Research report

Private landlords and the Local Housing Allowance system of Housing Benefit

by David Rhodes and Mark Bevan



Department for Work and Pensions

Research Report No 689

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First Published 2010.

ISBN 978 1 84712 837 9

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Acknowledgements

This research relied on the help, professionalism and goodwill of many people. In particular we would like to thank all the private landlords and letting agents who gave their time to be interviewed for this research. Their willingness to be involved and to explain their views and experiences in detail made the research possible.

We are grateful to Hannah Atherton of Ipsos MORI for managing the often complex survey recruitment and interview schedules in the case study areas, and to Ian Fletcher of the British Property Federation for his help in recruiting the nationally-operating landlords.

In the Department for Work and Pensions we would like to thank Andy Brittan and Dan Heap for their help and guidance, and in the Centre for Housing Policy we are grateful to Nicola Moody for her impeccable administration of the project.

Any errors or omissions are entirely the fault of the authors.

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Abbreviations

BRMA Broad Rental Market Area

DWP Department for Work and Pensions

HB Housing Benefit

LA Local Authority

LHA Local Housing Allowance

PRS Private Rented Sector

TDS tenancy deposit schemes

Summary

Introduction

This report sets out the results of research on private landlords and letting agents that had experience of letting to someone claiming Housing Benefit (HB) under the Local Housing Allowance (LHA) rules. It forms part of a two year review of the LHA system of HB by the Department for Work and Pensions (DWP).

Methods

The research took a qualitative approach, involving 60 semi-structured, in-depth interviews with private landlords and letting agents. To allow for possible impacts of different types of area and private rented markets on the operation and experiences of the LHA, six differing case study locations were selected, which included the Local Authority (LA) areas of Bradford, Cornwall, Coventry, Edinburgh, London borough of Newham, and Sunderland. Updated 2001 census data and the DWP HB caseload figures were two of the sources of information used in the selection of the case study areas.

As a result of the qualitative approach and the recruitment method, the findings of the research cannot be considered to be representative in a statistical sense. It is not possible for this research to provide an assessment of the scale or incidence of the respondents' views and experiences, as would be the case with a quantitative survey.

Knowledge of, and views on, the Local Housing Allowance

Respondents highlighted a number of positive features of claiming HB under the LHA rules, including greater transparency and simplicity, as well as the removal of pre-tenancy determinations. Nevertheless, there was considerable strength of feeling against direct payments from a majority of respondents.

Publication of the LHA rates was valued as a useful source of information. More information about specific aspects of claiming HB under the LHA would be welcomed, especially around safeguards.

Views on excesses were mixed. On one hand, there was antipathy to the notion of taxpayers' money being used as an additional source of income for tenants. On the other hand, some respondents did not object to the principle of the excess payment, and also felt that it helped foster 'happy tenants' in tenancies where an excess could be achieved. Nonetheless, variable practice in different areas over the use of the excess to recoup arrears did lead to some frustration amongst a number of respondents.

Letting preferences

A general hierarchy was evident in the letting preferences of respondents, with household type being the least important, economic status being of greater importance, and the HB status being of most importance. Working tenants were often most preferred because they were viewed as being more reliable at paying their rent, and could afford to pay a deposit and their rent in advance. Respondents ideally preferred letting to non-HB tenants, most commonly because of experiences, or fears, of the rent not being paid. Smaller landlords were the most likely to be sympathetic towards letting to HB tenants, and a few of the larger landlords specifically targeted the HB sub-market because of the greater returns they could obtain.

Claiming Housing Benefit

The time that claims take to process, coupled with direct payments, raises the issue of the size of the first payment, and also the extent to which provision is being made of the mechanism to make the first payment payable to the landlord. The extent to which respondents actively managed the process of claiming HB varied considerably. Some respondents – mostly the larger landlords and letting agents – emphasised that strong management of this process, including helping tenants to fill in the claim form, was necessary to minimise the risk of delays and other subsequent difficulties. Improving the level of dialogue and communication between landlords and letting agents on one hand, and LAs on the other was viewed as an important ingredient in reducing tensions and resolving difficulties.

Starting a tenancy

Respondents most commonly said that they followed the market when setting their rents. Others simply used the LHA rates to set their rents, either viewing these as good indicators of market rents, or because they were largely operating within the HB sub-market. Landlords often also took into account their running costs when setting rent levels. Some respondents were rent maximisers, charging as much rent as they felt the market, or the HB sub-market could bear; whilst others were turn-over minimisers, undercutting the market or the HB sub-market slightly. Deposits and rent in advance were not always charged of HB tenants, because they were often thought to be unable to afford such items. The charging of deposits, perhaps of just a small amount, was often thought to be of symbolic importance in showing that a tenant had the 'right attitude'.

The rent and rent arrears

Many respondents adopted a flexible approach to collecting the rent in order to accommodate HB tenants' varied ways of paying the rent. One of the problems that respondents encountered with tenants depositing the HB in bank accounts was that this money was often used to pay off other bills and overdrafts. Not all tenants had bank accounts, and again this could cause difficulties with collecting in the rent. A particular frustration for many respondents was the HB payment cycle, which was in weekly multiples, rather than on a monthly basis, which was felt to be the industry standard. This practice could also cause complications and difficulties for landlords in collecting the rent.

Arrears could result from the mechanics of the HB system, including the time taken to process initial claims and payment in arrears. Arrears were also caused by tenants in receipt of HB, but who were not paying the rent. Two types of behaviour by tenants with regard to the non-payment of rent were noted by respondents. Firstly, intermittent or irregular arrears, which could be the result of a specific personal or financial crisis for the tenant, or decisions to spend monies on other things such as, for example, Christmas, holidays, or clothing for children's school uniforms. Secondly, committed non-payers emerged as a sub-group of tenants who were reported by respondents as having no intention of paying the rent.

Many respondents felt that the LHA had resulted in an intensification of management in an attempt to minimise the risks of arrears. Nevertheless, there was the perception that the current operation of provisions and safeguards, as well as existing channels of communication between landlords and LAs, was exacerbating levels of arrears.

Provisions and safeguards

Awareness of the eight week rent arrears provision was widespread, partly because it was a continuation from under the previous system of HB, partly because it had been widely discussed at meetings and forums, and partly because respondents had often used the instrument. The period of rent arrears under the provision was criticised for being too long, with four weeks regularly suggested as being sufficient for both the landlord and tenant. Respondents often pointed out that:

- their own costs, especially mortgage repayments, still had to be covered even though the rent was not being paid;
- it was virtually impossible for them to ever recoup the eight weeks rent arrears from HB tenants;
- by the time a claim had been suspended and investigated, it could be over three months before any HB was finally redirected to them.

There was limited awareness of the 'difficulty paying their rent' and the 'unlikely to pay their rent' safeguards. Respondents were often unclear on how the safeguards worked, or which eventualities they were expected to cover. Where they had been used, there was a lack of clarity about why the HB was redirected to the landlord or agent in some cases but not in other similar ones. The amount of work, time and sometimes the cost of implementing the safeguards was often prohibitive, and particularly so for sideline landlords.

The future

The majority of respondents noted that the size of their portfolios would remain fairly static in the short term. The main reported impact of the current economic climate was that most landlords were postponing decisions about increasing or reducing the size of their portfolios. A number of landlords - with both small or large portfolios - stated that ideally they would like to expand what they had, but that the current mortgage market precluded this option for those who relied on loan finance.

The overwhelming view from the majority of respondents was that they intended to remain in the business for the long-term. Further, many landlords planned to expand their portfolios in the medium to long-term. Demographic reasons were often put forward in instances where the intention to reduce the size of portfolios was indicated, or where respondents planned to sell-up entirely.

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For landlords who intended to remain in the business, there was a strong sense from many that they would try and switch away from letting to HB tenants if they could. This trend did not reflect a universal view, however. A number of landlords emphasised that they were happy to let to HB tenants, although this tended to be to particular HB demand groups, such as families; tenants who were more likely to have the rent guaranteed in some way via third party agencies; or alternatively as a result of the careful screening of prospective tenants at the start of tenancies.

Conclusions and good practice recommendations

Reflecting the diversity within the Private Rented Sector (PRS), the research found a range of views on letting to HB tenants under the LHA system. Some aspects of the new system were widely seen as being an improvement over the previous system of HB, notably its transparency, and the clarity and certainty that it was seen as giving to both landlords and tenants.

There were criticisms linked to the single issue of HB ordinarily being paid directly to claimants, with no option for HB tenants to choose to have it paid to their landlord. The potential for landlords, and particularly sideline landlords (that is, landlords whose primary occupation was in something else), to have difficulties in being able to devote the necessary time to managing HB tenants under the LHA was considerable. The costs that could be associated with rent arrears for such landlords, as they could be for many other landlords and agents too, were a particularly pressing issue.

- Durham County Council offered an example of good practice, including a section on the claim form for the tenant to indicate that they were concerned about their ability to pay their rent if the HB were paid directly to them.
- Another example of good practice was a provision made by a couple of LAs to give preference in some way to accredited landlords and agents. Newham was highlighted as being helpful in that the borough was able to provide more information on the status of specific HB claims over the telephone. A Sunderland respondent mentioned a fast-tracking system for accredited landlords with HB tenants in rent arrears under the eight week rent arrears provision.

1 Introduction

1.1 Introduction

This report sets out the results of research on private landlords that had experience of letting to someone claiming Housing Benefit (HB) under the Local Housing Allowance (LHA) rules. It forms part of a two year review of the LHA system of HB undertaken by the Department for Work and Pensions (DWP).

The LHA rules are a new way of assessing entitlement to HB for low income tenants in the Private Rented Sector (PRS), and following tests and evaluations of the LHA in pathfinder areas since 2003, the scheme was introduced nationally on 7 April 2008. Since that time, the LHA rules have applied to most new claims for HB in the PRS. They have also been applied to existing claims in situations where a tenant has changed address, if there has been a break in benefit entitlement of one week or more, or where there has been a change in claimant.

1.2 Policy background

Help with housing costs is available to low-income households who live in private rented accommodation in the form of means-tested HB. Local Authorities (LAs) have a statutory duty to administer HB according to the regulations and framework set by the DWP. Arrangements for restricting the maximum levels of private rents available for HB have always been in place, and have been amended a number of times. Prior to the LHA, perhaps the most significant amendments were during 1989, when Rent Officer decisions directly became the basis for HB restrictions; and then again in 1996, when the system of 'local reference rents' and 'single room rents' was introduced.

The HB system preceding the LHA had been criticised, however, both in terms of its structural design, and also the way in which it was administered for example, DETR, 2000. Some criticisms focussed on the way in which the structure of HB limited the opportunity for claimants to fully act as consumers, whilst others pointed to the sometimes lengthy delays in the processing of new claims.

The Government's intention to reform the HB system was announced in the Green Paper *Quality and Choice: A Decent Home for All* (DETR, 2000). A review of the HB system was subsequently announced in 2003, introducing the LHA. The LHA was intended to tackle many of the problems that were seen to be associated with the HB system at that time, principally through the introduction of a flat-rate allowance for given household sizes, a simpler system of administration, and cessation of direct payments of HB to landlords and letting agents under normal circumstances.

1.3 The Local Housing Allowance system of Housing Benefit

The stated objectives of the LHA (DWP, 2009) are to promote:

- Fairness: similar households receive a similar level of benefit.
- Choice: tenants get more choice in how they spend their benefit.
- Transparency: the LHA rates are published in advance.
- Personal responsibility: tenants will normally be involved in paying for their accommodation.
- Financial inclusion: claimants would be encouraged to use a bank account for receiving their LHA and paying their rent.

• Improved administration and reduced barriers to work: greater certainty for tenants about the help that is available, speedier administration of HB for people starting a job, and greater transparency for people moving area to take-up work.

The intention was that these six objectives would be met through modifications to the HB system under the LHA rules. The following sections set out how the HB system has been changed through the introduction of the LHA.

1.4 Claiming Housing Benefit prior to the Local Housing Allowance

Under the system prior to the LHA, the LA would refer the claimant's rent to the Rent Officer, who would decide the amount of rent that should be used to calculate HB. For each referral, the Rent Officer could restrict the rent if it was above the market level for that dwelling, if the accommodation was too large, or if the dwelling was exceptionally expensive. From 1996, the additional restrictions of the local reference rent and the single room rent were introduced, which placed a ceiling on HB according to the average market rent for dwellings of a particular size in the locality. Unless a pre-tenancy determination was requested, a claimant would usually only find out whether and by how much their rent may have been restricted when the claim had been processed. Research has shown that of all referrals to the Rent Officer during 1999 in England and Wales, 70 per cent were subject to at least one form of restriction in the calculation of HB entitlement (Kemp, et al. 2002). In addition to this referral procedure, the LA would itself take into consideration the income and personal circumstances of claimants in reaching a decision on the amount of HB that would be paid.

1.5 Claiming Housing Benefit under the Local Housing Allowance system

The amount of assistance provided under the LHA rules is not property-specific, in contrast, and so is not subject to referral to the Rent Officer and the previous range of restrictions. One intention of simplifying the administration in this way was to speed-up the processing times of new claims, which under the previous system were not uncommon and were sometimes chronic. Therefore, HB under the LHA is assessed, again according to the income and personal circumstances of the claimant, and then according to the number of bedrooms for which a household qualifies. A household is allowed one bedroom for every adult couple, any other adult aged 16 or over, any two children of the same sex, any two children regardless of sex under the age of ten, and any other child. A lower shared room rate normally remains in place for single claimants under the age of 25, and from 6 April 2009 an upper limit of five bedrooms has been in place.

The six LHA rates are set for each 'Broad Rental Market Area' (BRMA) by Rent Officers. These rates are based on the median rent for non-HB supported private rented tenancies within the BRMA (the previous administration proposed in the Budget 2010 that the highest rents be excluded from the median rent calculations, because of very high payments of HB to some tenants in the most expensive areas). The BRMAs have been identified by The Rent Service according to a range of criteria, including that a BRMA is comprised of two or more distinct areas of residential accommodation, that a reasonable range of facilities and services exist within a BRMA, that the BRMA contains a variety of residential types, and that there are sufficient private rented tenancies to ensure that the LHA rates are representative of the rents that landlords might reasonably be expected to obtain (DWP, 2009).

1.6 Receiving Housing Benefit under the Local Housing Allowance

The payment of HB to landlords or letting agents rather than to the tenant, as was often the case prior to the LHA, had been criticised as weakening the contractual nature of the relationship between landlord and tenant. Thus, landlords or agents may have viewed their relationship as being with the LA rather than their tenant. Tenants, on the other hand, may have been unable to fully negotiate as consumers with their landlord or agent due to their lack of involvement in paying the rent. Under the LHA rules, therefore, payment of HB is normally made directly to the claimant. There is no option for tenants to choose to have their HB paid to their landlord or agent, as existed under the previous arrangements.

A dimension to the flat-rate allowance available under the LHA is that tenants are able to keep the excess between their benefit entitlement and their contractual rent. Thus the LHA introduces a 'shopping incentive'. During the Pathfinder stages of the LHA, claimants were able to keep the full amount of any excess, but from the national roll-out of the scheme a cap of £15 per week was placed on the excess that can be retained.

Provisions and safeguards under the Local Housing Allowance

Although the normal practise under the LHA is for HB to be paid directly to the tenant, there are three situations in which HB can be paid to the landlord or agent. First, there is the provision, as existed under the previous system for tenants receiving HB direct, for HB to be redirected away from the tenant towards the landlord or agent if a claimant falls into rent arrears of eight weeks. This is a mandatory requirement, unless to do so would be against the overriding interests of the claimant.

In addition to the eight week rent arrears provision, two new safeguards have been introduced under the LHA. First, if a tenant is considered likely to have 'difficulty in paying their rent', perhaps as a result of having learning difficulties, a mental illness, or a drug or alcohol dependency, then HB can be paid to the landlord. The LA needs to consider whether there is evidence from a range of possible sources, including social service departments and welfare organisations, that a claimant would have difficulty in managing their financial affairs such that they would be unlikely to pay their rent on time. Claimants themselves, or persons and organisations acting on their behalf, may make representations to the LA in this respect.

The second new safeguard under the LHA relates to claimants that deliberately fail to pay their rent, rather than have difficulty in managing their financial affairs. There are no conditions set out in statute that need to be satisfied to determine whether a claimant is 'unlikely to pay their rent'. For example, the LA has discretion to redirect the HB to the landlord or agent if arrears of less than eight weeks have been accrued by the claimant, if it is satisfied that the tenant is unlikely to pay their rent. Again, the claimants themselves, or persons and organisations acting on their behalf, may make representations to the LA over the unlikely to pay issue. Landlords may also make representations to the LA, although their evidence alone may be considered insufficient to trigger a redirection of HB.

1.8 The research

Following the national roll-out of the LHA, the DWP commissioned the Centre for Housing Policy at the University of York to conduct research to understand the experiences of, and views on, the LHA, from the perspective of the people and organisations involved in the supply of private rented accommodation. The research involved a series of interviews with private landlords and letting agents in six differing case study locations, as well as a small number of wider operators, who had some experience of letting to HB claimants under the LHA rules. The interviews were conducted during the autumn of 2009.

1.9 Research methods

The research took a qualitative approach - involving semi-structured, in-depth interviews - to allow exploration of the range of possible experiences and views on the LHA system. To cater for the possible impacts of different types of area and private rented markets on the operation and experiences of the LHA, a case study approach was taken. DWP required some areas to be included that had been LHA Pathfinders, for there to be a wide geographic spread of areas, for there to be a spread of market types, and for the research to include an area with a large BRMA. Six case study locations were selected, which included the LA areas of Bradford, Cornwall, Coventry, Edinburgh, London borough of Newham, and Sunderland. The characteristics of the case study areas, including descriptions of their local markets by the survey respondents, are set out in Appendix A.

A target quota of ten interviews was sought in each of the case study areas: four with small-scale private landlords (with up to three lettings), four with larger landlords (typically with portfolios of ten or more lettings), and two with letting agents. In addition to the case study interviews, there was a target number of five interviews with very large-scale landlords (or their agents) that operated on a national or regional level.

The approach to selecting the survey respondents was used as a way of capturing different landlord types, with a range of experiences, attitudes and motivations. Small-scale landlords, for example, can often be fully employed in something unrelated to their property portfolio, they can be informal in their operations as landlords, may be relatively poorly-informed about the policy and regulations that apply to them, and may primarily be using their portfolio as a form of pension planning. Larger-scale landlords on the other hand, are likely to have a wider experience of letting property, tend to be better-informed about policy and the relevant regulations, and can often be solely reliant on their rental income for their livelihood. Appendix B sets out details of the survey respondents, and shows that the research included a mixture of landlord types, scales of operation, and motivations.

