requirements in the private rented sector.

Overall, 36% of the respondents were members of the National Landlords Association, which provides accreditation for landlords. The sample also contained very few ‘accidental’ landlords compared to national figures. This suggests that they were generally more ‘professional’ than the average.

On the basis of the survey responses, a decision tree indicating landlords’ attitudes and behaviour towards investing in, upgrading and maintaining their property was developed for this research.

In terms of business models and plans, the decision tree gives an indication of the kinds of factors that motivate the landlords who responded to the survey. ‘Rational’ responses in the sense of non-economic motivations included ‘well-being of tenant/ to be a good landlord’ and the diagram shows that this was a reason for both upgrading a property and conducting regular repairs and maintenance. However, as expected, purely economic considerations are also factors motivating landlords, including particularly maintaining capital values but also increasing rents and reducing voids. Regular inspections are associated with regular maintenance and most landlords inspected their properties more often than annually (see Table 9).

Figure 1 Decision Tree For Private Landlords



Source: BDRCLandlord survey commissioned by Shelter

This indicative picture also shows that in some cases, large amounts of money can be invested in a property to upgrade it. The maximum was £200,000, and 18% of respondents estimated that they spent more than £20,000. Smaller amounts were more common, perhaps reflecting the fact that almost half the landlords sampled were located in low or relatively low demand areas where property is cheaper.

3. The costs and revenues associated with letting property

Previous studies have shown that the costs associated with letting are of two types: those that vary with rent (are a proportion of the rent) such as letting agent fees and property management fees; and those that are task specific and while these vary widely, they are not systematically related to property price or location (Ball, 2011). They include energy and safety certificates, many repairs, and legal costs. This type of cost represents a higher share of gross rental income for lower value properties than higher ones.

Jones Lang Lasalle (2013) looked at landlords' business plans and their case study findings suggest that the main elements of costs facing private landlords are:

- Initial purchase
- Mortgage repayments
- Mortgage interest
- Professional fees
- Fees to letting/managing agents
- Insurance
- Service charges where relevant (flats)
- Management time
- Accountant costs

Most landlords will also experience additional costs associated with void periods, rent arrears and evictions.

In addition, there are costs associated with regulatory compliance (Ball, 2011). These are discrete and will vary for all kinds of reasons, including the initial design and quality of the property. Ball argues that for these reasons it may not be feasible to generalise business or investment models and assume they reflect the common experiences of landlords.

Table 2 summarises the costs associated with the purchase and first letting of a property based on the survey data used by Ball (2011) for inputting to his model of the financial returns to landlords under different assumptions.

Table 2 Costs associated with purchase and letting a property

Purchase of property	
Purchase price / current value	£145,000
Mortgage set up fee	£1,000
Legal fees	£800
Own time spent on purchase (30 hours at £10 per hour)	£300
Other costs	£750
Total purchase costs	£147,850
Preparation for letting	
Annual certificate	£150

Advertising costs	£80
Credit check/tenant reference	£75
Legal costs inc lease	£200
Professional clean, redecc, locks	£250
Own time (15 hours)	£150
Tenancy costs	
Maintenance	£360
Insurance	£250
Rent collection /management time (10 hours)	£100
Own time (15 hours)	£150
Total letting costs	£1,765

Source: Ball, 2011

Ball's model assumes market rents remain flat (the market was still quite depressed in 2010/11) but does not give rental incomes. The example above also assumes that the landlord is not using an agent.

A more recent study by Lord et al (2013) used the Wealth and Assets Survey which is a longitudinal survey that provided a sample of 46,000 interviews. Econometric modelling allowed the authors to create a sample representing 1,274 landlords. The mean monthly rental income for these landlords was £1,493 while the median was just £500, showing a highly skewed rental market. For 60% of these landlords, their earnings are higher than the income they receive from rents. However, for a third of landlords their rental income was over 80% of their total income from all sources.

