



Housing Associations, Homelessness and the Private Rented Sector:

*Tackling homelessness through better
use of existing stock*

Final Report

October 2007

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EXECUTIVE SUMMARY

Tackling homelessness is a key priority for the Government. The Housing Corporation published a Homelessness Strategy in 2006, which sets out Corporation expectations of housing associations in preventing and tackling homelessness. These include closer joint working between associations and local authorities at a strategic level, and seeking to ensure delivery of alternative housing options, including making better use of existing housing stock. In setting these expectations, the Corporation wishes to promote closer involvement between social housing providers and managers, and private sector landlords. There appears considerable scope for housing associations to work more closely with the private sector to provide more settled homes for people living in temporary accommodation.

Working with the private rented sector (PRS) has often, however, been seen by many housing associations as risky. It seems that, with certain exceptions, only the largest associations have felt comfortable in considering such engagements. Nonetheless, where such joint working does operate, and where the associations concerned ensure effective management and resourcing of the process, it appears to work well and to deliver positive results for all concerned.

The Corporation therefore commissioned this research project, firstly to clarify the views of housing associations, local authorities and private landlords on the barriers to joint working, and to identify examples of good practice; and secondly to develop options for closer working, to help increase the supply of good quality accommodation in preventing and tackling homelessness.

Managed by the Corporation and undertaken by Campbell Tickell, the project has engaged with and been guided by an advisory board of representatives from a wide range of relevant organisations. The key activities undertaken have been:

- An online survey of housing associations;
- One to one interviews with housing associations, private landlord organisations, managing agents, local authorities, the Housing Corporation, the Communities & Local Government Department (CLG), Local Authorities Co-ordinators of Regulatory Services (LACORS), and funding organisations;
- An in-depth literature review of the history of and lessons from previous and current joint working between housing associations and the PRS;
- Detailed discussions with the Advisory Board and others on a limited number of potential solutions, and outline modelling of proposed approaches.

The project has focused centrally on opportunities for housing associations to enhance the supply of affordable housing through engagement with the PRS, but has also looked more widely at potential ways of expanding supply in general, in order to help tackle homelessness. The principal initiative addressed and proposed in this report - the 'Community Lettings Agency' - directly focuses on engagement between housing associations and the PRS (see below and at section 6 of the main report).

From the outset though, contributors to the project were encouraged to be innovative and not tied to narrow definitions, in order to identify practical solutions to increasing supply. It became clear in the course of the research and interviews that there were interesting ideas and initiatives in operation that, whilst not necessarily involving working directly with the PRS, could achieve tangible results. Rather than reject these ideas therefore, a broader approach has been pursued and a range of potential initiatives explored. Two such schemes have been taken forward, mortgage rescue and institutional investment (addressed below and at sections 6 and 7 of the main report). In addition, the other ideas and potential solutions considered are overviewed in the main report (see section 4).

The research therefore covered considerable ground. A recurring theme, however, has been not only the need to improve relationships between associations, local authorities and private landlords, but also that improvements will be most effectively achieved through some form of agency that sits outside those interest groups. This has been characterised as a 'Community Lettings Agency', which would operate at local level (borough, sub-regional or regional) and would provide a range of functions. These functions would start with providing specialist lettings agency services for private landlords interested in letting to homeless persons and others in receipt of Housing Benefit.

The services that could be offered to landlords would stretch from finding and interviewing tenants, through all principal tenancy management functions (including dealing with anti-social behaviour and neighbour disputes), to property maintenance. The agency's neutral position would further enable it to play an 'honest broker' role in facilitating positive working relations between housing associations, councils and landlords. Subject to the availability of funding, the services provided could include contributing to tenancy sustainment, in such areas as needs assessment, access to support packages, Housing Benefit liaison, and early notification of tenancy and/or anti-social behaviour issues. The services could also include such elements as running property or landlord accreditation arrangements, and sourcing potential new schemes for joint initiatives between associations and the PRS.

In the context of increasing mortgage defaults and repossessions, following recent interest rate rises, the second specific proposal arising from the project is the development of a new form of mortgage rescue scheme in partnership with the private sector, to prevent homelessness.

Mortgage rescue would involve two prime options for people facing potential repossession and homelessness.

- Under the first option, the housing association would purchase the property and rent it back to the ex-owner at market or Housing Benefit reference rent, on Assured Shorthold Tenancy (AST) terms. This would only work where an affordable rent is sufficient to meet loan charges plus management and maintenance costs.
- Under the second option, the association would lease the property from the defaulting mortgagor for a period of years, and let it to homeless families on AST terms. Instead of paying the lease rent to the owner, the association would take over the owner's mortgage payments. Any surplus income after the association had paid

the mortgagee and met running costs, would accrue to the owner and could be used to pay off mortgage arrears or pay down the mortgage.

The third key proposal arose from identifying examples of associations and local authorities working in partnership with institutional investors. It is felt that there is a strong case for promoting and supporting opportunities to increase the supply of affordable and sub-market housing through institutional investment.

Under one such potential initiative explored with a major investor, the investor would provide the funding and associations would manage the properties as private rented accommodation. Properties would be let to homeless families or key workers. Over time, the rental income would erode the capital outlay and the association would be able to buy the properties without grant for social renting. This period could be shortened by the application of Social Housing Grant.

These three proposals outlined above appear the most achievable in terms of cost, current legislation, the prevailing housing market and the strategic objectives of Government. The report focuses in some detail on approaches to encourage the delivery of these initiatives.

Overall, it seems clear that the area of joint working between housing associations and the PRS is capable of developing onto a higher level, leading to an appreciable increase in the availability of properties to help in tackling homelessness. At the same time, we believe that this process is likely to facilitate a beneficial new business stream for associations.

RECOMMENDATIONS

- A. We recommend that the Housing Corporation commissions a follow-on exercise to develop the community lettings agency business model and undertake initial market testing.
- B. Should the outcomes of that work confirm that there is indeed merit in taking the initiative further forward, we recommend that the Housing Corporation and Communities & Local Government seed fund a pilot programme of community lettings agencies. While the pilot programme should seek to test out a range of organisational forms and roles, funding should be allocated on a competitive basis among the different categories of potential providers. Given that CLG is currently funding Pathmeads Housing Association to establish a pilot social lettings agency in South London, we suggest that this scheme should be examined with a view to being designated as one of the pilots (alongside the others to be developed).
- C. We recommend that the Housing Corporation engages with the Council of Mortgage Lenders (CML) with a view to establishing a mortgage rescue scheme that CML members would support and encourage people facing repossession to join. Alongside this, the Housing Corporation should seek the views of a range of lending organisations, notably those offering shared equity mortgages.
- D. We further recommend that the Housing Corporation enters into these discussions having considered and established a view on its willingness and capacity to support such an initiative through seed funding.
- E. We recommend that the Housing Corporation engages with a range of institutional investment organisations, with a view to establishing a fuller picture of the potential for such organisations to work in partnership with housing associations. It should do so with a focus on the provision of longer term accommodation, and a clear view on the benefits and merits of supporting such partnerships through grant funding.
- F. We recommend that the Corporation discusses with the Audit Commission how the inspection process should examine the approaches adopted by housing associations in helping tackle homelessness and the extent to which they engage with local authorities in doing so, including through working with the private rented sector.
- G. We recommend that the Corporation explores the potential applicability and benefits of promoting REITs (Real Estate Investment Trusts) as a vehicle for providing additional PRS stock to be made available via housing associations to homeless people.
- H. Taking account of the significant number of schemes currently in operation that involve joint working between housing associations, councils and the PRS, and the danger of resources being wasted and good practice being lost, we

recommend that CLG and the Corporation conduct a national mapping exercise of all relevant initiatives.

- I. We recommend that the Housing Corporation disseminates the results of this research project as widely as possible, with a view to identifying ways of maintaining and developing the dialogue between associations, local authorities and the private rented sector .

1. INTRODUCTION

- 1.1 Tackling homelessness is a key Government priority. The Housing Corporation for its part published its Homelessness Strategy in December 2006. A key principle underlying the strategy is seeking more effective and strategic co-operative approaches among social landlords to respond to a range of housing need using innovative means to maximise results. Specifically, the strategy includes the following objectives.

Objective 1:

Encourage better partnership working among associations, local housing authorities and other agencies including Supporting People teams, seeking to improve co-operation in delivering local housing strategies and offering alternative housing options.

Objective 4:

Encourage housing associations to make better use of existing housing stock, including reducing under-occupation and bringing empty homes back into use, hand in hand with more efficient lettings procedures and exploration of the scope to convert temporary tenancies into settled homes.

- 1.2 In putting these objectives into practice, the Corporation wishes to promote closer involvement and joint working between social housing providers and managers, and private sector landlords. Delivering strategies to tackle homelessness and to meet housing need ought to take account of all the stock in the locality, not just the social housing. The Corporation's view is that there is considerable scope for housing associations in particular to work with the private sector to provide more settled homes for people living in temporary accommodation, and that many have already developed innovative ways of doing this. The aim has been to embed into organisational thinking a stronger consideration of how associations can work in partnership with private landlords, institutions and others to tap all of the available supply of accommodation in a given area.
- 1.3 However, the use of the private rented sector (PRS) has been seen by many housing associations as risky. It has been suggested that only the largest associations are in a position to consider such engagements.
- 1.4 This research project was therefore conceived with the aims of:
- Clarifying the views of the key parties - in particular housing associations, local authorities and private landlords - on the barriers to joint working, and identifying examples of good practice in joint working;
 - Developing options and potential initiatives for strengthening links between housing associations and private landlords, with a view to increasing the supply of good quality accommodation and helping prevent and tackle homelessness.

- 1.5 At the same time, we looked at arrangements that could offer opportunities to expand the supply of affordable accommodation to contribute to preventing and tackling homelessness.

2. METHODOLOGY

2.1 Overview

- 2.1.1 The Housing Corporation commissioned Campbell Tickell to undertake this research project. The project has been managed by the Corporation, and has engaged directly with an External Advisory Board, comprising representatives from a wide range of organisations with knowledge of and expertise in the subject matter, from different standpoints (see Appendix 1). The Advisory Board has played a key role in guiding the project.
- 2.1.2 The results of the exercise, as set out in this report, are based on an online survey of housing associations, and a series of one to one interviews with a wide range of organisations, including housing associations, private landlord organisations, managing agents, local authorities, Local Authorities Coordinators of Regulatory Services (LACORS), the Housing Corporation, the Communities & Local Government Department (CLG), and funding organisations. The research has been supported by a substantial literature review and broad ranging discussions within the Advisory Board and among members of the research team.
- 2.1.3 While the primary concern of this project was with the identification of opportunities for housing associations to enhance the supply of affordable housing for those in need through engagement with the PRS, it has also looked more widely at potential ways of expanding the affordable supply of accommodation. We have sought to adopt an innovative and entrepreneurial approach in examining these opportunities without losing sight of the importance of stable and balanced communities.

2.2 Literature review

- 2.2.1 The literature review provides an examination of the current state of research on housing association relations with the PRS. It concentrates especially on private sector leasing (PSL), because PSL represents associations' main engagement with the PRS, and that is where most of the existing research has concentrated. It is also apparent that many of the lessons from the PSL experience could be applied to other aspects of housing activity.

2.3 Online survey

- 2.3.1 The Housing Corporation provided a database of housing association contacts in the East Midlands, West Midlands, London, North East and South West regions, and it was agreed that we would invite Chief Executives from a sample of these associations to complete an online questionnaire. We arrived at our sample by selecting all associations based in these regions with 1000 or more homes (owned and/or managed) plus all other associations where the Corporation's RSR (Regulatory and Statistical Return) data indicated involvement with the PRS. A number of additional associations expressed interest in participating in the survey and these were added to the sample population. In all, 221 associations were

invited to complete the online questionnaire. Of these, 96 completed the survey, 75 fully and 21 partially: a response rate of over 40%.

2.3.2 The survey divided respondents into three categories: those currently working with the PRS, those that had previously worked with the PRS (but were not doing so currently), and those that had never worked with the PRS. The questionnaire asked respondents to consider the nature of their engagement with the PRS in terms of:

- Benefits/disadvantages/expectations;
- Reasons for being involved/not involved;
- Geographical issues;
- Risks;
- Interest among private landlords and tenants;
- Working relationships.

The questionnaire also asked whether associations believed that opportunities to engage with the PRS were being missed and whether they had good practice in working with the PRS to share with the research team.

2.4 Interviews

2.4.1 We contacted all 39 associations that suggested opportunities to engage with the PRS were being missed and/or indicated that they had good practice to share. Where we were able to do so, we interviewed representatives from these associations along with representatives from a wide range of other organisations, including local authorities, private landlord organisations, Chartered Institute of Housing, CLG, and the Housing Corporation. In total, we conducted 29 formal interviews alongside many informal discussions with Advisory Board members and other colleagues in the housing sector, whom we used to sound out ideas.

2.5 Research team

2.5.1 This project has been undertaken and this report prepared by Greg Campbell, Annie Lathaen, Tim Taylor, David Cheesman, Mike Dunkley, Mark Anderson and Holly Holder.

3. KEY ISSUES IDENTIFIED

3.1 Literature review

- 3.1.1 A review was undertaken of the literature available covering the engagements of housing associations with the PRS since the 1980s. The review focused on the interaction of associations with the PRS and local authorities. It did not look at the wider body of evidence on the private rented, local authority and housing association sectors individually (i.e. their different histories, analyses of the respective housing markets, etc.).
- 3.1.2 The full review is provided at Appendix 2. It concentrates on Private Sector Leasing, including the 1990s HAMA (Housing Associations as Managing Agents) initiatives, because PSL was and remains the main area of direct engagement between associations and the PRS. It also considers other initiatives such as Living Over the Shop (LOTS), the 1992 Housing Market Package, and Scottish Lead Tenancy Schemes.
- 3.1.3 It emerged from the review that most associations' involvement with the PRS has always been small scale, both in terms of formal contractual engagement through PSL etc., and informal contact. Associations do not normally even encounter private landlords at landlord forums, which are usually conducted along exclusive tenure lines. Consequently, each sector has a poor mutual understanding of the other's motivations and concerns. For associations, this means that dealing with the PRS falls outside the normal experience of their officers, and so it is an area of business into which they venture with trepidation. Nevertheless, where partnership arrangements between associations and the PRS have been developed, overall the record has been successful and positive. This represents an argument that there is scope to facilitate an appreciable increase in the scale of this partnership working.
- 3.1.4 The main areas of concern (from both sides) were management costs and the apportionment of risk. In particular, misunderstandings were common over the extent of associations' commitment for making good dilapidations at the end of the leasing period. The most successful arrangements were those that at the outset clarified both parties' expectations in detailed contracts. Most associations have preferred relatively long leases (three to five years) with full responsibility for repairs to reduce the need for contact/argument with individual landlords. It follows that the drafting of the lease is seen as the primary risk factor.
- 3.1.5 There was some debate in the literature about whether associations (and local authorities) overestimated the importance of profit to private landlords and therefore committed themselves to unnecessarily expensive, and in some cases even unviable leases. In practice, landlords may put a higher premium on maintaining the equity value of their investment. On this model, the principal attraction of PSL for landlords would not be a regular cash flow. Rather it is the opportunity to cover the mortgage costs and regain the property in good condition after a period, so that they can realise the appreciation in value without having to deal with troublesome tenants and cope with the uncertainties of the Housing

Benefit (HB) regime. If this is correct, then associations' main selling point to private landlords is their track record of reliability and housing management expertise, rather than their ability to generate income for them. This should therefore enable them to enter into more favourable leasing arrangements.

- 3.1.6 Perhaps because of many associations' (and many local authorities') sense that the PRS represented uncharted waters, there appeared to be a lack of innovative thinking about the potential ways in which associations and the PRS could work together. The emphasis was on the direct alleviation of homelessness, rather than exploring opportunities to incorporate the PRS into broader housing and portfolio management structures. For example, much vacant PRS stock is small and unsuitable for families (e.g. because it is located above shops). Therefore, its capacity to house homeless families will in many cases (though by no means all) be limited. Nonetheless, even there, the PRS might play a positive role for instance in housing smaller non-homeless households in order to help release family sized accommodation elsewhere.
- 3.1.7 We took from this a need to explore associations' experience of working outside the box, applying their housing management expertise and access to resources to add value to their engagement with the PRS. This suggested that there might be scope for entering into a wider range of management and letting arrangements, so that associations might build on their in-house expertise to offer additional services to the PRS and local authorities. Such arrangements could be aimed at facilitating better utilisation of all housing stock, including market rented properties, so as to enhance the range of choices open to consumers and landlords, improving the allocation of properties and creating options for releasing property for the benefit of homeless households. Since tenure is a fluid concept, it also suggested that we should broaden the definition of the PRS to include home-owners (both as potential landlords and in the context of alleviating the risks of repossession where there are mortgage difficulties, so as to pre-empt additional demand for social housing). Finally, it suggested that we should consider ways in which associations might extend the range of services available to the PRS by entering into partnerships with institutional investors.