The landlord and letting agent interviewees within each of the six case study areas were obtained through the recruitment arm of Ipsos MORI. The five national and regional respondents were obtained from a selection of contacts provided by the British Property Federation. As a result of the qualitative approach and the recruitment method, the findings of the research cannot be considered to be representative in a statistical sense, and so cannot provide an indication of the scale or incidence of the research findings.

1.10 Chapter summary

This report sets out the results of research on private landlords and letting agents who have let to someone claiming HB under the new LHA rules. Following tests and evaluations of the LHA, the system was introduced nationally in April 2008. The key ways in which the LHA differs from the previous arrangements are in the removal of the requirement for HB claims to be referred to the Rent Officer, the setting of six HB rates in each BRMA according to the number of bedrooms required by households, and normally paying HB directly to tenants. Under the LHA there are rules allowing HB to be redirected to the landlord or agent in certain circumstances to ensure that the rent is paid, including the previously existing eight weeks rent arrears provision. To explore the range of possible experiences of, and views on, the LHA, the research involved qualitative interviews with small and large landlords, and letting agents in six case study LA areas; and also with nationally-operating landlords and letting agents.

2 Knowledge of, and views on, the Local Housing Allowance

2.1 Introduction

Chapter 2 explores respondents' knowledge of, and views on, the Local Housing Allowance (LHA). Landlords and agents were asked to comment on how benefit is paid under the LHA rules. The chapter examines the implications on respondents' strategies of their knowledge of LHA rates, and how they are set. Knowledge of the provisions and safeguards are discussed in Chapter 7. Finally, the chapter also covers respondents' views on LHA excesses and shortfalls. As will be seen, direct payments to tenants were perhaps the most contentious aspect of the LHA, influencing not only respondents' overall views on the LHA, but also having specific implications for landlords and agents that are covered in the forthcoming chapters.

2.2 Comparisons with the previous arrangements

Comparisons with the arrangements under previous Housing Benefit (HB) systems led to mixed views amongst respondents. On one hand, several respondents felt that the LHA compared favourably with the system it had replaced in terms of transparency and simplicity.

'What I really like about the LHA system is the fixed amounts. I think that's a fantastic scheme, and as a landlord I know exactly where I am. And also if I want a DSS tenant, it's nice to know what the amounts are going to be.'

(Small landlord, Cornwall)

A couple of respondents also noted, with some relief that the need for Pre-Tenancy Determinations had been done away with.

'If there are positives, the positive I guess has been the simplification of doing away with pre-tenancy determinations and that kind of thing. …if you are fully funded for a two bedroom property, then we can at least look at the chart, we know they are entitled to £550, so that is what we are going to get. So at least it's simplified that process, over faxing off a pre-tenancy determination, waiting a week.'

(Letting agent, Cornwall)

On the other hand, discussions about differences between LHA and the previous HB system reinforced the overall message from respondents about their antipathy towards direct payments (see below).

2.3 How benefit is paid under the LHA rules

There was a near-universal understanding amongst respondents that benefit would under normal circumstances be paid direct to the tenant. The exception was a landlord with one property, who had very little knowledge of the LHA. The majority of respondents were highly critical of the principle of direct payments to tenants. Only one letting agent noted that a client specifically did not want direct payments to the landlord, as a result of a previous negative experience with regard to the claw-back of an overpayment.

Many respondents commented on the underlying principle that direct payments were intended to help facilitate financial responsibility amongst tenants claiming HB under the LHA rules. There were three main issues that respondents highlighted in this regard. The first was that choice was being denied to tenants who genuinely wanted the opportunity for the rent to be paid direct to the landlord or agent.

'What I think I object to is the fact that the choice has been taken away. If it's about the empowerment of giving them the chance to manage their own finances etcetera, then they should still have the chance to choose.'

(National Landlord)

Secondly there was the perception that a proportion of tenants who claimed benefit either found it difficult to manage money, or struggled to make ends meet because of their low incomes, and thus should continue to be able to choose to have the rent paid to the landlord, if they wanted. The implications of tenants getting into difficulty are explored in Chapter 6.

'Most of them [tenants] want it paid to me. Most of them say "I want it paid to you because then it's done and I've not got to worry about it". They know themselves that if it gets paid into their bank accounts, they've got direct debits going out for their mobile phone, for the internet connection, the car insurance, and it just gets swallowed. And they would much prefer it. It's not a case of me saying "Right, I'm not going to take you if you don't". They request it. They ask me and the council.'

(Large landlord, Cornwall)

Thirdly, several respondents commented upon the apparent anomaly between private landlords and social rented landlords. There was a feeling that if direct payments were intended to assist in promoting financial self-management and responsibility, then surely the principle should also extend to the tenants of social rented landlords.

'And I also find it interesting that housing associations and things, they are paid direct, so their tenants don't have to make these kind of choices. So the whole reasoning for bringing in the Local Housing Allowance, in other words, to give people responsibility over their own money, it seems to be only when there's private landlords involved. But when it's a housing association, those people don't have to learn to be responsible for their money, because it's paid direct.'

(Small landlord, Cornwall)

A counter argument is that the current allocation system in the social rented sector means that many more vulnerable households are housed in the social sector. Even if the direct payment provisions were extended to the social rented sector, these households would be excluded by the safeguards. As will be seen in the later chapters of this report, however, this does raise the issue of how successfully the safeguards and eight week rule in relation to arrears were perceived to be being applied by the landlords and agents who took part in the research. Furthermore, the private rented sector is a housing destination for groups, such as young single people, who can potentially present particular challenges for housing management, but who receive very low priority for social rented accommodation.

Several respondents also discussed a further reason for the introduction of direct payments to tenants, which was to counter poor practice by unscrupulous landlords, as well as landlords who neglected their responsibilities. There was an appreciation of the need for regulatory changes to tackle these types of landlord, but that the shift to direct payments was penalising all landlords and agents to an undue degree. In areas where tenants on HB were dominant within a local market, the changes were perceived as having a detrimental impact upon the financial viability of respondents.

2.4 Knowledge of rates, their impacts and implications

Most landlords knew where to look to keep an eye on the LHA rates. The implications of how respondents used their knowledge of the rates in terms of their rent-setting strategies are examined in Chapter 5.

A number of respondents, especially the larger landlords and agents, commented that they were often part of the information gathering exercises for the Broad Rental Market Areas (BRMAs) and provided rents of their non-HB supported tenancies within their portfolios. A small number of respondents were not confident that the information being gathered necessarily reflected the current market levels. Two respondents noted that they had been asked about lettings where the rent level was relatively low and reflected rent setting decisions made some years previously for long standing tenants.

A small number of landlords and agents reflected on changes to the rates. Three respondents in two of the case study areas noted that the rates had recently altered. One agent, who noted that he kept a close eye on the rates, queried the accuracy of this change:

'Two bedrooms were 475 - now 450; three bedrooms from 495 to 498. The Rent Service says it's on demand, but there's more demand for two bedroom compared with three bedroom. It doesn't make sense.'

(Agent, Sunderland)

A larger landlord was critical of the frequency of rate changes:

'I don't understand why the rates change every month. I know why they do it, and how they get the information, but market rents just don't change like that all of a sudden, it's just where they get their information from that month. But if it goes down, you agree a rent and then the tenant has a shortfall and if they can't afford it I have to accept a lower rent than was agreed. Why not just set a rate for a year, and allow for inflation?'

(Large landlord, Coventry)

Some of the landlords commented on the impact of the rates on different types of market within BRMAs, especially if it was felt that the BRMA covered a large geographical area such as in Cornwall. Tenants here would potentially have to make up significant shortfalls in higher demand locations.

2.4.1 Sources of information and advice

Respondents described the sources of information that they used to keep abreast of rates. Perhaps not surprisingly, websites were cited as the most common source of information, which was usually information posted on Local Authority (LA) sites. Most respondents reported using this source without raising any problems or difficulties. A small number of respondents were critical of individual sites, however. Three landlords commented that individual LA websites were not always very easy to navigate, and that the information was not presented in an accessible way. One of these highlighted that the layout and level of information provided on the Shelter (Scotland) website was, in contrast, very helpful. Another respondent noted that the information on rates in their authority was out of date. A national landlord commented on the wide variation in the quality of the information presented on websites by different LAs. Furthermore, this respondent also commented on the variation in the level of information available for tenants (see also Chapter 4). The website provided by Nottingham City Council was cited as particularly helpful, in the opinion of this respondent.

Other sources of information on rates noted by respondents included local landlord forums, newsletters provided by local landlord associations. Respondents also noted that they phoned up the local authority for information, or relied on word of mouth from other landlords or agents.

Respondents also discussed sources of advice and information more widely about Housing Benefit. In addition to websites and local and national landlord forums and associations, word of mouth also featured strongly between landlords. Google was highlighted by a number of respondents as a reliable way of sourcing information about specific issues. In addition, friends and other family members, who were also landlords or agents, were an important source of advice, for smaller landlords especially. One area where there appeared to be a lack of information was clear guidance on how the different safeguards operate, which is discussed in Chapter 7.

Views on Local Housing Allowances excesses and shortfalls 2.5

2.5.1 **Excesses**

There was a diverse range of views on excesses. Most respondents held negative views about the ability of tenants to keep an excess. The most common view amongst this group of respondents was that the excess represented a misuse of taxpayers' money. Small landlords, agents, and also national landlords were more likely to offer this opinion. Larger landlords tended have a more mixed view in regard to this issue. Although several were hostile to the idea of tenants keeping the excess, others were sympathetic to the circumstances tenants could find themselves in.

'They've got to live. They've got to eat. You know, they've got bills to pay like everybody else. You know, I mean we realise that people on benefits must find it really, really hard to pay all the bills. In fact I don't know how they do it.'

(Large landlord, Sunderland)

Another positive view was that the ability of tenants to keep an excess helped to foster tenants who were more likely to remain in the tenancy, and thus reduce the potential for voids. A couple of landlords explicitly noted that they kept their rents on the low side to attract tenants, including tenants claiming HB who might also have the additional incentive of keeping the excess (see also Chapter 5). In contrast, a different perspective that was put forward by a small number of respondents was that the excess could lead to unscrupulous behaviour by other landlords, who might simply adjust the rent to match whatever the HB was paying, or offer poor quality accommodation.

'The excess is ridiculous. Why should they have it? Allowing people to keep money like that is encouraging slums and unscrupulous landlords who will offer poor properties. And it's a waste of taxpayers' money.'

(Letting agent, Sunderland)

A small number of respondents also commented on using the excess as a means of paying off arrears. A point to emerge was the variable practice that seemed to be taking place in different LA areas in terms of using the excess to pay off arrears once HB had been redirected to the landlord (see Chapter 7 for more information about this issue).

2.5.2 Shortfalls

Respondents who had experience of shortfalls reported mixed experiences of collecting this aspect of the rent. Whilst respondents such as national landlords tended to collect all the rent, shortfall included, in one go, other respondents commented that some flexibility was required, especially in the case study areas dominated by HB claimants. One letting agent in Sunderland highlighted that shortfalls were part and parcel of the previous HB system, prior to the introduction of the LHA, and that tenants continued with the practice of calling in to their office to pay any shortfalls, often in cash. Other respondents reported on the difficulty in getting the shortfall paid, however, and a range of strategies were employed. Three respondents noted that they checked carefully with prospective tenants their ability to pay for any shortfall, before they were allowed to move in to a tenancy. A couple of other respondents – again in case study areas dominated by HB claimants – reported that it was just not worth trying to collect the extra. Tenants were perceived as often lacking the means to pay, and the amounts had to be written-off.

2.6 Chapter summary

Respondents highlighted a number of positive features of claiming HB under the LHA rules, including greater transparency and simplicity, as well as the removal of pre-tenancy determinations. Nevertheless, there was considerable strength of feeling against direct payments from the majority of respondents. Publication of the rates was valued as a useful source of information, although the quality of the data upon which rates were based was occasionally queried, including the geography of BRMAs. More information about specific aspects of claiming HB under the LHA would be welcomed, especially around safeguards.

Views on excesses were mixed. On one hand, there was antipathy to the notion of taxpayers' money being used as an additional source of income for tenants. On the other hand, some respondents did not object to principle of the excess payment, and also felt that it helped to foster 'happy tenants' in tenancies where an excess could be achieved. Nonetheless, variable practice in different areas over the use of the excess to recoup arrears did lead to some frustration amongst a number of respondents.

3 Letting preferences

3.1 Introduction

This chapter looks at the letting preferences of the survey respondents. It considers the types of household to which they would ideally choose to let, and the preferred economic status of their tenants. The chapter also discusses letting preferences regarding the Housing Benefit (HB) status of private tenants under the Local Housing Allowance (LHA) system. Taking all respondents together there was a clear pattern in the importance attached to these three characteristics of tenants, with household type being the least important, the HB status the most important consideration, and economic status falling in-between.

3.2 Household type

Compared with the economic status and HB status, respondents generally tended to be less concerned about the household type of their tenants. Opinion was not strongly polarised, and many did not have any specific preference one way or the other at all. These are patterns that tend to be mirrored in national quantitative research on private landlords and letting agents (Crook and Kemp, 1996), and also in the LHA Pathfinder evaluation at both the baseline and final survey stages (Rhodes and Rugg, 2005; Rhodes and Rugg, 2006).

There was a sense given by the respondents overall that letting preference for different household types was not usually a hugely pressing concern or issue. Choices regarding household type were mostly constrained by the type of property within a portfolio, such that a preference for a specific household type, if there was a strong one at all, had been made at the outset of any investment, perhaps to comply with an overall strategy of letting to a specific household type, or simply to respond to the nature of the market in their area. Some respondents had intentionally obtained property that allowed a degree of flexibility, however, an example of this being two bedroom flats, which could be let to single people, a couple, two people sharing, or a small family unit. A couple of respondents had converted some of their property from terraced housing into flats for this reason.

Once a particular type and size of property had been obtained by a landlord, there was the general view that applicants for vacancies sorted themselves accordingly, such that families didn't respond to advertisements for a property with one bedroom; and single people or couples didn't usually respond to advertisements for semi-detached houses with several bedrooms, gardens and garaging. Thus it was often not an issue where a decision needed to be made at the time of creating a new tenancy. Some of the larger landlords, and most of the agents, dealt with a range of property types and sizes, and so would also have applications from a range of different household types, and again there was the common view that people responded to advertisements for properties that were appropriate to their needs. Thus single people, couples, and sharers applied for one and two bedroom flats in inner city areas, because that was the nature of the property available, and according to the respondents because it was also where they worked and socialised. Families, on the other hand, would generally be the main applicants for houses with two or three bedrooms in the less central areas.

Some respondents did have quite clear most and least preferred household types, however, which were usually based on their own positive or negative experiences. A few of the larger landlords had a preference for families rather than single people, as families were considered to be 'home makers', and therefore more likely to stay for a longer period of time than other types of household. Families

were often viewed as being less 'hassle' to deal with than other household types, in that they were thought to be more reliable at paying the rent, and relatively easy to contact by the landlord or agent if required. Families were also generally considered to be quieter and better neighbours for other residents.

The larger landlords were also the most likely respondents to say that they preferred not to let to young people, young single people in particular, and young single males especially. The main reasons why respondents held these views were mostly related to the likelihood of management problems in terms of the impact of these tenants' behaviour on other tenants and neighbours, and also increased difficulties in obtaining their rent and being able to contact such tenants. These household types were also seen as being more likely than others to cause damage to the property. One respondent who dealt principally in the HB market in Bradford, for example, had a preference for letting to women, as in his experience they were more problem-free tenants than males. Another large landlord had a preference for letting to people over the age of 40, of either sex, as these had been found to be the easiest tenants with which to deal.

The small landlords were the most likely to say that they had no specific preference either for or against particular household types. They were the least likely to take-up references or do credit checks on tenants, and most likely to have come to a personal judgement upon meeting applicants for a vacancy. A common attitude amongst them was one of 'first-come-first-served', or that tenants just needed to be 'responsible people'.

Household preferences were on the whole fairly uniform across the six case study areas. However, there was one fairly clear difference related to the London borough of Newham, where several respondents much preferred letting to eastern Europeans. These tenants were seen as being reliable at paying their rent on time, and also good at looking after the property. As noted in Appendix A, however, a couple of Newham respondents had experienced problems with letting to eastern Europeans due to instances of intense overcrowding that had occurred without the landlord's knowledge.

3.3 Economic status

Many respondents had fairly clear views on the economic status of tenants to which they most and least preferred to let. However, many also held the view that the local market in large part dictated the status of their tenants, and whilst they may have had an ideal in mind, they tended to be highly pragmatic in what they could realistically expect. Respondents in Bradford, Newham, and Sunderland were the most likely to be of this frame of mind, and whilst they might indicate that working tenants would be preferable, they were usually resigned to letting to unemployed people because of the dominance of this sub-market in their area. A couple of Cornwall respondents held a similar sort of view also, noting that because of a large amount of seasonal work in the area, working tenants could quickly become unemployed ones anyway.

Where a respondent had a preference for tenants of a specific economic status, it was overwhelmingly for people who were working, a view that was found amongst respondents of all types and in all case study areas. Quantitative surveys consistently find that working people are the most preferred, and unemployed people the least preferred tenant types by landlords and agents (for example, Crook and Kemp, 1996; Rhodes and Rugg, 2006).

A number of reasons were given by the survey respondents for preferring to let to people in work, including that these tenants were generally the most reliable at paying the rent on time, that they usually looked after the property better than someone who was not working, and that they could usually afford to pay a deposit and rent in advance at the beginning of a tenancy. In addition, and

unlike people who were not working and wholly reliant on HB, they were usually able to pay their rent in advance rather than arrears.

A mixture of other reasons were given by respondents for preferring people in work. One respondent thought that working people could afford to pay a little more than people who were unemployed. A few respondents mentioned problems with obtaining buildings insurance for lettings to people who were unemployed, with it being less easy to obtain because fewer insurance companies were offering it, and that when it could be obtained it was more expensive. A few simply held a view about the more preferable attitude or ethic of working people, which included people on low incomes receiving benefit 'top-ups', compared with unemployed people. The prevalent view from this perspective was that respondents were more willing to help people who were 'trying to help themselves'.

The small landlords were once again the most likely to say that the economic status of a tenant was not a key consideration for them when deciding who they would take to fill a vacancy. Several said that it didn't matter so long as the tenant could afford to pay the rent, or that it simply depended on the individual tenant in question and whether they judged them to be 'decent'. The small landlords were also the most likely to be predisposed towards unemployed people, saying that they had sympathy for their position, indicating that they recognised how difficult it could sometimes be for unemployed people to find and afford somewhere to live.

