

## 5 The early impact of the LHA reforms on the perceptions of landlords

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#### Summary of main findings

- A majority of landlords said they were being more cautious about letting to Local Housing Allowance (LHA) tenants for various reasons, including the LHA measures; this attitude was more pronounced among buy-to-let landlords concerned about their future income stream.
- Those landlords who stated that they would continue letting to tenants receiving LHA often had properties in areas with high concentrations of LHA tenants and had few alternative sources of demand, although many were now attempting to diversify.
- Several landlords said that their negative experiences of Housing Benefit (HB) payments being made direct to tenants (creating higher arrears) had been reinforced by the LHA reforms; nearly all landlords interviewed did not see the move to direct rent payments as sufficient incentive to negotiate with tenants over rents.
- Landlords thought that the high demand for private rented sector (PRS) properties meant that there was little market pressure to stabilise or reduce rent levels in the market.
- Many landlords had recently changed their approach to vetting applicants and now insisted on safeguards to protect them from future arrears and property damage.
- Landlords were generally reluctant to undertake eviction proceedings over tenants building up arrears, for a mixture of business and practical reasons; landlords would, however, be more prepared to terminate or not renew existing tenancies.
- Most landlords said they would avoid letting to under 35-year-old single people following the Shared Accommodation Rate (SAR) changes; many also said they were reluctant to move into, or increase their involvement in, the Housing in Multiple Occupation (HMO) sector, because of a range of 'hassle' factors.
- A few landlords expressed concern about the future impact of Universal Credit and what they perceived as the end of a discrete benefit to pay the rent.

## 5.1 Introduction

This report is one of a series of interim outputs from the independent evaluation of the recent changes to the LHA arrangements which apply to people claiming HB in the PRS in the United Kingdom (UK). The measures include the change in the basis of setting LHA rates, the caps to weekly LHA rates to a maximum of four bedrooms, the removal of the £15 per week excess; the new method for uprating HB rates, an enhanced government contribution to the Discretionary Housing Payment (DHP) budgets allocated to local authorities (LAs) to ease the process of transition to the new regime and the temporary arrangement to grant broader discretion to LAs to make direct HB payments to landlords in certain circumstances. Subsequent measures include extending the age threshold which the SAR applies from 25 to 35, and the overall cap on household benefits, to be introduced in two stages in 2013. (Further information on these measures is given in [Section 1](#) of these interim reports).

This research was commissioned by the Government in 2011. The evaluation is being undertaken by a research consortium from the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University, the Institute for Fiscal Studies (IFS), the Blavatnik School of Government at the University of Oxford and Ipsos MORI. The overall research programme involves both quantitative and qualitative methods. The quantitative methods comprise spatial analysis and econometric analysis based on nationwide data on HB claimants, and surveys of claimants and landlords in 19 case study areas<sup>51</sup>. The qualitative methods comprise interviews with claimants, landlords and housing advisers in the case study areas. This broad-based approach to the research is designed to monitor some of the impacts of the LHA measures in the short to medium term, while being sensitive to different local housing market contexts, and to assess the extent to which LHA reforms are starting to induce attitudinal and behavioural changes among landlords and tenants in the PRS.

The research programme runs from April 2011 until December 2013. The first report from the research team examined the findings of the wave 1 large scale face-to-face surveys of claimants and a postal survey of landlords in the 19 case study areas (DWP, 2012). These surveys were undertaken in autumn 2011: several months after most of the measures had been introduced for new LHA claimants<sup>52</sup> but before they had an impact on the rents and housing circumstances of existing (pre-April 2011) LHA claimants. (For further details of the overall research programme see DWP, 2012.) The interim outputs published now draw on the initial analysis provided by the other strands of the evaluation, including the wave 1 qualitative interviews with landlords and claimants that were undertaken shortly after the large scale surveys.

This section presents the findings from 152 qualitative, semi-structured interviews conducted with landlords, letting agents and managing agents across 19 case study areas (listed in Appendix D). Eight interviews were conducted with landlords in each area *between November 2011 and January 2012*. Respondents were identified through the earlier postal survey of landlords. A question in the survey asked for respondents' consent to be re-contacted to take part in an in-depth interview. A purposive sample was then drawn for each area from those giving consent, in order to achieve a mix across the following variables:

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<sup>51</sup> Barking and Dagenham, Blackburn with Darwen, Bradford, Brent, Cardiff, Denbighshire, Edinburgh, Exeter, Fenland, Hackney, Newcastle, North Lanarkshire, Perth and Kinross, Portsmouth, Rhondda Cynon Taf, Tendring, Thanet, Walsall, Westminster.

<sup>52</sup> Throughout these reports the term 'LHA claimant' is used as shorthand for 'Housing Benefit claimants subject to the LHA rules'.

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- length of time as a landlord
- portfolio size
- shared accommodation lettings
- LHA lettings as a proportion of all lettings
- the extent of impact of the LHA reforms
- whether landlords intended to remain in or to exit the LHA sub-market.

Other criteria such as landlord availability also influenced the final selection of respondents. For instance, in a few cases landlords were abroad at the time of the fieldwork and others said they were too busy to take part. The characteristics of the landlords included in the qualitative research are summarised in Table 5.1.

**Table 5.1 Characteristics of landlords within the qualitative sample (n = 152)**

<b>Landlord type</b>	<b>Percentages</b>
Landlord	70
Landlord and letting/managing agent <sup>1</sup>	30
Large landlords (more than 10 properties)	51
Small landlords (10 or fewer)	49
<b>% of properties let to LHA tenants</b>	
Less than 10%	11
10%-20%	10
20%-50%	19
50%-100%	37
100%	22
Don't know	2
<b>Intend to continue letting to LHA tenants</b>	
Yes	66
No	16
Don't know	18
Missing	1
<b>Have reforms affected you ...</b>	
Yes, a lot	24
Yes, a fair amount	28
Not very much	20
Not sure	9
Not at all	18
Missing	1
<b>Shared accommodation</b>	
Yes	36
No	63
Missing	1

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- <sup>1</sup> Some respondents were letting agents who also owned properties themselves, and others were landlords with their own portfolios but who also managed lettings for other landlords (such as foreign-based investors).

Interviews with landlords were semi-structured and discussion was framed around a topic guide agreed with officials from the funding bodies for the research – the Department for Work and Pensions (DWP), the Department for Communities and Local Government (CLG), the Scottish Government and the Welsh Government. This was used as a *guide only*: the focus of the discussion varied greatly among respondents and different issues predominated in the different case study areas. For example, the extent of LHA shortfalls was central in many interviews with Westminster landlords, but were far more marginal in interviews undertaken in Perth and Kinross. Eighty per cent of interviews (122 respondents) were conducted face-to-face, typically in the home or office of the respondent, and in a minority of cases they included two respondents. Where it was not possible to conduct interviews face-to-face, telephone interviews were undertaken (30 respondents). Primarily this was due to landlords residing some distance from the case study area, or not being available when interviewers were visiting the area. Interviews typically lasted 45 minutes, but ranged overall from 15 minutes to two hours. Just over half of the 152 interviews were recorded and transcribed; the remainder were recorded with notes produced by the interviewers providing a narrative on key issues and impacts. All the data were then coded and analysed using Nvivo 9 software.

The depth of the interviews, the diversity of the case study areas (Appendix D) and the landlords makes for a very rich dataset. Space here does not permit a detailed presentation of all the interview material, and key themes about the early impact of LHA reforms on landlord behaviour have, therefore, been selected, covering:

- landlords' characteristics;
- the local housing market context and landlords' portfolios;
- impacts on rent setting, arrears and negotiations;
- impacts on letting strategies and preferences;
- impact of the SAR measures;
- impact on property condition and maintenance;
- impact on household mobility, homelessness and DHPs; and
- landlords' future intentions.

The introduction of the new LHA measures was phased over a 21 month period from April 2011, and the changes to the SAR did not come into effect until January 2012, when this first wave of interviews with landlords was nearly complete. It is, therefore, highly likely that landlord perspectives and behaviour will have changed in some respects since these interviews were conducted. These changes will be picked up in the wave 2 qualitative interviews being undertaken in 2013, when a sample of five landlords from each area (largely drawn from the eight interviewed at wave 1) are being interviewed again. This longitudinal approach will enable an assessment of the degree to which landlords have followed through on their intentions, or adopted a different strategy in response to the ongoing impact of the reforms and perceived changes in the housing market. Nevertheless, the wave 1 interviews do provide some insights into the *initial* response of landlords to the measures, and how this varied across the case study areas. Where relevant, reference is also made to findings from the postal survey of landlords (DWP, 2012).

## **5.2 Landlords' characteristics**

The characteristics of landlords and their portfolios are clearly important in affecting the responses to the LHA reforms. For example, a recent buy-to-let landlord with a concentrated portfolio of properties and several mortgages to pay may be less able to negotiate on rents than, say, an experienced landlord with 40 properties owned outright and spread across different local housing markets.

The postal survey confirmed the diversity of landlords across the 19 areas, with wide variation in terms of the reasons for becoming a landlord, their experience as a landlord, and the size of the portfolio (DWP, 2012). The sample for the qualitative interviews consisted of three broad categories: private landlords; letting agents; and managing agents. The majority of respondents were private landlords, but these categories are not mutually exclusive anyway, because letting and managing agents may let their own properties as well as those of other landlords.

The diversity of landlords ranged from professional companies with large nationally based portfolios, to managing agents and companies working on behalf of investors, through to part-time landlords who found themselves letting one or two properties due to housing market circumstances. Respondents gave various reasons for becoming a landlord. For the larger, more professional landlords and managing agents, private lettings were a major business activity and, as one might expect, these respondents tended to be more knowledgeable about the intricacies of the LHA system and the potential impact of the new measures. The more professional landlords also had different ways of seeking out new investment opportunities in the PRS. A large landlord in Hackney, for example, mentioned life reversions, where a property is bought from an older householder, who then receives a cash sum that enables them to live in the property for the rest of their life.

Managing agents operated in a similar fashion and several, especially in London, acted on behalf of foreign companies looking to invest in the UK housing market. In some cases they took on all aspects of the lettings process, with investors having little or no involvement in the day-to-day management of the properties.

*'I've got 100% control of the properties. I'm ok to go up to spend certain amounts of money each month on maintenance. Then obviously if there's something large I have to consult, so really the landlords, owners I should call them really, have nothing at all to do with the day to day running of the properties. I find the tenants, vet the tenants, look after the properties, collect the rent, chase the arrears, everything ...'*

(Large landlord and letting/managing agent, Newcastle upon Tyne)

Investment-oriented landlords ranged from larger scale investors who felt that the stock market was becoming a less attractive and riskier investment option to smaller scale landlords investing in housing with an eye to the future, and often as an alternative to a pension.

A smaller sub-group of landlords in the 'professional business' category had developed a letting strategy and business model based on letting to 'vulnerable' tenants and invariably let to households who were in receipt of LHA. In many such cases, landlords had developed ongoing links with LA housing departments, homeless charities and other organisations providing care and support to vulnerable people.

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*'For the client base we deal with, you go into any homeless person unit and say "this is what we've got" and you go to drug treatment therapy, anywhere there's vulnerable people, you go anywhere and they're crying out for them ... We get calls from all over the country literally for people saying "we've heard about you, have you got a space for these people?"'*

(Large landlord, Barking and Dagenham)

The interviews with housing advisers (discussed in [Section 6](#) of the Interim Report) also highlighted the importance of this group of landlords in terms of helping LAs to accommodate vulnerable tenants in areas where social housing opportunities were severely limited.

Across the spectrum of landlords, there was a consensus that the private rental market had changed dramatically since the economic downturn in 2008. Many referred back to the 'investment bandwagon' that had developed prior to the downturn and the way that they 'fell into it' with little or no prior experience and, therefore, learned along the way.

*'I lived in a wonderful house and he said "can you borrow 50 grand against your house?" I said "yeah", I borrowed 50 grand, bought three buy-to-lets then the bank said "do you want the money back?" So I got the money back and I bought another three and I just kept going doing that until I had 70: totally bizarre.'*

(Large landlord, Edinburgh)

These landlords were rather different from the professional businesses operating in the sector. Many had found that they had invested at a bad time in the housing market cycle and had consequently fallen into negative equity or incurred significant financial losses. This group of relatively new buy-to-let landlords could not be as flexible in their responses to the LHA reforms as the more professional companies with more diverse portfolios.

A sizeable group in the sample of landlords had been unable to sell a property (or command the desired price for it) due to poor housing market conditions; or had inadvertently acquired properties, often inherited through family members, and decided to let them out. These landlords usually had just one or two properties, but they were cited by letting agents as an important group in terms of bringing a new supply of rented accommodation to the market, given a context of ever growing demand. This group is termed in the quote below as 'accidental landlords', covering those whose primary income source lay outside the property market and who tended to be less knowledgeable about the LHA system and the recent reforms to it.