The primary survey conducted for the BDRC/Shelter research included information on rental income for a sub-set of 87 landlords who were also able to provide this information by the size of the property. However, the landlords were not able to provide all the cost information requested, making it impossible to produce a total outgoings figure. Table 3 shows the monthly rental information.

Table 3 Average monthly rent by number of bedrooms

Number of bedrooms	Average monthly rent	Median monthly rent	Number of responses
1	£649	£575	12
2	£568	£490	40
3	£649	£600	27
4	£611	£647	4
5+	£1,500	£1,500	4

Source: BDRC/Shelter research

Table 4 shows the average cost of tax and insurance, agency fees, repairs, mortgage repayments and other costs such as service charges, together with the number of valid responses for each category. Table 5 does the same for the costs of voids, arrears and evictions for landlords who had experienced these in the past year.

Table 4 Average cost of outgoings associated with letting as % of rent

	Tax & insurance	Agency fees	Repairs	Mortgage repayments	Other costs
Mean	19	14	17	65	12
Median	10	9	10	53	12
Number of responses	81	25	94	76	29

Source: BDRC/Shelter research

Table 5 Average cost of voids, arrears and evictions

	Voids	Arrears	Evictions
Mean	£636	£455	£631
Median	£200	£133	£158
Number of responses	68	45	16

Source: BDRC/Shelter research

4. Financial provision for upgrading, modernising and maintaining property

As Ball (2011) notes, buildings wear out with use and age, so part of the initial capital investment in a property is continuously being used up (page 37). He also notes that the consequences of depreciation are very clear in the housing market, where if one of two identical properties is renovated, it will have a higher market value than the other. The difference in price would roughly match the cost of bringing the second one up to the same standard as the first. This cost is a measure of the depreciation when adjusted for time.

The extent of depreciation may vary depending on the amount of continuing repair and maintenance undertaken over time. The two should not be confused, because even the best maintained properties will still suffer from wear and tear that requires major re-investment from time to time, either through renovation or replacement. However depreciation is often measured as repairs and maintenance with different rates for equipment, furnishings and the building itself.

Upgrading or modernising

Many landlords purchase a property in need of upgrading at its discounted market value and then upgrade it before letting. This is a common practice among small builders who can do most of the renovation themselves. In Ball's financial survey (2011) almost a quarter of landlords (23%) reported spending £4,000 or more on building works and a fifth (18%) had spent £2,000 or more on equipment and furnishings before the first letting.

For his financial modelling, Ball produced the following average data on refurbishment costs from his landlords' survey.

Table 6 Refurbishment

Building works & decor	£5,000
Equipment/furnishings	£500
Planning & other permissions	£250
Professional fees	£300
Own time in refurbishment (30)	£300
Total refurbishment cost	£6,350

Source: Ball, 2011

The BDRC/Shelter research found that over 90% of those who had purchased a property to let said that they considered whether investment was needed. The estimated cost of upgrading the last property purchased is given in Table 7. It is based on what respondents said they had spent.

Table 7 Average cost of upgrading

Mean	£12,750
Median	£4,000
Number of responses	225

Source: BDRC/Shelter research

The main reasons for upgrading the property are given in Table 8. Respondents could give multiple reasons. However, capital value was clearly the most important reason across the sample as a whole.

Table 8 Reasons for upgrading

	Number	Percent
To increase the capital value of the property	92	40.9
To increase the rent	60	26.7
Well-being of the tenants / want to be a good landlord	48	21.3
To encourage tenants to stay longer	47	20.9
Other	33	14.7
The age and condition of the property	21	9.3
To comply with rules and regulations	15	6.7
To let to a different type of tenant	12	5.3
To reduce void periods	11	4.9
Letting agent's recommendation	1	0.4

Source: BDRC/Shelter research

Repairs and maintenance

According to the stakeholders interviewed, the rule of thumb is that 30% of the rental income should be put aside for voids and upkeep. This does not vary with the economic cycle because property is perceived by investors to be an asset that keeps its value over the long term and can be sold on.

