Workshop 22 - Housing Markets Dynamics

The increased role of the Private Rented Sector in catering for social housing in Northern Ireland

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The increased role of the Private Rented Sector in catering for social housing in Northern Ireland

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Abstract

Although the private rented sector (PRS) in Northern Ireland is relatively small when compared to the other tenures, it performs a number of important functions in addressing housing need. Rugg, Rhodes and Jones, (2002) have summarised a number of demand groups for private renting, including “life-stage” users, for example, young people renting a property before entering owner occupation, short-term emergency users, such as households experiencing relationship breakdown, older renters that have been living in privately rented housing for some time and “residual users”, namely households on low incomes. This paper examines data from the Northern Ireland House Condition Survey, the Continuous Household Survey and interviews with tenants and estate/letting agents. The paper presents evidence indicating that those living in the PRS are increasingly “residual users” i.e., those that have traditionally been housed in the social sector, it outlines the reasons for this phenomenon and highlights the implications of this.

Introduction

The private rented sector in Northern Ireland has witnessed a decline for most of the twentieth century. At the beginning of the 20th century approximately 90 per cent of households rented privately, but by 1991 only 5 per cent of the total stock was privately rented, representing 28,600 dwellings. However, since 1991 the sector has steadily increased, and by 2004 the PRS represented 9.2 per cent (62,500 dwellings) of the total dwelling stock, an increase of 120%. Several reasons have been advanced for this increase in the supply of privately rented accommodation, centring around its attractiveness as an investment: property is generally viewed to be a safer investment when compared to the perceived volatility of the stock market; the increase in house prices in Northern Ireland promises substantial capital gains to landlords and has attracted many new landlords to the sector; the relatively low interest rate environment has encouraged and facilitated this increased investment. On the demand side the increase may be explained by a number of factors: an emerging affordability problem for first time buyers; the increase in the number of students; the increase in standards in the PRS; there is also evidence that housing benefit has fuelled demand for the PRS, and in some local housing markets is sustaining the sector. Difficulty in accessing other tenures, in particular the social sector, is a further demand factor for the PRS. The reduction in Housing Executive stock, principally though the house sales scheme, and the growing cumulative gap between the need for new social housing and its actual delivery has contributed to a lengthy wait for some when accessing social rented housing. The PRS offers access to areas that would be otherwise difficult to access, areas such as high demand public sector estates (where sold Housing Executive dwellings have often re-emerged in the PRS) and owner occupied areas, in particular where lower cost new build developments have been undertaken.

This paper is based on research conducted for the Northern Ireland Housing Executive on “The Private Rented Sector in Northern Ireland”. The study contained several objectives and was wide-ranging: it included secondary analysis of selected databases, a tenant survey, a landlord survey, and interviews with key players in four case study areas (Armagh, Derry, Dungannon, and Coleraine-Portrush-Portstewart). This paper focuses on one of the key issues that emerged from the research, namely that the private rented sector is playing a growing role in accommodating low-income households who would traditionally have sought to become tenants in the social sector. The possibility of disinvestment from the private rented sector and the implications for social housing is therefore a key concern - faced with losing their private rented accommodation, many tenants will look to the social sector to be re-housed given their income levels.
The structure of the paper is as follows. It begins with providing a brief background to the PRS in Northern Ireland. The following section provides data, mainly from the Northern Ireland House Condition Survey, indicating that the type of tenants living in the PRS is becoming increasingly similar to those living in the social sector and reasons are advanced as to why these tenants are living in the PRS. Finally, the paper speculates about the implications of disinvestment in the sector.

**Background to the PRS in Northern Ireland**

When Northern Ireland was established under the Government of Ireland Act (1920), the majority of people lived in privately rented accommodation. Much of the sector was covered by Rent Restriction Acts, which were introduced during World War One to mitigate hardship resulting from scarcity of housing. Following the war, Northern Ireland, like the rest of the United Kingdom and Ireland, experienced a decline in the private rented sector. With the development of the building society movement, owner occupation slowly expanded. However, whereas England and Wales witnessed a considerable housing boom in the period 1919-1939, Northern Ireland did not. In spite of a policy which entitled private builders to Exchequer subsidies at the same rate as urban authorities, they provided 69 times fewer houses than private builders in England and Wales. At the same time local authorities built 127 times fewer houses (Birrell, Hillyard et al 1971).