*'People inherit houses these days more than they used to, they tend to be older couples that don't really need the money, don't want to pay tax on it; they rent it out, what I term as an accidental landlord'.*

(Large landlord and letting/managing agent, Exeter)

Other accidental landlords felt that they had little choice but to let properties, given the fall in house prices since 2008. These respondents stated that they would sell the property at the earliest opportunity once the property market 'picked up again' and envisaged that their landlord role would be relatively short-lived. Some letting agents and more experienced landlords, however, felt that this perspective was perhaps too optimistic:

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*‘There’s no alternative, they can’t sell the property for the money they think it’s worth so they prefer to let in the hope that prices will eventually go up and it’ll be worth selling. I think that’s probably pie in the sky.’*

(Large landlord and letting/managing agent, Barking and Dagenham)

This wide range of responses from landlords was not unexpected, but it does make it very difficult to generalise about impacts. Landlords’ responses are influenced by a range of factors that affect their ability to adapt to changing housing market conditions and new policy measures. Despite this diversity, there was an underlying consensus about the depth of recent changes in the housing market, and the increasing difficulty landlords faced in accessing finance, which they thought had contributed to restricting the supply of rented accommodation.

*‘The housing market just changed out of all recognition. Six and half years ago it was like shooting fish in a barrel, anybody and their dog, assuming you had a good credit record, and I rather suspect if you didn’t, everybody would lend you money. Whereas now, even with an absolutely flawless credit record and a very good business record, you’re on your hands and knees begging for somebody to lend you money and they’re still finding a reason not to do it.’*

(Large landlord, Edinburgh)

## 5.3 The local housing market context and landlords’ portfolios

### 5.3.1 Local housing markets

It is important to note the dynamic nature of the PRS and its changing relationship to the social rented and owner-occupied markets. The English Housing Survey indicates that in England alone there were an additional 930,000 households in the PRS by 2010–11 compared to 2007, equivalent to a 34 per cent increase over the period, and the PRS accounted for 17 per cent of all households by 2010/11 (Table 5.2).

**Table 5.2 Trends in tenure in England, 2007 to 2010-11**

	Percentage of all households		
	owner occupiers	social renters	private renters
2007	70	18	13
2008	68	18	14
2008–09	68	18	14
2009–10	67	17	16
2010–11	66	17	17

Source: English Housing Survey Headline Report 2010–11.

In many of the case study areas, respondents noted that an excess supply of private rented accommodation in 2007 and 2008 disappeared rapidly thereafter, driven by demand from thwarted homebuyers and increasing pressure on social housing after the economic

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downturn. As a result, demand for PRS accommodation from non-LHA tenants was seen as strong in most areas and unlikely to change in the short to medium term. Respondents felt that there were, therefore, few market pressures to stabilise or reduce rent levels in the market, and many landlords saw themselves as less dependent on the LHA sub-market than they had been in the past.

*'It was all very stable like that for a long time. Now it's reversed, for the sort of property I let, the tenants will now get around £590 a month and I could let that property out tomorrow for £650 at least. It might not have been planned like this, but it's [the reforms] working in the opposite direction to the market.'*

(Large landlord and letting/managing agent, Portsmouth)

The supply of PRS accommodation was, therefore, said to be decreasing in most case study areas, and letting agents in particular noted more reluctance to let to LHA tenants, partly as a result of the policy change made in 2008 from paying LHA direct to the landlord to the tenant instead, as noted by one respondent below.

*'The amount of tenants wanting properties has increased and the amount of properties we have available has decreased ... Because landlords don't want to let them out to DSS tenants ... when the rules came in last year regarding Housing Benefit payments being paid directly to the tenant and not the landlord or agent, a lot of landlords have just said 'I've had enough now' and sold the properties.'*

(Large letting/managing agent, Rhondda Cynon Taf)

Much of the recent growth in demand in the PRS was attributed to the difficulties households faced in accessing mortgage finance in order to buy property.

*'People that can't buy have to rent so there's a severe shortage of rental properties. What that means is the landlord can pick and choose who he will and won't let to. I usually let most of my properties within two or three days max unless there's a problem.'*

(Large landlord and letting/managing agent, Exeter)

Although supply had also expanded due to the increase in accidental landlords, in most areas landlords thought that this was outstripped by demand, causing rents to rise slightly or at the very least remain static. As one might expect, these increases were most marked in London and other high demand case study areas, such as Exeter, but the general pressure of demand also applied to other, less affluent districts, like Bradford.

*'For landlords I think it's fantastic, there aren't enough properties, people can't afford to buy ... there's too many renters which means that every property is virtually like gold dust which in turn is driving the price of rents up. In London I've experienced it in every area that I've looked after – so that could be the higher end in the city, coming down to areas like Croydon, rent prices have continually gone up.'*

(Large landlord, Hackney)

*'It's very busy, there's plenty of tenants out there. It's supply ... we just can't get the properties in, so we have lots of tenants across the board. It's not just Housing Benefit, there are (non-LHA) working tenants, it depends what area of Bradford you're in.'*

(Large landlord and letting/managing agent, Bradford)



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Consequently, with the exception of a few areas dominated by concentrations of LHA tenants (like North Lanarkshire or Rhondda Cynon Taf), most landlords were confident about the continued buoyancy of the private rental market. Many respondents felt they would be able to change their tenant profile to some extent and reduce their dependence on the LHA market if necessary. This was less straightforward in LHA dominated areas, but even here some landlords were resistant to letting to LHA tenants. Some said they left their properties empty as they waited for the 'right tenant' to come along. However, this option was not usually available to landlords with buy-to-let mortgages, and these landlords were the most uncertain about the future of their portfolios and businesses, as they also said they had less scope to reduce rents in line with the new LHA rates.

The extent to which there were alternative sub-markets to LHA was clearly a crucial factor. In more pressured PRS markets (such as Brent, Exeter, Hackney and Westminster) other sources of demand included potential homebuyers, economic migrants, newly formed households and (to a lesser extent) students. In these areas, where rents tended to be relatively high and the supply of accommodation low, landlords could be more selective in their lettings and LHA tenants were more likely to face difficulties in accessing suitable accommodation as a result.

*'It's very healthy, there's no shortage of tenants. I can say that for every one vacancy that we may have at any one time we can easily line up five to 10 tenants, privately or on Housing Benefit, but the Housing Benefit tenants tend to lose out because as time goes on the LHA, there's been cuts and ... we're running a business'*

(Small landlord, Westminster)

Many landlords in these areas stated a preference for non-LHA tenants, by which they tended to mean tenants in employment. Even though about a third of LHA claimants nationally in May 2012 were in employment (see [Section 2](#)), LHA was seen as synonymous to being out of work by many landlords. Letting agents also reported that they were finding it increasingly difficult to match prospective LHA tenants with landlords willing to accept them. Those properties that were affordable to LHA tenants in these high demand areas were being snapped up very quickly.

*'Finding a landlord that will allow Housing Benefit tenants now is getting increasingly difficult. I used to have a steady stream of properties that would be suitable but that's getting less and less, it's getting really difficult to find a property that will accept Housing Benefit tenants.'*

(Large landlord and letting/managing agent, Exeter)

Outside the tighter PRS markets, landlords felt that increased demand was most marked in the LHA sub-market.

*'I have had numerous enquiries from people who ring me up and say, 'what have you got for around the £80 a week mark, I'll go anywhere'. A lot of them are from London but I get enquiries from all over.'*

(Small landlord, Thanet)

Those case study areas affected in this way included seaside towns and other historical 'in-flow' areas (e.g. Barking and Dagenham, Denbighshire, Thanet and Tendring) which have attracted benefit claimants in the past due to relatively low housing costs compared to nearby districts. In these areas, landlords had little choice but to continue letting to LHA

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tenants, and they noted that the increased geographical concentration of households receiving benefits had been a feature of the housing market for some time and had continued since the introduction of the new LHA measures.

*'I've noticed there is a decline in the area, with the influx of more and more DSS tenants, the area has gone down in the standard of living for the people that live there quite dramatically ... and that's only going to continue.'*

(Small landlord, Barking and Dagenham)

*'People seem to be shipped in from other areas. It's become a dumping ground in the last 20 years. The HB market is massive. Places like Rhyl have become HB paradise.'*

(Small landlord, Denbighshire)

The spatial analysis ([Section 2](#)) also indicated that the pre-existing trend of in-flow of LHA claimants to these markets had continued since the reforms were introduced, but the rate of in-flow had *not increased*, as some landlords claimed.

Landlords in more socially and economically homogeneous case study areas such as Rhondda Cynon Taf and Thanet referred to a predominance of LHA tenants within the PRS, but even here letting agents mentioned that they sometimes had to 'talk landlords round' to letting to LHA tenants.

*'I say to them 'another thing to consider down here ... 85% of the market is Housing Benefit so, if you decide not have anyone on Housing Benefit, out of every 100 people there's only going to be 15 that are working' [and not on LHA].'*

(Large letting agent, Thanet)

It is important to acknowledge the degree of diversity **within** case study areas, such as Tendring.

*'In this area there are three main tenants and they are Housing Benefit, which includes just about anyone; can be drug addicts, which you try and avoid; there's a pensioner market, where pensioners like to live here by the sea who've got an income but haven't got enough money to buy a house or whatever. And (by contrast) there's this market of younger professional people. It's a dormitory town between Colchester and Ipswich, and Chelmsford is where they tend to work and they seem to be there in abundance at the moment.'*

(Small landlord, Tendring)

In several urban case study areas (such Bradford, Cardiff, Edinburgh and Newcastle) the PRS is particularly diverse and exhibits some or all of the housing market characteristics outlined above. These areas contain large concentrations of LHA tenants in particular neighbourhoods, but also have high demand 'private' sub-markets elsewhere. Despite the prevailing perception of an increased level of demand in the PRS recently, the vast majority of respondents outside London claimed that rents in their area had been fairly steady over the preceding year. The situation was different in the four London boroughs included in the research. The majority of London landlords thought that rents had risen over the previous year as a direct result of increased demand.

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*'Rents have gone up without a doubt, more so in the last six to eight months. I think people can't get mortgages and the rents are just shooting up: Hammersmith and Fulham, everywhere the rents have gone up, even in Wandsworth, round here, all over London rents have just shot up probably by a good 10 or 15 per cent.'*

(Small landlord and letting/managing agent, Westminster)

### 5.3.2 Landlords' portfolios

Details about the relative size and distribution of landlord portfolios in the 19 areas are discussed in the report on the landlord and claimant surveys (DWP, 2012). This part of the report focuses on the relationship between portfolios and responses to the LHA reforms. While a few of the landlords interviewed can be considered to have national portfolios, the portfolio of most respondents is confined to a particular sub-region, district or even neighbourhood.

Landlords were asked about changes they had made to their portfolios in the 12 months leading up to the interviews. Most landlords said that they were not looking to invest in new properties at the time of the interview because of general market uncertainty and difficulties in raising finance. Buy-to-let landlords stated that factors such as increases in the deposit required on a mortgage acted as a disincentive. While in previous years these landlords had been able to increase their portfolios relatively easily, it was now much more difficult and they were also more cautious about expansion.

*'I would have said steady over the last 15 years, I haven't bought many in the last four years ... They were too dear, it didn't really stack up, that's where a lot of people made the mistake, they were jumping into the market and paying crazy money for them and they've got their fingers burnt now.'*

(Large landlord, Perth and Kinross)

The general uncertainty about housing market conditions was by far the most important influence on portfolio and investment decisions, but the changes to LHA and the perceived shift towards direct payments to the tenant were also seen as key second order factors in decisions about whether, and where, to invest.

*'Yeah, we have halted if you like buying [in Rhondda Cynon Taf] because of the changes to [direct payments], we've had a lot of rental arrears. Of our four properties in the Rhondda they're all LHA tenants and we've recently been bitten quite bad.'*

(Small landlord, Rhondda Cynon Taf)

As stated earlier, the housing market downturn increased the supply of properties from accidental landlords, who were often working through letting and estate agents who were keen to counteract the reduction in business caused by fewer property sales. Even so, some letting agents were struggling to maintain the supply of properties required in the face of greater competition.

*'I know a lot of the letting agents or the estate agents before that didn't deal in lettings have come on board probably over the last 18 months and all of them now have a lettings department. So for people like myself, cos I don't sell, I only do lettings, it's caused a real impact for me and I think a lot of people as well are probably doing it themselves. But there's definitely a lot more agents around now.'*

(Large landlord and letting/managing agent, Bradford)

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Investors and managing agents in some areas reported an increase in the supply of properties they were being asked to manage as a result of landlord repossessions, primarily among buy-to-let landlords. In these cases, the property passes to a receiver and a management company is employed on behalf of the bank. The company then tends to continue to let to the tenant, who may not even be aware of the change in landlord.

*'The one addition that we have had is that we've begun managing properties on behalf of XXX Bank who had a number of distressed assets. So where smaller property companies, buy-to-let landlords, had accumulated quite a portfolio and then breached their repayment covenants, they've been repossessed and we've signed a contract to manage these portfolios. So probably in the last 18 months the biggest change for us is that we brought in some stock that we don't have any capital interest in. It's purely managing and buy-to let.'*

Indeed, some buy-to-let landlords who had bought at the 'wrong time' had made the decision to sell their properties and get out of the letting business altogether. They were struggling to make their lettings pay, due to the relatively high mortgage payments they had to meet. Landlords in this position tended to be operating in areas where the PRS was dominated by LHA tenants.

*'Now the rental income in the last three years has come down because we've had no increases and the LHA has come down, so any margin that was in it ... it's hardly worth it now. So I can see people that are renting saying it's just not worth it, if I can flog it, I'll flog it.'*

(Large landlord and letting/managing agent, Tendring)

The nature of the local housing stock is also important in terms of the decisions landlords make about their portfolio. For instance, in Rhondda Cynon Taf, several landlords noted the paucity of HMOs, flats and one-bedroom accommodation. The industrial legacy of the district meant that the bulk of the housing stock comprised two or three-bed properties, originally built for miners and their families. Respondents also suggested that the lack of differential in the rents by property type had also discouraged investors from developing flats in the district, and that this would now affect the impact of the SAR changes in the area.