The survey found that 83% of respondents arranged repairs and maintenance themselves. 8% used a management agent, and a further 4% did a mixture of the two. The rest used a friend or a relative as well as doing it themselves.

Of the 42 (18%) who used an agent (either instead of or as well as themselves) 8% (18) said that the agent needed their explicit consent for all routine maintenance, 5% (11) said for all major repairs, 3% (7) for repairs / maintenance above a specific amount, and 2% (5) said the agent did not need explicit consent to undertake repairs.

How often landlords or agents carry out an inspection of the property for general repairs and maintenance is an important factor in reducing risks and ensuring that the property is kept in good repair. Table 9 shows how often property was regularly inspected.

Table 9 Frequency of inspection for repairs

	Number	Percent
Every four to six months	92	40.9
Every three months or more often	80	35.6
Every seven to 12 months	26	11.6
Only if the tenant raises an issue	11	4.9
Every two years	4	1.8
When the lease is due for renewal	3	1.3
At the end of the tenancy	3	1.3
Less frequently than every two years	1	0.4
Never	1	0.4
Other	4	1.8

Source: BDRC/Shelter research

Table 10 shows the amount landlords set aside for repairs and maintenance as a proportion of the rent. Slightly more than ten percent said they did not set aside money for repairs.

Table 10 Set aside money for repairs and maintenance

	Number	Percent
Up to 5%	41	18.2
6-10%	54	24.0
11-20%	21	9.3
21-30%	5	2.2
31-50%	2	0.9
More than 50%	3	1.3
No specific amount	73	32.4
Do not make provision	26	11.6

Source: BDRC/Shelter research

The table shows that 42% set aside less than 10% of the rent, while 51% set aside less than 20% of the rent. Only 2% set aside more than 30%. This contrasts strongly with the stakeholders' view that 30% of the rent was a rule of thumb for making sensible financial provision for the upkeep of a property. However, the stakeholders may have included insurance, service charges for flats, and other costs, whereas the survey respondents may have been thinking specifically about repairs and were not asked about voids, for example.

Respondents gave the following reasons for not setting money aside for repairs included:

I don't need to do this. I will do the repairs myself when the tenants ask for it
I don't run my rentals as a business
[I've] just not thought about it
'[I'll] manage to find it
The properties are new

The reasons given for spending money regularly on maintenance are set out in Table 11.

Table 11 What are the main reasons for maintaining your property?

	Number	Percent
To maintain the value of the property	119	52.9
Well-being of tenant / want to be a good landlord	72	32.0
To ensure you will be able to let it	58	25.8
To sustain the rental income / enable regular rent increases	31	13.8
Requests from the tenants	29	12.9
Other	20	8.9
To comply with the rules and regulations	15	6.7

Source: BDRC/Shelter research

By far the most important reason was to maintain the capital value of the property (52.9%). Only 13.8% said it was to sustain the rental income or enable regular rent increases.

The desire to be a good landlord

As shown in tables 8 and 11 above, looking after the well-being of the tenant and/or wanting to be a good landlord were given as reasons for investing in and upgrading a property by a high numbers of landlords. These were multiple choice questions; nevertheless for maintaining a property this was the second most frequent reason, after maintaining the capital value (table 11), and it was the third most frequent reason in relation to upgrading a property (table 8).

It may also be extremely rational: if the tenants are happy, they will be more likely to look after the property and to notify the landlord early when something goes wrong. This echoes the views of some of the stakeholders, who in addition said that a happy tenant will stay longer and pay rent promptly, thus reducing the costs of arrears and voids.

5. Factors affecting the business models of landlords

About 89% of English landlords are private individuals (DCLG 2010). The economics of the private landlords' business work well for small investors and this is true across the world (Ball, 2012). Small investors in particular tend to believe that property is a relatively safe asset with tangible qualities. Rental income is steady and there is potential for capital appreciation.

According to Ball (2012), small landlords can flexibly invest their own time with low overheads. They can respond quickly to market signals and spread risks across local markets. Larger landlords have higher costs and need larger, concentrated, standardised holdings. This difference is clearest in student housing although small landlords also let to students. There are therefore several business models.