3.2 Housing Associations Survey

- 3.2.1 It was evident from the survey that many associations, driven by the desire to reduce levels of homelessness, would be willing to work or continue working with the PRS. The survey also produced the following headline findings:
- (a) Many associations are concerned about the risk and the financial challenges involved in working with the PRS;
 - (b) They are apprehensive about the potential for partnership working with the PRS because of perceived prejudice against social housing tenants within the PRS and more general levels of mistrust;
 - (c) They also have apprehensions about the correlation between partnership working with local authorities and risk sharing;

- (d) Associations pointed towards issues and difficulties in all geographic areas, but highlighted particular difficulties in affluent areas where rent levels are high;
- (e) They have concerns about the quality and standards of available properties;
- (f) There is a recognition that some association staff do not currently have the skills and experience to deal successfully with the PRS.

A detailed summary of the survey responses is provided in Appendix 3.

3.3 Interviews

3.3.1 The interviews highlighted the following concerns:

- (a) Tenants and landlords alike need to be offered a range of options and choices to help secure tenancies;
- (b) Landlords need support from associations to guide them through the process of providing properties for affordable housing;
- (c) Financial risks, in particular (i) how the risk is covered if there is a period of void; (ii) whether long term financial forecasting works; and (iii) whether a secure income can be offered to landlords;
- (d) Short term leases do not offer stable tenancies;
- (e) Unclear lease agreements can lead to high hand-back costs;
- (f) The issue of rent levels and some suspicions as to why landlords would want to engage in the social sector when they can go unregulated in the private sector charging higher rents, and hence the need for some sort of benefit for the landlord;
- (g) The need for significant staff resourcing to establish relationships with private landlords and to find properties, which could sometimes cost more than the process generates;
- (h) The challenges in dealing with tenants who need supported housing;
- (i) Concerns about the regulations affecting under-25s and local room rents.

3.3.2 The interviews highlighted the following current positive experiences:

- (a) Engagement with the PRS increases access to good quality accommodation for a wider range of user groups, including young people;
- (b) Tenants are able to access accommodation in more desirable locations; and in high demand areas, the PRS can provide additional resources to meet assist in preventing and tackling homelessness;
- (c) Working with the PRS broadens the options available to homeless people or overcrowded tenants;
- (d) It builds new relationships between local authorities, housing associations and private landlords;

- (e) It provides additional income either to spread overheads or to subsidise the provision of additional units of accommodation;
- (f) In areas where local authorities have worked with the PRS and housing associations, a more effective strategic approach has increased the provision of accommodation.

3.3.3 The interviews identified a number of potential solutions:

- (a) Vacant properties do exist in the private sector, and there is scope for associations to engage with property owners in bringing these back into residential use;
- (a) Setting up subsidiary organisations that work on behalf of an association as a not-for-profit commercial organisation can be an effective way of partnership working with the private sector;
- (b) Landlord interest may be increased by conveying to them the benefits of working with housing associations;
- (c) Property standards can be managed through landlord accreditation schemes;
- (d) Rent deposit schemes can be an effective means of encouraging and supporting entry into the PRS;
- (e) Institutional investment has been shown to be a positive way of mitigating the risks.

3.3.4 It became apparent that whatever schemes are proposed, there needs to be an initial push to increase communication and partnership working between associations, local authorities and private landlords. Working with existing landlord forums, or establishing such fora in areas where they do not currently exist, may serve as a good starting point in promoting better communication.

3.3.5 It was also clear that there are significant differences (e.g. rent levels, property prices, stock condition) in the operating environments for associations and local authorities. These impact on the ways in which associations and authorities can engage with the PRS. Equally, private landlords are a very diverse group, with many having a clear (although not necessarily immovable) view of their own market segmentation. Thus any scheme to develop joint working needs to be flexible enough to allow tailoring to meet local conditions and landlord profiles. Later in this document, we look at several key initiatives (i.e. a community lettings agency, a mortgage rescue scheme, and opportunities for institutional investment) with this clearly in mind.

3.3.6 The issue of landlord benefits was a significant focus of discussion in our interviews. At its simplest, this was expressed as doubts as to why any landlord would want to work with the social sector when they could remain as they are. Some of the associations we spoke to felt that they needed some kind of bargaining tool other than the management services to attract the landlords.

3.3.7 Financial risk was also a key focus of discussion. A view emerged in which such risks were less of a concern where associations have either formed a relationship with a private investor, or where they have set up a subsidiary organisation that could act as a not-for-profit commercial organisation. In the case of a subsidiary organisation, issues relating to staff resources and skill sets were also addressed through careful budgeting

3.4 Issues

3.4.1 From our research, the headline issues that at present militate against closer working between housing associations and the PRS can be seen as:

- (a) Misunderstanding, negative attitudes, and unrealistic mutual expectations between housing associations and private landlords;
- (b) Quality of available property;
- (c) Local reference rents seen as too low;
- (d) Rent regulation;
- (e) Housing benefit:-
 - Delays in assessment;
 - Delays in payment;
 - Claw-back payments;
 - Complicated process;
 - Form filling;
- (f) The change from paying HB direct to local reference rents, and tenants being paid direct unless they are deemed vulnerable
- (g) Uncertainty of supply needs;
- (h) Local authorities not providing guarantees for contracted units and voids, e.g. where contracts with councils do not give guarantees about paying for empty units when they are unable to nominate; where councils are unclear about the number of units they require or change their requirements before the contract finishes;
- (i) Costs, such as voids, bad debts, handback costs where leases have been badly drawn and/or associations are unclear from the outset about condition and handback standards;
- (j) Uncertainty brought about by changes in legislation and/or Government policy, and in some cases the effect of the changes themselves, such as paying tenants direct, or variations to HB caps.

4. POTENTIAL SOLUTIONS

4.1 Overview

4.1.1 From the outset of this project, we were encouraged to think outside the box, to rule nothing in or out in terms of ideas and potential solutions. Throughout the exercise, we have invited others to take the same approach and as a consequence the discussions have sparked a wide range of ideas for increasing the supply of accommodation to help prevent and tackle homelessness through housing association engagement with the PRS. In this section, we provide details of those ideas that have contributed to the development of our thinking and to identifying a smaller number of ideas that we believe are both deliverable and capable of achieving tangible results.

4.2 LOTS initiatives

4.2.1 Although some housing associations believe that LOTS (Living Over the Shop) schemes could work in a substantive way, in practice there is a range of practical challenges to address. For instance, in Ealing, West London, a LOTS project was undertaken with Ealing Family Housing Association (now Catalyst Communities Housing Association) and Acton Housing Association that identified 100 units that might fit the scheme. In the event, only three units were brought into use. The reasons for other individual units not fitting into the scheme included the following:

- The entrance was inside the premises and it did not have a separate entrance;
- The entrance was dangerous (i.e. behind the building, with unsuitable or even dangerous access for families);
- The amount of work required would exceed the time allowed for the scheme to achieve financial payback;
- The layout of the property was not suitable;
- There was no proper services supply, water, gas, electricity;
- The actual square footage did not provide enough usable space;
- The landlord's income expectation was unreasonable;
- Some organisations (banks and building societies) had security concerns over the scheme.

These kinds of problems are typical of such initiatives.

4.3 Mobile homes (non-traditional build)

4.3.1 Our discussions touched on the potential for housing associations to contribute to growth in the supply of private rented accommodation through their increasing experience of new pre-fabricated and mobile homes technologies, notably the possibilities of bringing fairly large accommodation into use at relatively low cost.

4.4 Disrepair as identified by Empty Homes Agency and others

4.4.1 It is well documented that there is a significant number of private sector properties in disrepair throughout the country. However, it would seem that the majority of landlords with properties in need of improvement are not dissatisfied with this situation and do not want to access grant or other alternative means of bringing their properties back into use. While this may be in part because these options are poorly marketed and/or are bureaucratically unattractive, we were made aware that the extent of disrepair - and hence the costs required - is often the most significant factor prohibiting properties being brought back into use.

4.5 Retirement homes

4.5.1 It is evident that in some parts of the country, a significant number of homes are bought for retirement without owners taking up occupation in the short to medium term. We therefore considered whether a scheme could be offered to access such properties at less than market rent, with a guarantee that the property will be returned when required and in a comparable state of repair. Such a scheme might secure properties on a two to three year lease. However, it was concluded that there would be a need for robust management to ensure that substantial dilapidation costs were not incurred during such a period of use. It was felt likely that owners would require some form of vetting to reassure them that only 'suitable' people were housed. In addition, they would require a cut-off period to ensure that the property was empty when they wanted it back and that there would be sufficient time to undertake any works required. While in many respects such an initiative would be similar to PSL, it would in practice require a more intensive management service.

4.5.2 Related to this, we looked at a scheme operated in the late 1980s, to assist members of the armed forces to purchase properties during their service period. These properties were leased to homeless families as in PSL, and available when the owners returned to civilian life, thus offering participation in the property market with minimal risk and increased PSL supply. The scheme was never properly taken to implementation stage. While certainly financially viable, it is not market proven.

4.6 Holiday homes and second homes

4.6.1 Our discussions touched on the potential to increase housing supply through legislative measures to prevent or reduce vacancy periods for holiday homes and second homes. Quite apart from the political sensitivity of such measures, we came to the view that this was not a fruitful line of thinking, notably because of the limited length of lettings periods. Such a scheme would be administratively expensive and time consuming, while dilapidations and hand back conditions would be fraught with contract difficulties.

4.7 Management Orders

- 4.7.1 We considered the potential benefits of associations acting as managing agents for local authorities after management orders for empty homes or disrepair had been secured. The general view encountered was that in some areas there is little will to serve management orders on people with empty homes, although there appears greater enthusiasm for doing so in relation to disrepair and in making sure that tenanted properties are safe for occupation. To our knowledge, there has to date only been one successful order obtained for an empty home. Several concerns were raised by both local authorities and associations about the administration of management orders, in particular concerns about (a) their ability to recoup the cost of repairs, (b) properties being repossessed before both management and repair costs are recouped, and (c) the effect that the lack of stability might have on tenants of these properties.
- 4.7.2 LACORS have produced a framework document that sets out good practice guidance on management orders and have undertaken a survey of local authorities to review progress to date in the introduction of management orders. The report is expected to be published in September 2007.

4.8 Available deposit, insufficient income

- 4.8.1 Consideration was given to the potential for developing a scheme whereby associations would assist people who have a lump sum sufficient to pay a deposit to purchase a property, but an income insufficient to pay a mortgage on that property. This scheme in particular could be helpful to families who have a vulnerable member, but who are unable to secure appropriate housing in either the public or private sectors. Such a scheme would involve the association purchasing the property and renting it to the prospective purchaser until such time as he/she can afford to meet the mortgage payments.
- 4.8.2 We considered various ways of making this work (notably in high value areas) to the advantage of both the association and prospective purchaser (e.g. using the deposit to subsidise rent levels or generate interest income, equity share arrangements). However, it was concluded that there are unlikely to be sufficient benefits from the association's perspective. We are aware that a similar initiative has been proposed in the past, but that it did not generate any significant interest within the social housing sector. There may nonetheless be some merit in exploring the idea further as a scheme specifically targeted at vulnerable people with special needs and in the context of supported housing.

4.9 Seaside and Country Homes

- 4.9.1 We looked back into the former Greater London Council's popular 1970s 'Seaside and Country Homes' scheme. This sought to create vacancies in existing family stock in London by offering the residents of those properties the opportunity to move to one of 3,000 new rented homes developed by the Council in coastal and countryside areas, where land values and build costs were lower than in London. It could be that a proportion of Section 106 affordable housing contributions in

London could be used in a similar way (i.e. as a source of development funding to build a substantially larger number of affordable homes in lower cost areas than would be achievable in London). We felt that such a scheme could also contribute to reducing levels of under-occupation in the capital.

4.10 Older persons with care needs

4.10.1 We discussed an idea whereby older owner-occupiers going into residential care or a nursing home could retain their family home by leasing it to an association. This would preserve an asset for the older person to bequeath to their family. At present, older people in such circumstances who are unable to afford the costs of private care are required to sell their home and use the proceeds for care before they can be considered for state assistance. The idea of the scheme considered would be to expand their options at this point. However, it was felt that there would be insufficient demand to make this a viable venture, as well as conceivably requiring legislative change to allow it to operate.

4.11 Real Estate Investment Trusts (REITs)

4.11.1 REITs have been identified as a potential vehicle that could be beneficial in relation to providing new PRS stock accessible for housing associations. This is a new area for the UK. REITs were developed for the US market, and currently cover investments to the value of some \$1 trillion in that country. They have also been used extensively in Australia. Since REITs were introduced to the UK in January 2007, nine of the largest property investment companies have converted to REIT status.

4.11.2 In essence, a REIT is an organisation established with the sole purpose of owning and managing investment properties. REITs provide a string of advantages such as tax breaks, income return and inflationary protection. This type of organisation is classed as 'pass-through', meaning that most of the income cash flows can be issued to the investors free of Corporation Tax – generating strong shareholder dividends. Such dividends are generated by rental revenue from the managed properties. REITs are seen as an affordable, broad and balanced way of investing in property. Shares in REITs are freely tradable on the stock market and thus provide considerable flexibility.

4.11.3 It may well be that REITs are worth pursuing in the context of this project. They remain as yet untested in this kind of market in this country, but we believe their potential application is worth exploring further.

5. CONCLUSIONS

- 5.1 There is at present a great deal of interest within the social housing sector in the potential to increase the supply of good quality affordable and sub-market accommodation to help prevent and tackle homelessness through better engagement with the private rented sector. This is reflected in a plethora of research activity and policy debate. It also reflects the fact that where associations and the PRS work in partnership, the experience seems to be positive on both sides.
- 5.2 In discussion with the External Advisory Board, it was concluded at an early stage that this research project would best contribute to such policy aims by identifying a small number of specific ideas that could make a practical impact; ideas that the Housing Corporation and others might take forward to a next stage of appraisal and testing, with a view to implementation. While we recognise arguments in favour of developing a strategic approach to engagement with the private rented sector, this has not been the focus of our research.
- 5.3 We have covered considerable ground in undertaking this research. While much of our work has taken us into areas already being ably explored by others, we kept coming back to the idea that not only is there is a need to improve relationships between associations, local authorities and private landlords, but also that improvements in those relationships will be most effectively achieved through some form of agency that sits (at least to an extent) outside those three interest groups. This led us to conclude that we should explore the role and form of such an agency (what we refer to below as a 'Community Lettings Agency') in greater depth. We do so in section 6 of this report.
- 5.4 While the potential solutions detailed in section 4 essentially represent the main ideas that we have rejected, or at least put to one side for now, it was only through the process of considering these that we arrived at our second specific idea to take forward. In short, we concluded that there is merit in developing a new form of mortgage rescue scheme in partnership with the private sector to prevent homelessness. We outline our thinking in section 7 of this report.
- 5.5 As a result of discussions with a London-based housing association, we became interested in the opportunities for associations and local authorities to work in partnership with institutional investors. This led us into direct discussions with such organisations and to the conclusion that there is a strong case for promoting and supporting opportunities to increase the supply of affordable and sub-market housing through institutional investment. We explore this further in section 8.
- 5.6 Among all the ideas and suggestions encountered and discussed, we have concluded that the three options outlined above appear to be the most achievable in terms of cost, the current legislative framework, the prevailing housing market and the strategic objectives of Government.
- 5.7 At the same time, this report would not be complete if we did not comment on the attitudes of many housing associations as reflected in the survey undertaken as

part of the project. While no doubt understandable, the reticence expressed by many organisations to explore ways of engaging with the PRS in seeking to discharge their responsibilities to assist in alleviating homelessness, is frankly disappointing. The core purpose of housing associations is after all the provision of homes for people in housing need.

- 5.8 The present housing association environment is one of actual and anticipated regulatory change, including moves towards increased self-regulation and risk-based regulation as distinct from more traditional enforcement focused approaches. At such a time, it would be regrettable to have to consider ramping up regulation in order to force associations to seek sensible and appropriate engagement with the PRS through whatever means may be locally appropriate. It is far preferable to build on an environment and initiatives that encourage and support such engagement. Indeed, with a reducing number of associations able to access Social Housing Grant to fuel growth, it should be seen as natural to explore other perhaps less orthodox new business areas such as working with the PRS. As well as increasing access to housing, it appears that such a business stream, if effectively managed and resourced, is capable of generating additional income for associations. It would also reflect the apparent interest of funders in exploring this area (see section 8 below). This positive approach underlies much of our thinking in relation to the Community Lettings Agency concept (see section 6 below). Nonetheless, without more positive approaches being adopted by associations in practice, it may be necessary to consider what means may be needed to ensure that this closer engagement does take place.
- 5.9 Certainly, it may be appropriate for Audit Commission to look at the approaches adopted by housing associations and the extent to which they engage with local authorities in tackling homelessness, including through working with the private rented sector. An appropriate focus of attention here could be the Commission's KLOE (Key Line of Enquiry) 8 - Homelessness and Housing Needs - which at present is examined primarily in local authority housing inspections, but could be extended in part to housing association inspections. There could also be a link here with KLOE 2 - Strategic Approach to Housing - which applies only to local authority inspections.