*'It's typical terraced 2 – 3 bedroomed dwellings, very few flats in Rhondda mainly because the rents are at such a level really, there's not much differential between a flat and a house ... so flats have never been developed. As you know, with the under 35s now, there probably won't be any flats for single people now.'*

(Large landlord, Rhondda Cynon Taf)

Similarly, landlords and agents operating in seaside towns drew attention to the distinctive nature of the local housing stock, with concentrations of bungalows, flats and HMOs in the market.

*'Probably a third of our stock is bungalows, maybe a bit higher, and that's just because that's the housing stock in this area. Then after that it will be two and three bed semi-detached and terraced houses and another third will be flats, because the old seaside boarding houses have been converted into flats. That's typical, I think, for most seaside places.'*

(Large landlord and letting/managing agent, Denbighshire).

## **5.4 Attributing the impact of LHA measures**

It is obviously difficult in practice to isolate the effects of the various LHA measures from other major influences on landlords' actions and future intentions. Two crucial factors, not directly connected to the LHA reforms, were identified in interviews. First, landlords' experiences of rent arrears were a persistent concern and it was claimed that the overall shift to paying HB directly to tenants in 2008 had exacerbated this problem. Landlords suggested that their negative experience of direct HB payments being made to tenants had been reinforced by the LHA reforms. For many landlords operating in high demand PRS markets, alternative options for letting were being pursued. Some landlords said they planned to exit the LHA market altogether, while others aimed to reduce the proportion of their portfolio let to LHA claimants in order to manage anticipated risks. This view was, however, less evident among landlords operating in HB/LHA dominated areas, landlords with 'hard-to-let' properties and landlords targeting vulnerable tenants where direct payments to the landlord could be guaranteed.

The general view among landlords was that the move towards making direct HB payments to tenants had created greater financial risks with fewer safeguards. There were reported differences between LAs, however, in terms of the relative ease or difficulty with which landlords were able to secure direct payments into their own accounts, and the incentive of receiving direct payments if a lower rent was negotiated did not seem to have much impact, as indicated later in the report.

As a second factor, the local housing market context, especially the extent of other sub-markets and opportunities, was a key influence on landlords' responses to the reforms. In most of the 19 case study areas rising demand from other PRS sub-markets – notably potential homebuyers postponing entry into owner-occupation due to pressures on mortgage availability and the limited supply of affordable accommodation – created opportunities for landlords. This has increased the number of non-LHA tenants who can pay market rents and who are, therefore, considered a more attractive proposition. The converse is that those landlords operating in areas and neighbourhoods where LHA tenants are concentrated have less flexibility in their lettings strategy.

These two issues – direct payments to the tenant and a favourable housing market context (from a landlord perspective) – informed landlord behaviour in each case study area. They affected the propensity of landlords to let to LHA claimants. As discussed earlier, the relative buoyancy of the PRS meant that rental values either held their value or increased in real terms, whereas one of the potential impacts of the LHA reforms was to dampen overall PRS rent levels. However, one should point out the interviews were conducted at an early stage in the introduction of the new measures, and market adjustments (such as reductions in rent) would inevitably take some time to work through the system.

Respondents were, therefore, often unable to attribute any changes in their priorities and decisions solely to the LHA reforms. This tendency was reinforced because the fieldwork was being conducted during the transitional protection period for existing LHA households, although new tenants would have already been affected. Typically, respondents felt that the new LHA measures were contributing to an overall trend of 'squeezing' tenants financially. Other welfare reforms and difficult labour market conditions were often cited by landlords alongside the LHA changes to explain, for example, why tenants were struggling to avoid rent arrears.

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*'I couldn't attribute their difficulties directly to Housing Benefit, it could be a number of benefits. With the new lettings though I can say for sure what people are telling me, depending on their circumstances, whether they're a single mother with one child or two children ... they're saying to me "that's what I get and it's not as much as I used to get so I can't afford it ... "'*

(Large landlord and letting/managing agent, Edinburgh)

In some cases, the LHA reforms were the primary influence on a landlord's decision to change their letting strategies, but more usually they were one among several interlinked reasons. The early impact of the LHA reforms varied across the case study areas. Some landlords in high demand areas (primarily London) intended to exit the LHA sub-market and were looking to replace all existing LHA tenants due to the scale of reduction required to meet new LHA rates. For landlords in low demand areas, by contrast, the impact at the time of interview was relatively minor. In other areas, landlords were tending to take a pragmatic approach and took a '*wait and see*' attitude, postponing any major decisions on their lettings priorities and plans for future investment. Finally, a further group of landlords knew little about the reforms and felt that little had changed, or was going to change, in the foreseeable future. The following sub-section focuses on the early impacts of the reforms in terms of rent setting, rent arrears and landlord-tenant negotiations over rents.

## 5.5 Impact on rent-setting, arrears and negotiations

### 5.5.1 Rent setting

The majority of landlords were affected by reductions in the level of entitlement to LHA for at least some of their tenants. The introduction of caps or, more commonly, the switch to the 30th percentile in calculating entitlements, meant that existing and prospective tenants often faced an increased shortfall between their LHA and the rents charged. This sub-section explores how landlords responded to these changes in terms of setting rents.

Among those landlords who had reduced rents, two different approaches were evident. The first was to reduce rents systematically for all tenants, so that most rents remained affordable under the new LHA entitlement regime. Most landlords in this group had always tended to peg rents to maximum LHA levels and continued to do so when entitlements were reduced after the reforms. The second was to reduce rents selectively on a case-by-case basis, differentiating between those tenants deemed able to afford top-ups whilst reducing them for those who could not cover new or increased shortfalls. The reasons given by landlords for reducing rents included: avoiding the 'hassle' of chasing top-ups; the desire to keep good tenants; the costs associated with void property; and the fact that they could continue to make a profit (especially where mortgages repayments were low or non-existent).

However, other landlords chose not to reduce rents. Reasons given for not wanting to reduce rents included: the existence of tenants in other PRS sub-markets willing to pay 'the going rate'; difficulties in affording mortgage repayments if rents were reduced; and the perception that rents were already competitively priced. The most common response here was to ask tenants to pay top-ups to make up the difference, although the ability of tenants to meet such payments varied. Some landlords thought that their demand for top-up payments was '*aspirational*', and acknowledged they might have to take a lower rent than the contracted

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rent if tenants could not make payments. A minority signalled their intention to serve notice on tenants who fell into arrears.

A minority of respondents were unaffected by changes in LHA, as the rents they charged remained below post-reform LHA levels. This group included landlords in Blackburn, Tendring, Walsall and North Lanarkshire, which tend to be 'LHA dominant' or 'transient' housing markets. As one such landlord put it:

*'If you ask me has that made any difference? No, all those rates fall in line with pretty much what our average rents are.'*

(Large landlord and letting/managing agent, Blackburn with Darwen)

Among those landlords who reduced all rents systematically to match the new, lower LHA rates, the scale of the reductions varied from £10–50 per month, which suggests this option was not pursued in areas where LHA rates had fallen most sharply. It was notable, for example, that no landlords in inner London Boroughs said they had reduced rents systematically. Other landlords had reduced all rents for all their tenants, but just to a level that remained above LHA. Tenants were, therefore, required to make a top-up, albeit a smaller one than if rents had been maintained at pre-reform levels.

The cumulative financial effect of systematic rent reductions varied. For some landlords, the impact across the full portfolio was limited. One letting agent had, for example, reduced prices for two-bed properties from £475 to £455 per month because their landlord clients had been relaxed about this:

*'it was only 20 quid a month and most of my investors said "we're not bothered about that". They said "just go with it" because, like I said, in 12 months it'll be back to what it was.'*

(Large landlord and letting/managing agent, Newcastle upon Tyne)

Another small landlord in Cardiff commented that: *'I'll accept it on my chin, say £2.50 a week for eight tenants'*. However, the cumulative effect on a minority of landlords was more significant. One landlord in Edinburgh, for example, described how the change had dramatically affected the profitability of some properties:

*'The two [bed properties] are down £30 [a month] and the three [bed properties] are down from 850 to 725, and £100 down for the four bed properties. I think I'm down about £580 a month at the moment. I'm going to get seriously clobbered next year, to the point that some of the houses are not actually viable. Because I was really hoping that the market picked up because I was going to sell them.'*

(Large landlord, Edinburgh)

The most common reason for reducing rents was reluctance to chase top-ups from tenants on low incomes who were unable or unwilling to pay:

*'It's almost impossible to get top up from a tenant if they're on full benefits ... I do accept the lower rate, I don't ask for top ups. It's just not going to work. If I've got 10 tenants and they all owe me, the most [I lose] is 200 quid.'*

(Small landlord, Barking and Dagenham)

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Another reason was that low mortgage repayment charges meant that yields remained acceptable. One large landlord and letting/managing agent in Portsmouth noted that he bought the properties he lets to his LHA tenants very cheaply, so a reduction in rental income is *'not disastrous'*. Another landlord waived top-ups when her tenant's LHA entitlement fell £15 a month below rent because: *'I was in a fortunate position as my mortgage dropped considerably in recent years; otherwise, I would have been twitchy'* (Small landlord, Denbighshire).

Finally, some landlords expressed sympathy with vulnerable tenants and did not want to increase their anxieties by asking them to start paying top-ups. One small landlord in Edinburgh, for example, chose not to pass on a £25 a month shortfall to one tenant because: *'her circumstances aren't great; I'm not making a fuss'*.

Among those landlords prepared to make reductions in rent on a case-by-case basis, the degree of selectivity varied considerably. A few landlords reduced rents for most tenants. In Edinburgh, for example, one large landlord and letting/managing agent waived top-ups for eight out of ten new tenants facing shortfalls. By contrast, another landlord in Edinburgh only agreed to reduce rents in exceptional circumstances:

*'10 or 12 of [my existing tenants] have to pay £30 towards [rent]. Their LHA will drop to £595, they'll have to make up the difference [to £625 for a two bedroom house]. Yeah, they will find [the top up]. I think what will happen is the more vulnerable, we've got two or three that have got issues like drink or drugs, they will have an issue [paying top-ups]. We subsidise up to four people, we just take £595 off them ... it's only in exceptional circumstances.'*

(Large landlord, Edinburgh)

Landlords used different criteria to decide whether to reduce rents for tenants. Some left rents unchanged after the reforms, but then negotiated reductions for particular tenants who approached them with affordability problems. Others did not wait to be approached, but reduced rents immediately, based on a judgement about whether tenants could afford to pay top-ups.

The diversity of responses underlines how difficult it is to proffer an overall judgement on the impacts of the reforms on setting rent levels. It also remains to be seen whether these reductions will be maintained once the current tenant leaves the property, and how far those tenants perceived to be able to afford the top-ups will do so in practice over the longer term.

Landlords were generally reluctant to reduce rents, but gave a number of reasons why they were prepared to do this on a case-by-case basis. The first, and most frequently mentioned, reason was that it was a way of keeping *'good'* tenants. Landlords in Edinburgh, Tendring, North Lanarkshire and Bradford referred to this reason. The second reason was to prevent the costs associated with properties becoming void in areas where it might be hard to re-let them. One North Lanarkshire landlord, for example, was willing to reduce rents for properties he might otherwise struggle to fill. However, he was far less willing to reduce rents for more popular properties: *'If it is easy to let, I'll ask them to leave if they can't do a top-up'*. Sometimes, a combination of rationales came into play in landlords' decisions about selective rent reductions. One small landlord in North Lanarkshire, for example, said the decision depended on the size of the shortfall, the *'quality'* of the tenant, and the ease with which he would be able to let the property to somebody else.



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A small number of landlords did not lower rents formally, but accepted *de facto* rent reductions when certain tenants failed to pay the top-ups requested. One large landlord in Rhyl, for example, explained how he had not chased top-up payments from those unable to pay out of the 15 affected by reductions in their LHA entitlements:

*'[LHA has gone down] £4 a week, £80 down to £76. I've asked them to pay the shortfall [but] we may not have a choice [but to forgo the top-up]. They can't afford it, the ones who are on benefit really can't afford it. We're taking a hit on the income, we try to collect what we can, we won't throw them out, we wouldn't ask them to leave because they're struggling to make up the difference.'*

(Large landlord, Denbighshire)

A small landlord, also in Denbighshire, with five properties had waived a £70 a month shortfall for a four-bed property because he felt this loss was less than the potential cost of renovating the property in order to re-let it. Nonetheless, he was clear that he did not want to formally reduce rent, as leaving it unchanged meant *'at least they can try and reach it'*. His general principle was never to reduce rents: *'you never go there because you can't go there. If you're a buy-to-let landlord, you have no choice. You need the rent to cover the mortgage.'* In such cases, therefore, accepting lower rents was an *ad-hoc* response to tenants' circumstances rather than a planned strategy.