According to stakeholder interviews, there are the small individual landlords who often do not consider themselves to be landlords as such and who are not considered 'professional' by the industry. Stakeholders felt that these landlords are often ignorant of regulations and assume that so long as they look after their property just like they look after the home they live in, all will be fine. It was felt that the less experienced landlords often take the cheapest options when doing repairs, not realising that it is a false economy in the long term particularly because rented property faces greater wear and tear than a typical owner occupier experiences.

Owning a property is a hobby, or a way of saving for their pension, according to the stakeholder interviews.

Stakeholder interviews suggested that the student landlord has a different business model from other types of landlord. In this market there are basically three groups:

- individual student landlords
- small or medium sized landlords who own multiple HMOs and who may at the larger end own small blocks of purpose built flats
- large institutional landlords such as Unite

Unite's business model includes a regular maintenance regime, repainting every year. They are a listed company so the value of their portfolio is the value of their business and they need to maximise it. Long term proactive maintenance is their preferred business strategy.

Of these different types of landlord, stakeholders defined those that are professional as those who will make provision for long term maintenance, while those that are unprofessional will not do so. Given relatively low yields from rental income, most professional landlords will be in for the long term, and maintaining capital value is most important to them.

Econometric modelling

An econometric modelling exercise was carried out, based on the BDRC landlord survey, in order to determine which landlord characteristics are associated with spending on repairs and maintenance. There were two models: one covered total spending on repairs and maintenance, while the second covered the extent to which landlords set aside rental income for these purposes. Full details are given in Annex D. The responses relate to the oldest, or the only, property in a landlord's portfolio.

Modelling results: spending on repairs and maintenance

The modelling process showed that landlords who spent more on repairs and maintenance were more likely to:

- Pay above average fees to a letting agent
- Be members of of a council leasing scheme
- Have experienced costs from evictions in the past 12 months
- Have small portfolios (although this may be because they are unable to take advantage of economies of scale, rather than indicating a higher standard of maintenance)

Importantly, landlords in high rent areas spent significantly less on repair and maintenance, despite the theoretically larger sums available from the rental payment. Given that high rent areas are likely to be areas with high demand for properties, this supports the view that ease of finding tenants may be a disincentive to spend on repairs and maintenance.

Modelling results: setting aside money for repairs and maintenance

The results of the modelling exercise showed that landlords who set aside money for repairs and maintenance (suggesting a degree of forward planning in this regard) were more likely to:

- Have been letting property for many years.
- Have experienced recent costs from voids.
- Be letting either flats or larger properties.

However, landlords were found to be significantly *less* likely to set aside money aside for repairs and maintenance when they:

- Let older properties, of 70+ years in age. This may reflect a concentration of single property landlords and 'accidental' landlords in this sector.
- Have experienced recent costs from arrears. It could be that properties which receive less planned maintenance would be less successful in attracting reliable tenants.

In addition, those landlords who rent to Housing Benefit tenants *because of the greater reliability of income* (but not those renting to Housing Benefit tenants generally), tend to set aside money for repairs and maintenance. This could reflect a longer term mindset among these landlords.

6. Landlords who accept Housing Benefit tenants

There were 100 landlords who accepted HB tenants, almost half the sample. 12% had been landlords for over 20 years, 48% between 11 and 20 years and 32% between 6 and 10 years while 8% were new landlords (5 years or less). Just over a quarter (26%) were members of a local authority leasing scheme.

Only 3% of these landlords had one property, 2% had two properties, 3% had three and 5% had five, so 12% owned five or fewer. At the other extreme, 2% owned 200 properties, 1% owned 190, and 4% owned 100 properties. The most frequent size of portfolio was 10 properties (16%) closely followed by 15 properties (15%). The average number was 25.