Three of the national and regional landlords or their agents, indicated that their letting criteria was to only take people who were in work. These respondents usually only let to unemployed people if there had been a change in circumstances after a tenancy had already begun. An annual salary equivalent to a multiple of 30 month's rent was a requirement for one of the landlords, whilst another had a similar income requirement. Of the two other respondents of this type, one was prepared to take unemployed people in certain locations as dictated by the level of demand, and the other indicated that where unemployed people were taken this was on the proviso that they provided a guarantor.

There were a few other infrequently-mentioned economic status preferences for tenants. A couple of Edinburgh respondents were not keen on letting to students, either because they were regarded as having a poor attitude towards the property and were noisy neighbours, or because student tenancies turned-over too quickly. The agents were often likely to indicate that to whom they let depended on their landlord's instructions, and sometimes that they had to educate their landlords on the type of tenant to which they could reasonably expect to let in that particular area. For most agents, the key to letting to any tenant irrespective of their economic (or HB) status was fully referencing, and sometimes credit checking as well, and always taking a deposit and rent in advance.

3.4 Housing Benefit status

Most of the respondents had an opinion about the HB status of their tenants, and the views were fairly similar across all case study areas. For some respondents in the areas most dominated by HB claimants - Bradford and Sunderland in particular - there was a sense that having an opinion about the HB status of their tenants was largely irrelevant, since it was inevitable that they would always have to let to HB tenants because of the size of this market. As one large Bradford landlord put it: 'I wouldn't expect anything else'. Amongst the landlords in the case study areas who were willing to let to HB tenants, two broad attitudes can be identified. The first was a sympathetic view of the situation of HB tenants - largely held by the small landlords - because of how difficult it was considered to be for them to find somewhere to rent. The second attitude – generally, but not exclusively, held by the larger landlords – was that there were sound business reasons for letting to HB tenants.

Taking all the respondents together, a small number said that it did not matter whether a tenant was on HB or not, just that the tenant had to be a responsible person. By far the most common response, however, was that tenants who were not claiming HB were preferred over those that were. The overriding reason for the preference was simply about the likelihood of the rent being paid, rather than any other characteristic seen to be associated with HB tenants. Thus from this perspective, non-HB tenants were regarded as much better payers of their rent. Some of these respondents based this opinion on their experiences of rent arrears and simple non-payment of rent by HB tenants under the LHA system (most commonly), whilst a few had not experienced rent arrears under the LHA but harboured fears of rent arrears because of the way in which HB was now paid under the LHA. Some respondents had experiences of letting to the same tenant under the LHA as well as the previous system, and had found a once 'good' tenant becoming a 'bad' one as a result of the HB being paid directly to the tenant, with rent arrears consequently accumulating.

'I've got a lad who is on the borderline, on the 24th September he'll be eight weeks in arrears, so then the council will pay me direct. I'm waiting for him to fall in to that eight weeks, because I know full well he isn't going to pay me now, and he's only been in six or seven weeks, and I know that I've got a bad one. And he knows how to work the system. And what will happen is, and I can guarantee you if you come back to me in two months time it will have happened, he'll just clear off. So then the council won't pay me because he's not living there anymore, and he'll have gone, and I'll have no contact details. And it's wrong, because actually this tenant I rented to him years ago, this new one who is doing this to me, so I rented to him years ago and he left without owing me a penny because the council were paying me direct, and he behaved responsibly and reasonably. So that's why I let him in with a small bond this time thinking 'He was OK last time'. He's working the system.'

(Large landlord, Bradford)

A few of the landlords said that they sympathised with HB tenants because it was hard for them to find somewhere to rent, but that they now had to think much more carefully about letting to HB tenants because of the way the benefit was paid under the new rules. A key concern in this respect was with buy to let mortgage repayments for a number of the smaller landlords who might have obtained a mortgage fairly recently, and so had large monthly repayments, and who also did not have a large portfolio across which the losses on one letting could be spread. Other respondents also indicated that they were more cautious about letting to HB tenants than they had been in the past, and now felt the need to pick benefit claimants much more carefully, or avoid letting to them at all if they could.

At the outset of the LHA pathfinders evaluation, ten per cent of private individual or couple landlords preferred letting to HB tenants, compared with six per cent of all respondents together (Rhodes and Rugg, 2005). By the end of the evaluation period, when respondents had experience of working under the new LHA rules, the overall proportion saying they preferred HB tenants was still six per cent, and the individuals and couples were still (very slightly) the most likely to say they held this preference, at eight per cent (new analysis of the final landlord and agent survey data, reported in Rhodes and Rugg, 2006). The new analysis also found that the individuals were very slightly less likely to say that they preferred non-HB tenants (56 per cent compared with 60 per cent overall), and about equally as likely to say that they had no preference ether way (36 per cent compared with 34 per cent).

In a reflection of these survey data, the small landlords (all of which were individuals or couples, as set out in Appendix B) tended to be the most likely to say that the benefit status of tenants was not an issue for them, and that to whom they let simply depended on their personal assessment of whether the tenant was likely to be a 'good' one or not. The small landlords were also the most likely to say that they had sympathy with the situation of HB tenants: they thought that many other

landlords preferred not to let to them, and as a result they were often reasonably disposed to letting to HB tenants as a way of helping them out, sometimes seeing this as providing a service to the local community.

A number of agents indicated that the benefit status of tenants was not an issue for them to resolve, as to whom they let was often dependent on the instructions given to them by their landlords. A couple of agents, however, had felt the need to educate their landlords about the LHA rules, and that they could no longer expect to receive HB directly themselves. As noted above, the benefit or economic status for several of the agents was not a particularly important issue provided that referencing was undertaken, and a deposit and rent in advance obtained.

There were a few landlords with a clear preference for letting to HB tenants, the reasons for which were almost exclusively economic. For a couple of the small landlords, letting to HB tenants provided a greater certainty of the rent being paid than if a tenant was not claiming the benefit. These landlords, both from Bradford, were of the opinion that they might have to wait for eight weeks for HB to be redirected to themselves due to rent arrears, but once it had been redirected they felt a certainty that the rent would then be regularly paid. In contrast, with tenants who were not on HB there was the fear that the rent could remain unpaid for considerably longer than eight weeks, which might be as long as it could take for the tenant to leave after a notice to quit was issued, or for them to be removed following a court order and a visit from a bailiff. One large landlord from Edinburgh who was reasonably disposed towards letting to HB tenants, referred to 'taking the hit' of eight weeks rent arrears as sometimes being a necessary attitude to take, but after which time the rent was assured. A similar view was expressed by a Cornwall landlord:

'The reason I would prefer DSS is because after eight weeks at least you know the rent is going to come in to you, whereas if maybe somebody working gets into arrears you could have no rent at all during the entire eviction process, so effectively you could be without rent for longer.'

(Small landlord, Cornwall)

A few of the large landlords actively targeted their business on the HB sub-market. One of them, operating in Bradford, preferred HB tenants because he believed that the rental returns he could obtain from that part of the market in the area were the highest. The landlord had purchased comparatively cheap family-sized, ex-council housing specifically to let to lone parents and small families in receipt of HB. This landlord, as did one of the smaller landlords who preferred HB tenants, also valued the fact that HB tenants tended to stay longer, thereby reducing void rates:

'I do actually prefer people that don't work than work. Because I've had many tenants who say 'I've lost my job, I can't afford the rent, and I'm giving you a month's notice'. Whereas, LHA tenants generally don't go back into work, so you know they're a long-term tenant. Also they don't tend to stepping-stone as much as people that rent privately. By that I mean if they move into a house and they've got a two or three year old kid, they might say 'can I stay for four or five years?', which as a landlord is a dream really, because you're not having to find people every six months.'

(Large landlord, Bradford)

A large landlord in Coventry targeted HB tenants because she believed that there was a limited number of private landlords willing to take such tenants, which meant that she had a wide pool of tenants from which to choose. This landlord also pointed to the healthy rental rates of return that could be obtained in this market. There were also a couple of large landlords operating in the Sunderland area who, besides recognising that the nature of the market in the area included large numbers of HB tenants, welcomed applications from the HB market as it gave them a wide pool of people from which to select new tenants.

The nationally and regionally operating respondents did not generally create lettings for tenants in receipt of HB. As noted under the discussion of economic status, a couple of them had very strict income guidelines for their tenants. As a general rule, therefore, these respondents tended to only let to HB claimants if there had been a change in circumstances after the tenancy had begun. This situation was not in itself usually seen as a reason for the tenant to be given notice to quit at the end of the tenancy, however, provided that the claim for HB had been processed successfully and the rent continued to be paid.

One of the national landlords was quite clear in its reasoning for not letting to HB tenants: it was because HB tenants were not on a 'level playing field' with non-HB tenants:

'If they were meeting us on a level playing field, I don't think there would be any differentiation, it would simply be a case of renting to someone. So if this person says "Well, yes I am on LHA, but I can arrange for it to be paid directly to you so you have that reassurance, and it will be paid on the 1st of the month in advance, and monthly not four-weekly". You know, we've got loads of sums to do behind all of that, you know, it's another function for us to do, so there's hidden costs. "And I can pay you four weeks deposit", I'm sure that the fund manager would say "well if they can move in on Saturday it's fine by me".'

From the perspective of this particular landlord, therefore, there would appear to be little or no will to engage flexibly with the individual situations of private tenants. In contrast, many of the small and larger landlords in the case study areas, as well as some of the letting agents, were prepared to wait for the HB payments to be processed, and as discussed in Chapter 5, were frequently flexible in their requirements for a deposit or rent in advance to be paid by HB tenants.

3.5 Chapter summary

A general hierarchy was evident in the letting preferences of respondents, with household type being the least important, economic status being of greater importance, and the HB status of most importance. Working tenants were often most preferred because they were viewed as being more reliable at paying their rent, and could afford to pay a deposit and their rent in advance. Respondents ideally preferred letting to non-HB tenants, most commonly because of experiences, or fears, of the rent not being paid. Smaller landlords were the most likely to be sympathetic towards letting to HB tenants, and a few of the larger landlords specifically targeted the HB sub-market because of the greater returns they could obtain.

4 Claiming Housing Benefit

4.1 Introduction

Respondents were asked to discuss the process of claiming Housing Benefit (HB) by their tenants. The chapter examines respondents' experiences of the time that claims take to process, as well as their views about dealing with Local Authorities (LAs) on claims. Many of the respondents were able to compare their experiences of HB claims assessed under Local Housing Allowance (LHA) rules with the time that claims used to take under the previous regime. Furthermore, a number of respondents were also able to comment about their experiences of operating in different LA areas. Finally, the chapter explores respondents' views and experiences of obtaining tenants' consent for their landlords or agents to communicate with LAs about queries in relation to their HB claims.

4.2 Time taken to process claims

There were very mixed views amongst the respondents about the time that claims took to process. It did not necessarily follow that respondents' views were related to variations between different LA areas. Landlords and agents operating in the same case study areas often had divergent views on the speed with which claims were processed. Nevertheless, it was noticeable that respondents in one case study area, Sunderland, were more likely to say that the processing of claims was quicker than under the previous system (although one agent ruefully noted that all this did was deliver rent cheques into the hands of tenants quicker, rather than the landlords).

One issue to emerge was the view that the time that claims took to process had a greater imperative within the context of direct payments to tenants. The longer the time that a claim took to process, the bigger the initial cheque to the tenant would be, with the resultant anxiety on the part of respondents that tenants might be tempted to spend the money on items other than the rent, or disappear completely, sometimes with the money.

'The delays in the initial payments mean that it's all banking up, and they are desperate for money. Sometimes I won't get that money, or they'll just do a runner. So after two months, they haven't paid themselves, because they haven't got any money, they'll just bugger off and go to the next person. I would say that's happened a good half dozen times.'

(Large landlord, Cornwall)

Rugg (2006) highlighted that LAs retained the option of making the first HB cheque payable to the landlord or letting agent. Application of this option appeared to be fairly rare, however. For example, one letting agent commented that:

'I've had one girl...she's on LHA. We did all the forms and everything, showed the kid's birth certificates. She moved in in February. It took [local authority] until July to pay her first payment. Which is fine, they then backdated it. And I'd issued notice for her to quit, really to speed up the council. We didn't want to go to court, and said send the benefit to us,...and that's a bone of contention because I've put in a complaint – they've sent it straight to the tenant.'

(Letting agent, Newham)

A letting agent in a different area also reflected on this practice:

'When it [the LHA] first came in, they [the council] said the first cheque would come to the landlord, because it can be so much. It causes problems that that doesn't always happen, it causes problems. Sometimes we get it, sometimes they get it – about half and half. There were certain safeguards at first, but it's not happening.'

(Letting agent, Sunderland)

A couple of different strategies were employed to try and minimise the potential for losses as a result of delays in the processing of HB claims. As noted in the quote above by the letting agent in Newham, a couple of larger landlords and agents automatically issued a notice to quit if the claim was taking longer than two months, as a way of protecting themselves from the arrears that were building up. In only one instance did a landlord highlight that they had actually carried through with this threat, and evicted a tenant because the time taken to process the claim was considered to be taking too long.

A second strategy highlighted by respondents was the practice of working closely with their tenants to help complete the claim forms. Indeed, a couple of these latter respondents commented that micro-managing the HB claims process was essential to ensure that this process ran as smoothly as possible.

'Some landlords, the ones that no longer like the housing benefit system of Local Housing Allowance, have put people in who are on benefits. They've not managed it correctly, and six weeks later they've said to them "look, where's my money, where's my rent"...Because they've not managed the process, they end up getting upset, and they don't want to rent to Housing Benefit people. There's nothing wrong with it, it's just got to be managed, and you've got to understand the system.'

(Large landlord, Bradford)

These respondents also noted that some tenants struggled to complete the forms, and often asked for help from the landlord and agent. One respondent commented that their role was more like a social worker or personal assistant than a letting agent. A national landlord, however, felt that the level of information provided to benefit claimants could be improved,

'People don't know where to go. People ring me up and say "[name], I've lost my job. I've been employed all my life. I don't know what to do" So then I give them advice about going down to the local neighbourhood office "and take with you this, this, this. Because 'this' information is what you require, and having that information up front will speed up your claim". There isn't anywhere, I don't see where it says if you need to make a claim, this is the information you need.'

(National landlord)

4.3 Dealing with the local authority and satisfaction with the process

One theme to emerge from many respondents was the need for more effective channels of communication between landlords and LAs. There was a sense of frustration that respondents were often excluded from information exchanges in relation not only to claims, but also when claims were suspended pending inquiries by the LA about the details of a claim, or when a change of circumstances was deemed to have occurred.

'It should be on the tenancy agreement that we have an automatic right to talk to the council. They are in our property. You can't find out why their benefit has been stopped. If it's been stopped because of a change in circumstances, you can understand that, but if the tenant is moving to another address, and has two properties, they will stop your rent and you can't find out. It's so secretive. It should be a tri-party thing, it's the tenant, it's the landlord, it's the benefit agency. Three should be talking, not one demanding. A lot of things could be sorted out in minutes.'

(Letting agent, Coventry)

Rugg (2006) identified a further difficulty for landlords in the pathfinders in relation to not knowing if a claim had been processed and the first payment was due. A number of respondents discussed the pressure this lack of information put on the relationship between tenants on the one hand, and agents and landlords on the other.

'Have you got the rent cheque? Have you got the rent cheque? And you ask them every day "have you got it?" And we don't know if they haven't. They might be lying, they might not be lying, but you don't know do you?'

(Large landlord, Bradford)

Opinions differed as to the causes of delays in processing claims. Two respondents were critical of the application forms, which were felt to be not only unnecessarily complex, but also ambiguous. A small number of respondents across the case studies were also highly critical of LAs in terms of their efficiency in processing claims and handling queries. However, several other respondents commented that delays in the processing of claims were often not the fault of the LA, but were caused by tenants providing incomplete or inaccurate information.

In spite of the mixed views that were apparent in the case study areas about engaging with the LA, there was a sense from several respondents that communication between landlords and authorities was improving. Several landlords in Newham commented very positively on the attitude of this authority. For example, a letting agent discussed two aspects to this positive relationship. The first was that council departments were regularly represented at landlord forums. The second was that the authority had a landlord liaison team, to whom accredited landlords could address individual queries about tenants on HB. On the other hand, two respondents highlighted that better working relations seemed to be achieved with smaller LAs, compared with larger ones, since LA employees and landlords and letting agents were more likely to be able to build up a working relationship.

A further suggested reason for improving relationships was that attitudes towards private landlords were thought to be changing for the better.

'I have a bit of control and I can ring up and speak to somebody and they'll discuss it with me. The Council understand that now. They need to speak to the landlord just as much as the tenant, don't they? They need to get both sides of the story, don't they? Yes, a lot better. You ring them up "I'm the landlord". "OK [name], how can I help you?" and they are really, really good.'

(Large landlord, Bradford)

Nonetheless, one large landlord was scathing of advice agencies in her city, who, she stated, refused to provide advice to landlords, even though landlords might be getting into serious financial difficulties.

'We're big greedy giants, and we've got fat bank accounts. Holidays on the Riviera. And we live the life of Riley. And we're definitely not to be trusted. And we're stockpiling money like there's no tomorrow.'

(Large landlord, Coventry)

4.4 Variations within and between local authorities

One area where respondents commented that communication could be improved related to landlords' queries to LAs about HB claims. Many respondents felt that the response they got from authorities depended on who answered the phone. In other words, some of the difficulties that landlords experienced were not necessarily procedural, but were down to personalities, which was something that could be dealt with.

However, landlords who were in a position to comment about letting property across different LA areas often noted how variations in protocols and procedures could also make a significant differences to respondents' experiences. 'There do seem to be some disparities between how local authorities deal with certain aspects' (National landlord). The process of claiming and dealing with HB would be improved by the sharing of best practice.

4.5 Tenant consent

Tenants currently have to give their consent for their landlords to be able to approach LAs and make enquiries about their HB claim. Again, there was considerable frustration amongst landlords with this aspect of the claims process. The majority of respondents were careful to try and ensure that their tenants gave their consent, as part of their strategy for minimising the risk of arrears, and keeping on top of the management of lettings. Two respondents in Edinburgh commented that obtaining consent was a necessary management device now that tenants received HB direct, whereas prior to this change, being able to address queries to the local authority had not really mattered. It was noticeable that landlords who did not take a very hands on, proactive approach to the management of lettings were much less knowledgeable about whether their tenants had given their consent or not.

However, many landlords felt that whether consent had been obtained or not, the level of information they could receive from LAs, if any at all, was very limited. One agent commented that they often had to have the tenant with them by the phone to intercede on their behalf, before the LA would engage with their queries.

4.6 Chapter summary

The extent to which respondents actively managed the process of claiming HB varied considerably. Some respondents, mostly the larger landlords and letting agents, emphasised that strong management of this process, including helping tenants to fill in the forms, was necessary to minimise the risk of delays and other subsequent difficulties. The time that claims take to process, coupled with direct payments, raises the issue of the size of the first payment, and also the extent to which the first payment is made payable to the landlord.