6. COMMUNITY LETTINGS AGENCY

- 6.1 Our survey of associations and subsequent interviews highlighted shortcomings in the relationships between housing associations, local authorities and private landlords that appear to be hampering the supply of accommodation needed to help prevent and tackle homelessness through the use of PRS. In thinking through how improvements in these relationships might be made, we have begun to explore the potential benefits of establishing some form of agency that could play a role in bringing the interests of the three parties together. In developing the concept, a key consideration has been the need for this prototype agency to be able to stand on its own feet financially (i.e. without the need for public subsidy) at least in the medium to long-term.
- 6.2 Our initial thinking focused on a model in which the community lettings agency (CLA) would derive its income by providing specialist lettings agency services to those private landlords that are (or might be) interested in letting to homeless persons and those in receipt of HB. In this model, the agency would carry out similar functions to a private lettings agency with a menu of options, including some services over and above those generally offered by the private sector (see Table 1 below). An additional service that would be worth exploring is that of an interactive web based option. Some student schemes already use this approach, and if, for instance, private sector landlords were to be linked into local Choice Based Lettings schemes, an online scheme would be necessary. In general, it is important to recognise that location and local factors will play an important part in determining the appropriate menu of services and associated fees between different community lettings agencies.
- 6.3 While private landlords might primarily be attracted to this model by the potentially lower costs and perhaps the enhanced service on offer, the unique selling point of the new agency would be its ability to develop productive relationships with local authorities (e.g. fast-track HB payment and rent deposit schemes) and housing associations (e.g. specialist housing management and repairs services). From the local authority perspective, the agency could be attractive in providing assurance, and perhaps accreditation, of property standards and management standards. From the housing association perspective, the agency may be viewed positively on account of its ability to manage the relationship with private landlords and moreover as a commissioner of services. From both the council and housing association perspectives, the potential benefits to private sector tenants in terms of property and management standards may also be attractive.
- 6.4 Through discussing the options with associations and other organisations, we have developed our thinking on the agency's potential income sources. We were especially struck by Elgar Housing Association's supportive partnership approach to working with private landlords. This led us to conclude that there may be a wider role (and income source) for the agency brokering and mediating the relationship between private landlords and local authorities (one that associations might not wish to take on, other than through a specialist agency). Thus the financial viability of the new enterprise would rest on income generated on the one hand from management and maintenance fees from private landlords, and on

the other from funding from local authorities, associations and other public/charitable sources, to deliver a package of services to facilitate access to the private sector and sustain tenancies.

- 6.5 From the private landlord's perspective, the agency might play a useful role in facilitating access to advice and support from local authorities (e.g. housing needs, energy efficiency, licensing, grants, revenues and benefits, fire officer) and associations (e.g. rent deposit schemes, floating support, credit unions). This might serve to attract more landlords to engage with the social housing sector and retain others who might otherwise withdraw from this part of the market. At the same time, given an important degree of independence from both local authorities and associations, the agency might be able to overcome some of the negative attitudes and distrust that have been so apparent in undertaking this research.
- 6.6 From the local authority and association perspectives, the agency could act as a bridge to engagement with the PRS as a resource to help in preventing and tackling homelessness and contributing to tenancy sustainment locally. The agency could also help link the private rented sector into Choice Based Lettings, increasing the housing options menu available to local authorities. Depending on the scope of the service undertaken on behalf of the local authority and the funding available, a menu of additional options could be provided including: needs assessments, support packages, pre-tenancy determinations, early intervention and joint working when tenancies are at risk or there is evidence of anti-social behaviour. Certainly our discussions suggest that a more collaborative approach can result in an increase in the nomination rights (10 years in some cases) to good quality private sector accommodation at sub-market rents.
- 6.7 One important aspect of the agency is that, in areas where there are large PSL and HALS schemes, leases are being determined as local authorities reduce their requirement for temporary accommodation to meet the Government's 2010 targets. In these areas, where landlords are used to working with associations and local authorities, there may be a ready market for the agency. This will ensure that landlords have an alternative way of working with the sector and that this valuable accommodation is not lost because landlords have become disaffected by changes in requirements.
- 6.8 Our thinking on the potential role of the agency continues to develop. As well as connecting with our thinking on 'mortgage rescue' and 'institutional investment' (see sections 7 and 8 below), we have begun to consider the role that the agency could play in landlord accreditation schemes. In the course of our research, we identified a number of examples of such schemes (e.g. the London Landlords Accreditation Scheme administered by the London Borough of Camden, and Accreditation Network UK administered by Unipol Training). We certainly believe it important that the landlords who use the agency should be accredited on their management standards to ensure that the agency and the tenants receive a good service, and to provide other partners with reassurances on those standards. At the same time, it will be necessary to ensure that accreditation does not conflict too strongly with landlords' commercial needs and priorities. We also believe that

there could be some benefit in unifying existing accreditation schemes into one national recognised scheme, not least because landlords may hold property in different locations across the country. While we are less certain as to whether the agency should itself play a role in accrediting property standards, the agency may have a potential role in managing properties served with a management order as a consequence of disrepair or vacancy.

- 6.9 We have an open mind as to the full range of potential services that the agency might offer. Once the building blocks are established, the agency would be in a position to assess and respond to further market opportunities (e.g. estate management and caretaking services, repairs ordering, floating support, debt management advice, shared/home ownership advice) as and when these arise. We are certainly of the view there is potential for the agency to embrace a larger social enterprise remit that might include employment, training, mediation and other support services. For these reasons, it will be important that any discussion about the way in which the agency is run and governed takes on board the need for the agency to be able to act entrepreneurially.
- 6.10 We floated the idea of establishing some form of agency in our discussions with associations, local authorities and other organisations. We outlined the role of an organisation that could command a market advantage through an ability to connect landlords to local authority advice and support, access good quality and value for money maintenance services from associations, and extend the range of management services normally offered by private sector agencies. The response was sufficiently positive for us to conclude that the idea merits further investigation. To this end, we have begun some initial budget modelling, based on a London scenario that would clearly need to be flexible and take account of local circumstances (see Table 2 below for an indicative summary budget for year 1 of a local agency).
- 6.11 We have not formed a conclusive view on various important matters (e.g. scale of operational area, constitutional arrangements) and recognise that there is further work to be done in developing the business model, which falls outside the scope of the research project. Perhaps most importantly, there is a need to market test the management fees and develop a marketing strategy based on clearly defined landlord benefits. We believe that there would be merit in piloting several different models in different areas, particularly in major conurbations (e.g. London, Birmingham, Manchester, Glasgow), and we have included within our modelling a proposal that seed funding should be provided to enable agencies to establish themselves and achieve financial independence. In this context, it is important to recognise that the more functions that individual CLAs are expected to provide, the more this will cost. It will be necessary to be realistic about what fees private landlords can practically be expected to pay, and therefore how much income will have to be generated from grant and/or other sources. For example, one could not reasonably expect a local CLA to take on responsibilities that are normally discharged by local authorities, without being funded to do so.
- 6.12 As regards what types of organisation might run the community lettings agency, we have concluded that we should not be too prescriptive at this stage. It may be

an appropriate role for associations, local authorities, ALMOs, private sector housing management providers, landlord organisations and existing private lettings agencies. In different areas, different organisations may well be geared up to extend into the kinds of service areas we are suggesting, and it may also be appropriate for two or more organisations to establish an agency as a joint venture. However, we do believe that there is merit in the idea of grafting a local/sub-regional/regional agency on to an existing organisation rather than creating a wholly new set of bodies in an already crowded sector. There is also merit in the idea of identifying existing private sector lettings/managing agents that are willing to reposition themselves in the market and take on the wider role outlined above.

- 6.13 We are aware that there are existing organisations that have many of the features of the community lettings agency model. Examples include the Oxford Social Lettings Agency run by Oxford Citizens and Catalyst Communities Housing Associations, and the Bournemouth and Poole lettings agency 'Homes For Let'. At the same time, Communities and Local Government are funding Pathmeads Housing Association to establish a pilot social lettings agency in South London. These examples will provide valuable reference points in taking our ideas forward. We are also aware that LACORS have developed some interesting case studies of local authorities working with associations to manage private sector housing, and these also provide additional useful models.

**COMMUNITY LETTINGS AGENCY:
OUTLINE MENU FOR MANAGEMENT OPTIONS TO OFFER PRIVATE LANDLORDS**

Option 1

- Find and interview tenant
- Draw up tenancy agreement
- Sign up and induct tenant
- Collect rent
- If rent stops send initial letter and inform landlord

Management fee 7% of rent

Option 2

As per Option 1 plus:

- Undertake monthly tenancy visits
- Follow up letter and serve Notice of Seeking Possession

Management fee 10%

Option 3

As per Option 2 plus:

- Take court action and arrange and attend eviction
- Secure property and change locks

Management fee 15% plus legal fees

Option 4

As per Option 3 plus:

- Intervene if property not being looked after
- Manage ASB and neighbour disputes to include court action

Management fee 20% plus legal fees

Table 1

Notes

1. *It should be recognised that the indicative fee levels set out above represent an example approach, rather than a definitive proposal. We are aware, for example, that private lettings agencies are likely to charge flat fees for certain activities, as opposed to a percentage fee based on the property rent on a continuing basis. This is one of a number of elements of the proposed Community Lettings Agency*

approach that should be subject to wider consultation and market testing, as indicated above.

2. *The options set out in the table above are for landlord services to be provided to landlords. The Agency could offer the additional services as referred to at section 6, if local authorities concerned required these and if appropriate funding were identified. Examples would include:*
- *Needs assessments*
 - *Access to support packages*
 - *HB liaison*
 - *Pre-tenancy determinations*
 - *Early intervention and joint working when tenancies are at risk or there is evidence of anti-social behaviour*

COMMUNITY LETTINGS AGENCY: DRAFT INDICATIVE BUDGET - YEAR 1

<u>Expenditure:</u>		
Staff (4.5 FTE)	130000	
On costs	65000	
Running Costs	23500	
Total annual Spend		218500
<u>Income</u>		
Lettings fee	120000	
Accreditations fees	10500	
Management fee	21060	
Repairs and gas handling charge	12000	
Delayed appointments (1st Yr only)	29250	
Start Up Subsidy	25690	
Total annual Income		218500

<u>1st Year Targets</u>	
125	lettings
30	accreditations
30	managed units
100000	repairs £ turnover

Table 2

7. MORTGAGE RESCUE

- 7.1 With the rate of repossessions currently rising (at the time of writing, up 30% on 2006, according to the Council of Mortgage Lenders), no doubt under the influence of higher income multiples and gradually increasing interest rates, one strand of our research focused on the measurable contribution that repossessions make to homelessness. In light of the 14,000 repossessions in the first six months of 2007, we have considered whether housing associations could use leasing techniques to rescue homeowners from homelessness, and whether associations could use repossessions as a source of accommodation.
- 7.2 When a homeowner defaults on his/her mortgage, he/she faces a choice of being repossessed or selling up to redeem the mortgage. In either case, the homeowner's household will be homeless, though not necessarily in the long term statutory sense of the term. In other words, the ex-owner may be able to find accommodation with family or friends, or in the PRS. The property in the meantime will be sold back to the market.
- 7.3 Our view is that an association or other agency could offer another set of choices by intervening before repossession is complete. We describe this set of choices (Options 1 to 3) and provide an indicative financial model at Table 3 below. We have had positive responses to these ideas, particularly the idea of a shared equity model that keeps people in their homes.
- 7.4 **Option 1**
- 7.4.1 In this option, the association purchases the property and rents it back to the ex-owner at a market or HB reference rent on AST (Assured Shorthold Tenancy) terms. Clearly this is only going to work where an affordable rent is sufficient to meet loan charges plus management and maintenance costs. However, there might be some 'wriggle room' in both the level of rent charged, and the price paid for the property.
- 7.4.2 Strictly speaking, under this option the property is not being acquired with vacant possession, and there is an argument for a discount against full market price. It would be necessary to negotiate on an arm's length basis with the full involvement of the vendor's legal adviser as a protection against later recriminations. The price that the association or other agency pays for the property is crucial. It must be low enough to be financed from the rent income, yet high enough to cover the owner's outstanding mortgage debt, including accrued arrears and any early redemption penalties.
- 7.4.3 Another way of arriving at a viable figure might be to discount the purchase price in consideration for the grant of a call option to the owner (i.e. an option to purchase as and when they so wish). This would enable the former owner/tenant to repair his or her personal finances, exercise the option and buy back the home (or a share in it) at a price related to the association's outstanding loan debt plus any accumulated early year losses. Plainly this option would only be operable whilst the former owner continued to rent his/her former home.

7.4.4 The potential benefits of this option, if the figures can be brought into alignment, might be:

- Prevention of a possible homelessness case;
- If the first tenant moves on, creation of an opportunity to house another homeless family;
- Adding at zero cost to existing PSL or social renting resources;
- Avoidance of family disruption, distress and expense (e.g. children's education is not disturbed, and other community or family support networks are retained);
- Financial efficiency through associations' ability (in most cases) to use their balance sheets to borrow at low rates and very low margins;
- No dilapidation clause or cost;
- Opportunity for the owner to recover the ownership of his/her home.

7.5 Option 2

7.5.1 Under this option, the association purchases the property at full market value with vacant possession. The vendor redeems the mortgage, retains any equity and finds his/her own accommodation. The association then leases the property to the local authority for homeless families retaining management responsibilities, or lets directly to local authority nominees.

7.5.2 This option offers nothing new, and is included for logical completeness only.

7.6 Option 3

7.6.1 Under this option, the association leases the property from the defaulting mortgagor for a period of years, and then lets to homeless families in the normal way, on AST terms. Instead of paying the lease rent to the owner as usual, the association would agree to take over the owner's mortgage payments. Any surplus income, after the association had paid the mortgagee and met the running costs, would accrue in whole or in part to the owner and might be used to pay off mortgage arrears or pay down the mortgage.

7.6.2 The potential benefits of this choice would be:

- Creation of a new home for a homeless family;
- Retention of ownership (including benefit from any growth in value) by the mortgagor whilst taking a holiday from mortgage payments;
- Potential for the owner to be better placed to resume mortgage payments, or enter into a new lease at lease expiry.

7.6.3 The Achilles heel of this choice is that it depends upon the owner housing him/herself during the lease term. If he/she were declared homeless, the process would become essentially circular and without benefit. However, if this choice were used alongside Option 1 above, it would be possible to ensure a positive

outcome. Thus, if the owner could find alternative accommodation, he/she would be offered Option 3; if not, then Option 1.

- 7.7 These options would help prevent family breakdown, by either ensuring that people remained in their own home or were able to find suitable alternative accommodation without losing the equity they had built up in their home. It would also ensure that people did not face the stigma of court action and finding that their credit rating prevented them being able to access affordable borrowing. If associations were able to purchase, or obtain the benefit of the property on a lease, it would increase the number of affordable homes in an area.
- 7.8 Such a scheme could be managed by associations acting as zone agents or by a community lettings agency in partnership with an association or other housing agency. It might be possible to obtain a contribution from the mortgage company as the scheme would save costs and resources, although we have not factored this income into the draft budget at Table 3 below.