When asked why they became a landlord, 68% of HB landlords said it was a good investment, 20% said it provides extra income, 14% said it provides a pension, and 12% said to make it their main source of income. Just 3% had inherited the property and 4% were what stakeholders called 'accidental landlords' because they could not sell their previous home when they had to move. This compares with 4% who had inherited the property and 3% who could not sell their home in the sample as a whole.

When asked for the main reason for becoming a landlord, 84% chose three categories – good investment, pension, and extra income. These respondents were then asked which of the following is more important to you, capital gains, day to day income or both equally important. 20% said day to day income and 62% said both were equally important – none of the HB landlords said capital gains were more important.

Before purchasing a property to let, 96% of those letting to HB tenants said they considered the amount of investment necessary to upgrade the property. This compares with 88% of those who did not let to HB tenants. In terms of the reasons for upgrading a property, 70% of HB landlords and 76% of other landlords said this was to increase the rent, while 52% of HB landlords and 81% of other landlords said it was to increase the capital value.

Table 12 Upgrading

	HB landlords	Other landlords
Consider cost of investment to bring up to lettable standard	96%	88%
Reason for upgrading is increase the rent	30%	24%
Reason for upgrading is increase the capital value	48%	35%
Number of landlords	100	125

Source: BDRC/Shelter research

In terms of setting aside money specifically for ongoing repairs and maintenance, Table 13 shows that HB landlords are only slightly more likely to do this. Eight percent said that they made no specific provision compared to 14% of non-HB landlords.

Table 13 Provision for ongoing repairs

	HB landlords	Other landlords
Set aside up to 5% of rent for ongoing repairs	25%	13%
Set aside 6-10%	24%	24%
11-20%	4%	14%
21-30%	2%	2%
31-50%	2%	0
More than 50%	2%	1%
No specific amount, fund repairs as needed	33%	32%
Don't make provision	8%	14%
Number of landlords	100	125

Source: BDRC/Shelter research

Importantly, it is not the case that those who said they don't make provision never undertake repairs. Comments in response to the question 'Why have you decided not to set aside money specifically for repairs and maintenance?' included:

"I don't need to do this, I will do the repairs myself when the tenants ask for it"

"Don't need to, as I have money"

"What's the point, you might as well keep it in your savings account"

"I let it build in the account and use if necessary"

"We never know how much we would need to spend. I will look at the issue and arrange the finance myself"

These responses suggest that landlords interpreted the question quite narrowly. They do set money aside, but not just specifically for repairs. Several (not just HB landlords) said that they did the repairs themselves or that their cash flow is sufficient.

7. Awareness of responsibilities and standards

The stakeholders interviewed for this research felt that among small and medium landlords knowledge of responsibilities and standards was 'pretty low' across all matters from how to deal with repairs to tenancy agreements. The legal framework is quite complex – 'there are about 90 separate pieces of legislation which impact on the landlord to tenant relationship'. Larger landlords were thought to be better

informed, as they tend to go on training courses and hire specialist advisors. Professional landlords and student landlords were felt to be well informed. Those letting to the lower end of the market are thought to have a larger lack of knowledge, even the basics such as the Housing Act.

The Housing Health and Safety Rating System (HHSRS) is a risk based assessment tool for determining the presence of any potential hazard to health and safety posed by a dwelling. It came into effect in 2006, replacing the Fitness Standard as the means by which local authorities assess and decide any action required for a property. Guidance for landlords and agents was also issued in 2006. While assessments can only be carried out by local authorities, landlords and agents are encouraged to organise their own checks to ensure that their lettings are meeting health and safety requirements (DCLG, 2011).

Awareness of the main health and safety standard was low among landlords. A third of all respondents (landlords and agents) to the PRS had heard of the HHSRS. Half of managing agents had heard of it, but only 15% of landlords. Of dwellings owned by landlords or managed by agents who had heard of the HHSRS, 58% had been assessed for potential hazard – 54% of those managed by agents and 64% of those owned by landlords.

Across the dwellings that had been assessed, almost half were carried out by agents and over a quarter by landlords themselves. 10% had been carried out by the local Environmental Health Officer.

