

Paying a high price for a faulty product



Executive Summary

High cost, low quality

Low quality private rented sector housing affects a wide range of groups, including highly-paid professionals and many families with children. Over 500,000 households renting privately now have an annual income over £50,000. The rapid growth in this sector over the last decade, with no corresponding intervention to drive up standards, means it's no longer just a rump of very low income households who are forced to live in poor quality privately rented accommodation.

This research shows that 17% of privately rented homes in England contain a Category 1 hazard. These are problems that pose a serious threat to the health or safety to occupants' safety such as exposed wiring, leaking roofs and even rat infestations. This equates to 700,000 households, who pay £4.2 billion of their own money in rent annually for the dubious privilege of living in these properties.

The law on the private rented sector is currently weak and enforcement is poor, skewing this market so that even well-off households are paying significantly higher than average rents for a service that poses a serious threat to their health and safety.

The Housing & Planning Bill 2015

That's why we welcome the Government's proposal, making its way through Parliament in the form of the Housing and Planning Bill, to enable tenants to seek a refund where their housing fails to meet lawful safety standards. We also want repairs to be better: a fifth of households in the private rented sector were dissatisfied with their landlord's repairs to their home.

We think it is right that, as proposed in the Bill, tenants can seek a refund of up to a year's rent, where their landlord has taken no action to correct dangerous disrepair. This should bring down the number of renters who are dissatisfied with repairs in their home. The Bill could go further by making it easier for tenants not receiving Housing Benefit to seek a rent refund order for the time that Category 1 hazards in their home remain unrepaired. This would need amendments to the Bill to ensure tenants did not have to pay a fee to go to

court and give their local authority a duty to support all tenants with this process.

And where landlords persist in providing unsafe housing, they should be stopped. We agree with the Government that landlords who persist in putting people's health - and sometimes lives - at risk, should be banned from doing so.

Bringing the private rented sector up to scratch

The private rented sector is the priciest tenure in the worst state. The average private rent is £765 per month, almost double the average rent of £409 per month paid to social landlords and even more than average first time buyers now spend on mortgage payments - £702 per month. And yet private rented homes are almost three times more likely to contain a Category 1 Hazard than social rented homes - 17% compared with 6%. Even the most expensive private rented home is almost twice as likely to be unsafe as a social rented home. The Bill presents an opportunity to improve these extremely poor safety levels.

Exorbitant fees make it harder to move out of unsafe properties

Adding insult to injury, exorbitant letting agent fees make it difficult to move to escape bad housing. Our research shows that the average total cost of fees charged by letting agencies at the start of a private tenancy was £355 and this is often on top of a deposit. Saving up to cover these upfront costs makes it harder for people to move out of properties that have Category 1 hazards - and due to the poor state of the private rented sector there is almost 1 in 5 chance they will face similar hazards in their new home. Citizens Advice are working with local Trading Standards to ensure that letting agents fulfil their new Consumer Rights Act obligations to be clear and upfront about what fees they charge and why, so that tenants are not hit by hidden fees each time they move.

Now is the time to act

The Housing and Planning Bill 2015 offers a prime opportunity to improve private rented housing and to ban known rogue landlords from the market. We need to rebalance the relationship between private renters with few housing

options and landlords who are, at best, indifferent to and, at worst, dangerously negligent of their tenants' safety.