MORTGAGE RESCUE SCHEME: INDICATIVE MODEL (using London example figures)

<u>Option 1</u>	Association buys property at occupied value and leases back to former owner at market/top HB rent.					
VP value of flat	180000					
Vendor's 90% mortgage	162000					
Occupied value/ purchase price, say	160000					
HB rent p.w. say	190					
Management costs p.a.	900					
Maintenance costs	600	At assumed levels the scheme starts to cover its costs in Year 4.				
Rent inflation p.a.	3.00%					
Running cost inflation pa	5.00%					
Management fee from LA/HC contribution p.w.	0					
Cost of funds to HA	5.75%					
Association expenditure		Year 1	Year 2	Year 3	Year 4	Year 5
Interest on purchase price (interest only terms)		9200	9200	9200	9200	9200
<u>Running costs (assumes nil voids)</u>		1500	1545	1591	1639	1688
Total annual expenditure		10700	10745	10791	10839	10888
Annual rent income		9880	10176	10482	10796	11120
LA/HC/mortgagee contribution		0	0	0	0	0

Total annual income	9880	10176	10482	10796	11120
Balance/risk reserve	-820	-569	-310	-43	232
Accumulated balance	-820	-1389	-1698	-1741	-1509

Option 3		Association leases property and takes over mortgage payments				
Mortgagor's rate	6.50%	Nominations from LA for revenue fee (nom fee)				
LA nomination fee p.w.	30	At assumed levels the scheme starts to cover its costs in Year 4.				
Association expenditure		Year 1	Year 2	Year 3	Year 4	Year 5
Taken over mortgage payments (interest only terms)		10530	10530	10530	10530	10530
<u>Running costs</u> (assumes nil voids)		1500	1545	1591	1639	1688
Total annual expenditure		12030	12075	12121	12169	12218
Annual rent income		9880	10176	10482	10796	11120
Arrangement fee (LA) (or contribution from HC?)		1560	1560	1560	1560	1560
Total annual income		11440	11736	12042	12356	12680
Balance/risk reserve		-590	-339	-80	187	462

Table 3

8. INSTITUTIONAL INVESTMENT

- 8.1 We were aware of a longstanding interest in attracting institutional investors (e.g. pension funds) into the rental market because of their focus on long term equity growth rather than other factors (e.g. rental income, profile of tenants). We were therefore struck by features of a scheme developed by Shepherds Bush Housing Group (SBHG).
- 8.2 SBHG is five years into a ten-year arrangement with a major institutional investor that provides 121 three-bed flats at sub-market rents in a West London mansion block. SBHG was leasing the property from a private owner with the property in declining condition when it became apparent that the owner wanted to sell. In an effort to retain the 121 units within management, SBHG entered into negotiations with a major institutional investor (one of the high street banks).
- 8.3 The bank agreed to purchase the mansion block as an investment property and lease it to SBHG for ten years with 100% nomination rights to the local authority. In return, SBHG agreed to establish a capitalised improvement fund to refurbish the property fully and bring it back to a high standard of amenity and repair. This has included installing an entry-phone system, the provision of cleaning services and establishing an on-site office.
- 8.4 At the end of the ten-year period, the investor will get a substantially improved property that is well managed and worth around 100% more than the original purchase price (on present estimates). In return, the investor will repay the investment put in by SBHG and a percentage of the increase in the value of the property. SBHG was also able to negotiate a favourable agreement on rents whereby a small proportion of the annual increase is paid to SBHG, along with a nomination fees and non-nomination fees agreement.
- 8.5 As well as the investment potential of the property, SBHG was able to secure this deal by demonstrating itself to be a reliable and professional property manager with which the investor could establish a good relationship. While SBHG recognises that the scheme is expensive from the local authority's perspective (i.e. in terms of the Housing Benefit bill), it does provide good quality accommodation for those in housing need for a period of ten years at sub-market levels in an area of high and escalating property prices and acute shortage of affordable homes. We believe that this is an interesting model that would benefit from further investigation as to whether it is a one-off opportunity or could be replicated elsewhere.
- 8.6 Alongside this, we have become aware of other institutional investors with an interest in partnership working with private organisations and the public sector to provide accommodation (e.g. Asset Trust, Lloyds TSB) and we have been able to explore further the potential of institutional investment through discussions with a senior representative of Lloyds TSB.
- 8.7 Lloyds TSB has been interested for some time in being more than a lender. It wishes to become more proactive in the housing market, acting directly on the

market to influence supply (particularly affordable housing supply). Rather than competing with housebuilders, its interest is in supporting others to do more. Unlike housebuilders and developers, it has no vested interest in holding land banks and restricting supply.

- 8.8 The representative we spoke to said that Lloyds TSB was attracted to working with RSLs partly because of the public money vested in them. Whilst it is important to the bank that associations are regulated by the Housing Corporation, the assurance that associations will be propped up or rescued (because of the public investment) is even more attractive. As a consequence, the bank has been exploring the possibility of building properties in partnership with associations.
- 8.9 Under such a scheme, Lloyds TSB would provide the funding and associations would manage the properties as private rented accommodation. The properties would be let on ASB terms to homeless families or key workers or anyone else provided they could pay or get HB to pay a market/cost rent. Over time (20 to 30 years), the rental income would gradually erode the capital outlay and the association would be able to buy the properties without grant for social renting (i.e. a cross-over scheme). This time period could be shortened by the application of Social Housing Grant. The fund would in effect work like a land bank, except better, since the properties would already be built and could be delivered quickly without the uncertainties and delays of planning and construction. Such a scheme might prove less risky and expensive to associations by being off balance sheet and self-financing. Lloyds TSB are aware that such a scheme could prove attractive to the Housing Corporation in providing guarantees in meeting investment targets. We are aware that some early discussions have taken place between the two organisations. The scheme appears to be cost efficient in comparison with PFI.
- 8.10 Our discussions also focused on the barriers to implementing such schemes, notably local authority concerns about the proper use of HB, the need for sign-up to a long-term planning horizon, and anxiety about being among the first to sign up to such a scheme. Lloyds TSB are aware that such schemes will only work in some local authority areas. We are also aware that association involvement in cross-over schemes in the late 1980s has become problematic 20 years down the line. Nonetheless, we are of the view that there is sufficient potential in the ideas (and in the example set by SBHG described above) to merit further investigation. We have carried out some simple initial modelling (see Table 4 below), which seems to lend further support to this view.

INSTITUTIONAL INVESTMENT: INDICATIVE MODEL

£175000	Year	Opening balance	Interest	Market rent	Closing balance	Grant injection	Social rent	Loan supported	Loan after grant
5%	1	175000	8750	9100	174650		4680	78000	
3%	2	174650	8733	9373	174010		4844	80730	
175	3	174010	8700	9654	173056		5013	83556	
	4	173056	8653	9944	171765		5189	86480	
4680	5	171765	8588	10242	170111		5370	89507	
6%	6	170111	8506	10549	168067		5558	92640	
	7	168067	8403	10866	165604		5753	95882	
	8	165604	8280	11192	162693		5954	99238	
	9	162693	8135	11528	159300		6163	102711	
	10	159300	7965	11873	155391		6378	106306	
	11	155391	7770	12230	150931		6602	110027	
	12	150931	7547	12597	145881	40000	6833	113878	110931
	13	145881	7294	12974	140201		7072	117863	
	14	140201	7010	13364	133847		7319	121989	
	15	133847	6692	13765	126775		7575	126258	
	16	126775	6339	14178	118937		7841	130677	
	17	118937	5947	14603	110281		8115	135251	
	18	110281	5514	15041	100754		8399	139985	
	19	100754	5038	15492	90299		8693	144884	
	20	90299	4515	15957	78857		8997	149955	
	21	78857	3943	16436	66365		9312	155204	
	22	66365	3318	16929	52754		9638	160636	
	23	52754	2638	17437	37955		9975	166258	
	24	37955	1898	17960	21893		10325	172077	
	25	21893	1095	18498	4490		10686	178100	

Table 4

Notes

1. On the left hand side, the simple interest only mortgage model shows that HB can pay-down the principal over approximately 25 years on the assumptions shown.
2. On the right hand side, a social rent is inflated at RPI plus 0.5% to show the capital loan that the social rent will support in any given year.
3. The model assumes that the Housing Corporation provides grant of £40K. The model indicates the first point at which this could be done and the property transferred to social rent without making a loss.

PROJECT PARTICIPANTS

External Advisory Board

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Abigail Davies	Chartered Institute of Housing
Helen Keats	Communities & Local Government Department
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Pella Foster	National Housing Federation
Elizabeth Brogan	National Landlords Association
Caroline Davey	Shelter
Gera Drymer (project leader)	The Housing Corporation
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Interviewees

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The Housing Corporation
The Wrekin Housing Trust

LITERATURE REVIEW

I. Introduction

1. The objective of this project is to investigate the potential for closer working between housing associations and private landlords, with a view to increasing the supply of social housing and bringing empty properties into residential use. The Housing Corporation's consultation paper on tackling homelessness points out that 'there is considerable scope for housing associations to work with the private sector to provide more settled homes for people living in temporary accommodation,' such as:

'converting leased temporary housing to stock for settled tenancies, running tenancy deposit schemes for private landlords, acting as managers for both leased private stock and for empty homes that local authorities want to bring back into use under their new powers in the Housing Act 2004.'

2. This section presents a brief review of the current state of research on housing associations' relations with the PRS. It concentrates especially on private sector leasing (PSL), because that represents associations' main engagement with the PRS, and it is where most of the existing research has concentrated. Many of the lessons from PSL could be applied to other aspects of housing activity.

Some questions first need to be raised about the use of the term, 'landlord.' The term is unavoidable, but may be limiting. Anyone who owns a property in which they do not live is potentially a landlord, even if they have not thought of renting it out. In that sense, the PRS should be taken to include, as well as properties let to or intended for letting to tenants, properties that are regularly left empty such as second homes, and investment properties held simply to gain value and property that may be regarded by the owner as redundant space (for example, flats above shops). References in this review to recruiting new landlords or targeting the wider population of landlords, includes people who might be described as potential landlords - i.e. all those owning property that has the potential to be rented for residential use, regardless of whether they actually have considered renting it out.

3. Unless clear from the context, the term 'private landlord' will be used to include both large scale corporate investors, and individuals with as little as one property. In most cases, but not necessarily all, the landlord is also the owner of the property. Associations that practise market renting will not be included under the heading of 'private landlord,' on the assumption that their institutional behaviour is conditioned by their core business of social housing.

II. Housing associations' experience of private sector leasing

4. The main engagement between social landlords and the PRS remains private sector leasing (PSL). This is a term originally reserved for engagements between

private landlords and local authorities, with housing association engagements distinguished as Housing Association Leasing (HAL), but PSL is gaining acceptance as a generic term, and that is the sense in which it is applied in this paper except when otherwise specified. HAMA (Housing Associations as Managing Agents) is a discontinued programme funded by the Housing Corporation within the overall PSL framework. HAMA remains the dominant form of PSL for associations but is phasing out as existing leases expire.

Table: Housing association engagement in private sector leasing, 1996-2006

	Number of units (000's)										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
HAMA /HAL	10.6	13.2	14.0	15.1	17.2	18.2	18.5	23.0	24.2	23.3	21.6
HAMA Plus	1.0	1.8	2.9	2.4	2.1	1.7	3.6	2.9	1.0	0.9	0.6
PSL	2.3	2.1	2.3	2.0	2.5	2.7	2.8	6.9	6.3	9.5	10.0
Other temp	7.1	8.2	11.8	15.7	14.8	13.7	14.3	14.3	12.8	11.2	8.8
Total	21.0	25.3	31.0	35.2	36.6	36.3	39.1	47.1	44.3	44.9	41.1

Source: Dataspring/Housing Corporation

5. The table above shows that PSL and the management of other temporary private sector stock are steadily increasing components of housing association activity, rising from 21,000 properties to 41,100 properties over the decade ending 2006. This represents a significant contribution towards preventing and tackling homelessness, though very small in relation to the total stock owned by associations – 1.03 million properties in 1996 and 2.08 million by 2006. There is accordingly a considerable body of experience of PSL within the housing association sector but, with around 300,000 homes empty in England according to the Department for Communities and Local Government, there is clearly scope to do much more.

Overview of PSL

6. Housing associations have been engaging in PSL since the early 1990s. While there is a variety of papers and articles, there are in particular two substantial sets of policy-related research literature:
 - (a) A series of studies by the London Research Centre (LRC) between 1991 and 1995, mostly conducted on behalf of the Housing Corporation. These cover the most critical period in the evolution of PSL for associations, during which local authorities largely withdrew from PSL activities while associations started to engage on a large scale, initially through the HAMA (Housing Associations as Managing Agents) initiative.

- (b) Two studies by HACAS Chapman Hendy (HCH) for the Housing Corporation in 2001-2002, investigating the challenges of PSL as it became a mature housing association activity. The original research was undertaken because of fears that:

'As the sector continues to diversify, it is possible that other associations are considering becoming involved in PSL without a proper or full assessment of the risks and issues this may present.' (HCH, 2001)

These concerns became more acute following the failure of one association to manage the risks of PSL, and so the second report in 2002 looked at questions of good practice.

7. Consequently, the LRC studies can be typified as investigating the development of PSL, while the HCH studies focus more on the risks and the skills needed to implement it successfully.
8. PSL involves a direct engagement between a local authority or housing association and a private landlord. The authority or association leases property directly from the landlord for a fixed term (usually three to five years) and sublets it to tenants. The authority or association normally agrees to return the property to the landlord at the end of the lease in its original condition, subject to reasonable wear and tear. Because the landlord is looking for a market return, the rent usually requires a subsidy to bring it down to an affordable level for social housing tenants. Many local authorities tender what amount to PSL franchises in their localities, inviting tenders from associations and private agents to provide PSL schemes. The successful bidders usually enter into three-year contracts with the local authorities to acquire leased properties in their locality and deliver services. If they lose the contract on retender after three years, they still maintain whatever leasing arrangements they have already set up until they expire. Local authorities often run tenancy deposit or bond schemes for PSL tenants to make the tenancy more attractive. Membership of a tenancy deposit scheme will be mandatory for all private landlords from 2007.
9. While PSL arrangements have been in place for many years, it was not until the late 1980s that local authorities adopted it on a large scale, primarily to provide temporary accommodation for homeless households. During the 1980s, the loss of council stock through the right-to-buy and the lack of finance for investment in new development drastically curtailed the supply of homes – in 1988/89, the number of households accepted as homeless in London exceeded the supply of lettings available to local authorities. This meant that they had to be placed in unsatisfactory bed and breakfast (B&B) accommodation for unacceptably long periods. Local authorities turned to the PRS to make up the shortfall in council housing, arranging to manage privately owned dwellings as temporary accommodation for homeless households, pending the availability of permanent local authority housing. In 1986, only about 400 private sector homes were being leased by local authorities in London for temporary accommodation. By 1991, the figure was above 15,800. (LRC, 1991, 1). Although some local authorities

occasionally delegated the management of the properties to associations, they still usually kept the leases in their own name. Local authorities were able to claim back some of the costs of the higher rents paid to private landlords through government subsidies. However, ministerial orders in the early 1990s and the Housing Act 1992 restricted the ability of local authorities to enter into PSL agreements by curbing their power to subsidise the costs of properties held in their own name, reducing their capacity to claim HB on in-house PSL schemes and restricting the length of leases.

10. Similar restrictions were not imposed on associations, or on local authorities' ability to pay associations the subsidies they were no longer allowed to claim for themselves. Consequently, the balance of PSL tipped towards associations, who took on much of the role established by local authorities in the 1980s. In 2002, the government restored the ability of local authorities to claim almost full HB subsidy on in-house PSL schemes, which have therefore subsequently become more attractive to local authorities. From 2006, there have been severe restrictions on the length of time homeless that families can be placed in B&B accommodation, a move intended to boost PSL and phase out B&B altogether. At present therefore, both associations and local authorities are engaged in PSL.
11. In 1991, at around the same time that it was curbing the capacity of local authorities to run their own PSL schemes, the government launched the HAMA initiative. This was intended both to bring empty private properties back into the rental market and to accommodate homeless households. HAMA was not originally conceived as a PSL scheme. The intention was that associations would provide management and lettings services to private landlords on a similar basis to private managing agencies. The perceived advantages were:
 - (a) Their housing experience, management skills, resources, and their established relationships with local authorities, would enable associations to find tenants for properties that the landlords themselves had been unable to let;
 - (b) Any rental subsidy would be paid directly to the association and not through complex virements within the local authority;
 - (c) The high quality services provided by associations would stimulate private management agencies to improve their own standards, helping to boost the private rented market.
12. The set-up costs for HAMA schemes were provided by grant, initially from the government but from the Housing Corporation after 1993. Because experience showed that many of the empty properties were not in a lettable condition, from 1994 the Corporation introduced HAMA Plus, which included capital funding for repairs to properties that had been empty for at least six months. As the table above shows, take-up for HAMA Plus was low.
13. As explained above, associations were expected to limit their role to management. The tenants would continue to sign contracts with the landlords, the

Associations simply acting as the landlords' agents under flexible management agreements. In the event, however, most associations opted to take out leases on HAMA properties under which they took on full management responsibility, including repairs and the contract with tenants. In practice, then, most HAMA schemes became standard PSL arrangements. The discussion of the merits and demerits of leases and management agreements in the London Research Centre's (LRC's) evaluation of HAMA for the Housing Corporation in 1995 provides useful insights into the nature of associations' engagement with the private sector (LRC, 1995, passim):

- (a) The advantages of management agreements were:
 - (i) Lower costs, because there were no rent guarantees, responsibility for repairs remained with the landlords and there were none of the costs of dilapidations at the end of the lease;
 - (ii) Greater flexibility – unlike a lease, a management agreement could be terminated early if the circumstances were unfavourable.