By 1961 the private rented sector in Northern Ireland constituted 35% of the housing stock. Since the early 1960s the sector has experienced a serious decline. The decline in the sector was particularly steep in the 1960s when the number of households renting privately dropped from 132,000 households in 1961 to 81,000 households in 1971. In the 1970s the decline was even more dramatic with the number of households renting dropping by nearly a half.

As well as the sector declining rapidly, the tenure also had some of the worst housing. The 1979 House Condition Survey stated that “The poor condition of the Private Rented Sector, (particularly unfurnished) is illustrated by the fact that only 1 in every 4 of all private rented dwellings can be considered sound…The private rented sector is in the poorest condition of all tenure groups in Northern Ireland”. The 1979 House Condition Survey showed that 23 per cent of the unfurnished sector was unfit, and 70% of all of private rented stock needed some form of remedial action (Hillyard, 1982).

The system of rent control which the Northern Ireland government inherited in 1921 was extended and amended during the next thirty years producing a very complex and complicated scheme which required a detailed knowledge of the history of the dwelling, particularly its rateable value, at key dates. In 1956 the government attempted to introduce new legislation to decontrol wide sections of the market, but in face of stiff opposition, was forced to radically amend its proposals. Rent Restrictions Acts were in force in Northern Ireland until the Rent (Northern Ireland) Order was introduced in 1978. This introduced 4 types of tenancies: restricted, regulated, both “controlled tenancies”, protected shorthold and uncontrolled. For properties which have restricted or regulated tenancies, the control limits the amount of rent that can be charged and gives the tenant considerable security of tenure. A property is controlled when: it was built or converted before 1956, and it was first let before 1978 and a tenancy (either a previous of the present tenancy) existed in October 1978 when the Rent Order came into operation.
Uncontrolled tenancies in the PRS are generally furnished properties or properties converted since 1956 to separate and self-contained accommodation.

The dramatic decline in the size of the sector can be attributed to a number of factors. It is often assumed that rent controls were primarily responsible for the decline in the sector. However, while they played a part, the overall contribution of rent control to the decline is marginal, considering new lettings have been largely outside of rent control since 1956, and more importantly, considering the other factors which lead to the decline of the sector. Firstly, the growth in owner occupation; the availability of mortgages and the relative affordability of properties to purchase has influenced the tenure choice of households. This is coupled with successive governments supporting owner occupation as the preferred tenure, and providing owner occupiers with a number of fiscal advantages, such as the ability to obtain tax relief on mortgages on the interest paid. Secondly, much of the private rented stock was in poor condition, and large sections have been cleared in large-scale redevelopment programmes. Thirdly, the increase in supply of public housing, particularly in the 1970s and 1980s, has provided an attractive alternative for low-income groups.

At present, the private rented sector in Northern Ireland is not homogeneous and contains a number of very different component parts. These can broadly be classes as the controlled sector, the uncontrolled furnished sector, the more affluent sector and the lower cost sector. Controlled properties now account for a small proportion of the PRS, and the numbers are declining. All controlled properties are listed on a Rent Register, and in 1988/89 there were 9,200 properties on the Rent Register, and by 2004-05 this had decreased to 6,000 properties. Tenants in this sub-market tend to be older, long-term tenants with relatively low incomes. The uncontrolled furnished sector tends to be dominated by young upwardly mobile tenants – either young professionals or students living in transitional accommodation mainly in the form of Houses in Multiple Occupation (HMOs). Tenants in this sector tenants tend to move into the owner occupied sector eventually. Belfast, in particular, has a high proportion of uncontrolled furnished properties for students, reflecting the considerable increase in the student population since the early 1980s. Similarly, there are clusters in Derry and the Coleraine-Portrush-Portstewart triangle linked to the two university campuses. There has always been a number of high quality properties to let in Northern Ireland. However, since the mid 1990s city centre and waters edge developments have contained a considerable number of apartments which have been bought specifically for the purposes of letting. However, market intelligence suggests that a sizeable number of these properties, which have been bought as an investment, are vacant. Finally, there is an increasing body of evidence indicating the emergence of a new segment of the market. This relies on lower cost new dwellings and sold Housing Executive dwellings that have been bought as an investment. These dwellings, which traditionally would have remained in the owner occupied sector, are often let to tenants who normally would have been housed by the social sector. This segment of the market has increased substantially in many district towns.