Key findings

- 1 in 5 households is now renting from a private landlord. Through choice or not, more and more people are living in the private rented sector instead of getting a mortgage.
- The majority of private rented households are working family units: 29% with children, 21% couples and 15% single adult households. A quarter are workless and only a tenth are working sharers.
- There are 3.3 million working private rented households in England, including 2.0 million in intermediate or higher-tier occupations.
- The private rented sector includes a range of family types with a range of means. At one end 500,000 workless household have an annual income of less than £10,000. At the other, 500,000 working households have an annual income of at least £50,000.
- Housing costs in the private rented sector are higher than other tenures. The average private rent is £765, almost double the average rent paid to social landlords (£409 per month). Even first time buyers spend less on housing (£702 per month).
- Households containing someone in a higher-tier occupation tend to spend more on rent. The typical rent for a higher occupation family with children is £720 per month compared to £620 per month for lower occupations and £570 per month for workless families with children.
- For households in the private rented sector, rent accounts for at least a fifth of net household income on average, regardless of family size, income and occupation.
- The average total cost of fees charged by letting agencies at the start of a private tenancy was £355. 70% of tenants renting from a letting agency were charged an administration fee, 62% were charged a contract fee and 50% were charged for a credit check.
- Despite the higher cost of private rented housing, 17% contain a Category 1 hazard, compared to 12% of owner-occupied homes and 6% of social

rented homes. Overall 700,000 private rented households live in unsafe housing in England.

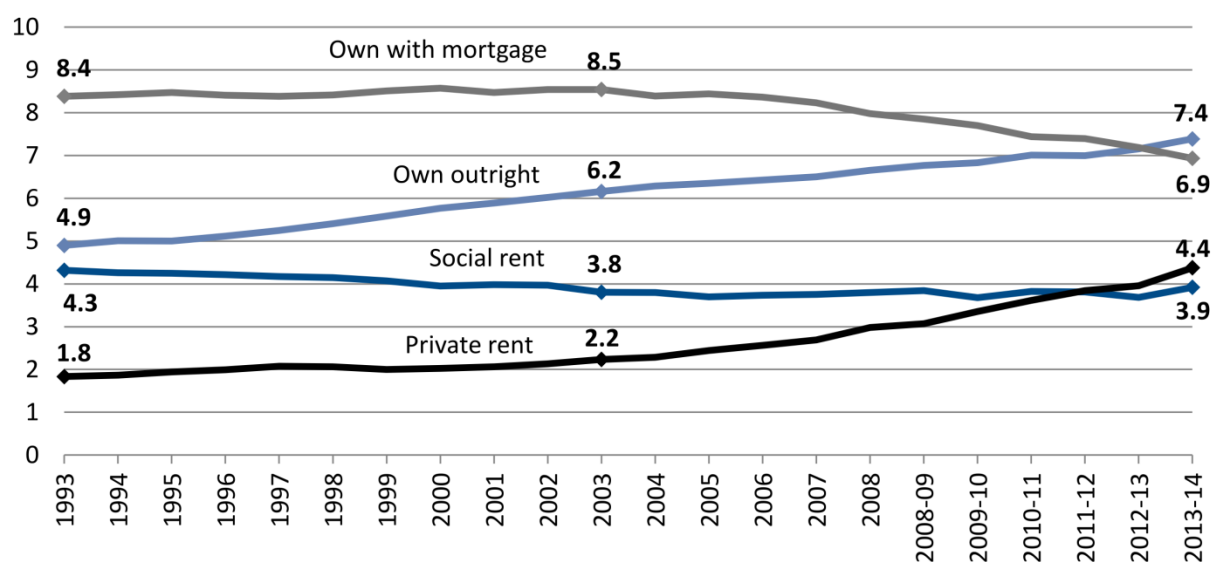
- Across the income scale at least 1 in 8 private renting households is living in unsafe housing. A quarter of properties with rent less than £350 per month were unsafe. More than 10% of properties costing £900 per month or more to rent were unsafe.
- 700,000 households are paying on average £650 per month to their landlords to occupy unsafe housing. After accounting for housing benefit, an estimated £4.2 billion was given to landlords in England in 2013, from renters' own income, for unsafe housing.
- A fifth of households in the private rented sector were unsatisfied with repairs that had been done to their home. The most common reason for this was that the landlord did not bother.

Introduction

In the last decade the number of households that rent privately has doubled from 2.2 million households to 4.4 million. From the 1980s to the mid-2000s the tenure accounted for about a tenth of households but due to its recent growth it's become more common than social renting and accounts for a fifth of all households.