Improving the level of dialogue and communication between landlords and letting agents on one hand, and LAs on the other was viewed as an important ingredient in reducing tensions and resolving difficulties.

5 Starting a tenancy

5.1 Introduction

This chapter looks at a number of issues related to the beginning of a tenancy, including the factors taken into consideration in setting the rent, the sources of rental information used, and whether the level of rent charged varied according to the type of tenant. The chapter also looks at attitudes to, and experiences of taking deposits and rent in advance, and also whether these varied according to the type of tenant and landlord.

5.2 Setting the rent

In a reflection of the diversity of landlord attitudes and motivations, there was a wide range of rent-setting approaches and techniques used by the survey respondents. Rugg (2006) found at the end of the Local Housing Allowance (LHA) Pathfinder evaluation period that two broad rent-setting methods were being used: there were landlords and agents basing their rents on the market in some way, and there were those basing their rents on the LHA Housing Benefit (HB) rates. Another approach has also been identified in the present research, giving three main methods, or starting points, for setting the rent, such that the process of rent-setting could be primarily:

- · market-led;
- · HB-led; or
- costs-led.

These three starting points were not necessarily always mutually exclusive, in the sense that a number of landlords indicated that their rent setting was informed by market information, for example, but they also stressed that they had to be sure that their running costs would be covered by the 'going rate'. In other words, they were both market-led and costs-led in their rent setting behaviour. None of the landlords included in the research indicated that (at the time of the interview) they either charged no rent at all, or charged only a nominal amount of rent, perhaps because a letting was linked with a job, or if it was occupied by a family member or friend.

Cross-cutting the first two of these starting points for setting the rent were strategies used by two groups of respondents that have been identified in other research as 'rent maximisers' and 'turn-over minimisers' (Bevan et al., 1995). Rent maximisation refers quite simply to charging the maximum amount of rent that is felt to be possible, which might be the market rent, or for HB-led rent setting the full LHA rate. Turn-over minimisation refers to the practice of setting the rent at below the maximum level, be that the market level or the LHA rate, to encourage tenants to stay for as long as possible, thereby keeping the rate of turn-over, and therefore the costs (and 'hassle') associated with this, to a minimum. As Kemp has noted (1998), turn-over minimisation can therefore be consistent with profit maximisation. A dimension to the turn-over minimisation strategy, which often would be when the maximum level of rent had been charged at the outset of a tenancy, was the practise of not increasing the rent level subsequently as a way of encouraging good tenants not to want, or feel they are able to afford, to move somewhere else. In some cases respondents reported that the current rent level was substantially below the market or HB rate because a tenant had been in place for a number of years. At such time as the tenant left, then these landlords indicated that they would take that opportunity to re-align the rent once more with the market or the LHA rates.

5.2.1 Market-led rent setting

The starting-point for setting the rent was most commonly some idea of the open market level, or the 'going rate'. Landlords of all sizes and in all areas took the market rate as their principal and sole guide in setting their rents. Most of the letting agents also based their rents solely on the market, and whilst most indicated that they knew what the LHA rates were, they were clear that they didn't take any account of these at all when setting their rents.

The market-led respondents had usually checked a number of different sources to arrive at their conclusion of the market rent for a specific letting, the most common being newspaper advertisements, internet searches, and (other) agents. As part of this process, respondents had almost always checked to see what the current LHA rates were, but were of the view that they were not setting their rents at the LHA rates unless these happened to coincide with their own, separate assessment of the market rate from other sources. Knowledge of the LHA rates for a couple of respondents was valuable just as a check to give them certainty that tenants would be able to afford to pay their rents, and that they were 'not far-off' with their assessment of the market. The great majority of respondents who set their rents at the market level charged this amount of rent irrespective of the economic status of tenants or whether HB was being claimed or not.

Most of these market-led respondents simply charged what they believed was the going rate for their lettings, and in this sense they were 'rent maximisers'. After identifying the market rate, however, some then proceeded to undercut this level, usually by just a small amount, and for one or both of two reasons: to obtain a tenant that would want to stay for a long period of time (turn-over minimisation), or to widen the pool of applicants to provide a greater choice of tenant. This latter strategy of 'tenant attraction' through the undercutting of market rents has also been identified in other research (Rhodes and Bevan, 2003).

It was not uncommon for the respondents who set their rents at the full market level to indicate that they would then not impose future rent increases until such time as the tenant were to leave. In this sense there was an element of turn-over minimisation for 'good' tenants included in the strategy of 'rent maximisers' after the initial rent had been agreed.

A couple of respondents indicated that their normal practise was to charge the market rate, but were prepared on occasion to offer a slightly lower rate or to negotiate over the rent level if they believed they had found a good tenant or the 'right sort' of tenant. One large landlord from Bradford was prepared to reduce his asking price to slightly below the market level for older tenants, as in his experience these were the best tenants to have. A large landlord in Cornwall indicated that he sometimes charged a lower rent for the 'right person', and particularly if it was someone who was willing to enter into an informal arrangement to do a bit of their own maintenance on the property. One small landlord from Coventry deliberately pitched his rents slightly above what he believed the market level was, so that he could then happily negotiate over the rent, such that the final agreed figure usually ended up being the market rate.

A few of the market-led respondents indicated that they would charge the LHA rates if they found these to be higher than what they considered the true market level to be. The opportunity to do this was regarded as 'a bit of a perk' by one large landlord from Bradford, which is an area where a couple of respondents thought that some of the LHA rates were slightly higher than the open market rate. These respondents would monitor their usual sources of market information and also the LHA rates and would simply charge whichever they found to be the highest. In contrast a couple of respondents who had noted the LHA rates to be higher than the market, still only charged what they considered to be the going rate, believing this to be the morally correct decision to take.

All of the national and regional respondents indicated that they followed the market when setting their rents, and these respondents also charged the same to all tenants irrespective of their economic or HB status. The common practise was for local letting agencies to be used to provide rental valuations for properties that were available to let. One of these landlords commented that due to their scale of operation in some areas they were the market. In such instances there was a keen sense of the need to preserve the impression of what the market rate was:

'Where you own 20 in a block, you have to be very, very conscious that if there's one you've got empty and it's sticking, and the average rent is £400 a month, you don't advertise that one at £350 just to move it on. You cloak it in some other way, like incentives of a month free at the end of the tenancy, and you divide that by the six months and it is £350, but actually the headline rent is £400 a month.'

(National landlord)

5.2.2 Housing Benefit-led rent setting

Specifically using the LHA rates was a less common starting point for setting the rent compared with using some other separate idea of the market rate. However, one virtue of this approach was seen to be its simplicity, and particularly since knowledge of what the LHA rates were, or how to find out what they were, was near-universal irrespective of how the rent level was set. Another virtue of using the LHA rates as a starting point was the ability to implement annual rent increases by simply following the LHA rates. Again, the knowledge that tenants would be able to afford the rent was seen as being a valuable dimension to using the LHA rates, and also that it provided the widest pool of applicants responding to advertisements from which to pick a suitable tenant. As with the respondents who were market-led in their rent setting, the usual practice was that the same rent would be charged irrespective of the economic or HB status of tenants.

Respondents who took the LHA rates as their starting point had often made other investigations to check that the rates were at about the correct market level for their area, but once satisfied that this was the case had then simply continued to use the LHA rates as their main or only source of rental information. In this respect, for a number of respondents the publication of the LHA rates was seen as a positive change to have been introduced by the new system, as using the LHA rates was an easier way of following the market. Thus according to one small landlord from Cornwall:

'That is where the Local Housing Allowance is fantastic, because the next time I let it I'll use the Local Housing Allowance as a base for letting...I don't think they're too high or too low, I think they're spot on really. And if your house is way nicer than the average two bedroom house you'll charge a bit more, and if it's a bit scuzzy, you know, a bit less. So I think that the amounts are fine...and make it so much simpler.'

(Small landlord, Cornwall)

Publication of the LHA rates was seen as providing more certainty about what tenants were likely to be able to afford, and made setting the rent less 'hit and miss' than had been the case in the past, according to one large landlord in Cornwall. A large landlord from Sunderland valued the availability of the LHA rates because it lessened the amount of work that he had to do to set his rents, which he saw as now being done on his behalf by The Rent Service.

The respondents who used the LHA rates as their main or sole basis for setting their rents were often operating in one of the areas with large HB sub-markets, and for them it was simply, almost unquestioningly, the obvious, or default, approach to take. Therefore, respondents who used the LHA rates in this way differed from those who used the rates as an indication of rents on the open market, or as a proxy for other forms of market information. Instead, these respondents were

viewing the HB market as a distinct market segment with its own rent levels. They used the LHA rates, either because of the dominance of the HB sub-market, or because they specifically targeted it, irrespective of whether they believed the rates were the same or different from what they thought the open market rent level was. Thus both the small and large landlords from Bradford, Newham and Sunderland often based their rents on the LHA rates, as did all three of the agents interviewed in Newham, and one of the agents in Sunderland.

Whilst a clear majority of respondents viewed the switch to the LHA rates as an improvement over the previous system because of the simplicity, transparency and certainty it offered, there were very occasionally concerns about the wide coverage of BRMAs, with the subsequent smoothing affect this had on HB rent levels. This situation was seen as being wrong by one large landlord in Bradford, for example, who commonly let to HB tenants, and as a result now felt the need to follow the LHA rates rather than the Rent Officer determinations as in the past:

'I disagree with it totally. How can you say to somebody who's living in Ravenscliffe, which is a council estate in Bradford that's rough as anything, how can you say that that person in a one bedroom flat should pay the same rent as somebody who's living in Skipton or Ilkley? It can't be right can it? It can't be right for landlords to accept that middle range...Somebody used to come out from Leeds, it used to be all run by the Rent Officer in Leeds...I thought it was fair, they came out and visited the property and they paid what they believed it was worth. That property, not that property next door or that property round the corner or down the road, that property.'

(Large landlord, Bradford)

Once again there were the strategies of rent maximisation and turn-over minimisation and tenant attraction in use for both type of user of the LHA rates, with the former simply setting rents at the appropriate LHA rate for the size of property, and the latter undercutting the rates slightly. According to one Newham letting agent, someone from the Local Authority (LA) had advised them to set rents for HB tenants at slightly below the LHA rates as a way of keeping HB tenants happy and thereby keeping tenant turn-over low.

5.2.3 Costs-led rent setting

Crook and Kemp (1996) found in their research that just a small minority of private landlords in England set their rents to cover their costs. Only one of the LHA respondents, a small landlord from Newham, had solely based the rent level so as to cover the costs of the letting. This landlord was not sure what the LHA rates were, nor what other landlords were charging for similar property in the area. The rent had been set to cover the mortgage repayments plus an extra 20 per cent to allow for void periods and repairs.

There were, however, a number of other landlords for which their costs were as important in their rent-setting behaviour as the market or LHA rates. The small landlords were the type of respondent most likely to have a clear focus on their mortgage costs in particular, with some mentioning the benefit of the current low interest rates making it possible for them not to be making a loss at the present time. Research on buy-to-let landlords has found that covering costs rather than seeking to obtain a current net rate of rental return was often a main consideration, as many were investing in property to let as a form of pension planning, with a net rate of return or capital growth being of key importance for some future time (Rhodes and Bevan, 2003). A few of the larger landlords also mentioned the importance of considering their costs when setting the rent, however, because these were seeking to obtain a certain level of net rental return as their sole or main source of income.

Some landlords pointed to the market advantage they had from having been in the business for a number of years. They felt they had an ability to under-cut the market or the LHA rates because they were sure they had lower running costs than many other landlords, and particularly the sorts of mortgage costs that the more recent buy-to-let landlords were thought likely to have to bear. These landlords therefore felt they had a greater ability to respond to changes in the market, and an over-supply of accommodation in particular.

On the other hand, however, some landlords had seen an influx of 'accidental' landlords who had been unable to sell their property at the current time. These landlords were seen as being able to substantially undercut typical rent levels because their sole aim was to cover their mortgage costs, which might have been partly or even largely repaid, rather than having to set anything approaching a (higher) market rent, or having the need to generate a particular rate of rental return as a living.

5.2.4 Dual approaches to rent setting

A small number of both the small and large landlords took a dual approach to rent setting, a practise that was found in each of the case study areas. These respondents would essentially set a, usually only slightly, different rent level depending on whether a tenant was claiming HB or not. Underpinning this approach was a consideration of how much the two groups of tenants could afford to pay in rent.

Some of these respondents set what they considered to be the market rate for what were often referred to as 'private' tenants (that is, tenants not receiving HB to help pay their rent). For HB tenants only, however, they would simply charge the LHA rate if it was higher than their idea of the market rate. In a couple of cases where the LHA rate was perceived to be lower than the market, they would still charge HB tenants rent equivalent to the LHA because that was considered to be all they could afford. In a couple of other cases a top-up to the market rate would be required from HB tenants.

A couple of landlords started from the position of setting rents at the LHA rates, and then charging non-HB tenants slightly more, because the view was that they would be able to afford to pay a little bit more. On the other hand, a couple of landlords did the reverse, again starting from the LHA rates but charging non-HB tenants a bit less because they believed that it was harder for these tenants to afford the rent because they were 'paying for it out of their own pockets'.

5.3 Deposits and rent in advance

In a reflection of other research (Crook and Kemp, 1996), the taking of deposits and rent in advance was far from universal amongst the survey respondents. As with setting the rent, there was a diversity of attitudes and practices surrounding these items, and which were often dependent on whether a tenant was claiming HB or not.

5.3.1 Deposits

A deposit is a returnable security that is usually taken in the form of a one-off payment at the outset of a tenancy. The size of a deposit can sometimes vary depending on a landlord's requirements and a tenant's ability to pay, but the deposits taken by the survey respondents, when they were taken, were usually equal to one month's rent. The Housing Act 2004 introduced a requirement for all deposits taken on assured shorthold tenancies since 6 April 2007 to be protected by one of three authorised tenancy deposit schemes (TDS).

Some respondents always insisted on taking a deposit. Virtually all those who did not always take a deposit indicated that ideally they would prefer to do so but that it simply was not always, or ever in some instances, possible because of the inability of many tenants to afford to make the payment. Whether taken or not, deposits were viewed by the respondents as performing one or more of three things:

- protection against rent arrears;
- · protection against damage; and
- a symbolic function.

The first two of these deposit functions are self-explanatory. The symbolism of a deposit was seen by a number of the landlords as being its most important function, in that it was viewed as tangible proof that a tenant had the 'right attitude' towards the arrangement into which they were entering. From this perspective, the payment of a deposit by a tenant, even if it was considerably less than the landlord had initially requested or normally would obtain, provided the landlord with a sense that the tenancy would run smoothly, or at least indicated that it might be worth 'taking a risk' on the tenant in question. According to one small landlord in Cornwall:

'Sometimes I've had a full month, and sometimes you get the odd youngster in the past that has said "Oh, I've only got a fortnight here, will you accept it?". I think as long as they show willing and give you something, it does give you an indication for the future.'

(Small landlord, Cornwall)

Some respondents - most notably the regionally and nationally operating landlords, and also many of the letting agents - were rigid in their requirements, and always took a deposit from all tenants of all types and economic and HB status. The size of a deposit was typically one month's rent. In some instances the deposit taken was equivalent to six weeks rent or more, to ensure that there would be some cover for possible damages should the tenant decide to leave without paying the last month's rent in lieu of having their deposit returned.

A commonly recurring theme amongst the case study landlords was that they needed to be flexible in their requirement to take a deposit. The small landlords were particularly inclined to be flexible over the taking of deposits, often being willing to reduce the amount to something that the tenant could afford, and particularly if it was the 'right sort' of tenant - families were mentioned a couple of times in this respect.

There was a widespread view that HB claimants would be unlikely to be able to afford to pay a deposit. Many landlords would simply waive their requirement for a deposit from HB tenants - often whilst still charging 'private' tenants a deposit - because they knew that they simply could not afford it. Some landlords sympathised with HB tenants:

'I think a lot of people turn round and take a bond, do get rent up front, you know, make sure they do get a couple of months up front in case they do a runner. But we are always of the mindset that these people don't have a lot of money to start with, so why put more pressure on them?'

(Large landlord, Bradford)

Other landlords were sympathetic with HB tenants, but still required some form of deposit because of the symbolic reassurance it gave them that the tenant had the 'right' attitude. In these cases the landlord would often arrange for a deposit, perhaps of just a small amount, to be collected gradually in instalments over the course of several months.

The non-taking of deposits from HB tenants was common in all areas, but less so in Cornwall, where many landlords referred to a council-run bond scheme that had been used by someone to whom they had let. The scheme was reported to provide up to four weeks rent as a bond, which would be returned to the council by the landlord upon successful completion of the tenancy. One Newham landlord mentioned a bond scheme run by the borough, but suggested it was of limited value because it did not cover rent arrears. None of the respondents who had taken a deposit through a bond scheme made any sort of reference to its symbolic value, suggesting that a deposit would need to be personally paid by a tenant for it to be viewed in this way.

5.3.2 Rent in advance

There was no strong symbolic connotation attached to the payment of rent in advance, as was the case with deposits. Rather the payment of rent in advance at the outset and then throughout the life of a tenancy was seen by many respondents as just being the 'normal' way of doing things, and almost always the way things were done with 'private' tenants. The inability of HB to be paid in advance was one of the main criticisms that some respondents had of the system, and for some was a particular reason why HB tenants would always be at a competitive disadvantage in relation non-HB tenants. This situation was especially pertinent for a number of respondents who felt unable to ask for a deposit from HB tenants because of their inability to afford to pay one.

As with deposits, some respondents always took a payment of rent in advance from all tenants, whereas others were much more flexible. The national and regional respondents, and most of the agents generally expected rent in advance to be paid from the outset and throughout the life of a tenancy. However, there was widespread understanding in all case study areas that HB tenants would receive their LHA in arrears, and that as a result it was not usually realistic to attempt to collect rent in advance from them at the beginning of a tenancy. For some, such as the nationally operating respondents, this was one of several reasons not to let to HB tenants. As with deposits, however, many of the case study landlords of both sizes were much more flexible, and in many cases were quite happy to wait until claims had been processed, before beginning to collect the rent. Once the HB had begun to be paid, several of these landlords saw the rent as being relatively guaranteed even despite the fact that HB was now being paid directly to tenants.

Some respondents reported being more likely to ask for rent in advance than in the past as an alternative to taking a deposit, so that they could avoid having to use the TDS. One landlord had begun taking a deposit under the guise of rent in advance by collecting two month's rent in advance at the beginning of tenancies, and then returning one of them to the tenant if everything concluded satisfactorily.