**Evidence indicating that PRS is housing traditional social housing tenants**

**Household Type**
Lone adults represent the largest single group of tenants in the private rented sector, possibly reflecting their inability to access owner-occupancy on their own as affordability becomes more of an issue. A single person may also find it difficult to access social housing in areas of high demand. Indeed, lone adult households represent the largest group on the waiting list for social housing. The proportion of lone adult households in private rented accommodation...
decreased slightly from 27% in 1996 to 22% in 2004 (see table 1). However, there was still an over representation of lone adult households in the private rented sector in 2004 (22%) compared with the proportion in the stock as a whole (12%). There was also a higher proportion of lone adult households living in the private rented sector compared with the proportion found in others tenure, with only 9% of owner occupied households headed by a lone adult and 11% of Housing Association dwellings, although a similar proportion of Housing Executive dwellings (22%) were headed by lone adults.

The proportion of lone parents in the PRS remained fairly similar between 1996 and 2001 at 10%. However, by 2004 this had increased to 16%, perhaps reflecting the greater difficulty of accessing good quality social housing in the right location. This is considerably more than found in the stock as a whole (6%) in 2004, but only a little higher than the proportion of lone parent households in Housing Executive accommodation (15%) or housing association accommodation (14%).

Table 1: Household Type All Tenures 1996, 2001 and 2004

<table>
<thead>
<tr>
<th></th>
<th>% in Owner Occupied</th>
<th>% in Private Rented</th>
<th>% in Housing Executive</th>
<th>% in Housing Association</th>
<th>% in all tenures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lone Adult</td>
<td>9.1 8.7 9.1</td>
<td>27.1 29.5 21.8</td>
<td>17 17.2 21.9</td>
<td>15.1 12.1 11.0</td>
<td>12.3 12.1 12.3</td>
</tr>
<tr>
<td>Two adults</td>
<td>14 13.6 13.7</td>
<td>13.2 14.8 11.7</td>
<td>7.9 8.1 10.3</td>
<td>5.4 3.8 3.9</td>
<td>12.2 12.3 12.7</td>
</tr>
<tr>
<td>Small family</td>
<td>14 14.6 18.3</td>
<td>10.8 9.7 9.2</td>
<td>9.1 8.8 9.0</td>
<td>3.1 3.2 1.3</td>
<td>12.3 12.8 15.5</td>
</tr>
<tr>
<td>Large Family</td>
<td>16.4 15 15.5</td>
<td>6.6 8.1 10.0</td>
<td>11.6 7.5 7.1</td>
<td>5.8 3.0 1.3</td>
<td>14.5 12.7 13.3</td>
</tr>
<tr>
<td>Large adult</td>
<td>18.1 18.2 16.8</td>
<td>12 8.8 11.4</td>
<td>7.8 6.5 5.7</td>
<td>4.8 1.0 4.6</td>
<td>14.5 14.7 14.2</td>
</tr>
<tr>
<td>Two older</td>
<td>14.9 15.5 14.8</td>
<td>7.1 7.8 7.8</td>
<td>11.2 11.1 11.4</td>
<td>8.8 8.1 12.4</td>
<td>13.4 13.8 13.5</td>
</tr>
<tr>
<td>Lone older</td>
<td>11.5 12.3 9.7</td>
<td>13.6 11.5 11.9</td>
<td>20.7 22.1 20.1</td>
<td>48.5 59.1 51.4</td>
<td>14.7 15.4 12.8</td>
</tr>
<tr>
<td>Lone parent</td>
<td>2 2.1 2.1</td>
<td>9.7 9.8 16.1</td>
<td>14.8 18.7 14.5</td>
<td>8.6 9.8 14</td>
<td>5.7 6.1 5.7</td>
</tr>
<tr>
<td>Total</td>
<td>100 100 100</td>
<td>100 100 100</td>
<td>100 100 100</td>
<td>100 100 100</td>
<td>100 100 100</td>
</tr>
</tbody>
</table>

Source: Northern Ireland House Condition Surveys

The Continuous Household Survey offers a slightly different classification system of household types. The CHS confirms that single adult households are the most common household type in the private rented sector. Figure 1 below also shows how the proportion of one-parent households, non-pensioner couple households with no children are increasing, whilst the proportion of pensioner households and couples with children are decreasing.