Our previous report, "A nation of renters", showed that private rented housing is often of low quality which is not reflected in the cost and that the government supports landlords to provide unsafe housing through housing benefit. This report returns to the subject but rather than looking at state expenditure on private rented housing; it instead focuses on the costs faced by households without state help and to what extent they are getting what they pay for.

Households by tenure in England (millions)



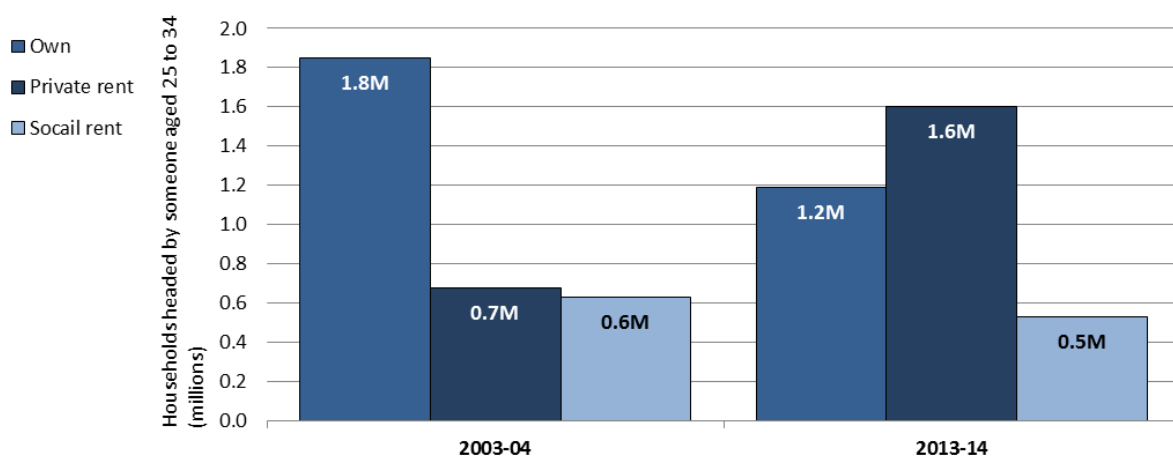
Source: English Housing Survey 2013/14

Households living in the private rented sector

The growth in the private rented sector has coincided with a fall in the number of households with a mortgage; but the number that own outright continues to rise. So whilst a growing number of people who already own are completing paying their mortgage, they are not being replaced with people becoming owner-occupiers.

Through choice or not, more and more people are living in the private rented sector instead of getting a mortgage. This is particularly clear among households headed by someone aged 25 to 34 – the age at which many people start on the property ladder. A decade ago the vast majority of such households were owner-occupiers, in 2013/14 there were 400,000 more private renters than owners. In this period the number owning their own home fell by around 700,000 whilst the number of privately rented households increased by almost 900,000.