5.4 Chapter summary

Respondents most commonly said that they followed the market when setting their rents. Others simply used the LHA rates to set their rents, either viewing these as good indicators of the market rates, or because they were largely operating within the HB sub-market. Landlords often also took into account their running costs when setting rent levels. Some respondents were rent maximisers, charging as much rent as they felt the market, or the HB sub-market could bear; whilst others were turn-over minimisers, undercutting the market or the HB sub-market slightly. Deposits and rent in advance were not always charged of HB tenants, because they were often thought to be unable to afford such items. The charging of deposits, perhaps of just a small amount, was often thought to be of symbolic importance in showing that a tenant had the 'right attitude'.

6 The rent and rent arrears

6.1 Introduction

This chapter focuses upon the practicalities of collecting the rent, as well as how respondents dealt with rent arrears. A key aspect of the Local Housing Allowance (LHA) arrangements, which shapes rent collection, is that Housing Benefit (HB) will usually be paid to the tenant. Research at the final evaluation visit to the pathfinders found that the average proportion of HB payments from the local authority to the landlord and agent was 15 per cent, compared with 55 per cent prior to the introduction of the LHA (Walker, 2004; Walker, 2006). More recently, figures provided by the Department for Work and Pensions (DWP) (from the DWP Single Housing Benefit Extract of Local Authority (LA) claimant records) show that 80 per cent of LHA claimants were receiving their HB directly during February 2010, 16 per cent of the payments were to the landlord, and three per cent were split between the claimant and the landlord.

As noted previously, direct payment was the most contentious element of the LHA for the landlords in this study. A couple of landlords with decades of experience were able to comment on the various policy changes down the years where HB was either paid directly to the tenant, or to the landlord, and back again.

'Every experience I've ever had, always, when the rent hasn't been paid directly to me, is that I've lost out big time.'

(Large landlord, Cornwall)

Any form of benefit, including the previous HB system, suffers from a minority of claimants who learn how to manipulate a system to their own advantage. One issue to emerge from discussions with landlords and agents was the extent to which difficulties with rent collection and arrears were perceived as being exacerbated by the LHA. Therefore, key issues to explore in this chapter were:

- views on the nature of the issue under the LHA arrangements; and
- the extent to which respondents felt that some of the difficulties were caused by the LHA itself, as opposed to tenant behaviour.

6.2 Collecting the rent

Landlords and agents used a variety of methods for collecting the rent. These methods included the use of direct debits, standing orders, cash and cheque payments. One group of respondents (including small as well as large landlords and agents) used the same method for all their tenants. They did not distinguish between whether a tenant was on benefit or not, but required all tenants to use whatever was the landlord's standard practice. This might include all tenants using direct debits or standing orders, or requiring all tenants to visit an office to pay the rent, for example.

However, another group of respondents noted that they used different methods to collect the rent, depending on whether their tenants were claiming benefit or not. Respondent's often felt that this decision was taken by necessity, rather than their preferred option, which would be to collect the rent using the same method for all tenants. For instance, some of these respondents stated that they would prefer all their tenants to pay by direct debit or standing order, but that they had found that these mechanisms were problematic with tenants claiming HB (see 'banking issues' below). Instead, respondents noted that they adopted very flexible methods to try and ensure that the rent could be collected, and to accommodate the preferences of tenants as well.

6.3 Banking issues

It would appear that some tenants did not have bank accounts, and were often unwilling to open one to organise paying the rent by direct debit or standing order. Some simply had no experience of using a bank. Tenants who did not have a bank account sometimes tried to give their benefit cheque from the council to the landlord as payment for the rent. Others cashed their cheques first, at cheque cashing services, for which they had to pay a percentage.

One of the difficulties that landlords experienced was that where benefit was deposited in bank accounts by some tenants, the funds would be used to pay for other bills or bank charges. For example, if the tenant had an overdraft, then their benefit would be swallowed up by the bank to pay for this.

'If it's in a tenants' bank account, if a tenant has maybe gone overdrawn or something like that, even if they set up a standing order to come out of the bank account the day after the benefit goes in, if they're overdrawn that standing order isn't going to come.'

(Small landlord, Cornwall)

A couple of respondents noted that they had just started to ask tenants to open separate bank accounts exclusively to handle HB, to try and minimise these problems. A different respondent – a letting agent – was very circumspect about the success of this approach, however, and stated that in his experience some tenants just spent the money anyway.

6.4 Local Housing Allowance payment cycles/periods

Although LAs are able to pay HB in monthly cycles, few tend to do so, and possibly because it is more administratively complicated for their own systems and procedures. This situation caused difficulties for many respondents, who were often exasperated by the procedure, which was felt to run counter to most business practices, where cycles usually run on a monthly basis.

Particularly frustrating was the wait for the 'thirteenth month' within any financial year, as the benefit payment cycle caught up with monthly rent cycle. A couple of respondents highlighted that if tenants moved out before a full year elapsed, then this 'thirteenth' payment would never materialise. Further, since HB is paid in arrears, there was also the issue of not necessarily being able to get the last payment, as the tenant had already left the property.

'At the end of the 12 month tenancy, because Housing Benefit is paid in arrears, that means the tenant moves out today, we've got another payment coming to us, and I could count on one hand how many I've had – not one. Not one. And when the tenant leaves, it should be that that last Housing Benefit payment should always go to the landlord or agent. Because at the moment it still goes to the tenant. They've moved. They don't care. It's in their bank "come and sue me for it". What are you going to sue them for? They haven't got anything.'

(Letting agent, Newham)

A potential problem with tenants paid every two weeks instead of every four weeks was that with rent due every month, it was felt that there was too much of a temptation for some tenants to spend their benefit in the two weeks that a payment was sat in their account. Several respondents noted that their workload had increased tremendously as they had to try and catch tenants on the day they received the benefit cheque, or as soon as possible thereafter, to make sure the rent would be paid. One letting agent described the changes to their previous working practices, such as employing a rent collector.

'We're pretty much on top of it now because we've had to employ a rent collector. So we have a rent collector who goes round to collect the rent. She now knows when they get the cheques and when they cash them and she goes and collects the money from them, otherwise they'd spend it.'

(Letting agent, Sunderland)

6.5 Rent arrears

The Pathfinder Evaluation highlighted two types of arrears (Rugg, 2006). The first type related to the way in which HB is paid in arrears, and also due to the time that a claim might take to process. A number of landlords commented on the first type of arrears and that the way that the HB system operated put HB claimants at a disadvantage in the market, compared with households who did not claim HB. Several landlords spoke of the extent to which there was not a 'level playing field' between the two groups of tenants.

Secondly, there was the issue of rent being paid, or not, by the tenant. The latter problem of getting the rent paid by tenants was reported to have risen dramatically for many landlords since the introduction of the LHA, and across all the case study areas. Indeed, a number were able to highlight the exact amount of arrears that had built up after the LHA was introduced.

'I've been renting properties for quite a long time and I've never had any serious problems up until last year. I've always been able to resolve problems with tenants just myself, with often just a small amount owing and people after they've left have sometimes paid that off. Last year, financial year ending in April 2009, I ended up nearly five thousand pounds rent that I couldn't claim. And this year it's 1800 pounds so far [September 2009]. I've had to resort to the courts to sort people out, which I've never had to do before.'

(Large landlord, Cornwall)

Small landlords were less likely to be in a position to comment on perceived changes in the extent of the problem than landlords and agents with large portfolios. The relatively small number of tenancies that this group of landlords had experience of meant that they were able to comment on whether they had tenants in arrears, but often did not have a view on how levels of arrears had altered. Nevertheless, the majority of small landlords had some experience of a tenant in arrears, and three of these explicitly noted that the situation had worsened since the introduction of the LHA.

Larger landlords and also agents were much more likely to report a perceived worsening of the level of arrears in the last couple of years. The Pathfinder Evaluation noted that arrears were endemic amongst 'benefit landlords' - that is, landlords who let the majority of their properties to tenants claiming HB, often in areas where other demand groups were unwilling to live (Rugg, 2006). Landlords and agents in the case study areas dominated by HB claimants reiterated this view. Larger landlords and agents in the other case study areas also commented on the scale of the problems they were experiencing. This view was not universal, however. A small number of landlords and agents felt that the level of arrears was no worse than under the previous HB system. National landlords were inclined to state that the scale of arrears was either no worse, or had risen by a small amount, since the introduction of the LHA.

Two broad types of non payment of rent were identified, the main distinction between which was the intent towards paying the rent:

- Irregular or intermittent non payment.
- Tenants who were 'committed non-payers'.

A fairly common view held about the tenants who fell into irregular arrears was that many of them would have preferred for the benefit to be paid to the landlord or agent. According to these respondents, some tenants were often keenly aware of their inability to manage their own finances.

'We've got one tenant who is two months in arrears. We've just issued proceedings. She's never missed a beat, but all of a sudden this year she decided she wanted a holiday. And she took two months LHA and went on holiday with it. And then came back and said "I'll catch up". But we said "sorry, it doesn't work like that". Right at the start of the tenancy she wanted direct payments [to the landlord] so she wouldn't spend it, but we couldn't get it, because she wasn't in arrears and didn't have any alcohol or drug problems, and now the council are going to have to house her and her two kids.'

Large landlord, Coventry

Sympathy for the financial situation of tenants was common, with landlords often being quick to point out that they too would struggle on their level of income.

'Because people are poor, you know, you can't blame them, if they haven't got enough money to eat and a big cheque comes through for your rent. It's going to be very hard for the landlord to evict you, and time consuming. And if you haven't got any food, or it's Christmas, and your kids want something, of course you're going to spend that cheque on something else. You know, it's tempting people with something, so I can completely understand why people abscond with their Housing Benefit cheques, which is why it seems ridiculous that it can't be paid directly to the landlord.'

(Small landlord, Cornwall)

Rent arrears commonly increased around Christmas, the start of the school year (school uniforms or new shoes), or the summer months (a summer holiday).

'The problem with non-payment by Local Housing Allowance tenants got worse last Christmas, which was the first under the new scheme. So many people didn't come to pay the rent "Oh, don't you know it's Christmas?" I know when Christmas comes, it's December. So many rents, we won't get it. Why? "You know it's Christmas, so we have to buy some presents" that's what they would tell me. What can I do?'

(Letting agent, Newham)

The second group, the committed non-payers, appeared to have no intention of paying the rent. Respondents noted that certain HB tenants (usually young, single males) had 'wised-up' to how the system worked, and were hopping from one tenancy to the next every eight weeks without ever paying any rent. It was often a relief to landlords when these tenants left, as they knew that they would never recover the arrears from the tenant, even if they could have discovered their whereabouts. More problematic for a couple of respondents was the practice by some tenants of paying just enough rent as the eighth week approached. The LA would then refuse to pay HB direct to the landlord, and thus the tenant could play the system until the landlord had gone down the process of a formal eviction through the courts.

'Before, with the old Housing Benefit system, we had about 20 per cent problem payers. Five to ten per cent you wouldn't get the money, you'd have to evict. Now that figure has increased to about 30-40 per cent problem payers and 20 per cent there's quite a battle to get the money from. Quite a few just spend the first few weeks rent. Some learn to play the system where they always keep themselves under the eight weeks.'

(Letting agent, Sunderland)

As also highlighted in the quote above, a number of large landlords as well as letting agents felt strongly that committed non-payment was an increasing problem.

'Unfortunately, the LHA is going to breed a new type of person, which we have at the moment – little toe-rags we call them, and it's never going to work for them. They are going to be transient people for years and years to come. When you ring up the last landlord to ask if he was a good tenant, he's going to say "he hasn't paid me at all". They are going to run out...but there are a lot of bad landlords as well – but they will run out and no landlord will take them. God forbid it starts happening with families.'

(Large landlord, Sunderland)

A recurrent theme amongst many landlords was that the same tenant who had been a 'model' tenant previously had become a non-payer once the LHA had been introduced. Some landlords had let to the same tenant that they had once let to in the past, precisely because they had been a 'good' tenant at that time, only to find that now they were problematic.

'I've had tenants I've had for years who've been really good tenant, pay the ten pound 15 pound shortfalls, ten years they've been with us, and now they've had 200 odd pounds going into their bank accounts, and they've spent it. Somebody's addiction means more to them than a roof over their head. The annoying thing now is that they will move out and do it again.'

(Large landlord, Sunderland)

A number of respondents questioned how benefit that was not used to pay the rent was viewed by policymakers. In the opinion of these respondents, benefit kept by tenants and not used on rent ought to be viewed as fraud.

6.6 Management implications

Both types of tenant behaviour, with regard to arrears highlighted above, had significant management implications, in terms of the time, cost, and stress involved for the landlords and agents. A key difference between the two types of rent arrears was that the irregular arrears could be minimised by intensive management by the landlord or agent, whereas the committed non-payers were resolute in their actions, and consequently more problematic to deal with. It was the larger landlords or letting agents who tended to report how some of the problems they experienced could be tackled by intensive management. Landlords with smaller portfolios, or who lived some distance from part of their portfolios, noted the difficulty of balancing their other employment commitments with the extra work involved with managing their properties.

6.6.1 Minimising arrears within the current HB framework

With regard to the committed non-payers, several respondents highlighted that intensive effort at the outset of a new tenancy was essential in minimising potential problems by not letting to potential tenants who were deemed a 'risk'. In the case studies with a 'mixed market' of HB and non HB tenants (such as Edinburgh or Coventry), then there were greater opportunities for landlords to let to non-HB tenants.

'Most landlords would say they wouldn't accept LHA given the choice, but some landlords don't have that choice. Where I am, I do have that choice, so I don't take them.'

(Small landlord, Edinburgh)

However, in other case study areas (Sunderland and Newham), the markets that landlords were operating in were dominated by tenants likely to claim benefit. There were very few alternative markets available for these respondents, unless they stopped operating in these areas at all. Landlords in Cornwall highlighted how the highly transient nature of the local jobs market impinged on their ability to let exclusively to 'private tenants' who were in work.

Whilst the strategy highlighted above aimed to cut out potential 'problem tenants' from tenancies altogether, other mechanisms employed by respondents related to ways of minimising the risk of arrears, or tackling arrears as they occurred with existing tenants. A number of respondents, mainly large landlords, national landlords and letting agents, insisted on guarantors when letting to HB tenants. These respondents reported very mixed success with this approach, however, and that in practice the threat of resorting to the guarantor was more of a lever on the tenant with arrears, rather than a practical solution for recouping outstanding rent. It was reported that it was often the case that the guarantor for HB tenants had very little money with which to pay either, unlike, for example, guarantors for students.

Rugg (2006) highlighted that the HB system offers the route of dealing with LAs to address arrears, rather than dealing exclusively with the tenant in situations where HB is not being claimed. Whilst most respondents who compared tackling arrears for non-HB claimants with tenants on HB tended to report that dealing with the latter was much more problematic than the former, this was not a universal view. A small number of respondents felt that trying to deal with arrears for tenants not claiming HB could be more difficult.

Respondents who preferred to deal with tenants on HB in this way often had some additional recourse to dealing with any potential difficulties. For example, two respondents had experience of letting to tenants via organisations that worked with people who were homeless, or were otherwise vulnerable, and who guaranteed the rent.

Respondents discussed at some length their strategies for tackling arrears by approaching the LA to implement the eight week rule, or to attempt to utilise the safeguards. As is further explored in Chapter 7, however, the current way that safeguards were interpreted and applied by LAs led to the continued build up of arrears. A key difficulty highlighted by respondents was that arrears often continued to mount up after the eighth week of non payment by the tenant, whilst HB was suspended pending an investigation.

'Now I send a letter straight away to the local authority after two months. But even so they still say we need to get that confirmed by the tenant as well. But if the tenant doesn't get back to them about that issue, which they aren't going to do, obviously, then the system can't seem to handle that the landlord is saying they are not getting any rent.'

(Large landlord, Cornwall)

A widespread complaint by respondents was also that it was very difficult to get the two months arrears back.

A frustration for some landlords was the apparent lack of communication between landlords and LAs over tackling non payment of rent by some tenants. It was felt that joint working between landlords and authorities could help to reduce the extent of this problem, but that there were no channels of communication, or any apparent willingness on the part of authorities to engage with landlords in this way. It also raises the question of how the 'unlikely to pay' safeguard works in practice (see Chapter 7). As one landlord noted:

'I lost a lot of money as soon as the LHA came in. I hear from other landlords that it's almost an occupation for some tenants. They will move in for three months, and then move on to another tenancy. And the council say "we can't track these people". But we can tell the council where they have moved on to, but the council won't do anything about it, will continue to pay the tenant, and will not accept that the tenants are not paying rent.'

(Small landlord, Edinburgh)

Instead, some landlords and agents had their own list of tenants who were 'unlikely to pay' the rent. Respondents were sometimes part of an informal network of landlords and agents that kept each other informed of people who regularly defaulted on the rent. Nevertheless, a couple of respondents also noted that other landlords were sometimes economical with the truth if they were contacted about the payment history of a prospective tenant who was trying to find somewhere else to live in an attempt to get rid of a non-paying tenant.

Other strategies besides approaching the LA were used to tackle non payment of rent and the build up of arrears. Respondents highlighted a variety of methods, including more intensive work chasing tenants for the rent, not renewing tenancies, and eviction through the courts. Larger landlords and agents, especially, noted the increase in the amount of time and cost spent on this aspect of their business, as indicative of the problems posed since the introduction of the LHA. One letting agent in Sunderland noted the increase in the amount of work through the courts.

'I've been in senior management for 12 years, and was area manager for an estate agent for seven years – in that time I took three people to county court for rent arrears. Now I'm doing on average three applications a week. This is down to the LHA. Usually they [tenants] wait until the day before the court date and pack up and leave. People can get about 800-1,000 pounds paid to them before the landlord can do diddly squat. They can use this money to go to the next landlord and use as a deposit. And then the next and so on. My record in one day is to serve 16 court orders. It's ridiculous.'

(Letting agent, Sunderland)

Another respondent noted more widespread impacts upon their business:

'You've had three of us in this office pulled off our other jobs. And one of mine is to bring money in [by finding new clients], which I'm not doing if I'm chasing rents. Just to deal with LHA and the problems with it.'

(Letting agent, Newham)

In addition to more intensive work in relation to rent collection, a number of landlords also highlighted that more effort needed to be put into monitoring tenancies to check that tenants had not left the property.

'There are people prepared to leave, especially like the single people I'm getting in the bedsits. They're prepared to just up and leave. You know and not give any notice. So I'm on my guard all the time. We are so nervous now of tenants upping and leaving, that at the drop of hat we have to go and have a look to see if they are still there.'