Figure 1: Household Type

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1 The household type classifications are broadly similar, the main difference is with the CHS classification “couple and offspring, all any age”, the HCS contains the separate classifications of “small family and large family”. The HCS also has a large adult household category.
Socio-economic characteristics
If we examine the socio-economic characteristics of households in the PRS, overall there is a greater predominance of higher levels of unemployment, higher benefit dependency and lower incomes in the private rented sector than found in the stock as a whole.

Table 2 shows that the proportion of unemployed heads of households decreased from 23% in 1996 to 16% in 2001. The 2004 Interim House Condition Survey shows a reversal of this trend; it found that the proportion of unemployed heads of household in the PRS was 22%, similar to the level in 1996. Therefore, the proportion of unemployed heads of household in 2004 was more than double than that found in the stock as a whole (10%), and only a slightly lower proportion than found in Housing Executive accommodation (26%). The proportion of heads of households in the PRS in employment had substantially increased from 1996 to 2001, from 38% in 1996 to 47% in 2001, possibly mirroring the huge increases in house prices in Northern Ireland over this period. However, by 2004 this had dropped to 35%, (although numerically, the numbers in employment had only decreased slightly), this is considerably lower than the proportion found in the stock as a whole (53%).

Table 2: Employment Status by tenure (%) 1996-2004

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th></th>
<th></th>
<th>2001</th>
<th></th>
<th></th>
<th>2004</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% in PRS</td>
<td>% in NIHE</td>
<td>% in total stock</td>
<td>% in PRS</td>
<td>% in NIHE</td>
<td>% in total stock</td>
<td>% in PRS</td>
<td>% in NIHE</td>
</tr>
<tr>
<td>Employed</td>
<td>37.8</td>
<td>20.6</td>
<td>46.6</td>
<td>46.8</td>
<td>17.4</td>
<td>49.7</td>
<td>34.5</td>
<td>20.4</td>
</tr>
<tr>
<td>Unemployed</td>
<td>23.4</td>
<td>23.7</td>
<td>10.7</td>
<td>16.0</td>
<td>20.0</td>
<td>7.4</td>
<td>22.4</td>
<td>25.6</td>
</tr>
<tr>
<td>Retired from work</td>
<td>20.4</td>
<td>32.1</td>
<td>29.4</td>
<td>16.9</td>
<td>29.9</td>
<td>29.2</td>
<td>19.5</td>
<td>28.2</td>
</tr>
<tr>
<td>Perm</td>
<td>6.5</td>
<td>10.4</td>
<td>6.3</td>
<td>9.9</td>
<td>15.5</td>
<td>7.4</td>
<td>10.8</td>
<td>17.4</td>
</tr>
</tbody>
</table>
Income
Low-income tenants are over-represented in the private rented sector when compared to the stock as a whole (see table 3). Although a significant proportion of private renting tenants (19%) had incomes over £20,000, this is considerably less than the 29% found in the stock as a whole.

Table 3: Annual Gross Household Income 2001

<table>
<thead>
<tr>
<th>Owner Occupied</th>
<th>Private Rented</th>
<th>Housing Executive Association</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Under £5,000</td>
<td>6.1</td>
<td>19.0</td>
<td>20.0</td>
</tr>
<tr>
<td>£5,000 - £9,999</td>
<td>18.2</td>
<td>26.6</td>
<td>50.6</td>
</tr>
<tr>
<td>£10,000 - £19,999</td>
<td>38.0</td>
<td>26.2</td>
<td>35.5</td>
</tr>
<tr>
<td>£20,000 or more</td>
<td>37.5</td>
<td>3.6</td>
<td>28.6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The proportion of households in the private rented sector with annual incomes of less than £5,000 is twice that found in the stock as a whole (19% compared to 10% of all households). In owner occupied housing 6% of households had annual incomes less than £5,000, whilst 20% of households living in Housing Executive accommodation and 15% of households living in Housing Association accommodation had annual incomes of under £5,000 per annum. Nineteen per cent of privately renting households had incomes of over £20,000 per year, although less than the overall figure of 29%, it is considerably more than those living in Housing Association or Housing Executive accommodation.