Tenure of households headed by someone aged 25 to 34

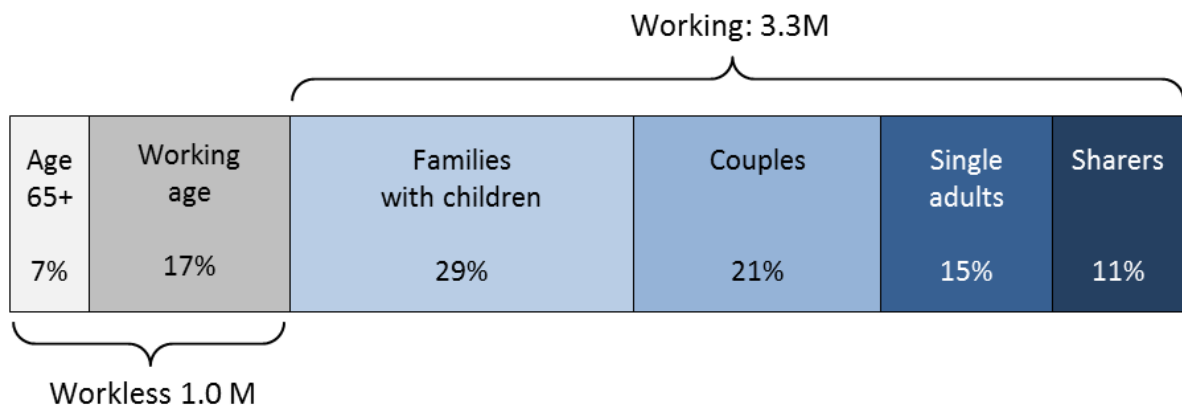


Source: English Housing Survey 2013/14

Whilst the 25 to 34 age group saw the biggest increase in terms of the number of households renting from a private landlord, the number has increased by at least 50% across all age groups. At the same time the number of households with a mortgage has fallen across all age groups except the over 65s.

Given that now 1 in 5 households rents their home from a private landlord, it is clearly not just the tenure of young adult sharers and low income households unable to access social housing. A minority of households in the private rented sector are workless (24%) and an even smaller share are working sharers (11%). The majority of private rented households are working single family units: 29% with children, 21% couples and 15% single adult households.

Types of household living in the private rented sector



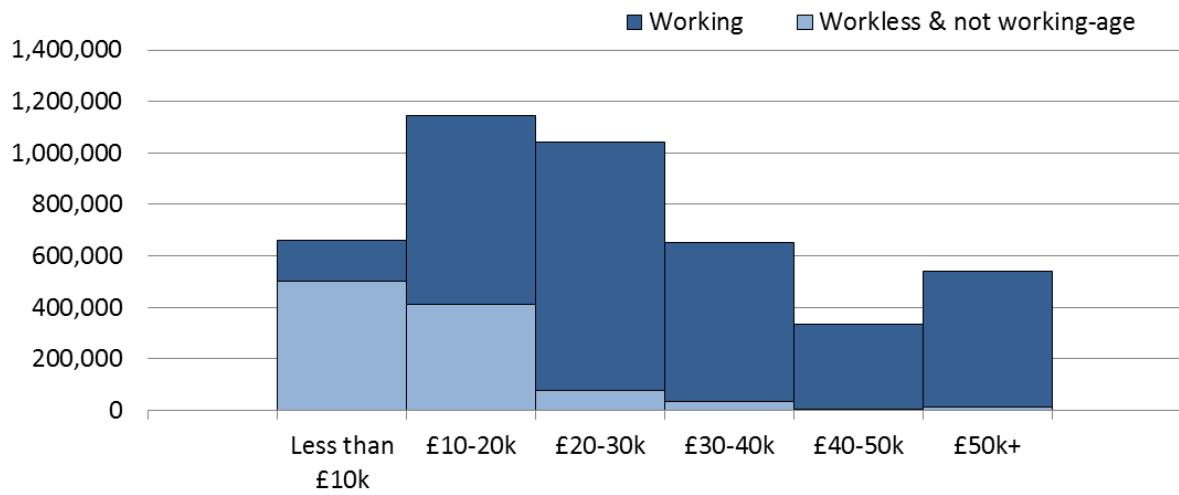
Source: English Housing Survey 2013/14

Among those 3.3 million working private rented households, the vast majority are working in higher-tier occupations including 2.0 million private rented households containing someone working in the highest three occupational groupings (higher professional, lower professional and intermediate occupations).

The fact that the private rented sector contains large numbers of highly skilled professionals is reflected in the high gross annual household income of many households in the tenure. The average income of a workless private rented household is £12,700 per year, with 500,000 with an annual income below £10,000. Meanwhile working private rented households have an average annual income of £32,900 per year rising to an average of £39,700 among working households in higher-tier occupations. In total 500,000 private rented households have an annual income of at least £50,000.

This demonstrates the diversity of private renting households – it's a tenure that includes a range of family types with a range of means. Private renters include workless households and sharing adults, but also a large number of working families, often containing highly skilled and highly paid professionals.