There was a view among stakeholders that the main source of information for many landlords is *'probably google – which will throw up the professional websites which have a lot of useful information – you don't have to be a member to learn a lot'*.

One local authority interviewed as part of the stakeholder interviews has a letting service that is free to landlords, it finds the tenant, provides the deposit and for those on benefits, ensures that HB is paid directly to the landlord. The council inspects the property to ensure it meets the HHSRS. This has shown that many landlords maintain their properties, often to the standard of their own homes, but are ignorant of the HHSRS. *'For example, there may be no fixed heating, which is a category 1 hazard. There is a lot of misunderstanding about what landlords need to do to ensure their property meets these standards. For example, some Victorian houses have very low window sills and a single layer of glass sash window and on upper floors these are a category 1 hazard. The solution is window bars which are very cheap'*.

On the other hand, in some areas in the north of the country, there are still a lot of properties known as 'back to backs' where there is no back door or windows because the back wall is also the wall for the house behind. They are over-represented in the private rented sector in such areas. These properties are very cheap with low rents, but they are full of hazards such as steep stairs without handrails. Often the landlord has improved the property but there are no smoke alarms and no central heating because the landlord is not aware that these are necessary. Leeds is trying to encourage the professional bodies to recruit more members who will then learn from the information on responsibilities and standards on their website.

8. Barriers to upgrading and maintaining property

The Select Committee (2013) decided to focus their inquiry into the private rented sector on four key issues:

- raising standards of property and management in some parts of the sector
- the lack of regulation and incidence of sharp practice by some letting agents
- the need for greater security of tenure for families living in the sector
- the lack of awareness among both tenants and landlords about their respective rights and responsibilities and about the law covering the private rented sector.

The Committee visited Germany where there is a clear legal framework set out in the Civil Code and high levels of awareness of this framework among landlords and tenants. There is also easy access to advice and information. Their evidence suggests that England does not have such a clear framework and there are concerns about the complexity and amount of legislation relating to the sector. A 2006 Law Commission report, *Renting Homes*, argued that the existing law should be recast. Adopting the Commission's recommendations would have created a legal framework that was simpler to understand and more flexible to operate. Such a framework could include introducing a standard 'plain language' tenancy agreement which would set out landlords' and tenants' rights and obligations – backed by law. The stakeholder interviews felt that the current complexity and lack of clarity is a barrier to raising standards in the sector.

Stakeholders interviewed for this study felt that ignorance was the biggest barrier to upgrading and maintaining property. They also felt that greed motivated some people to take advantage of the high demand for rental property to evade the law. Some felt that there were cultural issues of immigrant landlords letting to immigrant tenants who do not understand that there are legal standards. The shortage of housing means that tenants do not report problems and landlords do not have to compete for good tenants. Cost of advice and lack of finance to maintain properties was also thought to be a barrier. Some landlords find access a problem – they feel they are trespassing or invading people's privacy.

Table 14 The barriers to upgrading / maintaining a property

	Number	Percent
Poor tenant behaviour	72	32.0
Tenant not reporting problems when they arise	71	31.6
Unable to afford maintenance / repairs	63	28.0
Lack of time	9	4.0
Difficulty visiting property (e.g. live a long way away)	8	3.6
Difficulties gaining access	8	3.6
Difficulty finding good/trustworthy tradespeople	3	1.3
Letting agent fees	2	0.9
Other	65	28.9

Source: BDRC/Shelter research

The costs of repairs and maintenance is related to 'Unable to afford maintenance / repairs' – 28% - and 'letting agent fees' – although the latter were only mentioned by two respondents as a barrier.

Other barriers not on the list included:

Not caring about the property

Lack of interest
Idleness, been lucky with tenants (who) keep property in good condition
Stupidity
Laziness
Greediness
Landlords out for financial gain instead of the long term
Banks won't provide overdrafts to landlords
Non payment of rent
Council tax
Old mortgage payments, haven't covered the mortgage

One person said

Unnecessary regulations

Again, of these examples, several relate to costs, including non payment of rent, council tax and old mortgage payments.