Whilst some landlords were prepared to reduce rents once the LHA measures had been introduced, a broadly equal number were clear they would not consider doing this, even if tenants faced new or additional shortfalls as a result. The following quote is typical of this standpoint:

*'Landlords aren't prepared to drop the rents, I'm under pressure from landlords to put rents up, not bring them down. I don't believe that's going to happen.'*

(Large landlord and letting/managing agent, Newcastle upon Tyne)

Landlords sought to maintain rent levels by asking tenants to pay top-ups to bridge any shortfall that emerged or increased following the reduction in LHA rates. There were mixed experiences in terms of the capacity of tenants to meet these payments. Some landlords were already successfully collecting top-ups. However, other landlords described difficulties in getting tenants to pay top-ups:

*'Some of them are making it up but a lot of them are struggling because it's not just [LHA] that's been cut, they're getting other money cut as well, so it's making it harder and harder.'*

(Large landlord, North Lanarkshire)

Whilst many landlords noted that arrears were increasing, only a few had started to take action at this stage, by serving notice on tenants who could not afford top-ups after the measures were introduced. One landlord in London described his approach as follows:

*'Where they've done [the cap] their new rates are much lower than we were getting before. Basically the tenant won't pay because they haven't got the money to pay. They'll say they haven't got the money and we are going for notice to quit because we can't get the money from them. We've given them a lot of time to pay, some of them just won't pay.'*

(Large landlord and letting/managing agent, Hackney)

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There were three main reasons why some landlords said they would not reduce rents. The first was that demand was sufficiently high to sustain rents at existing levels. This was particularly evident in those case study areas, especially in London, where there was a combination of high rents, a buoyant market and high demand from non-LHA tenants. One small landlord in Barking and Dagenham, for example, described moving away from the LHA market to benefit from high demand among non-LHA tenants to enable him to maintain rent levels. Another landlord in Hackney explained how he was only renting a room in his house out at the LHA rate of £410 a week because the tenant was a friend. Otherwise, he said he could easily charge the market rent of around £500 a week, targeted at those tenants in work who were not also in receipt of LHA:

*'The room here in this area right now is out of reach of someone on Housing Benefit. If and when I need another tenant it would have to be someone who could afford to pay the £500. And anyway, it's easy to rent to someone who's working [and not receiving LHA].'*

(Small landlord, Hackney)

Similarly, one landlord in Westminster observed that letting to non-LHA tenants allowed him to sustain high rents:

*'We've recently rented a [2 bed] property out which hasn't gone to a Housing Benefit tenant, we're getting 375 a week as opposed to 290 which is the LHA rate. £85 a week [difference] is a phenomenal amount of money, nearly five grand. [We won't reduce rents] we'll just go with the market rents. That's the fairest strategy there; nobody wants a void and nobody wants to underlet, you've got to go with the flow.'*

(Small landlord, Westminster)

Other landlords noted that the very existence of a buoyant, non-LHA market as a fall-back option meant there was no pressure to reduce rents for LHA tenants:

*'Well the rents I'm getting at the moment from Housing Benefit are lower than the target market, I couldn't see me [lowering them]. To be honest with you, in the last six or 12 months the rent in the private market has really shot up. To give you an example I've got a three bed roomed house, one in Dagenham, it's £950 a month. I can get £1250, £1300 a month now private. So going back to your question, I wouldn't reduce the rent.'*

(Small landlord, Barking and Dagenham)

A second reason for maintaining rent levels was that landlords felt rents were already competitive relative to the 'market rate'. For example, a small landlord in Denbighshire who believed his rent level was £50 a month below the market level said he would not countenance reducing it. He considered it unlikely his single tenant would move out even when the size of their top-up increased as planned. This was largely because he thought it would be difficult for the tenant to find accommodation of similar quality at the same price in the area. Other respondents echoed this view:

*'I'd rather keep my rents down to be honest, I'm totally different to my landlords. I haven't dropped them, I just haven't put them up. I've got tenants that have been in there for six, seven, eight years on the same rent, they were low when they went in and I've kept them low. I've got a three bedroom house and I'm only getting £600 but I'm happy because it's beautiful, they pay the rent and they look after it. I've got one mortgage that's 99 quid and I get 725 on the house.'*

(Large landlord and letting/managing agent, Tendring)

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*'One or two have said life's got a bit harder, this that and the other, and I say "ok but I'm not charging the full rent" and then they wander off and deal with it. They hinted that perhaps they could have a rent reduction and I said "well, sorry, we're letting beneath the market" and they go away and they sort it out.'*

(Large landlord, Brent)

A third reason cited for not lowering rents is that rents would no longer cover mortgage payments. These landlords tended to have smaller and newer buy-to-let portfolios with relatively high mortgage payments compared with rental income. By contrast, landlords willing to reduce rents tended to be larger, professional landlords who had purchased properties some time ago and did not, therefore, have the same pressures on yield.

### 5.5.2 LHA shortfalls and rent arrears

Many respondents were very concerned about the extent of rental arrears that some of their tenants had accrued. This was not necessarily due to the recent LHA measures. At the time of interview, most respondents said that it was *'too early to tell'* whether the specific measures would increase arrears. Arrears had often accrued because of interruptions in payments due to a change of circumstances, such as a tenant securing temporary work, or a change in household composition (such as partners or relatives moving in or out).

However, there were a few cases where tenants had slipped into arrears as a direct result of the LHA reforms: where arrears had begun to accrue once the tenants had first experienced a shortfall between their contractual rent and the maximum LHA entitlement at post-April 2011 rates. These were a minority of cases at the time of the fieldwork, and often the tenants were remaining in place, as landlords were reluctant to press for payment, in the early stages of their arrears at least. The example below illustrates one such situation:

*'Yeah I've got a single lady living on her own, she's in her 50s, rent on the flat's 450 [£ a month]. They've just cut her down to 410. I think where before it was all getting covered and she's running in arrears now. I can't let it go on forever and she keeps bringing in 20 quid on the odd occasion and I said "it's not good enough ... you've got to get some more". She said "where from?" I said "I don't know. I can't answer that question."*

(Large landlord and letting/managing agent, Exeter)

The specific measure of non-dependant deductions was mentioned by a small number of respondents as a reason for arrears.

*'One of the worst arrears situations that's arisen is someone's got older and their payment's gone down because of non-dependant reductions have been applied and they've not sorted it out. Because the tenant's maybe got a bad relationship with the teenager ... Also when children move away they have a big problem. They need a smaller unit and their housing is assessed on a two bed from originally a three bed.'*

(Large landlord and letting/managing agent, Hackney)

Whatever the reasons, the extent of arrears shaped landlords' responses about their future intentions to deal with the tenant concerned. Direct payments to the landlord were seen as a crucial mechanism for limiting the risk of arrears so many respondents were unhappy with the shift in emphasis towards paying HB direct to the tenant, which they felt inevitably increased the incidence and level of arrears. Interruptions and delays in receiving HB

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payments were also often cited as a problem. Several landlords also anticipated that this situation would get worse in the future:

*'All of our DHSS tenants, with the exception of maybe one or two, are in arrears. Usually this is due to various interruptions to their benefit payments, but if they do stop paying us direct, or even if they carry on and what we are getting is reduced, then imagine how much worse it's going to be and how much leg work will be involved.'*

(Large landlord and letting/managing agent, Portsmouth)

Letting agents also reported that the arrears situation was getting worse. In discussing particular cases, respondents said that tenants would often top-up any shortfall in their rent through other income sources, whether from employment or other benefits.

*'I've got one poor lady with four kids and the landlord's currently going berserk 'cos she's behind six or seven hundred pounds, but she brings in all her child benefit, every spare shilling she gets but it's still a struggle ... I think she has to bring in £300 and something a month now ... I'm chasing more rents today than I've ever done.'*

(Large landlord and letting/managing agent, Exeter)

While landlords suggested that many tenants were attempting to 'muddle through' and make up shortfalls through various means, some had accepted that they could no longer afford their current accommodation given the reduction in their LHA payments. However, most landlords who referred to this outcome also stated that it was becoming increasingly difficult for tenants to find suitable and affordable alternative accommodation.

*'I've got tenants that were on 475 and they're now going to jump to 425. They're not going to be able to afford 50, so we are getting a few coming through saying "you've got to find me something cheaper". We don't have anything cheaper, so a lot of them, if they're young, they're getting parental help.'*

(Large landlord and letting/managing agent, Tendring)

Given the tenor of the discussions about persistent rent arrears, and the financial losses experienced by landlords as a result, many respondents were sceptical about whether tenants would be able to make up shortfalls where LHA payments no longer covered the full rent. The following quote was typical of many:

*'Given the nature of reducing Housing Benefit, I think what's going to happen is you can either accept the lower rent that's going to be paid from the council or you accept the rent and ask the tenants to make up the difference. In practice, that very rarely happens that they actually bother to make up that difference and you may only be talking, we worked it out at the association, it works out at something like £6-7 a week on a two bedroom house. Even getting £7 out of them is a nightmare, so I think really what's going to end up happening is you just have to end up accepting the lower rent or just not renting to Housing Benefit full stop.'*

(Small landlord, Bradford)

However, the extent to which landlords could take up the latter option, and exit the LHA market altogether, varied widely from one case study area to the next, as discussed later in the report.

### **5.5.3 Attitudes towards rent negotiation**

The interviews explored the attitudes of landlords towards negotiating rent reductions with tenants in cases where the LHA reforms opened up or increased shortfalls between LHA entitlements and contractual rents. Responses were polarised between landlords unwilling to negotiate rents downwards and landlords who had already negotiated, or were prepared to negotiate, over rents with tenants. Those who were unwilling to negotiate cited a number of reasons for this attitude: the high demand for properties, which made it unnecessary to lower rents; the perception that shortfalls were too large to negotiate over, because a reduction in rents would affect profitability; and the belief that existing rents were already competitive, so that there was no scope for negotiation. On the other hand, landlords who had reduced rents or were prepared to consider reductions did so because: they wanted to keep 'good tenants'; they wanted to support vulnerable tenants; or they wanted to avoid the expense of having empty property.

Some landlords suggested that, in principle, being awarded Direct Payments could provide an incentive to reduce rents, although few had pursued this option. However, the majority dismissed this idea on the basis that: they already received Direct Payments; that tenants paid promptly anyway; or that high demand meant there was no need to consider reducing rents. Very few landlords supported the idea of LAs becoming involved in rent negotiations. Respondents raised concerns about excessive bureaucracy, bias or lack of competence among LA staff, and thought that it represented interference in private business transactions.

Landlords across a range of different housing markets stated they would be unwilling to negotiate rents downwards with tenants. The first, and by the far the most frequent, explanation was that high levels of demand rendered negotiation unnecessary, as the landlord could always find tenants willing to pay existing rents:

*'I'm quite clear that if I'm approached to reduce my rates, knowing the strength of the market I'll be saying no, particularly because I know that my rates are quite competitive. I will be confident in finding other tenants who would pay at a higher rate. In fact if I had a change in tenant I'd probably up the rate slightly as well. My one bedroom apartment does concern me. I really like the person that's there, but if it meant that she came to me and said 'I can only afford to pay you £360 [a month] or £380 instead of £475' Why would I do that when I know I can find a tenant who will pay the 475?'*

(Small landlord and letting/managing agent, Walsall)

The second most common reason was because landlords were reluctant to accept, or thought they were unable to afford, a drop in rental income. This was particularly noticeable in inner London Boroughs, where tenants had seen significant reductions in entitlement. One landlord in Westminster spoke, for example, of the possibility that he would serve notice on a tenant who had been as 'good as gold' in making rent payments because the shortfall was simply too large:

*'I would be sorry to have to throw her out when her benefit goes down to £240 [a week but] I'm just not prepared to cut the rent down to this figure. It's far too low, especially as I'm now getting £365 per week for these flats in the market. I might go down to 330, 340, if I can get 365, but why should I? I took her on on the basis that she was going to get this benefit.'*

(Large landlord, Westminster)

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Another London landlord discussed how the size of shortfalls ruled out the possibility of negotiating over rents:

*'I don't think so because the gap is too big. They might do that with the students or professionals but [not] with council [i.e. LHA] tenants because the situation is not stable now and the gap is too big.'*

(Large landlord, Westminster)

A less common rationale given for not being able to afford a drop in rental income was high mortgage payments:

*'Not a chance. It wouldn't happen with our landlords, because all the landlords, it's a profit game to them and also most of them are mortgaged to their tee.'*

(Large landlord and letting/managing agent, Hackney)

A final reason given for not negotiating with tenants was the perception that rents were already competitive. For example, one letting agent in Denbighshire also noted that, whilst they would always advise landlords to negotiate with good tenants, most were currently reluctant to reduce rents unless forced to:

*'As a letting agent we would in all cases put the case to the landlord. If we thought the tenant was a good tenant, stable, paid rent and was looking after the property, we would probably recommend a negotiation and maybe meet half way or do something, because that's in the tenant's interest and the landlord's interest. But saying that, the landlord might say "no, I'm getting that amount, I want that amount, I've got a mortgage and I want my income" and that tends to be the feedback we're getting. Most landlords are going to try and hold out, they don't want to drop it unless they absolutely have to.'*

(Large landlord and letting/managing agent, Denbighshire)

In direct contrast, a number of landlords suggested they would be prepared to negotiate rents where shortfalls emerged or increased as result of the LHA reforms, although they were not always confident that tenants could still afford any top-ups agreed:

*'I might meet them half way but I still don't think they'll be able to afford it. You're still talking about £15–17 a week, which is about £80 a month. I can't see them being able to afford that off their benefits because they need to buy food and heat. I feel sorry for them – but business is business.'*

(Large landlord, Perth and Kinross)

Some landlords qualified their readiness to negotiate rents by stating that this would only be done in exceptional cases for 'good tenants' or where rent reductions were comparatively small:

*'It's all about the tenant. I mean we have lowered rents once or twice, it's not something we like doing but to keep a good tenant we will. But the Housing Benefit issue is not about the Housing Benefit or who gets it, it is about the attitude of the tenant, the type of tenant.'*

(Large landlord, Portsmouth)

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The readiness of landlords to negotiate was not simply hypothetical. A number of landlords had negotiated lower rents with some tenants in the past, although most examples preceded the recent reforms to LHA. There were also cases where landlords had negotiated, or were currently negotiating, with tenants over shortfalls that emerged or increased following the recent changes to LHA entitlements. One small landlord in Newcastle, for example, had already negotiated rents with a small number of tenants and met them half way between LHA rates and current rents. Another said:

*'I already have. I'm going to bring down the rents to £110 [a week from £115]. I've done my bit, I've done my reduction.'*

(Large landlord, Blackburn with Darwen)

Landlords gave a number of reasons for being prepared, if not necessarily willing, to negotiate over rent levels. The most frequently cited explanation was a desire to keep 'good' tenants. One large landlord and letting agent in Edinburgh, for example, advised clients that it was better to reduce rents to keep a long-term tenant who would be more likely to look after the house, while another respondent said:

*'[Landlords we represent] probably would [negotiate] with the existing ones, if they were good tenants, and in the case of those two [tenants] we definitely would. Oh gosh yes, they could move on, we'd still have to take a lower rent and the properties might not get as well looked after, both of them, the places are immaculate.'*

(Large landlord and letting/managing agent, Portsmouth)

Landlords also wanted to avoid the costs associated with vacancy periods and were, therefore, more prepared to negotiate over rents with tenants, especially where properties were perceived as 'harder to let' because of the relative housing quality, or the area in which they were located:

*'I don't want to lose them, it's not worth having them empty for three months just to save yourself a fiver.'*

(Small landlord, Denbighshire)

One element of the LHA reforms is the offer to make Direct Payments of HB to landlords who reduce rents in line with the decrease in LHA entitlements. A small number of respondents thought that this might act as an incentive to negotiate lower rents. However, most landlords who responded did not consider Direct Payments to be a sufficient incentive to negotiate reduced rents. The main reason was that landlords could often receive Direct Payments anyway, without reducing rents.

*'It'll have no effect whatsoever. Landlords won't want to lower rents, they're not going to offer it to get payments direct no, not at all, that's a dead duck. You can get Direct Payments without having to lower the rent.'*

(Large landlord and letting/managing agent, Denbighshire)

Another reason given by a few landlords for rejecting the incentive effect of Direct Payments was that existing tenants paid the full rent promptly anyway. For example, landlords in Tendring and Denbighshire spoke about how collecting rents directly from tenants 'works fine', suggesting that the Direct Payments safeguard may only carry weight in cases where rental arrears had already emerged.

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A final reason why some landlords expressed little interest in negotiating lower rents in return for Direct Payments was that they believed there was sufficient demand elsewhere to keep rents at existing levels, especially in high demand housing markets. One large letting/ managing agent in Exeter, for instance, stated they would never advise landlords to reduce rents to secure Direct Payments because *'too many people want properties. They will shift in a week'*. Indeed, this view was also expressed by some landlords operating in lower demand areas:

*'I can't see that being a bad thing, but you have to look at the market place. If you're able to get the rent you're asking for from someone, why would you want to do that?'*

(Large landlord and letting/managing agent, Walsall)

Landlords were asked about the value of involving the LA as a third party in rent negotiations with LHA tenants facing shortfalls. There was very little enthusiasm for this suggestion. The vast majority of landlords who expressed an opinion felt that LAs should not enter into, or facilitate, negotiations with tenants and landlords in any circumstances. A number of objections were raised. First, it was seen to introduce unnecessary bureaucracy and time lags into the process of managing tenants:

*'No, keep government out of it, not for any sinister reason, just I think generally the more you have to rely on that sort of thing the more inefficient, the slower everything becomes. I'm sorry to say, but that's again a fact of life.'*

(Small landlord, Denbighshire)

Second, some were concerned that LAs would seek to promote their own agenda, or prioritise the interests of the tenant over those of the landlord. In particular, landlords said that the imperative to reduce costs or fulfil their duty to house homeless residents might induce staff to support tenants in trying to negotiate as large a rent reduction as possible:

*'When organisations try to mediate, they take the side of the tenant.'*

(Large landlord, North Lanarkshire).

Third, some private landlords saw the involvement of local authorities as interference in what was essentially a private business transaction and did not welcome such an engagement. A fourth and final reason given for rejecting a role for local authority staff was that they were not seen as necessarily qualified or competent to act as a mediator in rent negotiations.

Overall, landlords thought that the general trend towards paying HB direct to the tenants was potentially harmful to landlords' balance sheets, the offer to revert to making payments direct to landlords in specific circumstances was not sufficient for them to negotiate reduced rents. In a situation of high demand in the PRS, it was simpler just to let to non-LHA tenants instead.



## 5.6 Impacts on lettings strategies and preferences

A majority of landlords, especially smaller and accidental landlords, were very uncertain about the impact so far of the LHA reforms on their lettings procedures and policies. Landlords who operated in LHA dominated areas, characterised by relatively low rents, were less concerned about the impact of the changes on their lettings and felt they would wait and see once the picture became clearer before they made any major changes. (The anticipated impact of the changes to the SAR was the exception to this pattern, and this is considered in the following sub-section.)

*'I think it's early days. I think if we had this interview in six months' time I'd be more confident and say "no, it's not impacting on me". Early indications are it's not impacting on me. Sod's law, I could receive a phone call later from a tenant saying "this is getting tough for me, I've tried to keep up with the payments so far ..." and maybe that's why it's not impacting on me 'cos they're trying to keep up and they might be pushed beyond that tipping point. Then if they can't, I'll hear about it in the next few weeks or months.'*

(Small landlord and letting/managing agent, Walsall)

This landlord was typical of others in lower demand housing markets: he had not altered his letting strategy or approach at all as a result of the LHA reforms and assumed that any impact would be minimal, given the small gap between rents and the LHA rates. Often, the main concerns for landlords had not changed over many years and were not directly related to the LHA reforms: they concerned the risk of arrears and the associated costs of the eviction process. For many landlords in low demand areas, the option of switching away from the LHA sector to a new sub-market did not exist.

By contrast, in strong demand areas, especially in the London case study areas, a sizeable minority of respondents stated that they were, or would be, replacing their current LHA tenants with non-LHA (often termed 'private') tenants. As the findings of the landlord postal survey indicated (DWP, 2012), London landlords tended to have a greater awareness and understanding of the LHA reforms. The qualitative interviews suggest that they were also the first to respond to the changes, which is probably not surprising given the scale of the relative reductions in rent they faced.

Several London respondents spoke of the '*LHA model*' in reference to letting strategies based solely on renting properties to LHA tenants. Usually this strategy was adopted by more professional landlords and managing agents and invariably involved working relationships with LA housing departments and a guarantee of Direct Payments to the landlord. In many cases this strategy was also based on letting to single, vulnerable tenants, such as ex-offenders and ex-service personnel. Most landlords who had adopted this strategy, however, now felt that this approach was '*no longer viable*' given the gap between new LHA rates and contracted rent levels.

*'I haven't taken any measures directly but when the tenancies do end I can't see the tenants remaining in situ. So at that point I will either let privately or take a view as to whether I want to just sell up and get out of that particular property. I don't think I'll exit the area completely, but just to minimise the risks I might just let to private tenants and see how that goes. But I think the model of letting to council (i.e. LHA) tenants is going to disappear very quickly.'*

(Small landlord, Westminster)

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Some landlords said they had already begun replacing their LHA tenants through evictions and ending or not renewing tenancies. While some landlords intended to change their entire portfolio of LHA tenants, others were seeking more modest reductions in the proportion of their lettings to this group.

*'We have slowly, slowly been booting them out, average between 150 and 200 properties. Depending on what the landlords want to do. Quite a few have decided to sell up recently. I think probably nowadays about 20% is LHA, because we've just been turfing them out.'*

(Small landlord and letting/managing agent, Barking and Dagenham)

In general, it is clear that LHA reforms have caused some landlords to exit or consider exiting the LHA market. However, for others this decision had already been made prior to the implementation of the LHA reforms, driven by mounting arrears and the apparent inability of landlords to secure direct HB payments. These factors had led some landlords to move away from a reliance on the HB market as far as possible, because rental income from LHA tenants was considered too insecure.

*'It's not like the old days when it used to be that we got a big fat cheque every month. It was dependable income. While the money is coming in like that every month then nothing is too much trouble. We would actually like to take on more benefit tenants because it would actually give us a solution to some of our hard to let properties, but the government have just made it too hard now.'*

(Large Landlord, Walsall)

Some landlords with a more detailed knowledge of the LHA reforms had worked backwards from the end of the transitional protection period and planned to have all LHA tenants replaced by non-LHA tenants by the end of December 2012. This practice was particularly common among landlords in London. Those landlords with relatively large portfolios said they needed to act in a preemptive way so that re-letting properties could be phased in steadily.

*'I'm kicking them all out ... I'm serving them notices because I want, on the day the rent will have to be changed, they'll already be out ... It's a complete change to the portfolio. I've always been the person they phone up and say they've got somebody who's not well or who's just come out of drug rehabilitation, that kind. I've always taken them in and never had a problem but I'm not going to do it any more.'*

(Small landlord and letting/managing agent, Brent)

Of course it remains to be seen whether these intentions will be followed through in practice and it will be possible to trace landlords' decisions through undertaking the wave 2 interviews in spring 2013. A key factor behind these decisions on lettings strategy was the degree of confidence in the local rental market, both in terms of continued demand from non-LHA tenants and the ability to secure market rents, which in some areas were significantly higher than the LHA caps. In terms of future sources of demand from non-LHA tenants, landlords often referred to targeting the migrant worker sub-market.

*'What we're noticing now is that you get a lot more western European, Spanish, Portuguese, Italians looking to come and get work and take properties and maybe share them. So a lot of the slack that could have been there has been taken up with foreigners arriving.'*

(Small landlord, Westminster)

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Demand from migrant workers and other sources was stronger in London, but landlords elsewhere also reported a significant increase in demand for rental property from migrant workers which served to reduce their dependence on the LHA market:

*'I think what they're really doing, the government are thinking the landlords will wear this, they've got plenty of money, they'll just tighten their belts and wear it. They've forgotten about the fact that there's a lot of Poles, Lithuanians, working [non-LHA] people, there's a massive influx of Eastern Europeans in Lancashire ... they'll just get rid of the DSS tenants because we don't need them. There's enough working [non-LHA] people out there to fill these properties'*

(Large landlord, Blackburn with Darwen)

However, there is, of course, the risk that if many landlords attempt to rely more heavily on the non-LHA market, then supply will start to outweigh demand. Indeed, some landlords who had reported a wholesale change in letting strategy away from the LHA sub-market reported an increase in competition for non-LHA tenants, such as students and working households not in receipt of benefits. Estate agents were also developing their lettings sections in the face of falling market sales and targeting non-LHA tenants.

Some landlords based their decisions solely on financial considerations and the perceived opportunity to achieve higher yields from non-LHA tenants.

*'It was a very simple equation going on, although it only became clear once the rates were announced: that if I can get £650 a month for my properties from private tenants, who incidentally are queuing up at my door, then why on earth would I consider letting to someone who I know can only afford £600 a month and in all probability won't pay me?'*

(Large landlord and letting/managing agent, Portsmouth)

Other respondents were simply targeting non-LHA tenants because of their prior experiences of having to deal with rent arrears, which they felt were likely to increase in the future.

*'On our door and on our board it says 'no DSS' now ... Even DSS with guarantors turn up and we still turn them away ... whatever safeguards you seem to put in place there's always a loophole of getting out of it. So in the end it's just turned out to be a clear cut case of, it's too much headache and at the end of the day when we're not collecting the rent, we're not getting paid our commission management fee or anything like that, so we're on the losing end.'*

(Small landlord and letting/managing agent, Barking and Dagenham)

*'Housing Benefit tenants can't find properties now ... in [our area of Brent], we are the only agency still accepting benefit people ... we have planned already so that all agreements end this year. By December every [Housing Benefit] contract will have run out.'*

(Large landlord and letting/managing agent, Brent)

For landlords adopting this strategy there was a clear preference for ending or not renewing tenancies rather than evicting tenants, due to the length of time and the costs incurred in eviction proceedings. These landlords acknowledged that some tenants might end up claiming LHA, due to unforeseen factors such as job loss and relationship breakdown. Again, it was normally assumed by such landlords that you had to be unemployed to receive LHA, when this is not of course necessarily the case.

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*'Well the proportion [of LHA tenants] now is higher than it was 12 months ago, probably higher again than it was 12 months before that, people who historically would not have been particularly wealthy but would always have worked. That's the percentage that have come over to being on Housing Benefit because they've either been laid off or lost their jobs. So I would say, whereas one time it was probably 20% (of tenants on) Housing Benefit, you're probably looking at nearer 35% now.'*

(Large landlord, Bradford)

Some of the differences about LHA lettings compared to non-LHA lets were raised in interview. While LHA rates and Direct Payments were the primary factors causing landlords to reduce the proportion of LHA lets in their portfolio, the 'hassle' of managing LHA lets was also mentioned as a subsidiary issue. For many landlords, the LHA sub-market often involved increased insurance costs, more issues of disrepair and damage, receipt of payment in arrears rather than in advance, and a higher incidence of non-payment or under-payment.