- (b) The disadvantages of management agreements were:
 - (i) There could be a contradiction in the dual role that was created when an association acted as the agent of the landlord, with a financial responsibility towards the landlord, but maintaining a social responsibility towards the tenant because of their core mission as social landlords;
 - (ii) Associations found sustaining the relationship with landlords to be time consuming and resource intensive – for example, they had to chase landlords to carry out necessary repairs that they could easily and quickly have carried out themselves.

- (c) The advantages of leases were:
 - (i) Greater control, especially with full responsibility for repairs - the LRC considered this *'the key issue in the difference between a management agreement and a lease'* (LRC, 1995, 12); associations valued the ability to complete repairs without reference to the landlord;
 - (ii) A clearer relationship with the tenant, who under a lease holds an Assured Shorthold Tenancy directly with the association;
 - (iii) A clearer relationship with the landlords, most of whom, according to the LRC, preferred *'the "hassle-free" service provided under a lease'* that, in practice, saved them the trouble of having anything to do with either the property or the tenant;

- (iv) Some local authorities preferred to deal with associations on homeless nominations rather than private landlords.
- (d) The disadvantages to leasing were:
- (i) Costs - leases can be expensive because:
- Most associations guarantee landlords a rental income throughout the period of the lease. This is not always based on a 52-week year, and associations often negotiate weekly rent levels that fall below the amounts requested by the landlords, but are still close to market levels, and thus considerably higher than local authority or association rents.
 - In the early days, the rent was often payable to the landlord regardless of whether the property was empty, in which case voids represented an additional cost, not merely a loss of income. As HAMA progressed and local authorities reduced their subsidy levels, guarantees along these lines had become the exception, according to the LRC in 1995. However, HCH refer to these arrangements in 2002 as standard, so they may subsequently have come back into practice.
 - The association bears the cost of repairs, not the landlord, and the property has to be returned to the landlord in its original condition, subject to reasonable wear and tear, so associations also had to bear the costs of dilapidations at the end of the lease;
- (ii) Landlords and associations do not always in practice share a common understanding of 'reasonable wear and tear', and this regularly leads to disputes. HCH recommend incorporating a standard specification as part of the lease, setting out in detail the works the association will perform at handback.
- (iii) Even though a lease is more clear-cut than a management agreement, ambiguities can remain, leading to disputes between associations and landlords, or to important responsibilities being overlooked. HCH gives the example of gas certificates, which are the landlord's responsibility. The lease must specify whether this responsibility remains with the landlord or passes to the association, because there have been cases where neither party attended to it, each thinking the other was responsible. HCH recommend that, for simplicity, the responsibility should pass to the association. Similarly, responsibility for some repair work may remain with the landlord, in which case this should be detailed in the lease and procedures put in place in the association's system to enable its staff to identify the allocation of responsibilities within its different leases.

14. Overall then, both associations and landlords prefer leases because they are more straightforward, provided that they are properly drafted. Associations feel that the simplicity, and savings in staff time, compensate for the additional costs, while for landlords there is a guaranteed income stream with little or no investment of time or money on their part. However, it bears repeating that the lease agreements must be comprehensive and clear to avoid disputes between associations and landlords.

Subsidies and guarantees

15. Most associations charge fees to the owners, as well as charging nomination fees and claiming revenue support from local authorities. In the early years of HAMA, the local authorities could be said to be carrying the main burden of the risk since their revenue support funded the guarantees that the associations offered the owners (i.e. rental income and reinstatement at the end of the lease). Rental guarantees to cover voids were common, along with high estimates for repairs. A report by the Institute for Fiscal Studies (IFS) in 1997 criticised these practices as *'offering excessively good rental deals to landlords'*. According to the IFS:

'the costs of risks and management were borne by housing associations, while landlords received a market rent for the property, with no deduction made for the fact that the landlord faced lower costs. This led to the public sector bearing costs that would normally have fallen on landlords.'

Not surprisingly, such deals proved popular, and it was not difficult to recruit new landlords to HAMA schemes. As local authorities (and associations) became more experienced, the local authority fees and revenue support were reduced and the guarantees to landlords became correspondingly less generous. In effect, this meant transferring more of the risk back to the landlord.

16. According to the LRC, associations believed that guaranteed rent was less important to landlords than reinstatement at the end of the lease. As one housing association officer put it, *'they're afraid of the property being trashed'* (LRC, 1995i, 16). However, the HCH report in 2002 refers to payment of rent on voids as a standard condition of current PSL agreements (HCH, 2002, 14), so it may be that there have been some changes in attitude since 1995, with associations moving back to the practices of the early 1990s.
17. Many associations were themselves spared much of the additional costs of leasing in the early 1990s since they enjoyed revenue subsidy from local authorities to keep down the rents. This was a barrier to the success of HAMA. Many local authorities already had successful direct placement schemes with private landlords, and they argued this showed that the rent guarantees offered by associations were *'not necessary to persuade landlords to let their properties to homeless households.'* After all, the landlords were already enjoying rent guarantees in the form of housing benefit, without an association as intermediary. Consequently, the LRC found in its discussions with local authorities that:

'it is difficult to persuade them of the benefits of housing association involvement, particularly if housing associations are expecting local authorities to provide financial support.'

Moreover:

'Even authorities which recognise the benefits of housing association involvement generally feel that the fees charged by housing associations are too high.'

Some London local authorities initiated competitive tendering among associations for contracts for the provision of temporary accommodation, and this *'had a dramatic impact on housing association charges'*. Tendering has now become the norm for PSL schemes, with both associations and private management agencies competing for contracts. The LRC found that even without a formal tender process, the keen competition among associations for local authority homeless nominations pushed costs down (LRC, 1995, 16). However, HCH reported in 2002 that several local authorities still felt that associations were inflating prices (HCH, 2002, 22).

Risks of PSL

18. In their evaluation of PSL for the Housing Corporation in 2001, HCH warned:

'Private Sector Leasing holds considerable risks for associations. They should therefore only embark on it if they have evaluated those risks and established staff and systems to handle its special features. It is worth noting that even with some larger associations, with considerable knowledge and experience in the area, said they had experienced some difficulties with their PSL operations.' (HCH, 2001)

They identified fourteen major risk factors:

1. HB administration;
2. Turnover of tenants;
3. Bad debts;
4. Void management;
5. Delays in nominations;
6. Maintenance obligations at end of lease;
7. Gas certificates;
8. Level of support required by tenants;
9. Maintenance obligations during lease;
10. Rent officer approval of rent levels;
11. Recovery of costs from landlords;
12. Receipt of management fees from local authority;
13. Lease terms;
14. Language skills.

19. In practice, these fall into five sets of related issues:

- (a) **Housing benefit** – (1) and (3) are related since the bad debts identified by HCH arise out of problems with HB;
- (b) **Client group** – (2), (4), (8) and (9) all arise from the socio-economic characteristics of the homeless households accommodated in PSL, who for the most part come from the most deprived sections of the community, with the lowest reserves of social capital;
- (c) **Terms of the lease** – (6), (7), (9), (11) and (13) all underline the importance of drawing up the lease in the clearest possible terms;
- (d) **Relationship with local authorities** – (5) and (12) show the importance of good liaison with authorities to avoid problems of this sort – the same applies to HB.
- (e) **Rent officer approval** – this is a discrete problem.

These groups of issues are discussed in turn below, except the last, about which associations can do little except ensure they have financial systems that are sufficiently robust and flexible to take account of rent officer determinations – but this is also a requirement for the much larger question of handling the idiosyncratic HB system and the loss of income from voids.

Housing benefit

- 20. By far the most important obstacle to successful implementation of PSL is the administration of HB. HCH stress that: *'Delays in payment of HB have been identified as the highest risk factor for associations engaged in PSL'* (HCH, 2002, 4), echoing the LRC's conclusion in 1995 that *'The role of housing benefit is crucial to the success of HAMA'* (LRC, 1995i, 16). Even the bad debts identified by HCH as the third most serious risk factor relate in practice to HB – tenants failing to pay the rent because they have not claimed HB, or because their entitlement is less than anticipated. All of the LRC and HCH studies identified problems with HB as the principal threat to the viability of PSL, and HCH listed the steps associations could take to mitigate the impact, setting out a large template that presents the advantages and disadvantages of each action. The government is currently piloting a Local Housing Allowance (LHA), payable directly to tenants and based on a simplified method of rent assessment, as a means of streamlining the HB system. But LHA will not change the way claims are handled by local authorities.
- 21. It is the fact that most of the households housed through PSL are eligible for HB that makes HB fundamental to the financial arrangements. The IFS found that 90% of tenants in temporary accommodation schemes in the 1990s were receiving HB. As LRC explained in the context of HAMA:

'As with other temporary accommodation schemes that use privately rented accommodation, the financing of HAMA schemes is intrinsically linked into the housing benefit subsidy regulations. Many schemes rely on the housing benefit

subsidy paid to those occupants in receipt of housing benefit. This makes the schemes very susceptible to any changes in housing benefit regulations.' (LRC, 1994, 36)

22. The role of HB in PSL is in some respects contradictory. On the one hand, HB is paying for PSL. It is access to HB that makes PSL a viable proposition, and this was one of the arguments that local authorities deployed against HAMA when it was set up in 1991. If HB provided a secure income for HAMA, that was also true for private landlords. They understood the value of a steady rental income and were willing to take on HB households without going through associations. The LRC found in 1995 that landlords were increasingly willing to let their properties directly to homeless households, outside PSL, despite their concerns about late payments and other complications of the HB system. This was also the argument against offering landlords generous rental guarantees – since their rent was already effectively guaranteed through HB there was no need to offer additional guarantees through PSL.
23. On the other hand, because HB underwrites the viability of PSL, the vagaries of this notoriously unreliable system threaten that viability. In 1995, the LRC identified delays in the payment of HB as the single biggest obstacle to the involvement of private agencies and landlords in housing households eligible for benefit. In 2002, HCH reported that local authority performance in processing HB claims is one of the key factors associations take into account when evaluating opportunities and some stated that they would not operate in certain London Boroughs because of their track record. HCH cited an Audit Commission report that found only two London Boroughs had achieved the target of 36 days for processing new HB claims, with the average being approximately 79 days. Because turnover in PSL schemes is high, HCH warned that some tenants might leave before their HB claims had even been assessed. A private managing agent told LRC in 1995 of his problems with a particular local authority:

'We started operations there five months ago, we've housed over 35 people, and we've had nothing in terms of HB – not one penny. I've had to support the operation myself, which I can't afford to do, so I'm pulling out. We are owed £157,000.' (LRC, 1995i, 17).

LRC reported that another local authority owed around £4 million in HB to half a dozen associations. HCH in 2002 quoted a figure of £11.8 million owed to nine associations.

24. Other problems with HB include:
- (a) The time taken to assess entitlement to HB, especially when changes in household circumstances necessitates a reassessment;
 - (b) The impact of the taper – i.e. the reduction in HB payments when household incomes rise;

- (c) Inadequate arrangements for notifying landlords when changes in household circumstances affect the level of HB entitlement, affecting the amount of rent they need to collect directly from the tenant;
- (d) Recouping overpayments of HB directly from the landlord.

The first three of these increase the risk of rent arrears; the last one disrupts the landlord's cash flow. Because associations are paying the landlords market level rents on PSL schemes regardless of whether they themselves are receiving income from HB, the impact on associations' cash flow is greater than on its main general needs stock – large amounts of money are going out, but nothing is coming in.

- 25. Almost certainly, the unreliability of HB constitutes one of the main incentives for a landlord to join a PSL scheme. Under PSL, the landlord enjoys the income from HB, but is protected by the association from the flaws in the system. An analysis of private landlords from the 2003 Survey of English Housing found that the administration of HB was the biggest single problem identified by landlords; no less than 30% saying was their main problem and a further 16% complaining of the levels of HB. When one considers that only 21% of PRS tenants receive HB according to the 2004/05 SEH (compared with 60% of social tenants) and that the 2003 landlord survey covered all landlords, the dissatisfaction levels may be even higher among the groups of landlords associations are likely to be dealing with. Over 40% of landlords surveyed by the National Landlords Association in 2005 said they had suffered rent arrears as a result of HB maladministration.
- 26. The British Property Federation (BPF), in its *Housing manifesto 2006*, predicts that the new LHA system may introduce further problems when benefit is paid directly to tenants. Warning that this '*requires tenants to exercise...choice with financial responsibility*', the BPF has asked the government to act as guarantor for HB payments that have not been passed on to the landlord. If the BPF's concerns are correct, LHA may introduce further disincentives for landlords to engage directly with tenants.
- 27. The LRC went so far as to describe the HB framework itself as a threat to successful PSL arrangements. When leases run over several years, they are a gamble on the stability of the HB regime. The LRC quoted a local authority's concerns about in-house PSL schemes:

'Our members are concerned about entering into commitments that could blow up as a result of subsidy changes. The Department of Social Security introduced the last round of subsidy cuts without notice and backdated them.' (1994, 36)

HCH did not put the case so strongly but reinforced the message that changes to HB procedures and legislation can cause confusion – when they entail changes of IT systems, or even implementation of new ones, '*the disruption has been substantial*' (HCH, 2002, 8).

28. On top of this, association charges that are added to the rent introduce an additional element of complexity since it is not always clear whether they are eligible for HB. This can exacerbate delays and lead to changes in the HB assessment. Confusion over the assessment of HB can lead to delays or mistakes in payment. The LRC and HCH reports all stress the importance of good liaison with local authority benefits departments both to clarify the apportionment of fees, and also to mitigate the impact of all the other HB problems. An experienced officer explained in the context of HAMA: *'one of the things we've learnt is that close liaison with housing benefit is essential'* (LRC 1994, 36).

Client group

29. PSL properties normally provide short-term accommodation for homeless households. Since moving the households into permanent accommodation as quickly as possible is a primary objective for local authorities, high turnover should, almost by definition, be integral to PSL. However, HCH found that this is not the main reason. Because of the shortage of permanent accommodation, local authorities are seldom able to achieve their objective in practice and so most families remain in their PSL homes until decanted when the lease expires.
30. HCH argue that high turnover in fact arises more commonly from the nature of the client group, reflecting the high of support that they need to sustain their tenancies. The tenants housed through PSL are among the most disadvantaged in the community. Many lack financial, social and emotional resources. They may face language barriers – because English is not their mother-tongue or because of low levels of educational achievement. Their eligibility for HB may be unresolved. Their immigration status may not be clear. HCH support their argument by quoting from a report by the University of York for Shelter:

'Many homeless families have few personal and financial resources with which to manage a home and take an active part in social and economic life. They may become homeless with only very few, or no, possessions of their own and little prospect of earning a reasonable income. Families will quite often have lost the social supports from friends and family that most of us enjoy. In addition, the experience of homelessness, particularly if they escaped violence, may have left them traumatised and alienated from society.' (HCH, 2002, 13)

31. Such families may need support to sustain their tenancies. HCH assert that abandonment of property is the main reason for high turnover in PSL, caused by the lack of social, domestic and financial resources that contributed towards making the households homeless in the first place. Because they are predominantly lone parents, they will once again be assessed as homeless by a local authority and so the cycle resumes. HCH point out that, *'unless the underlying problems are dealt with, these persons will enter a vicious circle and continue to fail to establish a permanent tenancy.'* HCH recommend that intensive support should be given to homeless families in the first three to six months to help them establish the tenancy, suggesting that this might be eligible for Supporting People grant. Other suggestions by HCH are that housing association staff should be made aware of the organisations that can assist tenants with a

wide range of services, such as providing low cost furniture and household equipment and assisting with form-filling; that associations should ensure they have access to translation and interpretation services; that they might set up volunteer groups to assist with gardening and decorating; and ensure that PSL tenants are encouraged to become involved in the representative activities of its general needs tenants. (HCH, 2002, 12-13, 17, 19). All of these recommendations are designed to bring stability into the lives of vulnerable households – and thereby to bring down the turnover rate. The 2006 CIH report on local authorities' relationship with the PRS also recommended the use of floating support services to help vulnerable households maintain their tenancies both in PSL and the PRS, expressing the hope that this *'could encourage landlords to house tenants who may otherwise struggle to maintain a tenancy'* (CIH, 26).