In relation to the costs of being a landlord, the survey asked landlords whether they were aware that they could claim 'allowable expenses' on repairs and maintenance to reduce their income tax.

Table 15 Aware of allowable expenses for income tax reduction

	Number	Percent
Yes	209	92.9
No	16	7.1
Total	225	100.0

Source: BDRC/Shelter research

Table 16 Claim allowable expenses for income tax reduction

	Number	Percent
Yes	199	88.4
No	10	4.4
Total	209	100.0

Source: BDRC/Shelter research

The survey asked landlords what would motivate those who do not currently maintain their properties to do so. Table 15 gives the results.

Table 17 Incentives for upgrading / maintaining a property

	Number	Percent
Lower agent fees	88	39.1
Local authority selective licensing schemes	56	24.9
Fairer / more lenient enforcement of current standards	32	14.2
Stricter enforcement of current standards	28	12.4
A national registration scheme	12	5.3
Better education /training about current standards	6	2.7
Tax incentives /lower taxes	4	1.8

Source: BDRC/Shelter research

9. Conclusions

Typology of landlords

It was difficult to classify the BDRC sample into distinct types according to their basic characteristics and their behaviour in terms of frequency of inspection, use of agents, attitudes to upgrading / repairs, or main motivation for being a landlord.

However, the decision tree provides an indication of how the majority of landlords in this sample behave. Their main motivation is to maintain the value of their property, and most of them see being a landlord as a long term business even where it provides only a small part of their income.

Costs and revenues

Although several landlords mentioned affordability as a barrier to regular maintenance, the vast majority conducted regular inspections and felt it important to keep their property in good repair in order to attract good tenants, increase the rent, and most importantly maintain the capital value.

Financial provision for upgrading / maintaining property

Most of the sample made some provision for maintenance, and most of them said they had considered the investment that might be necessary when purchasing a property to let. The motivation was largely economic, although for both types of investment, a significant proportion said that one of the reasons was the well-being of the tenant and to be a good landlord.

Factors affecting landlords' business models

The economic modelling showed that landlords were more likely to spend more on their property if they were

- Paying more to a letting agent
- Members of a council leasing scheme
- Had experienced costs from evictions in the last 12 months
- Had small portfolios

They were more likely to spend less on their property if they were

- In a high demand area

Landlords were more likely to set money aside for repairs and maintenances if they

- Had been a landlord for many years
- Had experienced recent costs from voids
- Were letting either flats or larger properties (5+ bedrooms)

They were significantly less likely to set money aside when they

- Let older properties
- Experienced recent costs from arrears

In addition, those renting to HB tenants because it provided greater reliability of income had a greater propensity to set aside money specifically for repairs.

Landlords who let to Housing Benefit claimants

Almost half the survey respondents were selected because they let to Housing Benefit claimants, a proportion that is not typical for landlords in general. However, there were very few significant differences between survey respondents that did and those that said they did not do so. They were slightly more likely to have considered upgrading when purchasing a property and also to set aside a specific amount of money for repairs and maintenance. The econometric modelling showed that this was particularly the case for those who said the main reason for letting to Housing Benefit tenants was the greater reliability of income. Overall, the analysis confirmed that landlords vary according to a great deal of factors, and those prepared to let to Housing Benefit claimants were no different in this respect. There was also a strong overlap between those letting to HB tenants and those letting to tenants in receipt of other benefits – of the 34 who said they did the latter, only two did not say they let to HB tenants, and even this might be an error.

Barriers and incentives to property maintenance

The main barriers to maintaining a property were thought to be poor tenant behaviour and inability to afford repairs, while the main incentives were lower agency fees, licensing and enforcement. The survey also asked landlords for their views about selective licensing schemes. A quarter thought they provided an incentive for better maintenance, while 12% thought the existing regulations were sufficient but should be better enforced and 14% said that the regulations should be enforced more fairly. Stakeholders felt that the main barrier was ignorance, particularly of health and safety regulations.

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