(Large landlord, Bradford)

6.7 Chapter summary

Many respondents adopted a flexible approach to collecting the rent to accommodate tenants' payment methods. One of the problems that respondents encountered with tenants depositing the HB in bank accounts was that this money was often used to pay off other bills and overdrafts. Not all tenants had bank accounts and again, this could cause difficulties with collecting in the rent. A particular frustration for many respondents was the HB payment cycle, which was in weekly multiples, rather than on a monthly basis which was felt to be the industry standard. This practice could also cause complications and difficulties for landlords in collecting the rent.

Arrears could result from the mechanics of the HB system, including the time taken to process initial claims and payment in arrears. Arrears were also caused by tenants in receipt of HB, but who were not paying the rent. Two types of behaviour were noted by respondents. Firstly, intermittent or irregular arrears, which could be the result of a specific personal or financial crisis for the tenant, or decisions to spend monies on other things such as, for example, Christmas, holidays, clothing for children's school uniforms. Secondly, committed non-payers emerged as a sub-group of tenants who were reported by respondents as having no intention of paying the rent. Many respondents felt that the LHA had resulted in an intensification of management in an attempt to minimise the risks of arrears. Nevertheless, as is discussed in more detail in the next chapter, there was the perception that the current operation of provisions and safeguards, as well as existing channels of communication between landlords and LAs, was exacerbating levels of arrears.

7 Provisions and safeguards

7.1 Introduction

As set out in the introduction to the report, under the Local Housing Allowance (LHA) there are three regulations to help deal with problems, or potential problems, of rent arrears and non-payment of rent. First there is the statutory eight week rent arrears provision, which allows the local authority (LA) to redirect Housing Benefit (HB) towards the landlord or agent when notified of a tenant falling into rent arrears of eight weeks. This provision existed under the rules prior to the LHA, and is a mandatory requirement unless to do so would be against the overriding interests of the claimant, perhaps if the landlord were not deemed a 'fit and proper person' for example.

Under the LHA, there are two new discretionary safeguards. One allows direct payment to the landlord or agent when a claimant is thought likely to have 'difficulty in paying their rent', perhaps because of a learning disability or a substance dependence. The other is for tenants who have been identified as being deliberately 'unlikely to pay their rent', such as the 'committed non-payers' discussed in Chapter 6.

7.2 Knowledge of the provision and safeguards

Respondents overall were slightly less likely to know about the provisions and safeguards under the LHA than they were about how HB was paid, or what the actual LHA rates were. Awareness of the eight week rent arrears provision was greater than it was for the two new safeguards, and perhaps to some extent because it had existed prior to the LHA. However, many respondents appeared to know about the eight week rule from before the LHA was actually introduced often because the potential for rent arrears under the new rules had been a widely discussed concern at meetings between landlords and local authorities, and at landlord forums and associations, including in their newsletters and information sheets.

Clarity on what the eight week rule was for and how it was intended to work was much greater than it was on the two safeguards, to the extent that the descriptive 'the eight week rule' was common parlance amongst the respondents. In contrast, few who knew about them knew what to actually call the two safeguards, or were aware of exactly what they were intended to do and how they differed from each other, nor whether there were two separate safeguards or actually just one.

Following the pattern established by a range of research on the PRS, as a general rule knowledge of these three regulations was generally greatest amongst the agents and the nationally or regionally operating landlords. Likewise, the larger landlords in the case study areas were generally more likely to know about them than the smaller landlords. The larger landlords and agents were the most likely to have mentioned their own professional development as being the reason for their awareness of the regulations, one large landlord from Bradford, for example, saying that he read something new about the business every day. There were of course variations to these general patterns, with a small number of small landlords being as well-informed on the regulations, and on being a landlord generally, as anyone, often because of their occupation in a related industry (such as estate agency). Several small landlords, however, were unaware that there were provisions and safeguards that would allow HB to be paid directly to them, even though one or two were actually experiencing problems with lengthy periods of rent arrears. A couple of small landlords knew that there were criteria for when HB could be redirected to themselves, but were not clear on when the circumstances were when this could be the case.

Awareness of the rules appeared to be partly related to experience of specific problems with letting to HB tenants, such that the larger operators were simply more likely to have knowledge of the workings of the regulations through having used them the most often. The smaller landlords often appeared to know just about the single regulation that they had been involved with using, which was most commonly the eight week rent arrears rule. A number of the smaller landlords also had networks of friends that were landlords which had been to provide information and support, and in a number of cases there were other family members that were landlords also.

7.3 General issues with the provisions and safeguards

A specific issue raised by many of the respondents in all of the case study areas, and also amongst the national and regional respondents, was the fact that direct payment of HB to them could only be made under the safeguarding provisions or the eight week rent arrears provision. There was dismay that no option existed within the system for tenants to elect to have their benefit paid directly to the landlord, as was the case previously:

'What I can't get over is they've taken the freedom of choice away from people to say "Well, I want my rent paid direct so I don't have this worry, I know that I have a roof over my head for me and my children. And really you're taking that right away from me, because I might be tempted to spend it". Really, it's encouraging people to get into debt.'

(Large landlord, Sunderland)

A number of the respondents were clear that they were letting to HB tenants who did not want the benefit to be paid to them because they knew they were liable to mismanage the benefit, or be tempted to spend it on other things. Several recounted instances when tenants had either written, or paid a visit, to the local authority asking for their benefit to be paid directly to their landlord, only to find that the request had been refused.

Comparisons were sometimes drawn by the respondents between what they saw as the unfair disparity between themselves and social landlords, the latter of course automatically having the HB paid to them directly. It is likely that the tenants of social landlords might often satisfy the conditions for 'difficulty in paying their rent' or the 'unlikely to pay their rent' safeguards, and so might in principle receive the HB directly themselves. However, a number of the private landlords in the study believed that they themselves had such tenants, but that they had experienced little success in achieving HB redirection because of the lack of clarity and variability in application of the criteria by their LA.

'At the end of the day the mortgages have got to be paid. But would it not be better for those people to have the rent paid direct so they don't have to worry...They've taken that right away from people. And I cannot understand why, because, you know, where's this equal opportunities for everybody? Because if you're in a Sunderland housing association, they get the cheques direct. It's only the private landlord that's been targeted, it's only the private landlord that this is happening to. Why? We provide public accommodation for people.'

(Large landlord, Sunderland)

Several respondents had concerns about the review of the situation after HB had been redirected towards themselves because of the eight week rent arrears rule or either of the two safeguards. After a period of six months was the usual understanding of when a case would be reviewed, and this was generally thought to be too short a length of time. Respondents questioned whether anything was going to have significantly changed in the tenant's situation or attitude towards

paying the rent after six months, leading to real concerns that a review would return the HB payments to the tenant, and when the problem would reoccur and the whole process of attempting to get the HB paid to themselves would have to be repeated.

'With another, she has debts all over, and it's not a good credit risk. It's easy to check, but they said "no". We argued and argued, and eventually they agreed, but it took a lot of argument over 13 weeks. It's sorted, but only for the moment. It'll be reviewed. She's not vulnerable, she just spends the money. I know the theory behind it, the idea that it'll help people to become more responsible, but they don't know the people that we are dealing with. They are sitting in their offices up in Westminster, in ivory towers. They are not down here on the street.'

(Small landlord, Edinburgh)

There were a number of variations experienced when dealing with local authorities by the respondents, both within the same LA, and between different LAs. Respondents from all areas thought that the amount of information the local authority was willing to give them regarding a particular claim depended on which individual answered the telephone. In some cases very little information would be provided, including no details of why a claim had been suspended (respondents were often not clear if it was because of their own request or for some other reason). The national and regional respondents, and also some of the larger case study landlords, had found variability from one LA to the next in terms of how often cases were reviewed, and how quickly the eight week rent arrears provision was implemented. They had also found that the actual nature of the contact that the LA would allow could vary quite substantially: some authorities would talk about cases over the telephone, whereas others would insist on everything being put in writing. In the case of one authority that was mentioned, everything was required in writing, and then the authority would only guarantee to respond to letters within 28 days.

More positively, a couple of respondents noted that they were viewed more favourably by their LA because they were accredited, and so were more likely to be able to obtain information on the state of a suspension than a landlord or agent that was not. This view was given by one agent in Newham, and one landlord in Sunderland mentioned that accredited landlords had their eight week rent arrears cases fast-tracked, but that this system eventually failed because it had become swamped with applications.

7.4 The eight week rent arrears provision

A common problem for respondents who had used this provision was that eight weeks was simply too long a period for them to cope with rent arrears. This was a point often raised by the smaller landlords, although not solely by these respondents, who usually needed to cover the costs of a buy to let mortgage with their rental income. There were fears of mortgage defaults and subsequent repossession, which clearly could have implications for the tenants in question themselves. As one agent in Newham pointed out, a number of landlords that had recently been placed on their books had come to them as a result of having lost their own job at the present time, and so may have been highly unlikely to have the financial capacity to cover periods of rent arrears at all.

'Now a bank or a building society, as soon as you hit two months they'll start proceedings, so if that landlord can't pay his mortgage that tenant will end up getting evicted by the lender anyway...I'm fully aware with a landlord they should always take steps to ensure that they can cover any arrears, I mean I'm a landlord and I've always got a certain amount of money in the bank to cover that kind of scenario, and I warn my landlords to do it. But there are plenty that haven't done that, because that landlord may have lost his job, so we've got this kind of knockon effect, more so in a depression or a recession or whatever you want to call it, which is causing hardship to the landlord and the landlord's family. Do you see what I mean? All because that tenant has spent their Housing Benefit.'

(Letting agent, Newham)

The length of eight weeks rent arrears before HB could be suspended was exacerbated in a many cases by the fact that landlords had often not charged HB tenants a deposit, because – as discussed in Chapter 5 – they were thought unable to afford to pay one, and so there was no cover for at least some of the eight week period. In addition, the experience of many of the respondents was that the claim would be suspended after eight weeks, and then it could take up to one month for the LA to investigate the situation, and then – provided that they found in the landlord's favour – it could even be another month before they received any back-dated HB because of whereabouts in the payment cycle the suspension had been made. Furthermore, there was the widespread recognition amongst all types of respondent that there was simply no point in attempting to recover the eight weeks rent arrears from HB tenants, as few would or could pay it. The costs, stress and the unlikely positive outcome almost always discouraged landlords from attempting to recover any rent arrears from HB tenants.

'They do have a policy now where if they're two months in arrears they can pay the landlord direct. But you're going two months in arrears, and then they pay you in arrears as well, so by then you're three months or more in arrears. Well, you've still got mortgages to pay, you've still got maintenance problems to deal with, and you never get that initial two months back. You never get that back. And once they start paying you you've still got that two months in arrears, so that tenant is always going to owe you that money. And though you may have taken deposits, the deposit's normally only one month's rent, but then if they do anything to the house, you've got maintenance issues when they leave, you've got nothing at all, you're always going to be out of pocket. And I've had several like that.'

(Large landlord, Cornwall)

A period of four weeks of rent arrears was commonly suggested as being sufficiently long enough for landlords to bear, and for it to be clear that there was some sort of problem with a tenant, before HB should be redirected to the landlord or agent. As one large Newham landlord put it: 'It's a problem for the landlord and the tenant. Both are in a worse situation after eight weeks than would be the case after four'. A couple of the Newham respondents were under the impression that the borough was intending to reduce the period of rent arrears from eight to four weeks before they would suspend a claim for investigation, and which was viewed by these respondents as a reasonable length of time.

One large landlord in Bradford had been given to understand by the council that in the event of the rent arrears provision being used, any LHA excess that the tenant might have been receiving would subsequently be paid to the landlord to help the landlord deal with the accumulated arrears (a situation addressed by HB Regulation 95(2A)). In this instance, however, although direct payment to the landlord had commenced, the excess was still being paid to the tenant.

7.5 The safeguards

In the small number of cases where respondents were aware of them, views on the 'difficulty in paying their rent' and the 'unlikely to pay the rent' safeguards were similar. By far the most common criticism of these safeguards was their lack of clarity in terms of when and how they could be used, and what the criteria were that had to be met for them to be implemented. In part this confusion was due to the safeguards not being widely discussed by either the LAs or landlord associations, or clearly signposted in literature or on LA websites. Many who knew these rules existed just simply did not know what they were called or how to refer to them. However, the lack of clarity surrounding the rules was in part also due to what was seen as being their variable application by those who had made use of them. A couple of respondents who had successfully obtained direct payment under one of these rules, for example, were unsure exactly which rule had been implemented because the information provided to them by their council on the case had been so unclear and unspecific.

'We need to seek clarification as to where the goalposts are. It's still an awful lot down to interpretation as far as whoever is dealing with the case, and whoever decides yes they can or no they can't. But what are they basing their decisions on? Is it they've had £2,000 of rent arrears? Have they had it over a period of six months? Or have they had it over two different properties?'

(Large landlord, Sunderland)

One large landlord in Edinburgh thought that there was a complete lack of clarity on the unlikely to pay rule. This respondent had let to an HB tenant who had fallen into arrears, and had then subsequently discovered that the tenant had a history of serious arrears with three previous private landlords. He was dismayed that upon informing the council of this situation, the payment had not (at the time of the interview) been redirected to him.

There was confusion surrounding the 'difficulty in paying their rent' rule also, with a couple of respondents who knew the rule existed for tenants who were likely to be unable to manage their financial affairs. For these respondents there had been unexplained variability in the application of the rule, which was exacerbated by a lack of clear guidance available, with one tenant being classified as vulnerable and the HB being redirected to the landlord, but not so with another tenant who was thought to have exactly the same problem.

A couple of respondents had difficulties with the two rules because of having to involve outside agencies to support their application. Again there was a lack of clarity on which agencies always needed to be involved. Problems resulted in particular in terms of the time and 'hassle' involved, especially for sideline landlords, who often had limited time to engage with such matters. There was seen to be a large amount of work and organisation involved managing the whole situation, for a very uncertain outcome, which was seen as yet one more reason not to let to HB tenants. In addition, in some instances it was necessary for a fee to be paid for an assessment to be made of a tenant by a doctor. One Sunderland respondent, however, pointed to the procedure adopted by a neighbouring district (Durham), which had claims forms containing a section that allowed applicants to indicate if they considered themselves likely to have difficulty in managing rental payments. One of this landlord's tenants who had indicted this to be the case, had been visited and assessed by someone from Durham council, and the HB payment had subsequently been redirected to the landlord.

7.6 Chapter summary

Awareness of the eight week rent arrears provision was widespread, partly because it had been widely discussed at meetings and forums, and partly because respondents had often used the instrument. The period of rent arrears under the provision was criticised for being too long, with four weeks regularly suggested as being sufficient for both the landlord and tenant. Respondents often pointed out that their own costs, especially mortgage repayments, still had to be covered even though the rent was not being paid. It was suggested that it was virtually impossible for them to ever recoup the eight weeks rent arrears from HB tenants, and that by the time a claim had been suspended and investigated, it could be over three months before any HB was finally redirected to themselves. There was only limited awareness of the 'difficulty in paying their rent' and the 'unlikely to pay the rent' safeguards. Respondents were often unclear on how the safeguards worked, or which eventualities they were expected to cover. Where they had been used, there was a lack of clarity why the HB was redirected to the landlord or agent in some cases but not in other similar ones. The amount of work, time and sometimes the cost of implementing the safeguards was often prohibitive, particularly for sideline landlords.

8 The future

8.1 Introduction

Chapter 8 considers the intentions of landlords over the next couple of years, as well as in the long-term. As might be expected, the current economic climate played a large part in shaping the plans that respondents intended to follow, especially in the short-term, and the chapter picks up on this issue. Finally, the chapter focuses upon how the Local Housing Allowance (LHA) featured as part of respondents' future strategies.

8.2 Short-term intentions

In the short-term the majority of respondents noted that they intended to hold on to their portfolios. The dominant factor that impinged upon respondents' short-term intentions was the current economic situation (see below). Many of these landlords spoke of consolidating what they currently had. This process would involve reducing the amount of debt against their properties, improving on the standard of their portfolios, or stockpiling income against potential economic difficulties.

8.2.1 Impacts of the economic situation

The main impact of the current economic climate appeared to be that landlords were postponing decisions about increasing or reducing the size of their portfolios. A number of landlords - with both small and large portfolios - stated that ideally they would like to expand what they had, but that the current mortgage market precluded this option for those who relied on loan finance. For example, one landlord noted that her plans to expand had been stymied by her lender, who had withdrawn the financial backing that had been previously agreed prior to the economic downturn.

There was a feeling that properties may be less expensive, but that most landlords could not access the loans they needed: the market was open to cash buyers.

'Difficult at the moment because there's very limited buy to let. Also the multiples don't really stack up - the rent wouldn't cover it. Everybody is really in the same sort of position. I have some money, but borrowing is practically impossible. Also there is a fear that current products won't be renewed, so you need a bit of equity just in case. The wise landlord will be stockpiling at the moment, so they can afford to keep what they have, or they will have to begin to sell. It's about sustaining your portfolio at the moment, until the market picks up again. The only ones able to do it are the ones with hard cash who don't need mortgages.'

(Small landlord, Edinburgh)

An exception appeared to be in the Bradford area, where relatively low prices in the specific areas where landlords were operating meant that a few respondents were actively aiming to expand, in spite of the current financial climate.

The lower price of properties had also stalled activity for the smaller number of landlords who intended to sell-up or reduce their portfolios. These landlords were holding on to what they had until house prices picked up. These respondents tended to be approaching their retirement, or, in one case, were letting as an 'accidental landlord'.

8.2.2 Rent reviews

Chapter five has discussed the views of respondents with regard to setting the rent. Respondents commented that these strategies were likely to remain the same into the next couple of years.

8.3 Long-term intentions

The overwhelming view from the majority of respondents was that they intended to remain in the business for the long-term. Further, many landlords planned to expand their portfolios in the medium to long-term. Demographic reasons were often put forward in instances where the intention to reduce the size of portfolios was indicated, or where respondents planned to sell-up entirely. A number of landlords and agents discussed the future of their portfolios in relation to their retirement plans. Here, attitudes towards property for rental income or for capital gain were paramount. Both small and large landlords interested in rental income to help fund their retirement also often noted that they intended to leave their portfolios as an inheritance for their families. Other respondents were keen to sell-up and use the capital for other purposes, either to help fund their retirement, or other projects. One large landlord, who was willing to let to Housing Benefit (HB) tenants, was adamant that they would not want their children to have the 'headache' of the business, and were intending to sell-up at the next perceived peak in house prices.

8.4 Impact of the Local Housing Allowance on future intentions

Chapter 3 has already outlined the impact of the LHA upon current letting preferences, and the themes outlined in that chapter reflected future intentions. For many landlords there was a much greater wariness about letting to people who claimed HB, for example.