32. High turnover creates voids, and the financial problems associated with this are self-evident – loss of income, costs of making good for the next tenant. As ever, the problems are more intense in PSL stock because the rent must be paid to the landlord regardless. Associations are accustomed to dealing with vulnerable families and to handling high turnover, but PSL concentrates the problems and magnifies their impact on cash flow.
33. The LRC found that a substantial proportion of the properties taken into HAMA had deliberately been kept vacant by the landlords because of the difficulty of finding good tenants. The LRC believed that landlords were more concerned about receiving their properties back in good condition than in receiving guaranteed income. Presumably this reflected their personal experience of letting to homeless households – or at least their indirect understanding through the grapevine. A survey by the National Landlords Association in 2005 revealed that over 60% of its members were unwilling to let to HB claimants because they had experienced problems arising from arrears, damage to the property, disruptive or anti-social behaviour, and abandonment. It is therefore possible that concerns about dealing directly with a difficult client group are an important motivating factor for landlords joining PSL, along with lack of confidence in the HB system. A report by Shelter in Wales pointed out that, *'as landlords are searching for low maintenance tenants, they have less reason than social housing landlords to accept those with problems or challenging behaviour.'* Consequently, they are reluctant to accept tenants who are in severe housing need or homeless (Shelter Cymru, 50-51).
34. The BPF recommends the incorporation into law of the simplified letting contract proposed by the Law Commission (LC) in their report on *Renting homes*. The LC condemns English legislation regulating relationships between landlords and tenants as *'an irrationally complicated mess'*. They recommend replacing all current tenancies and licences, including Assured Tenancies and Assured Shorthold Tenancies, with a simple system of secure and standard contracts governed by consumer law. The LC's proposals would effectively replace the traditional concept of the tenant with an occupier receiving services as a consumer from the property-owner. The BPF believe these proposals would reduce the tensions, misunderstandings and disputes between landlords and tenants.

35. In addition, the LC argues that it would remove the current tenure distinctions between LAs, associations and the PRS. Although the LC do not discuss this aspect, this could help to make PSL appear a more standard service provision arrangement for all parties.

Terms of the lease

36. The importance of clarifying the terms of the lease has been discussed elsewhere. Since the clear demarcation of responsibilities is one of the main reasons for preferring a lease over a management agreement, this is a matter that must be dealt with properly at the outset. There are financial and even legal implications if the lease is faulty – for example if neither side takes care of the gas certificate. Arguments over the lease between landlords and associations may discredit the PSL system as a whole, making all parties reluctant to participate.

Relationship with local authorities

37. The experience of HAMA, which started out by bypassing local authorities and ended up dependent on them, highlights the importance of maintaining an excellent working relationship with local authorities. It is the local authority that will have taken the initiative in the first place, by inviting tenders for PSL, and PSL schemes are developed to help associations meet their objectives. In addition, the viability of PSL depends on payment of HB grant and management fees by local authorities. Good communication is needed so that associations have up-to-date information about progress (e.g. when HB claims are likely to be resolved, which tenants are having their HB assessment reassessed or withdrawn, etc.) to assist with planning.

III. Associations' experience of Living Over The Shop (LOTS) initiatives

38. The creation of the Assured Shorthold Tenancy under the Housing Act 1988 opened the way to bringing into use as housing the vast number of empty units on commercial sites – typically, flats located above shops. Before this, living spaces in commercial premises had deliberately been kept empty because tenants had unlimited security, presenting potential management problems and devaluing the property. The pioneer initiative was the University of York's Living Over The Shop (LOTS). Set up in 1989 and given start-up funding until 1994 by the Housing Corporation and the Department of the Environment, this scheme is still active through support from the DCLG and British Property Federation. The first LOTS scheme, completed in Stamford in 1992, was funded through partnership between the Housing Corporation (70%), the owner (25%) and the local authority (5%). In 1991, the Housing Corporation and the DoE launched their own three-year initiatives - Social Housing Over Shops (SHOSS) and Flats Over Shops (FOS). These were evaluated in 1995 and 1997 respectively by Sheffield Hallam University (SHU) and South Bank University (SBU).
39. Under SHOSS, 77 schemes were completed, producing 436 flats. FOS supported 438 schemes with 1,436 flats. In its evaluation of SHOSS, SHU concluded that

the schemes represented good value for money in terms of the costs of refurbishment, but poor value in terms of the time housing association staff had to put into negotiating with the owners, and the length of time then taken to complete the works. SHU commented that *'This is a slow way to produce housing.'* Finally, once the rents were affordable to the tenants, they only represented break-even point for the associations because of the rental income they were obliged to provide the owners through arrangements similar to PSL. In their review of the use of existing stock in rural England, Oxford Brookes University (OBU) reach a similar conclusion that LOTS schemes were *'very labour intensive requiring considerable negotiation with owners, and the same amount of effort required regardless of the size of the scheme'* – and, at the end, no guarantee that they would in practice be lettable as social housing. (OBU, 33).

40. Most of the flats produced through LOTS-type schemes were small, with only one or two bedrooms, suitable for single people or couples without children. SHU remarked that *'Houses over shops are, with good reason, generally considered unsuitable for people with physical disabilities, the frail elderly or for families with children'*, and proposed that they were most suitable for *'young, single people'* SBU came to the same conclusion with FOS: *'Single person households and couples were most satisfied with this type of accommodation.'* They valued the access to shops and transport, and were less concerned about the environmental disadvantages and noise in town centre locations.
41. That is to say, flats over shops were best suited to a section of the community that was least likely to be eligible for social housing, and SBU confirmed that most local authorities considered the schemes *'marginal'* to the alleviation of housing need. On the other hand, the local authorities *'regarded them as an important and integral part of overall housing strategy'* and recognised their contribution *'to the maintenance and improvement of the local environment'*. This anticipates CIH's recommendation that PSL should form part of a holistic housing strategy. The development of flats over shops is supported by local authorities as a desirable environmental objective, it brings empty properties back into use and it increases the supply of housing – but it does not necessarily create new social housing.
42. This conclusion is confirmed by the LOTS website, where all the case studies of recent schemes present commercial developments that have produced small units at higher rents for single people and couples. These were supported by the local authorities, for their environmental advantages and to boost the private housing market, rather than for social housing objectives. There is a widespread perception among social housing specialists that the LOTS-style initiative has failed, but that holds true only within the narrow confines of social housing. In market terms, it is a success. Several major retailers, notably Tesco and Marks & Spencer, now include housing within their superstore and high street developments. Tesco worked with the Housing Corporation and London Housing Federation to produce a feasibility study on *The potential for providing homes above large foodstores in London* in 2002, and is said to be planning up to 5,000 homes as part of its store development programme over the next five years. Some of the most expensive property in the UK, which is to say in the world, is located above shops, garages and other commercial premises in such areas as

Mayfair and Chelsea – premium rates can be charged for top quality accommodation offering excellent access to local facilities and transport.

43. Since LOTS-type schemes can make a substantial environmental impact in bringing life back to commercial areas and utilising empty residential space, and since there is undoubtedly a market for them, associations ought seriously to consider them as part of a portfolio of work with the private sector, whether on a PSL basis or other arrangements. Their success will depend on effective targeting. LOTS properties are probably not normally suitable for most general needs tenants or the majority of homeless households allocated temporary accommodation, but they may be appropriate for the priority single homeless, such as those with mental health or dependency problems, or other support needs. There might also be opportunities for market renting or for serving the intermediate market to help reduce pressure on social housing stock. Similar arguments apply to much of the smaller accommodation available through PSL.

IV. Housing Market Package (HMP)

44. The Housing Market Package (HMP) was a short-term scheme designed to boost the housing market. It was announced on 12 November 1992, and provided the Corporation an allocation of £577 million that associations had to spend on purchasing properties by 31 March 1993. Despite the short notice, the money was spent and the HMP purchased 12,212 units. Although the initiative was largely discredited – both at the time and with hindsight – it does raise some useful questions about bulk purchase and the potential for intervention by associations in regeneration.
45. The evaluation of the HMP by Touche Ross pointed out that from the outset its aims were contradictory. The Treasury introduced it to kick-start the housing market, and supporting social housing was a secondary objective. However, by statute the priority of the Housing Corporation and associations was to meet housing need, so associations' priority was to acquire property suitable for letting as social housing so that they could meet the grant conditions. In the event, because of the time constraints, the normal processes of matching HMP allocations to local assessments of housing need were not followed, and the HMP was to a large extent discredited. As Bacon and Davis found when they canvassed associations' views on their plans for the future a few years later:

'many associations now regret the haste with which the HMP was implemented because it precluded the development of any coherent or co-ordinated strategy with local authorities' (B&D, 41).

46. This probably remains the consensus of opinion on the HMP among associations, local authorities and the Corporation. However, in practice it is fair to say that the main weakness arose from the pressurised timetable and from the poor planning. The concept of bulk intervention by associations in local markets remains interesting, provided the issues are properly thought through beforehand and local authorities are fully engaged as strategic authorities, and has continued in the guise of the Existing Satisfactory Purchase Scheme, Purchase and Repair

Schemes, etc. With the rising housing market of the 2000s, associations might be competing with first-time buyers.

V. Lead Tenancy Scheme (LTS)

47. The Lead Tenancy Scheme (LTS) was introduced to Scotland in 1992. It shares some features with HAMA Plus. It was established as a means of providing grant-aid to refurbish empty and run-down properties so that they could be made available for social housing. Landlords were given a grant to contribute towards the renovation of the empty properties. They were then leased to an association for up to 20 years – in effect becoming part of its own stock, so it was not used specifically to alleviate homeless but was let as general needs units. Throughout the period of the lease, rent was payable to the landlord, with management fees – usually at 15% - deducted. The scheme had limited success, mainly because of the difficulties of negotiating satisfactory leases – schemes were costly and time-consuming to set up, one association describing it as ‘*a bonanza for solicitors*’. The scheme was extremely small scale – just 28 properties supporting 252 tenancies, so one has to be cautious about drawing conclusions from it. Overall, LTS received a mixed assessment from the associations involved when a team from the University of York evaluated it in 2004 – some said they wished they had never taken it up, others said it was worth continuing. The evaluation team recommended on balance that the initiative was worth relaunching, but that its administration and system required radical review. They concluded that:

‘Despite these difficulties, the value of the LTS as a housing rather than strictly speaking a homeless initiative was recognised by many respondents. The scheme offered the flexibility to target particular properties that might have strategic importance in small communities, and secured a housing association presence in inner-city locations where new build may not have been possible’ (York, 21)

VI. Landlords and their expectations

48. The HCH studies did not consider the attitudes of landlords in any detail, but in 1994 the LRC conducted a survey of landlords who were participating in HAMA, and this provides insights into the motivations that underlie landlords’ participation in and expectations of PSL (LRC, 1995, 25-29):
- (a) Over three-quarters (78%) of the landlords owned two or less properties, with 39% owning only one property – this reflected the findings of a survey of local authority PSL activities conducted by the LRC in 1990, which found 39% of landlords involved in PSL owning one property and 43% owning 2-4 properties (LRC, 1991, 33);
 - (b) For 43% of landlords, HAMA represented their first experience of letting a property;
 - (c) Only 1% of the owners owned 50 or more properties;

- (d) No less than 91% of landlords expressed themselves very or fairly satisfied with the service provided by associations, compared with 68% who were very or fairly satisfied with private agents (only 16% 'very satisfied' with private agencies against 44% 'very satisfied' with associations) – in the 1990 survey, 94% of landlords were 'very or fairly satisfied' with the services provided by local authorities under PSL;
 - (e) 59% of the properties taken into HAMA had been vacant, and 20% of these had deliberately been kept empty by their landlords 'because of trouble with finding good tenants;'
 - (f) Over a third of the properties offered to associations under HAMA were rejected because the costs of repairs to bring them up to a lettable standard were too high – but only 2% of landlords thought their properties were unlettable because of disrepair;
 - (g) Initial repair works to bring the property up to lettable standard were in almost all cases the responsibility of the owner, and 12% of the landlords who withdrew their properties from HAMA said it was because the association demanded 'excessive' repair work, while a further 14% said associations were more generally 'too fussy.'
49. The LRC survey of HAMA landlords conforms to the overall profile of private landlords. The latest national survey of private landlords, conducted in 2003 as part of the Survey of English Housing and published in 2006, presents comparable data:
- (a) Two-thirds (67%) are private individuals and their representation in the sector appears to be increasing – 88% of new landlords are individuals, nearly three-quarters of whom (72%) have no previous experience of property management or building;
 - (b) One-third of all landlords (33%) own only one property and altogether 55% have less than five properties;
 - (c) Nearly two-thirds of all landlords (62%) receive less than a quarter of their income from their property, including 16% who receive no income from it at all;
 - (d) Two-thirds of all PRS stock (64%) is owned by part-time landlords;
 - (e) Less than a fifth of landlords are members of professional or representative bodies;
 - (f) Although over two-thirds of landlords (69%) said they had bought the property with the intention of letting it out, the remainder said that they were not looking for rental income. Since only a third (64%) of properties have an outstanding loan or mortgage attached to them, the pressure to generate income, rather than await capital appreciation, may be low. The

IFS study in 1997 found landlords *'were often content with rent levels that covered their mortgage'* - sounding a note of caution to economic theorists of the housing market, IFS pointed out that *'this sort of behaviour does not easily accord with the usual economic models.'*

50. Overall, then, the landlords who engaged in HAMA in the 1990s were fairly representative of the sector as it now exists - small operators, not professional, with only a few properties, interested in maintaining their investment and covering their costs as the capital appreciates rather than in making a profit from the revenue. The main difference may be that the IFS study found that many of the landlords in 1997 had been caught by the collapse of the housing market and were letting only because they could not sell, whereas under the current rising market, the SEH analysis presents an expanding population of landlords.
51. The LRC survey produced a ranking of the features of HAMA most liked by the landlords:
1. Property kept in good condition;
 2. Guaranteed income;
 3. Length of agreement;
 4. Prompt rent payment;
 5. Association is trustworthy/provides good service;
 6. Peace of mind;
 7. No contact with tenants;
 8. No hassle/responsibility.

It is striking that the guaranteed income is only second in the list, after the maintenance of the investment. This confirms the impression given both by the LRC survey and the SHE. Keeping the property in good condition was the priority, so that the value would appreciate. Overall, although 'peace of mind' as a specific advantage falls only sixth in the list, in effect the whole list can be summarised as providing peace of mind for the landlord that the investment is secure.

52. Against that, Shelter has reported on the difficulty of establishing PSL in rural areas where affordable accommodation is in short supply but landlords can get better incomes from holiday lets (Shelter, 19). In these areas, immediate rental income may have been the primary motive for purchase, in which case the landlords are unlikely to be prepared to compromise on rents – especially if they also wish to keep the property available when required for holidays for themselves, family and friends.
53. The LRC survey revealed a divergence of opinion between associations and landlords on appropriate property standards, with a large number of properties rejected by associations as unfit to let, landlords withdrawing their properties because of associations' requirements for works to improve their condition, and some grumbles from landlords about associations being 'too fussy.' 46% of PRS homes failed the Decent Homes Standard in the 2003 SEH survey, compared with 23% of association homes in the same year. Bringing PRS homes up to a lettable standard therefore remains a concern and a potential source of dispute.

The SEH analysis found no pattern to the distribution of non-Decent homes – they were spread fairly evenly among all sorts of landlord. After HB, landlords identified repairs as their main problem – 17% complaining of the difficulty of finding reliable builders and 16% of the cost of repairs.

54. A strong message from the LRC survey in the early 1990s and the SEH in the early 2000s is that many landlords appear to view their property as a capital asset rather than a source of income. They wish to cover their costs – and no doubt if possible turn a profit as well – but their priority is to safeguard their property so that it increases in value. If associations wish to involve landlords in PRS, therefore, the selling point might be peace of mind rather than high income – the ‘hassle-free’ service highlighted by the LRC. Given the nature of the client group and the contortions of the HB system, peace of mind could be an extremely attractive proposition.

VII. Communication with landlords

55. The recruitment of landlords as partners in PSL and other initiatives requires effective communication. The LRC reported that the most effective method of promoting awareness of HAMA in 1995 was the reputation of the association, spread through word of mouth by the landlords’ solicitors or other owners. Reputation was enhanced in areas where the association already had a substantial portfolio of stock. The least effective vehicle was radio advertising. Other methods included mailshots through estate agents and magazines (LRC, 1995j, 12).
56. The SEH in 2003 asked landlords what sources of information they used on health and safety, renting as a business and dealing with tenants.
57. The sources for renting as a business are most likely to be relevant for associations seeking to interest private landlords in partnership arrangements. The SEH ranking was:
1. Accountants
 2. Inland Revenue
 3. Solicitor
 4. In-house experts
 5. None

The Internet, agents, landlords’ associations, professional bodies and trade associations were ranked almost equally, below ‘none, but higher as sources of information than local authorities and Citizens Advice Bureaux.

58. Solicitors formed by far the largest source of information on dealing with tenants, followed – a long way behind - by agents, landlords’ associations and trade associations.
59. It appears then that the HAMA associations got it right when they approached the associations through their solicitors. Overall, they appear to be the single most

trusted source, since they are also third on the list of sources for advice on health and safety (after the Internet). A variety of messages could be delivered through them. If PSL arrangements are marketed as business opportunities, then accountants could play a part. Professional organisations could be targeted if PSL and other partnerships with associations were to be presented as ways of avoiding dealing with troublesome tenants.