*'It's not worth the hassle, the money's not worth the hassle. Before you could say they're hassle but you're going to get a lot more money so it's worth doing it ... whereas now it's just not worth the risk.'*

(Small landlord, Westminster)

Whereas some landlords had made an explicit decision to exit from the LHA sub-market, others were still undecided, but were poised to move out if they experienced further difficulties or reductions in rents. Landlords in higher demand markets said that the relatively high rental yields from LHA lets used to make it worthwhile to operate in the sector, but they now found it difficult to foresee a situation where they would return to the LHA sub-market:

*'Those are properties I don't think will ever come back to the Housing Benefit market, because of the type of tenant. The tenants have no form of responsibility and, therefore, they leave the properties in disrepair so nobody who's had their property trashed will ever come back to the LHA housing market. They'll forget that they were getting exorbitant rates and that's why they took on those kind of tenants. There will have to be that kind of hike again to introduce those people again to the Housing Benefit market.'*

(Small landlord and letting/managing agent, Brent)

In some cases landlords preferred to leave properties vacant and 'wait for the right tenant' to come along rather than let to some LHA tenants, despite the loss of income incurred through extended void periods, due to previous experiences of damage to property and the resultant costs of refurbishment. This practice was more apparent in those case study areas (and neighbourhoods within these areas) where LHA tenants formed a large proportion of the PRS.

*'Yeah we have one in Motherwell, we've just fully refurbished it, but say the housing [benefit] tenants are coming in for it, I'm just turning them down. I'd rather it be empty ... I'd rather lose £160 a month than put somebody in that will wreck it because it's had new heating system, bathroom, everything's new. So I'd rather wait until I get the proper tenant even if it takes me five, six months.'*

(Large landlord, North Lanarkshire)

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This preference to leave properties empty was not an option for all landlords, but it was having an impact on PRS supply when demand was actually increasing. Even in areas that had experienced increased demand, like Thanet, respondents felt that there were a growing number of properties kept empty.

*'We're going to have the ludicrous situation of hundreds of homeless families that can't afford anywhere and hundreds of empty properties because the landlords can't afford for people to go in, they're paying such a low rent. So it's a wacky situation.'*

(Large letting/managing agent, Thanet)

Those landlords who stated that they would continue letting to tenants in receipt of LHA often had properties in areas with high concentrations of LHA claimants and, therefore, had few alternative options. Nearly all these respondents said they were becoming more cautious in letting. Many had changed their approach to vetting applicants and insisted on various safeguards that would protect them from arrears and the costs of any damage to their property. These safeguards included: deposits; references; rent in advance rather than in arrears; direct payments; guarantors; third party rights to discuss tenants' circumstances with the LA; seven-day notice periods. In particular, landlords expressed concerns about agreeing to start a tenancy only to find out later that the tenant could not actually afford the rent.

*'I've a tenant who moved in and then realised because of the changes she was going to get a tenner a week less, it made a lot of difference to her ... so I now say to tenants moving in "have you gone and got a pre-assessment of what you're entitled to?" "Because it's all right turning round to tenants saying 'you signed a tenancy agreement for 12 months" but you and I know that if they can't afford it you're not going to get that money.'*

(Large landlord, Bradford)

The approach to vetting tenants in terms of their personal circumstances and character was also more thorough than before:

*'Meeting the tenants, identifying who is or isn't being honest with you, if there's a boyfriend or something in the background, the subject of domestic abuse, if there's any debts in the background, the reason why they're on the Housing Benefit schemes ... you try and get details of their bank statements as well ... you basically check all their details really.'*

(Small landlord, Westminster)

To summarise, the overriding reason why landlords in areas of relatively high demand and high rents were deciding not to continue letting to LHA tenants was the decrease in rent (and, therefore, yields) as a result of the LHA changes (primarily the rate caps). The direct payment of rent to the tenant rather than the landlord was a secondary consideration. The buoyant PRS locally gave landlords the confidence to switch sub-markets and command higher rents than the LHA rates. For landlords in areas where the demand pressures in the local PRS were not as high, the shortfall facing tenants was usually smaller. Even so, the gaps between rents and LHA rates were sometimes mentioned as the trigger instigating a decision to alter the letting strategy, but this was just one factor among many. Other considerations related to the administration of the LHA regime and the 'hassle' of letting to LHA tenants. The general preference among landlords to let to non-LHA tenants had become more widespread since the introduction of the new measures but had also been influenced by the earlier move to more direct rent payments to tenants, and the perceived impact of this practice on arrears. Although the direct financial impact of the LHA reforms on revenue was

not as severe in these areas as in London, several landlords spoke of the LHA reforms as *'the last straw'*.

*'There have always been plenty of reasons to avoid DSS tenants but I've always tried to keep an open mind about it. But these latest changes have taken all of the safeguards out of it for landlord; it's a bridge too far and me and most of the landlords I know through the association are saying "enough is enough". It just isn't worth it now.'*

(Small landlord, Walsall).

## **5.7 The impact of the shared accommodation rate measures**

The changes to the SAR were the one element of the LHA reform package that affected landlords across all case study areas. This included areas where rents were lower, the LHA market strong and alternative sub-markets smaller – areas that had otherwise been less affected. The impacts were more marked in London and areas where there was a relative concentration of single under-35-year-olds, such as parts of Denbighshire and Thanet. While the interviews were being conducted around the time that the change to increase the age threshold from 25 to 35 were being implemented (January 2012), many landlords had already anticipated the effects of the measure in their lettings strategy. The wave 2 interviews with landlords in spring 2013 will be able to track whether different approaches are taken once the SAR changes have bedded down.

In nearly all the cases where respondents let to tenants aged between 25 and 34 who had been, or were due to be, affected by the increase of the age threshold for SAR, tenants who lost eligibility to the one-bed LHA rate faced significant shortfalls between their LHA entitlement and rents. Few landlords felt that tenants could afford to meet shortfalls: a much smaller proportion than those who felt that tenants could make up the shortfalls for the other LHA rate caps. Only a small minority of landlords were prepared to reduce rents to match or to move closer to the SAR. The most common response instead was to ask the tenant to leave, either voluntarily or by serving notice. In a few cases, existing or prospective tenants were encouraged to share.

Respondents thought that the SAR reforms had made a significant impact on letting strategies, with many landlords choosing to cease renting to tenants under 35 because of the perceived lack of profitability in this market. Landlords recognised there could be increased demand for shared accommodation, but nearly all of those interviewed rejected the option of setting up HMOs in response to this change. The aversion to HMOs was largely driven by concerns over the management burden and the impact of Article 4. Article 4 is a recent planning rule which requires landlords to seek planning permission if a dwelling is let as an HMO, that is, to more than two tenants sharing a kitchen and bathroom. It has been used most commonly in areas where HMOs are concentrated, such as seaside towns and parts of cities with large student populations. In the case of Margate in Thanet for instance, the use of Article 4 has resulted in a virtual moratorium on the development of HMOs. Other case study authorities using Article 4 to limit the development of HMOs include Exeter, Newcastle-upon-Tyne and Portsmouth.

Few landlords knew about the destination of tenants aged under 35 who had been affected by the reforms to the SAR and had to move out as a consequence. However, concerns were expressed about the potential increase in homelessness due to the lack of alternative, shared accommodation for those who had been affected.

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The changes to the SAR were judged to have had a significant impact in most case study areas, due to the scale of the reduction in entitlements. This often led to a new or increased shortfall between LHA rates and market rents. The problem seemed particularly acute in London, but landlords in every area felt tenants would be unable to meet the shortfall. The following quote typifies the landlord perspective on tenants affected by the SAR changes.

*'He hasn't got a job so how can he afford that extra £10 anyway? So first two weeks he might be able to pay it, but then after that he'll start crying that he's no food and no money and you can't force him to hand over the £10. It's not their fault, they might want to pay extra but they just can't afford it.'*

(Small landlord, Blackburn with Darwen)

Only a small minority of landlords thought that tenants affected by the SAR changes would be able to meet shortfalls. One large landlord and letting/managing agent in Edinburgh, for example, noted two cases where single people under 35 living in his properties were covering the gap between LHA and rent. In both cases, parents helped them make up the difference. However, such examples were atypical. Landlords were, therefore, faced with a decision about how to respond to the situation where existing or prospective tenants under 35 were no longer eligible for the one-bed LHA rate. Landlords who felt tenants could not meet the shortfalls in LHA payments and rents were, almost universally, unwilling to reduce rents to make them more affordable:

*'We won't reduce the rent ... We'll kick them out.'*

(Large landlord and letting/managing agent, Denbighshire)

The reluctance to reduce rent was often explained in terms of landlords being unable to make a profit renting out one-bed accommodation at the SAR rate:

*'Because of the rate of inflation and everything else there's no way it's economically viable for anybody to rent a room out for under £50 because the electric is going to be £10. You need that £60, 65, you need something to make it worth your while.'*

(Small landlord, Blackburn with Darwen)

Some landlords also observed they could find non-LHA tenants without having to reduce rents because of the high level of demand for smaller properties. A minority did express concerns, though, about replacing tenants if all other landlords were doing the same.

Only one landlord stated they would lower rents to reduce the shortfall by half, but even this landlord still had reservations about whether existing tenants could pay this:

*'I might meet them half way but I still don't think they'll be able to afford it, you're still talking about £15-17 a week which is about £80 a month. I can't see them being able to afford that off their benefits because they need to buy food and heat. I feel sorry for them, but business is business.'*

(Large landlord, Perth and Kinross)

As stated above, the most common response of landlords with tenants facing shortfalls was to serve notice on tenants or, less formally, ask or expect them to leave. The majority of the landlords who had already served notice were in the London case study areas, probably reflecting the larger shortfalls emerging in those markets:

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*'I'm giving notice on [20 tenants affected by the change to the SAR], it's not fair, I don't like doing it. And we're not taking any [more] on. We have to protect ourselves and we have to protect our landlords. In any business our loyalty goes to the man that pays our bills'*

(Large landlord and letting/managing agent, Barking and Dagenham)

*'Out of the 115 properties I manage, I would say about a third are now individual rooms, studio flats or one bedroom flats. I've got to evict probably about half of them, so that means I'm evicting, just because of that, 30 or 40 people and in the last year I've only taken on tenants who are over 35.'*

(Small landlord and letting/managing agent, Brent)

Other landlords had yet to take action, but still anticipated that those existing tenants who would face a shortfall once moved on to the SAR would have to leave, either voluntarily or through being served notice. One landlord in Perth and Kinross who had tenants under-35, for example, felt it was impossible that they would be able to meet the £33 a week shortfall:

*'Where's the difference going to come from £52 [LHA] up to £85 a week [rent]? There's no way somebody on £120 a fortnight can afford to pay the difference and I can't rent them out at £53 a week. I think they'll possibly be moving, I can't see any alternative.'*

(Large landlord, Perth and Kinross)

A small number of landlords were prepared to give tenants a chance before taking action to try and cover shortfalls or apply for DHPs. However, most of these respondents still anticipated that tenants would still eventually have to be served notice or leave of their own volition.

Where landlords felt tenants would be unable to meet the shortfall, a handful were offering clients more than the minimum two-month notice period to access alternative accommodation. A small number of landlords offered existing or prospective tenants the option of sharing. This typically involved letting two-bedroom properties to two non-cohabiting tenants on the SAR. This option was only mentioned by landlords outside London, presumably because the shortfall between LHA and rents was not so high. Indeed, one Hackney-based landlord suggested that sharing was not economically viable:

*'Financially it wouldn't work. Even if you were to take, for example, three under 35s and want to put them into a three bedroomed flat on the room rate you couldn't afford it. The numbers don't stack up because the shared room rates are so low. I think they're about 90 quid a week. You'd get more than that letting it to private tenants.'*

(Large landlord and letting/managing agent, Hackney)

Outside London, however, some landlords had already implemented sharing as a solution to the changes to the SAR or were, at least, considering it as an option for existing or prospective tenants:

*'You can't get a room round here for what they're offering on the single room allowance. What I tell [landlords] to do is try and get someone to share with and then we'll put them in a two bed.'*

(Large landlord and letting/managing agent, Tendring)



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Nearly all landlords were willing to accept sharing tenants who had two bedroom properties where they could accommodate two tenants on the SAR. However, few were willing to consider three or more tenants sharing larger properties, as this would mean they would have to rent them as HMOs and they were reluctant to do this. Some landlords did not want to rent out shared accommodation at all because they anticipated problems when one of the tenants moved out. For example, landlords expressed reservations about bringing together two people who did not previously know each other into a tenancy, in case one left and the other was unable to cover the rent:

*'I've signed up a couple over the past few months but it doesn't work and I don't intend to do it in the future. The reason why it doesn't work is because one leaves and then the other one's left liable for the rent and can't afford it. You're lucky if they get through six months.'*

(Large landlord and letting/managing agent, Newcastle upon Tyne)

The majority of landlords across all areas stated that they were no longer willing to rent to tenants under the age of 35 who were only eligible for the SAR. Many said they had been previously been willing let to this group but were now deterred by the SAR. This approach was prominent across all case study areas, including those where SAR shortfalls were relatively smaller. Landlords were clear that this decision to change their letting strategy towards under 35s was motivated by the perceived lack of profitability in renting to this group:

*'We're not housing under 35s now, so long term it will resolve itself because we're not putting anyone in under 35. But we've got this 15, 20 people who are going to be on the street.'*

(Large landlord and letting/managing agent, Barking and Dagenham)

*'It's not cost-effective if they are only going to pay £66 a week.'*

(Large landlord, Tendring)

*'I won't be able to afford single tenants under 35s.'*

(Small landlord, Cardiff).