Housing Benefit
The research found evidence that housing benefit has fuelled demand for private rented accommodation. Key players in the housing market suggest that in some areas, housing benefit is sustaining the private rented sector; In some local housing markets, the proportion of private renting tenants in receipt of housing benefit is estimated to be as high as eighty-five to ninety per cent. The number of private sector housing benefit claimants increased from 32,800 in March 1996 to 50,700 in March 2004 (see figure 2). However the private sector caseload is made up of social and private sector cases: this includes Housing Association tenants, tenants of voluntary landlords, tenants in receipt of housing benefit which covers only the rates and tenants of private landlords in the PRS. Due to changes in the housing benefit computer system, it has only recently become possible to differentiate between private landlords and social private landlords. In 2004/05, there were 38,300 private rented sector tenants in receipt of housing benefit.

Figure 2: Private Tenants in receipt of Housing Benefit, Northern Ireland
Alongside the increase in the numbers of private sector housing benefit cases, the numbers of public sector tenants in receipt of housing benefit has decreased (See figure 3). In 1996, 111,500 public sector tenants received housing benefit, representing over three quarters (77%) all of housing benefit recipients (public and private), by 2005 72,600 public sector tenants received housing benefit, representing 64% of all housing benefit recipients (see figure 3). This can be explained by the reduction of Housing Executive stock through the house sales scheme, but it could also be linked to the increasing incidence of public sector tenants moving into private rented accommodation, for example, in Dungannon, seven out of ten terminations of Housing Executive tenancies in the past year were to go to the private rented sector.

In 2004-2005 the total housing benefit bill was £371.5 million, of this, £176.5 million was spent on private sector housing benefit cases, nearly half (48%) of the total housing benefit budget. As a result of the recent changes in the housing benefit system, it will be possible to provide an accurate analysis of the total amount spent on tenants living in the private rented sector in the future.
Why are these traditional social housing tenants living in the PRS?

Difficulty in obtaining social housing

Northern Ireland Housing Executive stock continues to decrease, with more than 5,000 properties sold per annum from 2000/01 to 2003/04 under the Statutory House Sales Scheme, commonly known as the Right to Buy (RTB). This figure dropped significantly in 2004/05 to around 3,100 as the effects of the new tighter house sales regulations and less generous discounts begin to emerge. By March 2005 more than 111,000 properties had been sold to sitting tenants. Figure 3 highlights the decrease in Housing Executive stock.

Figure 3: Total Occupied Housing Executive Stock (thousands)

Source: DSD Housing Statistics 2004/05

New build for social housing is not keeping pace with the contraction of Housing Executive stock. In the last five years, the annual social housing programme has compensated for less than one-fifth of the annual reduction in Housing Executive stock as a result of house sales and demolitions (NIHE, Review and Perspectives, 2005-2008).

Sales of public sector properties have changed the tenure balance significantly. RTB properties account for one-fifth (21%) of the owner occupied sector and 15 per cent of the housing market as a whole (NIHE, 2004). Around 40 per cent of the growth of home ownership in Northern Ireland is attributable to the sales scheme (Atkinson and Goodlad, 2002). In some estates within Northern Ireland, the Right to Buy has proved to be extremely popular amongst tenants. For example, in some estates the proportion of stock sold to sitting tenants is over three quarters of the total stock. However, not everyone can afford to purchase their home. The fact that a high proportion of private renting tenants are in receipt of housing benefit suggests that they would be unable to afford to enter the owner occupied sector.
Trends in the Waiting List 1994-2005

Figure 6 shows trends in the waiting list for social housing over a ten year period. Between 1995 and 2000 the overall number of applications remained fairly stable at around 23,000. A re-assessment exercise in 2000 resulted in a temporary reduction in the number on the waiting list in 2001. However, by 2002 the waiting list had jumped to nearly 26,000, well above the level typical in the 1990s and has continued to rise. In 2005 it stood at 29,800, a 7.8 per cent increase on 2004. The number of applicants in urgent need has also increased. After the re-assessment in 2000, the number in urgent need rose rapidly to reach 14,200 in 2004. The rate of increase to 2005 was again accelerated compared to the previous year: in 2005 15,700 households were in urgent need, an increase on 10 per cent on the 2004 figure (Northern Ireland Housing Executive, 2006).