60. It is clear that local authorities do not loom large in private landlords' thinking about trusted sources of advice. Nevertheless, local authorities can play an effective role in facilitating structured methods of communication such as landlord forums. The Audit Commission advises in its relevant Key Line of Enquiry for the Inspectorate that an 'excellent' local authority:

'Works with a forum of landlords/lettings agents and other property owners that meets regularly and is both an arena for providing information and also a body that helps develop services and policy.' (KLOE 9)

The 2006 CIH report discusses ways of enhancing the effectiveness of landlord forums, in order to promote partnership working between the local authority and the private sector, and gives examples of models adopted in different parts of the country. At one extreme, a landlord forum can evolve into a full landlord association, as has apparently happened in Bolton. CIH also recommend training, conferences and other events targeted at private landlords to promote good practice, enhance awareness of local issues and policies and share information. Some local authorities employ Landlord Liaison Officers, to provide a single point of contact for enquiries, and some have landlord newsletters. The CIH also recommended closer working with landlords more generally on issues of strategic interest, to help break down the mutual suspicion that often exists.

61. A particular concern was that local authorities were not well informed about the profile of landlords operating in their areas. They believed – but did not know – that most were small investors but in practice, not surprisingly, found it easier to deal with portfolio investors, whose interests and motivations are likely to be significantly different and who could be approached as one bureaucracy to another, rather than having to deal with the multiplicity of attitudes and varying degrees of professionalism among individual landlords. (CIH, 2006, 19-22, 44-49). Since the SEH analysis confirms that the overwhelming majority of private landlords are indeed small investors, it is likely that forums fail to target the great body of landlords who are not members of associations. However, smaller landlords might be interested in training or awareness-raising events if the information was passed to them through their solicitors or accountants.
62. The CIH report raised concern about the lack of representation of black and minority ethnic (BME) landlords in local authorities' PRS schemes, landlords' forums, events, etc. The SEH does not present information on the ethnicity of landlords but it is reasonable to suppose that there is a fair presence of BME landlords, especially in London and metropolitan areas. There is evidently a need both for ethnic monitoring and for taking active steps to increase the involvement of BME landlords in local initiatives.

63. It is not clear to what extent associations normally participate in landlords' forums and other events. Given the important role played by associations in local housing strategies, they clearly ought to be involved, even if they do not directly engage in PSL or other activities relating to PRS.
64. In this context, the use of the term 'landlord' may have limiting effect. The 2003 SEH analysis found that 14% of 'landlords' received no rental income, while 43% of the owners in HAMA had not previously let their properties. Such people may not think of themselves as landlords and may not pay attention to information targeted at landlords.

VIII. Strategic use of local housing stock

65. PSL (and HAMA) was originally conceived to draw on local reserves of housing stock to alleviate homelessness, and that remains its primary focus. However, the better utilisation of local housing stock goes wider than homelessness and the CIH report in 2006 stressed the importance of integrating PSL more fully into local housing strategies. It noted that few local authorities considered PSL schemes to be part of their PRS strategy. Instead, they were run by homelessness teams as an extension of their homeless policies. Consequently, the PRS and empty homes teams lacked information about the location of PSL properties and the nature of the leases, and so opportunities for more coordinated thinking to make better use of all the local properties were missed. CIH recommended that viewing PSL as part of the private rented function would facilitate *'a holistic overview of the sector and ensure different aspects of work with the sector are coordinated and mutually reinforcing'* (CIH, 16). This appears to have been the thinking behind the LTS initiative in Scotland, despite its limited success in practice. Similar arguments apply to LOTS schemes.
66. LRC reported in 1995 that HAMA was used more broadly by some local authorities to strengthen their local housing strategies, allocating people to HAMA who would not normally get access to local authority or housing association tenancies, such as single people and others with a low housing priority. In this way, HAMA supplemented the local stock of social housing and facilitated greater flexibility in the allocation of housing.
67. There is accordingly scope for using PSL to meet objectives beyond homelessness, in some cases by extending it to the intermediate rental market of people in housing need, such as single people, who would not normally be given priority for local authority nomination – or even considered for nomination. It might therefore be appropriate to bring smaller properties into associations.
68. This raises the question of the other objective of PSL – to bring empty properties back into use. HCH recorded increasing interest in 2002 in associations purchasing properties on the open market for leasing back to local authority PSL departments, other associations or indeed to use the properties themselves on similar terms to PSL. HCH recommended the establishment of a specialist property company with capital subscribed by a consortium of partners, to

purchase properties, lease them out and recoup the mortgage costs through the rental income subsidised by HB. (HCH, 2002, 23).

69. Whether inspired by the HCH report or not, this model has now been implemented through the Local Space Housing Association, which was registered with the Housing Corporation in 2006. Local Space has received SHG from the Corporation and funding from the Royal Bank of Canada, and has a partnership agreement with the London Borough of Newham to deliver, in the first instance, 1,000 homes for PSL. In the longer term, it plans to deliver 40,000 homes. All of these would revert to general needs housing at affordable rents once sufficient capital has been built up through market-rented temporary accommodation to discharge the mortgage. Similar models have been adopted by Liverpool City Council and Sunderland Housing Group, working with the 'Temporary to Permanent' scheme developed by private management agents, Orchard and Shipman, with finance through Lloyds TSB.
70. Meanwhile, there is the question of bringing back into use empty properties whose owners have no plans to sell. It remains to be seen how local authorities will use their enhanced powers under the Housing Act 2004 to bring long-term empty properties into use. These powers came into effect in 2006. The CIH study found that some local authorities were considering making use of Empty Dwelling Management Orders (EDMOs) but were held back by concerns over their implementation. Local authorities did not have the capacity to administer EDMOs in-house and 'had struggled' to find organisations willing or able to carry them out. Since rent is not payable to landlords for the duration of the EDMO (a maximum of five years), such schemes would in theory be more attractive commercially than PSL. However, potential managers were deterred by uncertainties over the financial arrangements and the difficulty of preparing business strategies when local authorities were unable to predict how many orders there might be. Many were put off by the prospect of taking on houses in multiple occupation, and some associations simply were not interested in the PSL-style role. Clearly, there is a need for local authorities to be given good practice advice and a range of model agreements to clarify their discussions with potential managers, and CIH recommended that LACORS should take up the challenge (CIH, 15, 33-34). Those associations with an interest in PSL are obvious candidates for administering management orders if the arrangements can be clarified.
71. Local authorities rightly saw EDMOs as 'very much a last resort,' but the threat would presumably provide effective leverage for persuading landlords of empty homes to join PSL schemes. Again, there could be scope for associations involved in PRS to work with local authorities on this.
72. Further issues for consideration include:
 - (a) What is the scope for extending the use of PSL and LOTS as vehicles within an holistic housing strategy to accommodate households that are not in priority housing need as defined by statute, in order to relieve pressure on the supply of affordable housing?

- (b) What models are in place or could be proposed to purchase properties on the open market for PSL, as a means of meeting the immediate need for temporary accommodation while increasing the supply of social housing in the long term?
- (c) Is there a role for associations in managing properties administered through management orders under the Housing Act 2004, or for working with local authorities to put pressure on landlords with empty properties to join PSL schemes?
- (d) Is there anything to be learned from LTS in Scotland?

IX. Skills and resources needed by associations

73. Almost all of the literature takes for granted the skills and resources needed by local authorities and associations to deal with the PRS. Only the HCH reports emphasised that *'the skills required by association staff to manage the PSL stock differ from the skills required for general needs management'* (HCH, 2002, 5). Strong commercial skills are needed, such as *'a credit control mentality to keep cash flow under close scrutiny'*, familiarity with debt recovery procedures, risk management, contract management, etc. In addition, they need to be at ease in an uncertain, constantly changing environment that is closer to the commercial world than the world of social housing, with tenants leaving before their HB status has been clarified, tenants losing their HB entitlements, high and unpredictable void rates, etc. All of these factors apply in general needs housing, but they present administrative challenges rather than financial crises (HCH, 2001). HCH commented that: *'It is difficult to recruit staff with these skills from within the social housing sector and to entice staff from the commercial sector'* (HCH, 2002, 5).
74. HCH also highlighted the importance of robust arrears monitoring and credit control procedures and the maintenance of IT and financial systems that can adjust to rapid changes in the administration of HB.
75. Although HCH discuss the skills needed from staff, the appropriate IT and financial systems and also mention, without elaborating upon, the need for appropriate administrative structures for associations that are contemplating PSL, these questions of organisational development are the least well researched aspect of PSL operations.
76. The discussion above of the expectations of landlords and communications with them begs the question that local authorities and associations have the necessary skills, understanding of the sector and time to devise appropriate marketing, communication and training strategies.

X. Conclusion: Issues for further consideration

77. Over the past twenty years, various forms of partnership have been undertaken between associations and the PRS, with PSL the dominant model. For the most part, they demonstrate a successful history of partnership, although there are

issues about the management and apportionment of costs and risks, and up to now the schemes may have been too closely linked to the direct relief of homeless rather than forming part of coherent local housing strategies.

78. Questions raised by the current literature for further consideration include:

- (a) What in fact is current practice on guarantees to landlords under PSL agreements – do associations cover rent on voids, and if so, is this a necessary cost?
- (b) On balance, do landlords put greater value on a guaranteed income or the safe return of their investment at the end of the lease?
- (c) How effectively do associations handle cash flow problems and mitigate risks in PSL?
- (d) Whatever arrangements are made, are the overall costs of PSL-style arrangements normally reasonable, who bears them and who carries the risk?
- (e) Since HB both underwrites and undermines the viability of temporary accommodation schemes like PSL:
 - (i) How successfully do associations deal with the cash flow problems presented, and how large a disincentive is HB for association participation in PSL?
 - (ii) Is it reasonable to suppose that private landlords might be less receptive to temporary accommodation schemes if the system was more stable?
 - (iii) What impact will the introduction of LHA have?
- (f) Is there objective evidence for the high turnover in temporary accommodation resulting from abandonment rather than rehousing?
- (g) If so, would turnover be reduced if households were given additional support to help maintain their tenancies, and who would pay for such support?
- (h) Does unwillingness to deal with troublesome tenants make landlords more willing to lease their properties to third parties?
- (i) Would the Law Commission's proposed tenure reforms assist?
- (j) To what extent should temporary accommodation schemes be developed specifically to ameliorate homelessness, and to what extent should they form part of a broader housing strategy?

- (k) Is there scope for associations to widen their interest in taking over temporary accommodation, for example by taking over management of properties in run-down areas and letting them to a broad range of clients - key workers, the intermediate market, market renting, etc? Are there any useful lessons to be learned from LTS or even HMP?
- (l) What part might LOTS-type schemes play in such initiatives?
- (m) What scope is there for associations to manage local authorities' empty properties that have been subject to management orders, or to work with local authorities and landlords to bring such properties into management without the need for such orders?
- (n) To what extent should associations consider taking on management responsibilities for houses in multiple occupation – especially in areas where there are large numbers of migrant workers?
- (o) How well do associations and local authorities understand the motivations, expectations and concerns of private landlords, and do they have an adequate awareness of the local profiles of private landlords?
- (p) To what extent have associations and local authorities taken a view on the types of landlord they wish to attract into partnership – e.g. corporate/small?
- (q) How effectively do associations and local authorities communicate with private landlords, to what extent do they work together on this and are associations represented on landlord forums?
- (r) To what extent should communication (including training and awareness events) be aimed directly at landlords and to what extent at the people they trust, such as solicitors, accountants and professional bodies, who represent a smaller and more easily accessible target group?
- (s) Is it true that landlords' forums may leave out small landlords? If so, do local authorities and associations consider that a problem?
- (t) What steps have associations taken to engage with BME (black and landlords)?
- (u) How effective are local authorities and associations at getting messages about bringing empty property back into residential use across to all property owners, not just those who consider themselves to be landlords?
- (v) Are there examples of good practice in communication with landlords?
- (w) What skills do associations require to develop and nurture effective partnership working with the PRS, and to what extent do these already exist within their staff?

- (x) What skills do associations require to manage the risks inherent in PSL and to maintain viability despite often critical cash flow concerns, and to what extent do these already exist within their staff?
- (y) What skills do associations require to provide support to tenants in temporary accommodation, to help them sustain their tenancies, and to what extent do these already exist within their staff?
- (z) Having established what skills are needed, what steps do associations take to ensure they are in place?

79. Issues that have not been covered in the literature include:

- (a) The scope for associations to run tenancy deposit schemes for private landlords, now that these have been made mandatory by the Housing Act 2004;
 - (b) The place of supported housing in PSL-type schemes – there appears to be a general presumption that they are not suitable, but that may no longer be the case now that floating support is becoming more common – and that might be a service associations themselves could offer private landlords;
 - (c) A better understanding is needed of the profile of landlords, their stock and their tenants in local areas.
-

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**ONLINE SURVEY OF HOUSING ASSOCIATIONS: SUMMARY OF FINDINGS
(as at 14 March 2007)**

N.B. Where a bullet point has a bracket with a number in it, the number represents how many organisations made a similar comment.

1. BENEFITS OF WORKING WITH PRS

1.1 Currently involved organisations (Q3)

- (a) Extension of provision of services:
 - Different route for young people;
 - Greater ability to meet housing demand in overstretched areas; (3)
 - Extension of geographical areas;
 - More services in existing areas; (3)
 - Cuts the numbers in temporary accommodation.
- (b) Residents get a good deal from the arrangements.
- (c) Building new relationships:
 - With local authorities; (3)
 - With private landlords;
 - Securing long term development partners.
- (d) Additional income for Housing Association: (3)
 - Ability to spread overheads;
 - Extends the range of housing options available to association.
- (e) Gaining wider experience of the sector.

1.2 Previously involved organisations (Q25)

- (a) Extension of provision of services. (2)
- (b) Able to extend development plans in difficult areas.
- (c) Building closer relationship with local authorities.
- (d) Additional income for association.
- (e) Ability to spread overheads.

2. DISADVANTAGES OF WORKING WITH PRS

2.1 Currently involved organisations (Q4)

- (a) Difficult to explain/sell it to tenants.
- (b) Some landlords can be difficult to work with:
 - Unrealistic views of rental yields;
 - Unfriendly or absent people.

- (c) Local authorities do not value the service and think they can do better themselves.
- (d) Lack of tenure security.
- (e) Staffing provisions necessary to complete the extra admin required. (2)
- (f) Maintenance and repairs need to be monitored.
- (g) Risk:
 - Unsuccessful schemes can have a dramatic effect on the local authority's performance;
 - Termination of the lease can be expensive – getting the property back to the high standards expected from landlords; (2)
 - Financial risk. (5)
- (h) There are no disadvantages or risks. (2) (*Both very large associations*)
- (i) The rents charged, based on landlord rents, are not affordable rent levels for the majority of tenants. (2)

2.2 Previously involved organisations (Q26)

- (a) Association lost money:
 - rental income did not cover the financing of the preparatory works and maintenance;
 - heavy handback costs at end of lease. (2)
- (b) Poor quality properties.
- (c) Landlords had unrealistic expectations.
- (d) Absentee landlords.

3. **EXPECTATIONS (how has it/did it differ?)**

3.1 Currently involved organisations (Q5)

- (a) The reality did not differ from our expectations. (8)
- (b) The reality exceeded our expectations:
 - Association managed to help hundreds of families in urgent need, many of whom went on to home ownership;
 - Benefits were not expected.
- (c) The reality was not what we had expected:
 - Association underestimated the intensive nature of the scheme
 - A scheme that was intended to cover its own cost is experiencing operational losses;
 - Difficulties working with some landlords; (2)
 - Mistakes have been made that have now been covered by amending policy;
 - Some local authorities are not realistic about their expectations in relation to transferring all risk to the association;
 - Long term agreements are not practical to terminate early;

- It was hoped that the scheme would lead to development opportunities but this did not happen.

3.2 Previously involved organisations (Q26)

- (a) The reality did not differ from our expectations.
- (b) The reality was not what we had expected:
- More work;
 - Some properties were difficult to let;
 - Ongoing communication with local authorities was necessary to minimise problems.

4. PLANS FOR THE FUTURE

4.1 Currently involved organisations (Q6) - more or less involvement?

No Response	5
About the same	9
Less	5
More	14
Unable to comment	2

4.2 Previously involved organisations (Q32) – consider working with PRS again?

No Response	3
Unable to comment	1
Yes	4

4.3 Never involved with PRS (Q50) – consider working with PRS in the future?

No Response	2
No	1
Unable to comment	9
Yes	18

5. REASONS FOR NOT BEING INVOLVED WITH THE PRS

5.1 Never involved with PRS (Q48)

5.1.1 Reasons for never being involved:

- (a) The need has never arisen. (3)
- (b) The opportunity has never arisen. (4)
- (c) The local authority uses to PRS to house the homeless. (3)
- (d) More focused on other strategic areas. (3)
- (e) Why should we?