Landlords were asked about the destinations of existing tenants affected by the changes to the SAR who were served notice to leave or quit voluntarily. Very few could say what had definitely happened to these tenants, although a number of landlords suggested tenants might 'sofa surf' for a while. Others thought they may have moved into shared accommodation, although they noted that many single people aged 25 to 35 did not want to share with other tenants they did not know. Unwillingness to share was sometimes seen as a personal preference, but respondents also cited cases where sharing might be inappropriate because of health issues or access arrangements for children. For example, a landlord in Hackney expressed concern about how one of his former tenants, who had been served notice, would continue to see his children if he moved into shared accommodation.

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*'There are going to be certain tenants who it's going to have a massive impact on. My heart bleeds for them, because the majority of them are divorced fathers who see their kids. I've got one lovely guy, he's got three kids, wife lives in Hillingdon, kids come and spend the weekend with him, where's he going to put them? Does he lose his visitation rights to his children because he hasn't got a job or hasn't got the home to be able to offer the children somewhere to sleep [because] there isn't any room?'*

(Large landlord and letting/managing agent, Hackney)

Some landlords suggested that, ultimately, some tenants in receipt of SAR could end up homeless or renting poorer quality properties, due to the perceived lack of alternative accommodation of an appropriate standard:

*'[They'll end up] on the streets, they've got nowhere to go. These people haven't got no funds. They don't know where to go to [get a crisis loan] and how to present it, because if you don't present it right you get refused it. Even if we evict them and they've got nowhere to go they're not priority need to be housed by the council – because they're young, under 35 and they'll say they're fit and healthy and got no dependents. So they're back to square one, literally.'*

(Large landlord, Barking and Dagenham)

*'We have a lot of under 35s, only two [units] in Westminster. However, we've got about 20 units in Brent of which probably about six or seven units are people between 25 and 35 so we have major re-shuffling to do there. I just think they're going to end up homeless and just don't think the local authorities have enough stock to put people in. So I think they'll probably be farming people out to other parts of the country.'*

(Small landlord, Westminster)

One particular concern about the lack of alternative accommodation was the apparent reluctance of LAs to licence HMOs at a time when demand was rising; a trend accentuated in some areas by the introduction of Article 4:

*'This is the Catch 22 you've got, because over the last ten years Thanet District Council have done everything possible to eradicate HMOs, which is a good thing, I genuinely believe it's a good thing. But this legislation is bringing them back because that's a landlord's only viable alternative. Let's be honest, a landlord rents a property out to make a profit, that is the only way now for a landlord to make a profit; you don't if you've got a three bedroom house. It's not worth renting it because they're not going to get anyone on Housing Benefit, get nowhere near £650. So it's more worth their while renting out single rooms and they're getting more money for it. In every way possible it's anti-productive.'*

(Large landlord, Thanet)

In addition, a small number of landlords thought that HMOs often tended to be of poor quality. Several landlords predicted further deterioration in the quality of HMOs driven by 'unscrupulous' landlords looking to take advantage of the mismatch between demand and supply for single people under-35.

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Landlords were asked whether they were willing to set up HMOs in order to respond to a potential increase in demand for shared accommodation. Among those who expressed a view, the vast majority ruled out moving into the HMO sub-market. Respondents gave various reasons for this: the high level of management HMOs require; the number of regulations applying to HMOs; the lack of suitable properties; and potential problems with tenants. These views are illustrated by the following comments:

*'I wouldn't touch them with a barge pole, land mine that, don't want to know. I think there's too many rules and regulations and it's a higher turnover and I think it's a bigger liability and hard work.'*

(Large landlord and letting/managing agent, Newcastle upon Tyne)

*'Too many hassles. Getting licensed, and they just take more work, more maintaining and also more hassles with the tenants who live there. I wouldn't take one on.'*

(Small landlord, Barking and Dagenham).

## 5.8 The impact on property condition and maintenance

While it was still too early to assess the impact of LHA reforms on many landlords and their lets, landlords claimed that the changes were having a negative effect on their ability to maintain housing standards and conduct repairs and maintenance. In some cases, landlords said that they were struggling financially and were, therefore, unable to afford undertaking repairs in a timely fashion, although this was often linked to wider market prospects and not just the LHA measures.

*'If it wasn't for the low interest rates a lot of them would have had repossessions. There's repossessions on a weekly basis, we've got landlords wobbling now ... Landlords do carry a lot of the problems ... One of our biggest problems is repairs. Landlords cannot afford the repairs. We actually often fund the repair and take it out of the rent.'*

(Large landlord and letting/managing agent, Newcastle upon Tyne)

For a few landlords, not carrying out repairs was used as a bargaining tool in trying to incentivise tenants with a shortfall on their rent to top-up. Where tenants were not meeting the shortfall, landlords were less inclined to undertake maintenance.

*'The situation I do now, there's a few people that do top-up and if they don't do top-up I don't do repairs. If they're not going to be doing the top-up it will be having an effect, I'll say "give me the money and I'll repair it" or say "you've got that money, you use that money to repair it, that's how much it's going to cost."*

(Large landlord, Blackburn with Darwen)

For most respondents, any decline in housing standards was attributed to their precarious financial position rather than whether or not their tenant met the shortfall. This reason was much more prominent among buy-to-let landlords with several mortgages, but others also suggested that this issue would become more pressing if interest rates were to increase at any stage. Some landlords also suggested that local authorities could do little to address poorer maintenance standards in the PRS.

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*'It's all very well saying 'you're obligated to carry out repairs' but if they don't, there's not a lot the council can do other than enforcement but even then ... so we are going to go back to the good old days of overcrowding, unfit accommodation; and this legislation is the primary cause of that.'*

(Large letting/managing agent, Thanet)

The impact of the LHA reforms on housing conditions was considered more acute in lower value PRS markets. Due to relatively high demand in the LHA sub-market, landlords were more able to resist requests for repairs in the knowledge that they could easily let the property to another tenant.

*'People at the poor end of the market where landlords feel as if they're being squeezed to drop the rents; you've then got a scenario where, we wouldn't do it, but you've then got a landlord who's struggling, he's got mortgages to pay, overheads, and the tenants are whingeing because they're not getting their repairs done ... so what's going to stop him from saying "well you don't like it, move". He's got plenty of other people that will move into it'*

(Large landlord and letting/managing agent, Newcastle upon Tyne)

This was an explicit strategy for some landlords: to let poorer quality properties to LHA tenants. They were aware that some of their properties were of a lower standard than others and so were more prepared to take on LHA tenants in these '*harder to let*' properties and to accept lower rents in return. In these cases, there was a direct relationship between the quality of housing and landlords' willingness to let to LHA tenants.

*'We do focus those properties more on people on benefit, we're prepared to take people on benefit whereas a lot of landlords aren't ... We can't be bothered with the better standard side of it, therefore, we're prepared to accept lower rent ... So our rents have been depressed I would say overall.'*

(Large landlord and letting/managing agent, Edinburgh)

## 5.9 Household mobility, homelessness and Discretionary Housing Payments

### 5.9.1 Mobility and displacement

Most landlords felt that there had been little displacement as a result of the LHA measures. A small minority of respondents reported that some tenants had been displaced, but this was often difficult to ascertain, as most landlords did not know the destination of tenants who had left or been evicted. Outflows of tenants were reported in Brent and Westminster, where landlords were more likely to be evicting tenants or ending or not renewing tenancies preemptively. There was a widespread assumption that many LHA tenants within central London would eventually be pushed out to more suburban areas.

*'There's going to be pressure on the outlying suburbs, it's already happening. So Barking and Dagenham, the reason I say we're starting to move down there, we've just got 38 flats we've just taken on in Woolwich. We're going to have to move a lot of our central London tenants down that neck of the woods, because it's all they're going to be able to afford, or they move into hostel accommodation.'*

(Large landlord and letting/managing agent, Hackney)

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*'A lot of the local authorities are now looking way outside London, Essex. I even heard of one council securing properties in Hull, a London borough, and giving people financial assistance to move.'*

(Small landlord, Westminster)

In some areas landlords reported a noticeable increase in the in-flow of claimants from other areas. This was most apparent in seaside towns, where cheaper HMO accommodation is relatively plentiful. However, this perception was not borne out by the empirical spatial analysis of LHA on-flows and off-flows in different LA districts in Great Britain, discussed in [Section 2](#). This analysis showed a continuation of pre-existing trends rather than any additional impact due to the LHA measures. Nevertheless the landlords in these areas perceived that a disproportionate number of 'vulnerable' claimants were being diverted to in-flow areas, as an acceleration of previous patterns. For instance, landlords reported that there had been a long-established flow of tenants from Hackney to Barking and Dagenham where rents are cheaper, but they thought that this process had become more pronounced over the previous 12 months, as the number of landlords willing to accept LHA tenants within Hackney had decreased. Respondents also mentioned that tenants had moved from: Greater Manchester and Merseyside to Denbighshire; London to Tendring; various London boroughs into Thanet. Some landlords respondents referred to these in-flow areas as '*dumping grounds*'. Barking and Dagenham, Hastings, Tendring and Thanet were all referred to in this way.

### 5.9.2 Impact on homelessness

Although many landlords predicted that there would be an increase in homelessness as a result of the LHA reforms, there was little concrete evidence of such an impact at the time interviews were being conducted. Landlords who provided specific examples, rather than more generalised observations, about tenants who had been made homeless were usually based in London. The examples referred to larger families in large properties, and young single people affected by the changes to the SAR.

*'We have three families that we house who are receiving in excess of £1,750 per week, they're all five bed needs. One of them has actually just been evicted, because they're now subject to the cap at 400, they've just been made homeless.'*

(Large landlord and letting/managing agent, Hackney)

Other respondents referred to an increase in young people 'sofa surfing' and staying with friends, which raises the possibility of a rise in 'hidden homelessness' among young, single people as a result.

It is important to emphasise that perceived early impacts on property condition, household displacement and homelessness were significantly less prominent in landlords' narratives than the other impacts discussed earlier in this section. These issues were raised more often by housing advisers, who were interviewed six months later (see [Section 6](#)). The wave 2 interviews with landlords will be able to ascertain whether these impacts have become more or less prominent once the impact of the reforms has had a longer time to work through.

### **5.9.3 The use of Discretionary Housing Payments**

A key measure available to LAs in order to smooth the transition to the new LHA measures and mitigate the immediate impacts on households is the use of DHPs. Landlords were asked about their awareness and experiences of DHPs. On the whole, landlords showed a fairly limited awareness at the time of interview and only a few respondents said they had experience of them. This may be due to the fact that landlords would not always be involved in an application for a DHP and, therefore, would not know if their tenant had accessed this funding source or not. On the other hand, some landlords who made regular use of DHPs played a role in raising awareness of them among tenants. They had sometimes encouraged tenants to apply for a DHP, or helped them with their application:

*'I've got one which has applied for it, he's in a process over custody of his daughter and the only way he could get it was by having a two bedroom flat. So we helped him get discretionary Housing Benefit.'*

(Large landlord, Rhondda Cynon Taf)

Where landlords did enter discussions on DHPs, they were fairly negative about the overall amount of money available and the likelihood of any application being successful.

*'I've tried to claim them multiple times. We've never, I don't think we've ever, been awarded it. There was a girl once and she was three weeks before she had the baby, I think she was awarded it. The fund normally runs out, they've only got set amount of funds and they just seem to reject you for any reason at all.'*

(Large landlord, Edinburgh)

Some landlords felt that DHPs were nothing more than a temporary measure that was only 'delaying the inevitable'. DHPs would have to cease at some point and some respondents thought that they would simply delay tenants from taking the necessary decisions.

*'Yes, I'm aware of that but it's not going to last long. And when it does hit, it's still going to be difficult for the tenants. It makes it easier for a short period of time but there's no way out of it.'*

(Large landlord and letting/managing agent, Hackney)

Where landlords had developed a good relationship with the LA, they would sometimes look for advice about the likelihood of a tenant receiving a DHP, thereby preventing landlords from wasting time on an application that would not be successful.

*'What I will do is talk to (the Housing Benefit Officer) and say "would this tenant in your opinion be able to get the Discretionary Housing Payment or am I barking up the wrong tree with them because they will never get it?" and she'll tell me whether or not it's a possibility. Because there's no point my trying to get it if the rules and regulations in the council, which they know and I don't, say this person "no" and this person "possibly".'*

(Small landlord, Westminster)

It should be noted that the interviews with housing advisers undertaken six months later (Section 6) indicated that awareness of DHPs was increasing among landlords. Furthermore, LAs had begun to develop more coherent policies on DHPs, specifically linked to the LHA measures. The lack of awareness of DHPs and the generally negative responses to them from landlords may have changed by the time of the wave 2 interviews in 2013.

## **5.10 Future landlord intentions**

Landlords were asked about their future letting intentions and what they saw as the key issues for their rental business over the coming 12 to 18 months. It is, of course, difficult to infer from this how the respondents will actually behave in the future, given the multiplicity of factors that will influence their decisions, but some consistent themes emerged from their responses. Many landlords in high rent and high demand areas said they were intent on exiting the LHA market altogether, while those in LHA dominated areas often said they faced no choice but to remain. The majority of landlords, however, fell somewhere in between these two positions, with many expressing uncertainty about their future response.