Figure 6: Trends in the Waiting List for Social Housing 1995-2005

Source: Northern Ireland Housing Executive

Single person households represent the largest household group on the waiting list, and by 2005 they represented nearly half (45%) of all household types on the waiting list.

Attraction to PRS properties

Access to desirable areas

Public sector estates

Evidence suggests that a significant proportion of public sector properties purchased through the Right to Buy scheme are being rented privately. The majority of these properties are in highly desirable areas. There are several interrelated factors which help us understand the motivations of those who move into privately rented dwellings in public sector estates. Firstly, the Right to Buy has decreased the size of Housing Executive stock. As house sales have been highest in the more desirable areas, this has the effect of lengthening the waiting list. For those seeking housing in these high demand areas, there is therefore little prospect for most, and in particular, a single person, gaining access to public sector accommodation in
these area’s. However, as some of these properties are now being rented out privately, tenants, who would have little prospect of entering these areas via the waiting list, are now able to gain immediate access to these properties.

Owner occupied areas
There is now evidence that increasing numbers of privately rented properties are appearing in owner-occupied areas. The increase in the private rented sector in owner-occupied areas is happening in two main ways. Firstly, in lower cost new build developments; originally intended for owner occupation, properties have been purchased by prospective landlords for rent. Secondly, in some older, traditional owner occupied areas, there is evidence that private renting is expanding. Although this is happening throughout Northern Ireland, it is particularly evident in the areas surrounding the universities. Private rented dwellings in owner occupied areas gives tenants’ access to areas that they previously would not have had. This may be attractive to those who aspire to home ownership but are unable to afford to purchase their own homes, as often it is difficult to identify who owns their homes and who rents in these areas.

Segregation
The segregated nature of housing, particularly public sector housing within Northern Ireland also plays a role in encouraging people, particularly households of mixed religion, to live in the PRS. For lower income households of mixed religion, living in the PRS may be the only viable option. Most public sector housing estates in Northern Ireland are religiously segregated, (according to the 2001 HCS only 2% of households within Housing Executive estates are of mixed religion). The majority of mixed religion households are owner-occupiers (74%); however, a significant proportion will not be able to afford to purchase their own home and will therefore end up in the private rented sector. The 2001 HCS found that the private rented sector had the highest proportion of mixed religion households – 7.8%, compared to 4.3% in the owner-occupied sector and 2.1% in Housing Executive properties.

Increase in standards
A further factor on the demand side is the increase in the availability of better quality properties. Standards within the sector have increased substantially. Unfitness in the PRS has decreased substantially, from 15 per cent in 1996 to 5.4 per cent in 2004. However, the rate of unfitness is higher than in the total stock, (the unfitness rate for all properties was 3.8 per cent, and 1.7% for occupied stock). Unfitness in the PRS is linked to dwelling age: almost two-thirds of unfit private rented dwellings were built before 1919.

The proportion of older dwellings in the sector is declining (although the PRS still has an older stock profile than the other tenures). The House Condition Survey found that the proportion of dwellings built pre 1919 substantially decreased from 49% in 1996 to 38% in 2001, this continued to decrease and by 2004 the figure was 37%. Conversely, the proportion of properties built post 1980 tripled from 1996 to 2001, from 5% to 15%, and jumped again in 2004 to nearly 19%.

<table>
<thead>
<tr>
<th>Table 4: Private rented stock year: of construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Pre 1919</td>
</tr>
<tr>
<td>1919 - 1944</td>
</tr>
<tr>
<td>1945 - 1964</td>
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</tbody>
</table>
Evidence from the case study areas of Armagh, the Coleraine Triangle, Dungannon, and Derry suggests that a considerable proportion of properties from lower cost new build developments are finding their way onto the private rental market. For example, key players in Armagh stated that there are high levels of private renting tenants in new build developments. Following this, a small-scale case study was undertaken in Armagh, using the Private Sector Housing Benefit database as a sample frame) which showed that significant proportions of tenants in these private developments were in receipt of housing benefit, and in one new development 40% of residents were claiming housing benefit. The proportion of private renters in these areas may be even higher as only those in receipt of housing benefit were included in this figure. Research carried out by the NIHE in 2004 found that over 50% of new private housing in Belfast went directly to the PRS.