Gross annual income* of private rented households

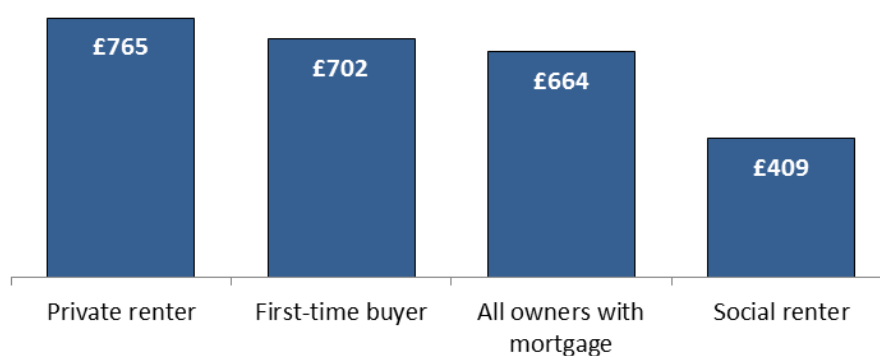


Source: English Housing Survey 2013/14, * Income includes earnings, benefits and other sources of income of the household reference person and (if applicable) their partner, but it does not include income from housing benefit.

The cost of private renting

One of the distinct characteristics of the private rented sector is its costs. Month-by-month the average private rented household pays £765 to their landlord. This is almost double the average rent paid to social landlords of £409 per month. Owner-occupiers whose monthly payments go towards buying their home also pay less than private renters at £664 per month on average. Even first time buyers spend £60 per month less on housing than the average private renter at £702.

Average monthly cost of housing by tenure



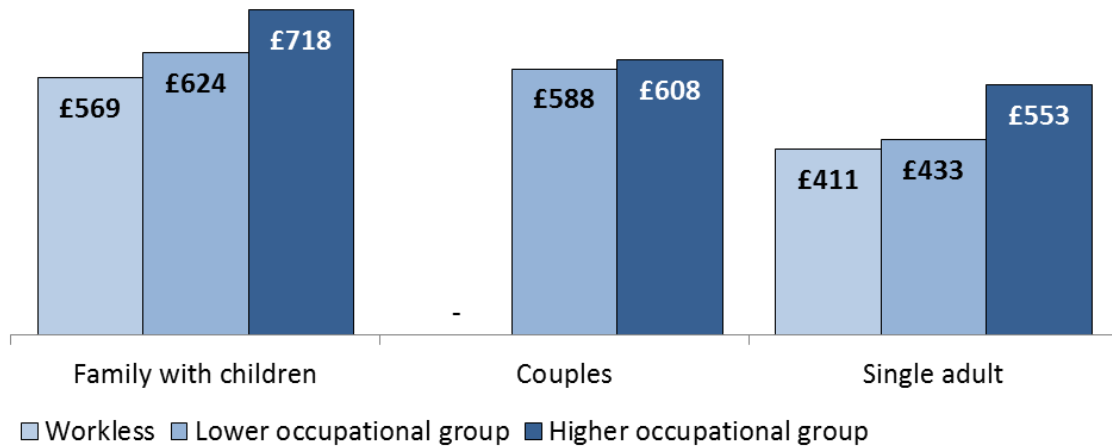
Source: English Housing Survey 2013/14

Among private renters, households containing someone in a higher occupational grouping tend to spend more on rent. The typical rent for a family with children where someone is employed in a higher occupation is £720 per month. This compares to £620 per month among families in lower occupation and £570 per month for workless families. Households without children require fewer bedrooms so tend to spend less on rent than those with children. But the tendency for those in higher occupations to spend more on rent persists. For example, a typical working adult in a higher occupation pays their landlord £550 each month compared to £430 by the typical adult working in a lower occupation and £410 among workless adults.