- (f) Not aware of any PRS activity where our stock is.
- (g) Recently formed LSVT with other priorities. (8)
- (h) We provide intermediate market accommodation and are providing an alternative to private rent for its LCHO and keyworker clients.
- (i) Lack of resources/time.

5.1.2 What factors would stop you being involved in the future?

- (a) We do not need to become involved.
- (b) Standard of property.
- (c) Finances:
 - Value for money;
 - Extent to which costs might be underwritten until the arrangements became operationally viable;
 - Service efficiencies – cost effective.

5.2 Previously involved organisations (Q28)

5.2.1 What caused your organisation to stop its involvement?

- (a) The long leases expired and due to increases in the market value, the owners wanted to release their equity. (2)
- (b) Costs associated with management and handbacks. (3)
- (c) Association developed its own working model for redeveloping street properties that was more cost effective.
- (d) Took up more staff time than it was worth.

5.2.2 What factors are discouraging your organisation from becoming involved again?

- (a) Finances:
 - uncertainty of income source;
 - managing relationships with private landlords is expensive;
 - we would have to set up a market rented division to carry out some of the management functions;
 - lack of investment.
- (b) Involvement of potential rogue landlords.

5.3 Currently involved organisations (Q8)

5.3.1 What factors are, or would, drive you to become less involved?

- (a) Loss of funding. (6)
- (b) Very short-term leases.
- (c) Movement away from management agreements with landlords for 1/2 units as the administrative burden is too high.

- (d) Reducing the number of HALS schemes as pricing the risk of these schemes into the operating costs is prohibitive for our local authority partners.
- (e) Collective risk managements implications of a large portfolio. (2)
- (f) Local housing market is difficult in terms of high private landlord rents and a shortage of decent properties.
- (g) Further regulation of rents and housing benefits.
- (h) If there was no demand for temporary housing.
- (i) A lack of risk sharing between the local authority and housing association. (3)
- (j) Severe market changes.
- (k) Introduction of Housing Benefits to be paid direct to the tenants.
- (l) Joining a group structure with an existing member specialising in this activity.

6. DIFFICULTIES RELATING TO GEOGRAPHICAL AREA

6.1 Currently involved organisations (Q9)

- (a) Affordability – PRS in London that may adversely affect association ability to get people interested. (2)
- (b) London is a problem because of poor performing Housing Benefit services.
- (c) There does not seem to be a difference in demand for our service in relation to geographic area. (3)
- (d) In affluent areas, it can be hard to engage the PRS as they have less incentive to work with us.
- (e) Difficulty lies in rural areas where there is a supply/demand imbalance. (2)
- (f) The engagement needs to be local and entrepreneurial to function effectively.

6.2 Previously involved organisations (Q30)

- (a) In high demand areas it is difficult to engage PRS for financial reasons.

6.3 Never involved with PRS (Q49)

- (a) Limited capacity due to the high rented accommodation present in this area.
- (b) Very rural area - low social housing numbers, many small private sector landlords.

7. DRIVERS FOR BECOMING MORE INVOLVED IN PRS

7.1 Currently involved organisations (Q7)

- (a) Additional funding. (2)
- (b) Local authorities being clear on their strategy for the PRS.
- (c) Offers with more than a 10 year lease.
- (d) Demand from private landlords through partnership schemes to bring empty properties back into use.
- (e) Guarantee the standard for the private property. (2)
- (f) Involvement in homelessness prevention agenda. (3)
- (g) To spread the overheads further. (2)
- (h) The need to provide increased housing options for people. (6)
- (i) Local authority encouragement. (3)
- (j) Better local market conditions.
- (k) If Housing Benefit limits were relaxed for associations.
- (l) Increased competition.
- (m) Reduced funding from government.
- (n) Potential efficiency savings through economies of scale.
- (o) Encouragement from private sector landlords.

7.2 Previously involved organisations (Q29)

7.2.1 What would have encouraged you to continue your relationship with the PRS?

- (a) Property owners prepared to accept a rate of return lower than other investments.
- (b) Nothing.
- (c) Stock investment by landlord.
- (d) Increase in management fee.
- (e) Larger portfolio.
- (f) More capital to do better job initially.
- (g) Having blocks of property – fewer owners.
- (h) Ongoing need.

7.2.2 What factors are driving you to become involved again?

- (a) We would need to be confident in a source of funding sufficient to cover any loans for essential work.
- (b) If there were tax breaks (e.g. VAT), we would consider involvement as a managing agent acting on behalf of private landlords.

- (c) We are developing a new model based on Home Challenge that acquires properties from private landlords and turns them into higher quality products.
- (d) If it was a good business opportunity.
- (e) If it were part of a joint relationship e.g. a renewal area or New Deal type area.
- (f) A venture where the association could assist in letting and managing private sector units to create sustainable communities,

7.3 Never involved with PRS (Q51)

- (a) Meeting housing need. (4)
- (b) Commissioning from local authorities. (2)
- (c) Access to funding / support for initiatives. (4)
- (d) Robust relationship with the council. (2)
- (e) Partnership with key organisations – clear agreements and quality thresholds for membership.
- (f) If it was in the defined geographical area within which the association works.
- (g) Give the PRS access to mainstream services inc. the Housing register and CBL.
- (h) Open to working with the PRS as a managing agent.

8. RISKS

8.1 Currently involved organisations (Q10)

- (a) Loss of reputation due to inappropriate placements/poor quality housing. (6)
- (b) Local authorities are the biggest risk.
- (c) Lack of tenure security. (3)
- (d) Loss of funding.
- (e) Risk for local authorities is if they take a property with a high rent and do not have an occupier. (2)
- (f) Implementation of repairs from landlords.
- (g) The amount of time it takes.
- (h) Poor or misunderstood legal agreements.
- (i) Landlords wanting to sell properties (leaving people homeless once again).
- (j) Housing benefit.
- (k) Rely on local authorities for nominations. (2)

- (l) Financial risk relating to tenant damage. (2)
- (m) Higher rents being charged.
- (n) Changes in HB policy. (4)

8.2 Previously involved organisations (Q31)

- (a) Financial risk due to tight margins.
- (b) Damage to association's reputation. (3)
- (c) High void rates.
- (d) Security of tenure.
- (e) Lack of regulation in PRS.
- (f) Poor condition of stock.
- (g) Lack of experience with working with the PRS.

9. INTEREST AMONG PRIVATE LANDLORDS, PROPERTY OWNERS AND POTENTIAL LANDLORDS

1 = Not Interested at all 1 2 3 4 5 Unable to Comment
 5 = Very Interested

	1	2	3	4	5	Unable to Comment
11. Working with PRS	0	9	9	10	1	1
35. Formerly working with PRS	0	4	1	0	0	0
52. Never worked with PRS	2	6	6	0	0	12
Total	2	19	16	10	1	13

10. REASONS FOR PRIVATE SECTOR INTEREST

10.1 Currently involved organisations (Q12)

- (a) Ability to let properties quickly.
- (b) Guarantee of deposit.
- (c) Support provided to tenants by association, inc. property management. (7)
- (d) Guaranteed income – low risk. (11)
- (e) Professional service provided by association. (2)
- (f) The desire to help those in need of housing. (2)
- (g) Condition of property when returned.
- (h) No voids period. (6)

10.2 Previously involved organisations (Q36)

- (a) Housing management. (2)
- (b) Lack of family accommodation availability.
- (c) Sense of social conscience.
- (d) Cheaper alternative to estate agents.

10.3 Never involved with PRS (Q53)

- (a) Reduced risk.
- (b) Guaranteed income. (6)
- (c) Housing management. (6)
- (d) Incentives offered. (2)
- (e) Expanding services.

11. REASONS FOR PRIVATE SECTOR UNINTEREST

11.1 Currently involved organisations (Q13)

- (a) Perceived difficulties that a tenant coming from an association may present, such as additional support. (8)
- (b) Fear of having to deal with the Housing Benefit system. (2)
- (c) Low income for high expectations from associations. (2)
- (d) Ability to obtain a higher rate of return from private sector tenants. (10)
- (e) HAs seen as competitors.
- (f) Lack of knowledge of associations.
- (g) High wear and tear of properties. (2)
- (h) Language and cultural barriers.

11.2 Previously involved organisations (Q37)

- (a) Ability to obtain a higher rate of return from private sector tenants. (2)
- (b) Perceived difficulties that a tenant coming from an association may present, such as additional support. (2)
- (c) Disinclination to help those who need social housing.
- (d) Desire to remain independent.

11.3 Never involved with PRS (Q54)

- (a) Poor communication from association. (2)
- (b) Undesirable clients. (4)
- (c) Ability to obtain a higher rate of return from private sector tenants.
- (d) Poor reputation of social housing. (2)

- (e) Desire to remain independent. (3)
- (f) Lack of awareness.
- (g) Reluctance to pay management fee.
- (h) High standards expected from associations. (2)
- (i) Lack of knowledge of social housing sector. (2)
- (j) PS landlords want longer term tenancies.

12. IMPROVING RELATIONSHIPS WITH THE PRS

12.1 Currently involved organisations (Q14)

- (a) Easier to build up a working relationship with larger landlords than doing it property by property with smaller landlords.
- (b) NHF and HC need to be more proactive in promoting the benefits of associations as landlords. (4)
- (c) Meet with Private Landlord Forum.
- (d) Link it to the regulation of the PS.
- (e) Find innovative ways to give them financial incentives. (4)
- (f) Collaborative working across sectors – trade bodies, BPF, ARLA.
- (g) Incentives for multiple property owners.
- (h) Advice centre and knowledge sharing seminars; better communication. (2)
- (i) Clear policies and guidelines.

12.2 Previously involved organisations (Q38)

- (a) A package that enables the owners to retain a degree of control.
- (b) Clear income source that is broadly competitive with other forms of investment.
- (c) Choice based lettings schemes are the major route forward.
- (d) Open dialogue through landlord forums.

12.3 Never involved with PRS (Q55)

- (a) Promote services. (4)
- (b) Availability of grant subsidy.
- (c) A strong private sector landlord's forum. (6)
- (d) Ease regulation to make associations easier to work with.
- (e) Local authority encouragement. (2)
- (f) More communication with associations. (3)
- (g) Assurances regarding property condition.

- (h) Improved use of local authority grants to improve properties with linked nomination rights.

13. INTEREST AMONG TENANTS AND SERVICE USERS

1 = Not Interested at all 1 2 3 4 5 Unable to Comment
 5 = Very Interested

	1	2	3	4	5	Unable to Comment
15. Working with PRS	2	11	9	5	0	3
39. Formerly working with PRS	0	3	2	0	0	0
56. Never worked with PRS	3	7	3	5	0	8
Total	5	21	14	10	0	11

14. REASONS FOR TENANT / SERVICE USER INTEREST

14.1 Currently involved organisations (Q16)

- (a) Generally, PRS provides a faster route out of our services than other options. (2)
- (b) Properties in desirable locations. (5)
- (c) Fewer rules on tenants. (3)
- (d) Broadens options. (7)
- (e) Larger properties. (2)
- (f) Less association with the social housing sector. (2)

14.2 Previously involved organisations (Q40)

- (a) Only option available to them.
- (b) Wider choice.
- (c) Speedier availability.
- (d) Flexibility of the PRS.
- (e) Perception of a better property in a better location.

14.3 Never involved with PRS (Q57)

- (a) In need of housing so would look at all options available to them. (4)
- (b) Less association with the social housing sector. (2)
- (c) Lack of social housing.
- (d) Geographic location.
- (e) Non-priority single people unable to access association properties are often keen to secure PRS.

- (f) Better access to homes and management services. (2)
- (g) More choice.

15. REASONS FOR TENANT / SERVICE USER DISINTEREST

15.1 Currently involved organisations (Q17)

- (a) The perception that the PRS will be more expensive.
- (b) No security of tenure. (6)
- (c) High rents. (14)
- (d) Low standards of property. (4)
- (e) The need to pay money up front.
- (f) Lack of support groups and community links.
- (g) Inability to raise the money for a deposit.
- (h) Location.

15.2 Previously involved organisations (Q41)

- (a) No security of tenure. (2)
- (b) Low standards of property. (4)
- (c) High rent.

15.3 Never involved with PRS (Q58)

- (a) High rents. (9)
- (b) No security of tenure. (8)
- (c) Low standards of property. (6)
- (d) Inability to raise money for the deposit.
- (e) Reputation. (3)
- (f) Lack of awareness of the PRS.
- (g) Lack of support services.
- (h) Response rate of repairs.

16. IDEAS TO ENCOURAGE TENANT/SERVICE USER INTEREST

16.1 Currently involved organisations (Q18)

- (a) Wider publicity. (5)
- (b) Availability of longer term support post-tenancy.
- (c) More communication with landlords.
- (d) Reduce rents. (3)

- (e) Address the issue of security of tenure. (3)
- (f) Association or local authority would need to cover the rent. (2)
- (g) Saving schemes.
- (h) Funding available to provide rent guarantees.
- (i) Review the issue of housing benefit.
- (j) Financial incentives to give up secure tenancies.
- (k) Cultural change of landlords. (2)

16.2 Previously involved organisations (Q42)

- (a) A government backed scheme to allow private tenants to build up equity and have a right to purchase (at full market value).
- (b) Saving schemes.
- (c) Raise property standards.
- (d) Reduce rent.
- (e) Increase reputation of PRS.
- (f) Discussion about benefits.

16.3 Never involved with PRS (Q59)

- (a) Use associations as managing agents.
- (b) Promotion of services. (3)
- (c) Increase HB to match rents.
- (d) Improve reputation of PRS.
- (e) Improve communication between the PRS and tenants. (2)
- (f) Improve quality. (3)
- (g) Address the issue of security of tenure. (3)
- (h) Continuation of floating support services. (2)

17. **RELATIONSHIPS WITH LOCAL AUTHORITIES**

Suggestions for improving relationships with local authorities that would contribute to more effective use of the PRS.

17.1 Currently involved organisations (Q19)

- (a) Faster payment of HB for those using PRS. (5)
- (b) A willingness to talk to small associations and actively engage them with in private leasing.
- (c) Negotiation skills.
- (d) Use the Local Strategic Partnership and networks within it as a vehicle to get things changed.

- (e) Greater risk sharing on PSL type schemes. (2)
- (f) Local authorities need to be clear on their requirements.
- (g) Provide more support for associations.
- (h) Better communication. (2)
- (i) Show associations what can be achieved.

17.2 Previously involved organisations (Q43)

- (a) Allow associations to be more self-regulating in terms of housing standards for PRS lettings.
- (b) Local authorities should take a harsher line on owners who retain vacant houses.
- (c) Accreditation schemes for private landlords. (2)
- (d) Agreed levels of housing benefit.
- (e) Financial incentives.
- (f) Landlord forums.

17.3 Never involved with PRS (Q60)

- (a) Housing associations to act as a referral agency for resolving disrepair or property abandonment.
- (b) Local authorities need to be clear on their requirements.
- (c) Local authorities could notify housing associations of private landlords in the area.
- (d) Local authorities to set up an arena for private and public sectors to work together more.
- (e) Have a dedicated empty homes officer who can link the partnerships.

18. RESOURCES, SKILLS AND/OR TRAINING

for associations to engage more successfully with PRS

18.1 Currently involved organisations (Q20)

- (a) Funding to employ staff to run each rent deposit/guarantee scheme.
- (b) Negotiation skills. (5)
- (c) Good communication skills. (4)
- (d) Positive attitude.
- (e) Understanding of how the sector works. (4)
- (f) Understanding priorities and expectations of landlords.
- (g) Managing relationships with landlords.
- (h) Marketing skills. (2)

- (i) Detailed knowledge of the local housing rented market.
- (j) Raising knowledge of housing law. (2)
- (k) Willingness to consider other points of view.
- (l) Contract management.
- (m) Joint workshops.
- (n) Set new standards of management and maintenance.
- (o) Grants available to associations to develop pilot schemes.
- (p) Training on landlord development schemes.
- (q) Decent homes training for Housing Managers.
- (r) Housing Benefit training.
- (s) Best Practice guide for associations and landlords.

18.2 Previously involved organisations (Q44)

- (a) Understanding of how the sector works. (3)
- (b) Better communication.

18.3 Never involved with PRS (Q61)

- (a) Marketing skills.
- (b) Lateral thinking approach to project management and feasibility.
- (c) Understanding of how the sector works. (4)
- (d) Landlords need to be aware of effective property management by associations.
- (e) Best Practice guide for associations and landlords.
- (f) Knowledge of client group, and their needs.
- (g) Negotiation skills.
- (h) Networking opportunities.
- (i) Time resources.

19. OPPORTUNITIES AND INNOVATIONS THAT ARE BEING MISSED

No Response	22
N/A	21
No	9
Yes	21

20. EXAMPLES OF GOOD PRACTICE AND INNOVATION THAT ARE BEING MISSED

No Response	22
N/A	23
No	6
Yes	22