One agent also commented that the current low interest rates were a real help for landlords with tenants on benefit where it was difficult to obtain the rent. If interest rates were to rise, then it was felt that landlords on tight budgets and with mortgages to cover could struggle. As noted earlier, it was the smaller-scale buy to let landlords who might be most affected in this way due to them generally having the tightest operating margins.

For landlords who intended to remain in the business, there was a strong sense from many that they would try and switch away from letting to HB tenants if they could.

'I'll plod on as I am really. You see I don't need to let that room in that house. If I don't have that room let for three months it's not going to impact on how I'm going to live my life, because I can afford for it to be empty...but what I don't want is this amount of aggravation that I'm getting now...Seriously, the next people I get in won't be DSS. I can't do this anymore.'

(Large landlord, Bradford)

A number of landlords described the ways in which they were planning to change their portfolios as a way of limiting the impact of the LHA. Two landlords in the Cornwall case study area commented that they were planning to convert at least one property each from bedsits or shared accommodation into self contained properties. In both instances, the potential yield would fall, but the conversions would represent a switch away from letting to tenants claiming HB, especially younger people.

'I've applied for planning permission to convert one HMO into flats. I'm fed up of LHA non-payers in the HMO. And once I have the flats, I intend not to let to DSS, or LHA, whatever they are now. Upgrade the accommodation and not deal with that sort of person. It isn't sustainable while the government are paying direct to these people. It doesn't work. I feel sorry about that and feel I do a good job for society in offering accommodation of this type...it just doesn't work.'

(Large landlord, Cornwall)

Similarly, another landlord in Bradford noted that as they moved towards their retirement, they would retain most of their portfolio, but would also sell up their smaller bedsit accommodation because of the hassle, even though these properties were described as 'good payers'. An alternative strategy was highlighted by two landlords operating in Newham who stated that they were intending to buy properties in another borough, where a different demand profile exists. Two landlords who were based in the Leeds area also commented that they were aiming to reduce the number of lettings they had in Bradford. Both these respondents highlighted that the Bradford properties were too far away for the intensive management required to keep on top of lettings where HB was being claimed.

This trend did not reflect a universal view. A number of landlords emphasised that they were happy to let to HB tenants, although this tended to be to particular demand groups, such as families. One of the attractions of letting to families who claimed benefit was that they were perceived as potential 'long stayers'. A couple of landlords were also very confident of their management practices in dealing with any problems. Even so, one of these landlords highlighted that he had to be prepared to absorb losses in order to find the 'holy grail' of a tenant who would pay the rent and who would want to stay in a property for some considerable time.

'You've got to find 'that' tenant. Because you can have several tenants leading up to 'that' tenant. But when I mean 'that' tenant, it's someone who is going to stay in there and look after the place and treat it as their own. But we're finding that it takes you three, four, even five people to steal from you, who run away without paying bills, who get the rent paid direct to them and never pay you, until you find the one who's a good tenant. ...and they'll stay there for several years at least. It's getting harder and harder to find good people.'

(Large landlord, Bradford)

Nevertheless, the responses of the landlords in this research as a whole suggest that an increase in property prices might see much more fluidity and churn to the supply of property in the sector, as landlords who are currently letting reluctantly to HB tenants sell up, especially in the case study areas dominated by the HB market. There was a notably pessimistic view from landlords and agents in the Sunderland case study, especially, about the impact of the LHA on their own business prospects.

'We're thinking about reducing the number of properties on our books, letting a couple of staff go, and not have all the hassle. It's the business for us, but it's not about the money you make, it's about the quality of life. And our quality of life is crap at the moment. And it's a hard job anyway, but it's been made a helluva lot harder by the LHA.'

(Letting agent, Sunderland)

The wider implications of landlords moving out of the market for HB tenants was not lost on many landlords, who commented on the very limited housing options available to some of the people who were currently private tenants, but who were not paying rent. Indeed, the practice by other landlords and agents of screening out potential non-payers as a way of minimising the risk of arrears, especially by excluding younger single people, suggests that certain types of tenant may find it increasingly difficult to secure privately rented accommodation in the future.

8.5 Chapter summary

The majority of respondents noted that the size of their portfolios would remain fairly static. The main impact of the current economic climate appeared to be that landlords were postponing decisions about increasing or reducing the size of their portfolios. A number of landlords - with both small and large portfolios - stated that ideally they would like to expand what they had, but that the current mortgage market precluded this option for those who relied on loan finance. The overwhelming view from the majority of respondents was that they intended to remain in the business for the long-term. Further, many landlords planned to expand their portfolios in the medium to long-term. Demographic reasons were often put forward in instances where the intention to reduce the size of portfolios was indicated, or where respondents planned to sell-up entirely. For landlords who intended to remain in the business, there was a strong sense from many that they would try and switch away from letting to HB tenants if they could. This trend did not reflect a universal view, however. A number of landlords emphasised that they were happy to let to HB tenants, although this tended to be to particular demand groups, such as families or alternatively as a result of the careful screening of prospective tenants at the start of tenancies.

9 Conclusions

9.1 Introduction

This chapter draws together the main issues to emerge from the research, provides some suggestions for good practice based on examples reported by respondents, and provides some possible improvements to the Local Housing Allowance (LHA) system as suggested by the survey respondents. The research was qualitative in nature, so as to allow an exploration of the ways in which landlords and letting agents understand, respond to, and operate as suppliers of private rented accommodation under the LHA system of Housing Benefit (HB). As a consequence, the points raised in this chapter, and throughout the report, are not representative in a statistical sense. It is therefore not possible from this research to identify the scope or incidence of the different experiences and views.

9.2 Letting to Housing Benefit claimants

The research was based on landlords and letting agents that had experience of letting to someone claiming HB under the new LHA rules. It found that a few of these landlords were predisposed towards letting to HB tenants. A general pattern in this attitude was that the smaller-scale landlords tended to be sympathetic towards HB tenants, recognising how difficult it sometimes was for them to secure a Private Rented Sector (PRS) tenancy. Larger landlords who targeted the HB sub-market were more likely see the economic benefits of letting to HB claimants in terms of the rates of return they could obtain, and the lower turn-over rate of lettings they associated with HB tenants.

Most commonly, however, respondents would ideally have preferred not to let to HB tenants - although many felt they often had little other choice because of the nature of their local market - and most usually held this preference because they had experiences, or fears, of the rent not being paid under the LHA. The payment of HB directly to tenants had a significant impact on many of the respondents' operations, including rent arrears, management costs, rent collection methods, and the taking of deposits and rent in advance.

There was a general acceptance, therefore, that it was necessary to find ways of dealing with letting to HB tenants to minimise the problem or potential for rent arrears. A range of practices were evident in this respect, including more careful selection of tenants under the new rules than in the past, micro-managing of HB tenancies, providing help and guidance for HB tenants with completing claim forms, obtaining permission to enquire about the status of HB claims, or in some cases reducing or stopping letting to HB tenants all together.

Although some respondents always insisted on a deposit and rent in advance to be paid by all tenants, many knew that HB tenants could not afford to pay these, and so often made no attempt to collect such items. The inability to collect a deposit, in particular, from HB tenants often had the impact of exacerbating or compounding other problems that might occur, which included rent arrears, the slow processing of HB claims or the investigation of suspended claims and claimants leaving without paying the last instalment of rent. Such issues could have serious financial implications for any landlord or letting agent, but particularly the smaller-scale landlords that might have had substantial buy-to-let mortgage repayments to make, and a limited portfolio over which to spread any losses. This point is an important one, given the growth over recent years of buy-to-let and the fact that a majority of private landlords are small-scale operators (Rugg and Rhodes, 2008).

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9.3 Advantages of the Local Housing Allowance

A number of the landlords and agents included in this study had experienced few or no problems with letting to HB tenants under the LHA system, and some clearly preferred the new rules, or aspects of the new rules. Other respondents may have had particular problems with letting to HB tenants under the LHA, but even so many of these still had positive views on certain elements of the new system.

9.3.1 Transparency of the LHA system

There was a general appreciation that the LHA system of administration was simpler than its predecessor. Therefore, it was easier for respondents to understand and appreciate why there might be problems with a particular claimant. The informal operations of many private landlords, and the continued entry of new landlords (and perhaps especially 'reluctant landlords' at certain times) makes the relative simplicity of the LHA advantageous.

9.3.2 Removal of pre-tenancy determinations

The removal of pre-tenancy determinations was seen as an improvement as it meant that the process of selecting and letting to HB tenants could be quicker. In this respect, this change had a small impact on levelling the playing-field between HB and non-HB tenants. Additionally, the transparency resulting from its replacement with the LHA rates led to greater certainty for landlords about the amount of HB that would probably be paid.

9.3.3 Quicker processing times of HB claims

Allied to the removal of pre-tenancy determinations, a number of respondents noted the quicker processing times of HB claims under the LHA. There were variations to this experience, however, including amongst respondents within the same case study area.

9.3.4 Publication of the LHA rates

The publication of the LHA rates, including the fact that they were widely available, meant that most respondents were aware of what the current HB rates were, or at least knew how to find out what they were. This situation was regarded as important for both landlords and their tenants in providing a degree of certainty about how much HB would be paid. A further and linked benefit of the publication of the LHA rates was that for many respondents they provided important information that they could either feed into, or simply use as a benchmark, for setting their rents. In this respect, the LHA rates were also seen as a useful tool for future rent reviews.

9.3.5 Communications with local authorities

There was a view expressed by a minority of respondents that the lines of communication between themselves and their Local Authority (LA) were improving. Some felt that their LA was gradually beginning to be less anti-private landlord than it had been in the past, increasingly recognising the importance of the service they were providing.

9.4 Disadvantages of the Local Housing Allowance

There were a few respondents in this study who found the entire LHA system to be less satisfactory than its predecessor. More commonly, however, respondents had criticisms of just certain aspects of the LHA system - whilst commonly preferring some of the new rules over the old ones - most often because of their own specific experiences of letting to HB tenants under the LHA.

9.4.1 Payment of HB direct

Many of the respondents were directly opposed to the idea of HB being paid directly to claimants. Some had experienced rent arrears when HB claimants had mismanaged their finances in some way or in other cases if they had simply decided not to pay their rent. Others harboured fears of rent arrears because HB was paid directly to tenants. There was considerable frustration that tenants no longer had the right to choose to have their benefit paid to their landlord or agent, many of whom reported that their tenants had asked either themselves or their local authority if this could be arranged. Some respondents pointed to the perceived disparity and unfairness with which private landlords were being treated under the LHA rules compared with social landlords.

9.4.2 HB payment cycles

Whilst not a new situation under the LHA, the payment cycles of HB were usually in weekly multiples, which many respondents found problematic because all of their other financial commitments were monthly, including buy-to-let mortgage repayments as well as other banking matters. The payment of HB in arrears was also a problem for some landlords, with the normal practice for letting to all other types of tenant commonly regarded as being payment in advance throughout the life of a tenancy. Some respondents had concerns about the first payment of HB being paid to claimants, and particularly if it was a large sum due to a processing delay. Others had problems with the last payment of HB being paid to claimants, because of the temptation for them to leave without paying their final instalment of rent.

9.4.3 Management issues

Many landlords felt that the amount of management time they had to spend on HB tenancies was considerably greater under the new system. Strategies put in place to collect the rent from HB claimants were the principal cause of the extra work as a way of avoiding substantial arrears. In some instances landlords felt that they had to repeatedly contact their LA to find out when the HB had been paid, and then pay a visit to the tenant to collect the rent before it was spent on other things. The time and costs of the additional management could be a particular issue for the sideline landlords, because of their other work commitments.

9.4.4 The eight week rent arrears provision

A key problem with this provision was that the eight weeks length of rent arrears was widely seen as being too long. There were reports of HB taking more than three months to be redirected to the landlord or agent following the suspension and investigation of a claim. The situation was often exacerbated by the fact that respondents often did not take a deposit or rent in advance from HB tenants, and that the eight weeks rent arrears was universally thought to be irrecoverable from HB tenants.

9.4.5 The new safeguards

There was a widespread lack of awareness of the 'difficulty in paying their rent' and the 'unlikely to pay the rent' safeguards. Respondents who were aware that some sort of safeguards existed were usually unclear about the criteria required, what they were called, and whether there were two safeguards or just one. Those who had made use of a safeguard had experienced different outcomes for tenants in similar situations. The need to involve other agencies and the time and sometimes the costs of doing this were often prohibitive.

9.5 Good practice

A few examples of good practice emerged from the interviews with landlords and agents. One Sunderland respondent pointed to the practice of neighbouring Durham County Council that he had seen with one of his HB claimants. In this case, there had been a section on the claim form for the tenant to indicate that they were concerned about their ability to pay their rent if the HB were paid directly to them. Following a visit from a LA officer, the HB was subsequently paid directly to the respondent under one of the safeguards.

A second example of good practice was a provision made by a couple of LAs to give preference in some way to accredited landlords and agents. One agent in Newham mentioned this situation as being helpful in that the borough was able to provide more information on the status of specific HB claims over the telephone. A Sunderland respondent mentioned a fast-tracking system for accredited landlords with HB tenants in rent arrears under the eight week rent arrears provision.

There were a few respondents operating in the Newham borough who were under the impression that the period of rent arrears required before a claim would be suspended and investigated could be dropped from eight weeks to four. This change, were it to happen, was seen as being a highly constructive move by the borough in reducing many of the problems the respondents were having due to the length of time it could take before they received any rent from HB claimants.

9.6 Respondents' suggestions for improving the Local Housing Allowance

There were a number of suggestions put forward by respondents, which they believed would improve the LHA system. Most commonly, a reduction from eight to four weeks before a claim could be suspended and then redirected to them was suggested as a significant improvement. This length of time was thought to be sufficient both for landlords to bear, and to demonstrate that there was a problem for the tenant with paying the rent.

A few respondents suggested that the first HB payment be made directly to the landlord or agent rather than the tenant. Some of these respondents had experienced letting to HB tenants who had received a particularly large first HB payment due to a delayed claim, and who had then left the accommodation without paying any rent. Other respondents thought that the last HB payment should be paid directly to the landlord or agent to avoid situations where the tenant might leave without paying their last instalment of rent.

Some respondents had experience of letting to claimants who did not have a bank account. The payment of HB directly to the tenant by cheque had sometimes been problematic in such cases, where claimants had felt they had no option other than to use a cheque cashing service. Questions were raised about the appropriateness of paying such claimants by cheque, and whether in such instances it would be more appropriate for the payment to be made to the landlord or agent.

9.7 Chapter summary

The research found a wide range of views amongst landlords and letting agents on letting to HB tenants under the LHA system. Some aspects of the new system were widely seen as being an improvement over the previous system of HB, notably its transparency, and the clarity and certainty it was seen as providing to both landlords and tenants. There were criticisms also, however, that in many ways were linked to the single issue of the HB ordinarily being paid directly to claimants, with no option for HB tenants to elect to have it paid to their landlord. The potential for landlords, and particularly sideline landlords, to have difficulties in being able to devote the necessary time to managing HB tenants under the LHA was considerable. The costs that could be associated with rent arrears for such landlords, as they could be for other landlords and agents too, was a particularly pressing issue.

Appendix A The case study areas

Introduction

Appendix A sets out details of the six case study areas included in the research, and the reasons for their selection. There was a requirement by the Department for Work and Pensions (DWP) for the research to include some areas that had been Local Housing Allowance (LHA) Pathfinders, for there to be a wide geographic spread of areas, for there to be a spread of market types, and for the research to include an area with a large Broad Rental Market Area (BRMA).

Official data sources were used to aid the selection of the Local Authorities (LAs) to be case study areas, including 2001 census data on household and tenure counts (adjusted to provide 2007 estimates), and the DWP Housing Benefit Operational Database figures on the numbers of deregulated Housing Benefit (HB) claimants in 2007. Other sources of information used included the indices of deprivation (IMD 2007), and comparisons of house prices to local earnings figures (Wilcox, 2007). These sources of information tend to be relatively broad-brush in character, in the sense that they largely provide figures for the case study LA areas as a whole, as shown in Table A.1. This appendix therefore also uses qualitative information collected during the interviews with the landlords and letting agents to enhance the description of the case study areas, and to provide a contextual background for the rest of the report.

Table A.1 Characteristics of the PRS: estimated size of the sector and the HB sub-market in 2007

	Н	ouseholds by ten	ure ¹	PRS HB claimants ²	
Case study area	All (N)	PRS (N)	PRS as a proportion of all (%)	PRS HB cases (N)	PRS HB cases as a proportion of the PRS (%)
Bradford	173,648	24,902	14	9,560	38
Cornwall	202,282	41,197	20	12,387	30
Coventry	127,001	17,944	14	5,980	33
Edinburgh	215,327	38,171	18	7,388	19
Newham	95,676	23,627	25	9,278	39
Sunderland	119,379	11,229	9	4,224	38
England	22,190,000	2,966,000	13	762,482	26
Great Britain	25,939,000	3,234,000	12	863,735	27

Notes:

- 1. Household counts are based on 2001 census figures that have been updated to 31 March 2007 using regional adjustments, the lowest level for which figures were available, from the Communities and Local Government (CLG) live tables (Table 109 for the English regions, and Table 107 for Scotland). At the time of the research, these were the most recent figures available. Census counts of the Private Rented Sector (PRS) include 'rent free' households.
- 2. The numbers of HB cases in the PRS were obtained from the DWP Housing Benefit Operational Database, and are the annual totals to 31 March 2007. The size of the PRS HB sub-market was estimated by expressing the PRS HB cases as a percentage of PRS households.

Bradford

One of the reasons why Bradford was selected for inclusion in the evaluation was because it had a fairly typically-sized PRS (14 per cent of its households were estimated to be private renters in 2007), but at the same time it had one of the highest levels of HB supported lettings within West Yorkshire (an estimated 38 per cent of its PRS). Demand from students was also evident within Bradford, which tends to be concentrated in the wards adjacent to the University. The 2001 census data confirms that there is substantial ethnic diversity within the area. In addition to the principal urban area of Bradford, which is bounded to the east by the city of Leeds, the LA and BRMA extends to include a number of rural localities to the north and west.

All survey respondents, irrespective of whether or not they specifically aimed to operate in the lower end of Bradford's PRS, were aware of the dominance of the HB market within the area. They usually let to HB tenants often or all the time, and the general impression most had was that the HB part of the market was buoyant. The depth of the HB demand was an attraction for a couple of the larger landlords who specifically targeted this sub-market in the area, as they valued the range of choice it gave them in tenant selection. One larger landlord also operated in other areas of West Yorkshire, and pointed to the attraction of Bradford due to it having similar LHA rates as elsewhere, but often cheaper house purchase prices in the area. The landlord saw this to be a particularly clear comparison with neighbouring Leeds, and which therefore provided him with a notably greater rate of rental return in the Bradford HB sub-market than in the Leeds equivalent. Lone parents were often thought to be the largest HB demand group within Bradford, and which had led one of the larger landlords to purchase appropriately sized and located property to target this section of the HB market.