Those landlords stating that they intended on exiting the LHA sub-market were more prominent in the London case study areas:

*'We will have potentially next year about 150 evictions happening, if we can't find alternative properties or we can't reduce the rents. It's unlikely we're going to reduce the rents, but we could find 150 of our tenants are made homeless because of the changes.'*

(Large landlord and letting/managing agent, Hackney)

Landlords in London were more likely to foresee increasing problems with evictions and homelessness in the coming months. There was, however, a general consensus among all landlords that the 'real impacts' of the reforms would be clearer in early 2013, once all existing tenants had been moved across to the new rules. Other London landlords were intending to invest elsewhere in Greater London, where the LHA rates were considered more 'workable'. Larger properties were not generally considered a feasible proposition in London and some landlords stated that they would convert larger properties into separate smaller units, in order to increase the rental yield. A minority of landlords took a more pragmatic approach when considering how they might respond:

*'There's always been changes and you adapt and keep on adapting but it'll never stop, it's an increasing problem, London's got seven million or so people. It used to have four when I was younger, so you just adapt and make sure your business stays afloat.'*

(Large landlord and letting/managing agent, Hackney)

At the other extreme, landlords in LHA dominated areas, where the demand in alternative sub-markets was weak, had little choice but to continue letting to LHA tenants. Despite the general preference for non-LHA tenants, these landlords accepted that they would struggle to attract such tenants into their properties, either because they were of a lower standard or in less desirable areas. As a result, pragmatism ruled:

*'If the private [i.e. non-LHA] market is non-existent you've got no option, so that would force you to drop your rents, you're not just going to leave it empty. The other option [is that] I could just sell them individually.'*

(Small landlord, Denbighshire)

Respondents acknowledged that tenant circumstances can change and landlords may, therefore, acquire LHA tenants unwittingly:

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*'I would prefer private tenants but I'm realistic enough to know that in some areas you're going to get a lot of people who, for whatever reason, have to be on Housing Benefit. And my philosophy is even a working [non-LHA] tenant today could end up having to claim Housing Benefit next week because of a change of circumstances which they can't avoid.'*

(Large landlord and letting/managing agent, Fenland)

Asked about the most significant factors likely to impact on their business over the next 12 to 18 months, responses naturally varied according to the local market context and the different positions and portfolios of landlords. For instance, some landlords in the lower demand areas such as Rhondda Cynon Taf and Walsall were worried about shortfalls and arrears. Landlords and letting agents in higher demand areas, by contrast, were more concerned about the lack of PRS supply. Direct payments of HB to tenants was consistently mentioned by respondents in different areas. The difficulties landlords were facing in securing Direct Payments to them and, in many cases, the tenants' arrears that they said resulted, were often cited as reasons for moving away from the LHA market. Shortfalls stemming from the LHA measures would, it was claimed, simply lead to higher arrears in the absence of Direct Payments being made to the landlord. This view was consistent across all case study areas.

*'At one time we didn't really knock anybody back that were on DSS but we do now ... in the past you'd say "well they're getting benefit, we'll get it direct to us, it doesn't matter, at least we're getting the rent paid" whereas now we're not getting the rent paid direct to us, they're getting it. So we do knock people back these days.'*

(Large landlord and letting/managing agent, Newcastle upon Tyne)

*'I just think it's too much for them. One of my tenants who's been with me a long time, when I told her about this, because she was already paid direct to me it stayed that way. And she said "if I know if it came in my hand I'd be tempted". I said "I know, so would I". She's pleased they give it to me.'*

(Large landlord, Fenland)

For instance, one landlord in Portsmouth did not consider that the LHA reforms were problematic, but described the practice of making Direct Payments to the tenant as *'the cruncher'*. The following comment exemplifies the approach of many who were planning to change their letting strategy and shift away from the LHA market.

*'I would once have picked a single woman with two or three children over a single couple working, now that's changed ... that was being paid directly from the DSS I was guaranteed that money, I wasn't guaranteed the couple paying me ... now I'd definitely go for working [non-LHA] people'*

(Large landlord, Fenland)

Despite these strong concerns, it is worth recalling that only a minority of landlords thought that the shift to receiving direct payments of rent to themselves was sufficient incentive to negotiate over reducing rent levels with LHA tenants. A few landlords cited the introduction of Universal Credit as a major issue for their rental business. Knowledge of Universal Credit was mixed, with professional and experienced landlords more likely to raise the issue as problematic. This was largely based on the view that the rent would not be paid if tenants were forced to manage their own benefit payments.



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*'As I say, the reforms don't seem to affect them now. It's when the Universal Credit comes in and that's when tenants suddenly think "I'm sitting here with £1500 I've got to pay the rent ... "normally they get their child benefit fortnightly so that pays for something, the electric or the gas, they know how to do it. But unfortunately when they're sitting there with all this money ... '*

(Large landlord and letting/managing agent, Tendring)

Although knowledge about the operation of Universal Credit was not widespread at the time of interviews, those landlords who did mention it thought it would be more problematic than the specific LHA reforms and would have more impact on their future letting intentions. Those respondents who reported that LHA measures had had little impact on their lets, as yet, often added that they expected to be affected further down the line. Other landlords pointed to the whole range of welfare reforms affecting their tenants and some predicted a very turbulent period once the cumulative impact of these measures had filtered through. There were also concerns that tenants were not particularly aware about how they might be affected by these measures in the future.

*'We could have dealt with one of these measures on its own, perhaps with the exception of Universal Credit, but that's another matter entirely. But when you take them together, well, that's the kiss of death.'*

(Small landlord, Thanet)

Many landlords were concerned about the scale of LHA shortfalls in the future and their ability to secure top-up payments from tenants. This was sometimes considered as a direct result of LHA, but it was also associated with general economic conditions and wider welfare reforms, if households had a reduction in their income. In many cases it was difficult to decouple concerns over shortfalls and arrears from those related to direct payments and Universal Credit.

*'Yeah it's going to be the only thing that affects it, if they stop paying them the money. I'm just worried about [whether] the people that are in my houses now are going to afford the top ups ... It's fair enough changing the price now for people going in but [not for] people who are already in and they've agreed a price.'*

(Large landlord, Fenland)

Landlords with outstanding payments on mortgages were particularly concerned in case there was any change in the current, unprecedentedly low, level of interest rates. This was significant for their LHA lets and their ability to operate in the post-reform LHA market, as it affected the level of rent to be charged. Any increase in interest rates would significantly reduce their flexibility in terms of rent negotiations. In this respect, buy-to-let landlords with properties concentrated in LHA dominated areas were particularly exposed. Negative equity also reduced the likelihood that such landlords would look to sell their portfolios (or part of their portfolio), or be in a position to negotiate on rents.

*'If interest rates remain low, then I'll be okay. But, when they start creeping up again, margins will get narrower, flexibility over rents will get less and I'll be less able to negotiate with DSS tenants.'*

(Large landlord, North Lanarkshire)

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*'If interest rates go up in any significant way then this will not cover the mortgage and then I have to start thinking of other options.'*

(Small landlord, Westminster)

Landlords looking to invest in new opportunities cited the difficulties accessing finance as a concern for their rental business over the next 12 to 18 months. The fact that institutions were far more cautious in their lending criteria, often demanding sizeable deposits, was frustrating for those looking to expand their portfolios or invest in new areas.

The lack of supply in the PRS was a major concern among letting agents in terms of future impacts. With strong demand right across the sector, the competition for bringing new properties into portfolios was considered particularly intense and was compounded by poor market sales, which had diverted many estate agents into the lettings business. The lack of supply also has an obvious impact on rent levels should the imbalance with demand continue, or get worse.

*'Really stabilisation of the market because we need to bring more property in, there needs to be more available, even across the board, different types of property. It's had a massive impact this year and we've tried all sorts to get them in, everybody's fighting over the same property. So unless the stock increases, I think some of the letting agents are going to disappear. Certainly, if the housing market picks up again it's a good thing for us. If the selling side picks up then the letting side probably gets pushed to one side again, and that's better for us. So – more properties please.'*

(Large landlord and letting/managing agent, Bradford)

### 5.11 Conclusion

We need to be cautious about placing too much emphasis on the perceptions and experiences of landlords recorded in this section. When these interviews were undertaken in late 2011 and early 2012, landlords had only been dealing with new claimants and those existing tenants who had experienced a change of circumstance since April 2011. Existing LHA claimants would only be affected by the reforms on the annual renewal of their HB and after a further nine months transitional protection before moving on to the new reduced LHA rate. When wave 2 interviews are undertaken (spring 2013) there will be a much more solid body of experience for landlords to refer to. By January 2013, all existing LHA tenants will have moved on to the new measures.

A further dampening factor on impact is the use of DHPs to help tenants meet the shortfall, for a temporary period, between the rent charged and the LHA rate. The interviews with housing advisers, undertaken six months later than these interviews (see [Section 6](#)), suggest that DHPs were becoming increasingly important to cushion the effects of the change to the new rates. Housing adviser evidence also points to a sizeable group of tenants '*hanging on*' in their current accommodation in the face of significant shortfalls, especially in London, which could produce further lags in terms of the impacts on these households becoming discernible. Finally, it is of course always difficult to attribute effects precisely, when there are multiple factors affecting the housing markets landlords operate in and the circumstances of the tenants in their properties. The interviewers were at pains to differentiate in the discussions between actual effects and potential, anticipated effects of the measures; but in their responses, landlords often blurred this distinction, so it is sometimes difficult to separate direct impacts from assumed future impacts.

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Nevertheless, some of the evidence in this section confirms the picture emerging from other strands of the project evaluation. The vital importance of the local housing market context is one such factor. The initial econometric analysis (see [Section 3](#)) has shown that the incidence of the shortfall fell on tenants to a greater extent in high value, high demand areas and that landlords responded more (by reducing contractual rents closer to new LHA rates) in lower demand PRS markets. Many responses in this report testify to the importance of alternative sources of demand in landlords' calculations about whether to negotiate over rents with tenants and how flexible they should be. The gap between the contracted rent and the LHA entitlement in higher demand areas also encouraged landlords to deal with more 'private' tenants (to use their term) and reduce their lettings to LHA tenants. However, there were suggestions that landlords were artificially creating new tenancies, especially in London, immediately prior to April 2011, so that tenants and landlords would continue to receive LHA payments at the 50<sup>th</sup> rather than 30<sup>th</sup> percentile of local market rents for the following 21 months of transitional protection.

The spatial analysis ([Section 2](#)) suggests that the effects of the LHA measures have been relatively muted so far, and this is also borne out by landlords' perceptions discussed here. While many respondents spoke about the displacement of LHA tenants from tight PRS markets taking place over the longer term, there was little firm evidence that this was happening as yet. Landlords were also reluctant to use eviction proceedings against their tenants who were building up arrears, for a mixture of business and practical reasons. In consequence, any direct link between the LHA measures and increased homelessness is likely to be quite weak as yet. Landlords will be more prepared to terminate or not to renew tenancies than to evict, and so it will be important to establish in wave 2 whether this is a lagged effect of the measures.

The one measure that transcended local market conditions in terms of its perceived impact concerned the extension of the age range for the SAR. Most respondents said that they would avoid letting to under-35-year-old single people receiving HB if at all possible. The vast majority of landlords said that they were also very reluctant to move into the HMO market in response to these changes, because of a range of 'hassle' factors. However, this kind of supply-side market adaptation would only be likely to unfold over a longer period of time, so it remains to be seen whether this initial wariness will diminish over time, or whether other providers will step in to increase HMO supply.

In terms of future priorities for lettings, rent setting and property acquisition or disposal, the predominant response was to 'wait and see' and most thought that it might be early 2013 before local PRS markets began to change in any significant way. However, this was not true of landlords in the three high value London case study areas, (Brent, Hackney and Westminster) where landlords were already acting to reduce their lettings to LHA claimants. Many landlords were concerned about the scale of LHA shortfalls in the future and their ability to secure top-up payments from tenants. This was sometimes considered as a direct result of LHA but it was also associated with general economic conditions and wider welfare reforms, if households had a reduction in their income. In many cases it was difficult to decouple concerns over shortfalls and arrears from those related to direct payments and Universal Credit.

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*'Yeah it's going to be the only thing that affects it, if they stop paying them the money. I'm just worried about (whether) the people that are in my houses now are going to afford the top ups ... It's fair enough changing the price now for people going in, but [not for] people who are already in and they've agreed a price.'*

(Large landlord, Fenland)

*'Well the big thing is this issue of getting the money and the money disappearing because people pay all that ... I don't think it's a criminal offence but to get money and not put it to the purpose it's meant for, it's embezzlement effectively and I think that's something that has to be looked into.'*

(Large landlord and letting/managing agent, Perth and Kinross)

In fact, the issues on the horizon that shape future landlord behaviour may not stem directly from the ripple effects of LHA measures but from one or more of three other factors: even a slight increase on interest rates would, according to many respondents, place intolerable pressure on margins and force some out of the market if increasing rent levels was not an option; the perceived shift towards HB being paid direct to the tenant rather than the landlord was seen as introducing further uncertainty into the reliability of future income streams; and a few landlords were very nervous about the introduction of Universal Credit from autumn 2013 onwards, and what they saw as the end of a discrete benefit to pay for the rent. In the wave 2 interviews, which will be conducted with many of these respondents, it will be possible to judge whether the overall mood of pessimism among landlords about the future had begun to dissipate or had intensified, as the LHA measures bed down and as other welfare reform measures draw closer.