The increasing numbers of new build properties being rented privately in some areas not only means excellent conditions for the tenants living in the property, but that other properties in the area must improve facilities in order to compete for business. Key players in the sector suggested that the increase in supply in privately rented properties may be outpacing demand in places. Increasing competition between landlords for tenants has resulted in the conditions in the properties being improved as landlords compete for business. Indeed, tenants within this study\(^2\) reported considerable satisfaction with their accommodation. (90% were very or fairly satisfied with their accommodation).

### Threats to the growth of the sector

There appears to be a limit to the growth of the private rented sector in terms of demand from the low-income sector. The numbers presenting to the Northern Ireland Housing Executive as homeless due to loss of private rented accommodation is increasing. In 1991/1992 984 people presented as homeless due to losing their private rented accommodation, and by 2004/2005 this figure had more than doubled to 2,249.

Figure 7: Numbers presenting as homeless due to loss of private rented accommodation

\(^2\) Although the number of tenants is small and should be viewed with caution
A small-scale survey of those who had presented as homeless to the Housing Executive due to loss of PRS found that there were three main reasons for this increase:

Firstly there were the “bona fide homeless”. This includes cases where the landlord intended to sell the property. Of those who had presented as homeless due to loss of private rented accommodation, nearly half (47%) of respondents stated that their landlord was selling the property. In the landlords’ survey, a considerable proportion (14%) stated that they intend to decrease their portfolio size.

Secondly, difficulty in paying the rent, or more precisely, in paying the shortfall between the amount of housing benefit received and the contractual rent, is another reason for the increase in those presenting as homeless due to loss of private rented accommodation. In the survey, 15% of respondents were in receipt of full housing benefit and 62% were in receipt of partial housing benefit. Of those who had to pay a shortfall between the amount of housing benefit they received and the contractual rent, all faced difficulty in paying this shortfall: one third found it fairly difficult to pay the shortfall and two thirds found it very difficult to pay the shortfall. The average shortfall was £28 per week. Nearly half of all respondents surveyed reported that difficulty in paying the rent/shortfall in housing benefit was a contributing factor in their presentation as homeless.

Thirdly, there was evidence to suggest that some tenants had conspired with their landlords in order to gain homeless status. The experience of the field workers suggested that those who had presented as homeless were suspicious of the researchers. For example, there were many occasions when the researcher visited an address and asked for the person by name, they were then informed that the person no longer lived there. Some provided a forwarding address, but when this forwarding address was visited, the occupying household claimed to have no knowledge of the named person. It appeared after a number of cases that a pattern was emerging, and that the person first visited was in all probability the person who had presented as homeless and was contriving a situation to obtain additional points on the waiting list. It may be the case that the tenant was contriving their homelessness in order to achieve extra points to move up the waiting list for social housing. Half of respondents who had presented as homeless due to losing their private rented accommodation were on the NIHE waiting list before they presented as homeless, and almost one quarter had been on the waiting list for more than five years. The reason why a landlord would become involved in contriving homelessness is financial. Many of these tenants experienced difficulty in paying the rent/shortfall in housing benefit. It was suggested that landlords provide tenants with a letter showing their intention to sell the property, the tenants can then inform the NIHE of the
intention to sell the property, ensuring the tenant is awarded priority homelessness status. This means the tenant can access public sector housing quicker than they would otherwise have been able to. Once the tenant has been re-housed, the landlord can advertise for new tenants.

Thwarted expectation in the PRS
In general, whilst tenants found the conditions in the PRS excellent, they were often disappointed with the service they received from their landlord, this was particularly marked amongst those who had previously lived in Housing Executive accommodation. For example, when requests were made for response to a problem, such as a repair or general maintenance issue, the response was extremely slow. Many tenants reported difficulty in contacting their landlord, and indeed, tenants with letting agents reported difficulty in contacting them out of hours in emergency cases.

Potential threats and the implications
There are several factors which may impact on landlord’s continuance in the sector, including interest rates, house process and proposed changes to housing benefit legislation. Significant disinvestment in the PRS is an area of concern, particularly as there are some 38,000 PRS tenants in receipt of housing benefit – when faced with homelessness, these tenants will look to the social sector to be re-housed given their low-incomes.