Some respondents had noticed an increase in the supply of PRS accommodation over the last couple of years, which some put down to the economic situation having led to repossessions that had been bought-up by landlords. Others thought the increase was due to owner occupiers struggling to afford their mortgages and turning to letting as a result. However, the increase in supply was considered to have been matched by an increase in the number of HB tenants seeking PRS accommodation, meaning that the overall balance between supply and demand within this part of the market had remained fairly stable. A couple of respondents noted the existence of cheap property to purchase due to repossessions, but the limited availability of mortgages meant that they themselves were unable to take advantage of the situation.

Two of the Bradford respondents had lettings in city centre apartments that were targeted at young professionals, and both of these had seen a fall in demand in this sector of the market, and hence their rents, due to completions of extra new apartment blocks over recent months.

Cornwall

The LA of Cornwall was included partly because from April 2009 the previous six LAs of the county had been amalgamated into one unitary authority. The new authority is largely covered by a single BRMA, and the private rented sector in the area was a relatively large one, at an estimated 20 per cent in 2007. A further important factor in the selection of Cornwall was the fact that the overall housing market within the area was understood to be highly pressurised by demand from a number of different sources. These included the owners of second homes, people retiring to the area, holiday lettings, as well as demand from the local population and migrant workers. It is probable that this mixture of different sources of demand has led to affordability issues for the local population with regard to the costs of buying a home in comparison to average local earnings, as these have been shown to be some of the highest in the UK (Wilcox, 2007).

The Cornwall respondents were operating in a range of different localities, which provided an understanding of the diversity of housing markets within the new local authority area. There was a widely-held view that pockets of high demand existed from second home owners and people retiring to the area in the picturesque and holiday resort settlements along the north (especially) and south coastlines. There was of course high demand in these areas from holiday-makers too, and which consequently often also saw an influx of seasonal workers during the holiday months. This situation meant that private renting was thought to be generally quite limited in scale within these areas due to the resulting low supply, and particularly since the holiday season in Cornwall was regarded to be a relatively long one, including demand over the Christmas period in some areas. Therefore, there was thought to be little cross-over between the holiday lettings market and the PRS due to the short off-season in these coastal pockets, with landlords opting to cater for one (usually the more profitable holiday trade) or the other of these two different markets, but rarely both.

Related to the low supply level of PRS accommodation in the main holiday locations, was the perception that the turn-over of private lettings was low due to the scarcity of alternatives, with people often staying in the same tenancy for many years once they had managed to secure one. Buy to let landlords were considered to be rare in these areas due to the comparatively high property purchase prices. One agent, however, had noticed a number of second homes coming onto the private rental market over the last couple of years, and which he put down to the current uncertain economic climate, describing the owners as having the attitude of 'it's a luxury, so why don't we rent it for a while'.

In amongst these pockets of high demand were areas of lower overall demand, and which tended to have larger PRS markets, including notable demand from HB tenants. In this respect, Falmouth, Camborne and Redruth were viewed as having large HB markets. Respondents pointed to a 'central spine' running the length of Cornwall, where buy to let landlords were most common. Rent levels were thought to be lower along the spine than in the coastal areas, and lettings there were typically thought to be occupied by the local population, often in low-waged employment, who were renting because they could not afford to buy. The turn-over of lettings along the spine was also thought to be relatively low due to the long-term housing requirements of its main tenant group.

One agent based in Bodmin, towards the eastern end of the central spine, was of the opinion that the market there used to be clearly divided into three fairly equally-sized demand groups: overseas workers, often employed in two large meat processing factories in the area; local people, who tended to be long-term tenants on relatively low wages; and people from 'out of county' who were moving to the area for a change of lifestyle or a better quality of life. The latter group generally occupied lettings in the upper end of the market, and tended to rent privately until such time as they found a suitable home to purchase. According to this agent, these people had ended up living in the Bodmin area when they had found little private rented accommodation in the sorts of places where they actually wanted to purchase their home, such as in the pockets of high demand along the north coastline. Over the last couple of years the agent had seen a clear drop in demand from the out of county people, with a subsequent drop in rent levels. A decrease in 'first time renters' over the last couple of years had also been apparent, which, like the reduced demand from out of county people, was thought to be related to the current economic situation, but in this context because it was leading young people to stay in the parental home for longer than in the past.

Coventry

Coventry was an LHA Pathfinder LA. At the time of the Pathfinder LHA evaluation it was an area of relatively low housing demand, although there was a mixture of demand groups for PRS accommodation, including working professionals, unemployed people, students, and asylum seekers. In 2007, the PRS in Coventry was about average in size, at an estimated 14 per cent of all households. The proportion of the PRS that was estimated to be comprised of the HB sub-market was 33 per cent.

Most respondents in Coventry were of the opinion that the area was suffering from an imbalance between the levels of supply and demand. This situation was thought to be related to the current economic climate that had led to an increase in supply from former owner occupiers, who had turned to letting their property because of having mortgage difficulties, or more commonly because they were unable to sell due to a fall in purchaser demand and consequent drops in property prices. The level of oversupply was therefore generally seen to be a relatively temporary situation within the city, and one that would eventually correct itself once conditions on the owner occupied market improved.

The current oversupply on the private rented market within Coventry was seen as the main cause of a fall in average rent levels over the last couple of years. However, there was a view expressed by a couple of respondents that it was the nature of the oversupply, rather than simply its existence, that was also a cause of the falls in rent levels: many of these new, 'accidental', landlords were perceived to be setting their rent at such a level as to cover their mortgage costs, rather than at the (higher) market level.

At the same time as a fall in activity on the owner occupied market, the agents in the area had seen an increase in their private rented business. However, much of this increase had been from people who were increasingly seeking to rent for longer periods than in the past, which was also viewed as being related to an increase in demand for better quality accommodation that had been observed. The lengthening periods of tenancies was beginning to lead to a reduction in the rate of turnover of tenancies, and was subsequently impacting on the level of business that the agents were conducting.

Edinburgh

Edinburgh was an LHA Pathfinder local authority, and at that time was understood to have relatively distinct private rented sub-markets. It was subsequently defined in the LHA Pathfinder evaluation as a 'concentrated' HB market, in that this sub-market was concentrated in specific, bounded, areas of the city. The HB market was also of a relatively small size compared with the other main market segments within the city of students and young professionals. The four BRMAs that used to apply to different areas of Edinburgh have now been replaced with a single city-wide BRMA, that also takes in parts of the surrounding Lothian districts.

A common view amongst the Edinburgh respondents was that there had been an increase in supply of PRS lettings over the last couple of years. This situation was believed to be as a result of the current economic climate, with the stagnated owner occupied housing market leading to an increase in what were described as 'accidental' landlords. Some respondents noted that the extra supply meant that it now took longer to find tenants than it used to do, and it was commonly thought that tenants had consequently become more 'picky' when choosing somewhere to rent. The situation was considered responsible also for a drop in the levels of rent that could typically be

obtained. One small landlord in the area thought the increase in supply meant that it had become necessary to upgrade and modernise his lettings in order to continue attracting tenants, whilst another small landlord had recently begun letting to benefit claimants for the first time because it had become more difficult to obtain the other tenant types to which he would normally let.

Echoing a finding of the LHA Pathfinder evaluation, several respondents noted what they considered to be a defining feature of Edinburgh's private rented market was its relatively high level of churn, with tenants frequently moving from one private rented tenancy to another. One large landlord thought that typical PRS tenancies lasted for around 12 to 14 months, whilst a small landlord-agent thought that tenancies in the area typically lasted for nine to 12 months before tenants moved on to somewhere else. At the baseline stage of the LHA Pathfinder evaluation, 40 per cent of the Edinburgh respondents (which was the joint highest proportion along with Brighton & Hove) thought that private tenants typically rented for no longer than 12 months before moving-on to somewhere else (Rhodes and Rugg, 2005).

Newham

The London borough of Newham is one of the most deprived LA areas in England (the average score in the LA summaries of the IMD 2007 rank it as the 6th most deprived). A high proportion of households in the borough live in private rented accommodation (an estimated 25 per cent in 2007), and a high proportion of these were supported by HB (estimated to be 39 per cent in 2007). The standard of accommodation in the PRS has been an issue within the borough, as has overcrowding. The borough is ethnically very diverse, and was understood to have high levels of inward migrants in recent years, particularly from eastern European countries.

The overall impression all respondents had was that there was plenty of demand within the area for private rented accommodation. Two key demand groups were identified by most Newham respondents: unemployed people and working migrants from the eastern European countries. Where they could be obtained, eastern Europeans were often the most favoured tenant type, being widely considered to be good tenants in general - looking after the property they rented, and always paying their rent on time. A couple of respondents had stopped letting to eastern Europeans, however, after finding that property they had let to two or three people sharing was actually being occupied by many more, with living rooms and even hallways being used as sleeping areas. The eastern European tenants had become more scarce over the last one to two years, with respondents seeing them end tenancies to return to their country of origin.

Demand within the area was seen as being high from HB tenants, meaning that the lettings left by departing eastern Europeans were filled quickly and easily. Several respondents thought that families, and single mothers in particular, were by far the most common household type amongst HB tenants in the area, although young singles were thought to be relatively common also.

Some respondents had seen an increase in the supply of private rented accommodation over the last couple of years from ex-owner occupiers who were unable to sell. One of the agents had specifically noticed an increase in single property landlords as a result. One large landlord was of the view that the increased supply from former owner occupiers meant that she now had to compete for new tenants through improving the standard of her accommodation on offer. Other research has also found that increased competition amongst private landlords had impacted positively on the physical standards of accommodation on offer (Rhodes and Bevan, 2003).

Sunderland

Sunderland had a relatively small PRS, with an estimated nine per cent of its households renting privately in 2007. However, it had a comparatively large HB sub-market, estimated to comprise 38 per cent of its PRS in 2007, suggesting that it was an important market for many landlords in the area. Students were also a notable demand group for the PRS within Sunderland. The city council had highlighted the issue of poor standards of accommodation in the PRS, and had sought permission to implement a Selective Licensing Scheme.

The HB sub-market of the PRS was widely viewed by the Sunderland respondents as being dominant within the area, and buoyant at the current time. One agent summed up the prevalent view of the PRS in Sunderland with the words: 'it's a poor man's city'. Private landlords had been seen buying-up repossessed property to let within the area, and an increase in demand from HB tenants had also been seen over the last couple of years, which was largely attributed to job losses. One agent noted an increase in the turn-over rate of lettings within the benefit-supported market since the LHA had been introduced, noting that a small minority of LHA tenants had begun to abuse the eight week rent arrears provision by retaining all of their HB payments and hopping from one tenancy to another with a different private landlord every couple of months.

Social rented lettings were considered to be in short supply following the demolition of some housing association property in the local authority area. A couple of respondents believed that this reduced availability of social rented lettings in the area had led to an increase in the level of demand for PRS lettings from tenants claiming benefit.

Some respondents had lettings in city centre apartment blocks, which were suffering from a degree of oversupply as a result of further new completions of apartment accommodation in the area. This oversupply had not impacted on the HB sub-market, as these were seen as being clearly delineated from the young professionals market in terms of both the price levels (at the current time) and the nature of the accommodation generally sought by, and on offer to, the two separate markets segments.

The national and regional respondents

The five national and regional respondents had experiences of operating in different areas and different types of private rented market. The portfolios of these landlords tended to be focussed on a number of specific cities and towns, although some had a few lettings in scattered locations, one of which was currently working to divest themselves of these largely due to their associated management inefficiency. The concentration of lettings in certain areas was usually a strategy taken principally to optimise the management and maintenance of the stock. In some instances, such as when respondents owned and let an entire block of flats, a degree of control over the immediate local market was an important consideration too. Thus there would be limited interference from other landlords setting their rents at sub-market levels, perhaps because they wished only to cover the costs of their buy to let mortgage, for example.

These respondents might focus on specific property types within their portfolio, perhaps within particular localities, to target their preferred sub-markets of the PRS. One, for example, had a portfolio comprised largely of one and two bedroom flats, many of which were in complete blocks, and which were aimed at working people on lower to mid incomes. Another had a mixture of properties in the portfolio that varied according to their area of operation, and which would consequently be usually let to different tenant types: flats in inner city areas were let to young professional couples and singles, and houses in the more suburban areas were usually let to families.

These respondents had usually seen an increase in demand from HB tenants over the last couple of years at the same time as a decrease from non-benefit tenants. This experience was generally fairly widespread, although two respondents noted that they had begun to see a small reversal in this trend, and they were beginning to find it slightly less hard work to fill their vacancies (specifically with working tenants in one of these cases). Some of these respondents that had traditionally dealt exclusively with working tenants had begun considering letting to HB claimants in certain areas because of localised oversupply of accommodation, perhaps due to new completions of blocks of flats within the vicinity.

One agent for a large landlord had seen an increase in the supply of private lettings from owners who had turned to letting their home because of the depressed sales market. The impact of this situation had been that the agencies client landlords in general - and not specifically the landlord included in the research - had been having to spend more on improvements to keep their properties let. The same agent had seen an increase in tenants becoming more choosy, and also being more likely to initiate negotiations over the rent level.

Appendix B The survey respondents

Introduction

Appendix B provides a profile of the respondents, and covers the number and type of landlords and agents, as well as the size of respondents' portfolios, and it also examines the motivations of respondents.

Profile of respondents

A total number of 60 respondents were interviewed, comprising 20 small-scale landlords, 25 larger landlords, ten letting agents, and five national or regional landlords.

The majority of small-scale and larger landlords operated as private individuals (see Table B.1). All of the small-scale landlords were operating in this way. Whilst most of the large landlords were also individuals, four of the large landlords operated as a partnership. Six landlords, including the national landlords and letting agents operated as either private or public limited companies.

Table B.1 Type of private landlord

Landlord type	Number of respondents
Private individuals/couples	40
Partnerships	4
Companies	6
Total	50

Base: all landlords.

Most of the small-scale and larger landlords operated on a part-time basis (see Table B.2). However, nine of the larger landlords were full-time, as were the national landlords and letting agents. The part-time landlords were mostly acting in a sideline capacity, in that they were not operating full-time in residential letting, but were also in employment elsewhere, or running other businesses (see Thomas and Snape, 1995). These landlords often had full-time or part-time employment unrelated to residential letting. Three landlords, however, noted that they were of retirement age and that their properties provided a source of income in later life, in addition to pensions.

Table B.2 Respondent profile

Profile	Number of respondents		
Part-time	36		
Full-time	24		
Total	60		

Base: all respondents.

The majority of landlords had used buy to let mortgages or other loan finance to develop their business. However, one landlord had inherited his properties. Other sources of finance included windfalls such as money from inheritances, or redundancy payments that had been used to initially develop a portfolio. Another landlord had received a bridging loan from a colleague after a relationship breakdown in order to acquire a property to rent as a source of income for her family.

Many of the landlords had considerable experience of letting residential property. Nine of the landlords had started letting property during the 1980s, and two were able to reflect on changing HB regimes since the 1970s. Nevertheless, others were relatively new to the business, and eight had started letting property since 2005. Two landlords in the Cornwall case study area also highlighted their experience in holiday lets.

The majority of small-scale and larger landlords handled all aspects of the management of their property. Five small-scale landlords reported that they used an agent to let or manage their property, or both. Four larger landlords noted that parts of their portfolios were handled by letting agents. One larger landlord commented that they intended to use an agent on reaching the age of retirement.

Portfolio size

As noted in the introduction, small-scale landlords were defined as having up to three properties. Larger landlords in the case study areas ranged from four properties up to over 100. As would be expected, the national landlords had much larger portfolios comprising thousands of properties. The agents in the case study areas also tended to have large portfolios, usually well over one hundred properties (see Table B.3).

Table B.3 Portfolio size

Number of lettings	Number of respondents	
1	7	
2-4	13	
5-9	9	
10-24	10	
25-99	6	
100-249	5	
250+	8	
Total	58	

Base: all respondents.

Motivations

There was a fairly even split between landlords who emphasised that the rental income was the most important aspect of renting property, as opposed to primarily seeking capital growth. A number of full-time landlords, especially, noted that the yields provided a source of income, and were not just covering costs. A couple of landlords stressed that the rental income was essential as their primary means of providing for their families. For the landlords who were motivated by capital growth, income often just covered their outgoings on their portfolios. Some of these latter landlords reported operating on tight margins with regard to paying their mortgages on their property, although it was noted that the recent reduction in mortgage rates had often reduced the level of payments to lenders.

Most landlords intended to remain letting property in the long-term. For many, their portfolios were part of their pension planning, although strategies varied between respondents in this regard. Some landlords planned to hold on to a portfolio, and use the rental income as part of their financial arrangements in retirement. A number of these latter landlords noted that they wanted to leave their portfolios as an inheritance for their children. Others stated that they would sell their portfolios to generate an income in later life. Only one respondent in this research reported that they were letting reluctantly. They were a 'reluctant landlord' as a result of negative equity on their investment property, which had been acquired off-plan with the intention of letting and then reselling, just prior to the downturn in prices. They were now letting it whilst they waited for the housing market to improve, before selling up.

A number of landlords commented that their immediate and wider families were linked with property and the landlord profession. In a couple of instances small-scale landlords had acquired a single property, and were supported with advice and guidance from other family members who had larger portfolios. In contrast, a larger landlord had his own portfolio, and also acted as a managing agent for properties owned by other family members.

Several landlords emphasised how much they enjoyed working with property, and also with people. Part of this motivation stemmed from a reported willingness to help tenants who got into difficulties, or who had fallen on hard times. For example, one landlord noted that she had previously worked in social services, and this perspective influenced how she approached letting property. Nonetheless, many landlords stressed that housing people in the privately rented sector was first and foremost a business transaction. The central concern was that tenants needed to pay the rent.

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This report sets out the results of research on private landlords and letting agents that had experience of letting to someone claiming Housing Benefit (HB) under the Local Housing Allowance (LHA) rules. It forms part of a two-year review of the LHA system of HB carried out by the Department for Work and Pensions following its national rollout in April 2008. The research focused on understanding the experiences of, and views on, the LHA, from the perspective of the people and organisations involved in the supply of private rented accommodation and to assess whether any new issues were arising under the LHA national rollout model that were not apparent in the LHA Pathfinder evaluation.

Overall, the findings from this research are very similar to those of the Pathfinder evaluation. However, there were some key differences between LHA policy in the Pathfinders and that in the national rollout. This research has provided insight into this along with further detail on issues around landlords' portfolio development, letting strategies and long-term financial planning.

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Published by the Department for Work and Pensions September 2010 www.dwp.gov.uk Research report no. 689 ISBN 978-1-84712-837-9