A significant increase in interest rates may have a dis-investment impact. Landlords with mortgages would face a reduced return on their investment, and some, particularly the newest landlords with the largest mortgages, may encounter difficulties in meeting mortgage repayments. Landlords with high loan-to-value ratios are more vulnerable to interest rate rises, and the landlord survey found that landlords that used loans/mortgages to finance their purchases had relatively high loan to value ratio’s. Half of landlords surveyed had loan-to values ratio’s of over 75%, this is considerably higher than Scanlon and Whitehead’s (2005) survey of landlords which found that 21% of buy-to-let landlords had loan-to-value ratio’s of over 75%. At the same time, an increase in interest rates would make savings accounts more attractive.

Stabilising or falling house prices, affecting the capital appreciation of property, could also lead to disinvestments in the sector. In the landlord survey, the majority of landlords gave capital appreciation as the main reason for continuing in the sector. If house prices were to stabilise, 10% of landlords surveyed would decrease the size of their portfolio, and if house prices were to drop by 10%, one fifth (21%) of landlords surveyed would decrease the size of their portfolio.

The implementation of the Local Housing Allowance, when Housing Benefit will be paid directly to the tenant, is an issue of concern for landlords. There is a fear that this could lead to landlords with housing benefit tenants exiting the sector or letting to non-housing benefit tenants.

Dis-investment in the sector would result in serious problems. In 2004/05 38,300 tenants in the private rented sector were receipt of housing benefit. If there was a 5% drop in the overall size of the sector it would displace nearly 2,000 households, and a decrease of 10% would result in 3,800 households seeking alternative accommodation. These tenants who are potential social housing tenants, when faced with homelessness, would look to the Housing Executive for re-housing given the nature of their income levels. The continuing contraction
of the number of Housing Executive dwellings could further exacerbate the problem. Housing Association properties may be an option for some; in March 2005 there were 21,300 dwellings in this sector. The housing association sector has responsibility for new build social housing. However, in the last five years the annual new social housing programme has compensated for less than one-fifth of the annual reduction in Housing Executive stock as a result of house sales and demolitions.

Multiplier effect
If a significant amount of landlords disinvested in the sector this would impact on tenants still living in the sector and as well as potential tenants. In a situation where demand outstrips supply, landlords can increase rents. Low income tenants, and in particular tenants in receipt of housing benefit, may find it difficult to find affordable accommodation. Standards may also reduce, and in particular there is an increased likelihood for overcrowding, as more resort to shared accommodation and therefore reducing the rent. In an oversupply situation, landlords must compete for tenants, with good quality accommodation, however, in undersupply situations, landlords need make no improvements to their properties in order to attract tenants.

Conclusion

There is no doubt in recent years there has been a considerable expansion in the supply of, and the demand for private rented housing. Since 1991 there are over twice as many units available throughout the Province, a trend that has reflected other regions in the UK. The passage of time has diminished the controversy that surrounded the private rented sector in the past, particularly in relation to physical standards and the way in which the stock is managed. The sector is, however, increasingly playing a pivotal role in the supply of social housing. There has been an increase in the number of low income and vulnerable groups who now reside in the sector. Increasingly the sector is becoming the ‘preferred tenure’ for the marginalised and excluded. On the one hand, social housing tenants are entering the private rented sector as the demand for public rented accommodation is much higher than supply, a supply that is diminishing year on year. On the other hand social housing tenants are citing a preference for the private rented sector given high standards and locational factors. This is particularly the case where accommodation becomes available in lower cost new build developments. This paper has demonstrated the increased role the private rented sector is playing in providing and managing social housing. Rapid increases in house prices and generous levels of housing benefit have led to an influx of landlords attracted by capital and revenue gains and the nature in which housing benefit is paid directly to the landlord. What is becoming clear is that the roles which private renting is performing are becoming more complex, with the emergence of low income and vulnerable families renting privately. Problems that need to be addressed are the skills that these emerging new private housing managers require, the likelihood of changes to the way in which housing benefit is paid and a levelling off of house price inflation. Dis-investment in the sector may lead to additional burdens on and already depleted public sector.

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