Although those in higher occupational groups tend to pay more in rent, they also have higher incomes and so spend a smaller proportion of their income on rent than others do. The rent of a typical professional single adult amounts to about a quarter of their gross income, much lower than a typical workless adult with rent accounting for 85% of their gross income. Among families with children, the

typical higher professional spends a quarter of their gross income on rent, compared to over half for workless families.

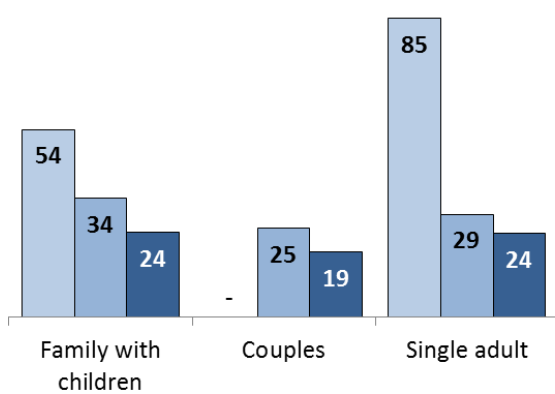
Average (median) amount paid in rent to private landlords



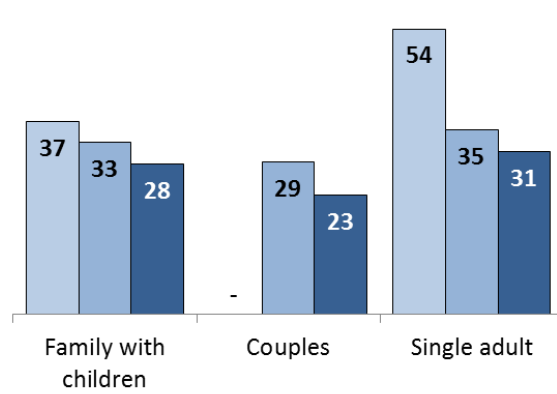
Source: English Housing Survey 2013/14

But once tax and national insurance is deducted and income from housing benefit is taken into account, these gaps between working and workless households get much smaller. Whilst the typical professional single adult spends a quarter of their gross income on rent, after tax it amounts to a third of their income. For households in the private rented sector, regardless of family size, income and profession, rent accounts for a substantial financial outgoing.

Share of Gross-income spent on rent



Share of Net-income spent on rent



Legend: Workless (lightest blue), Lower occupational group (medium blue), Higher occupational group (darkest blue)

Source: English Housing Survey 2013/14

Working households renting privately can expect to transfer at least a fifth of their net-income to their landlord each month; for workless households the average is double that (which includes housing benefit income).

Whilst the month-to-month cost of living in the private rented sector is high, so too is the cost of moving within it. Official data on the cost of moves are limited: until 2011/12 the English Housing Survey collected some information on the cost of moving, although it should be noted that the sample size was relatively small. In the 2011/12 survey 645 households were asked if they had to pay their landlord or a letting agency a fee when they moved into their previous private rented tenancy and almost half (309) had.

Among those who incurred a charge 40% paid a 'finders-fee', 60% paid an administration fee and 10% paid a 'holding-fee'. All of these fees were outright payments except for 6 instances when the holding fee was returnable. The average total cost of these fees was £189, with 80% of respondents spending at least £100 on such payments.

Data from Shelter which surveyed over 4,600 private renters at the end of 2012 suggest that these fees are more widespread than captured by the English Housing Survey. It found that 70% of tenants renting from a letting agency were charged an administration fee, 62% were charged a contract fee and 50% were charged for a credit check. The average total cost of these fees charged by letting agencies at the start of a tenancy was £355.¹

Alongside these letting fees, most households pay a security deposit for their property. From a sample of 884 in the English Housing Survey; three quarters of households paid a deposit when they moved into their property. One month's rent represented the lower end of what was charged, with very few respondents (12%) paying less than that and 38% paying more. Moving property, therefore, incurs significant costs for private renters.

¹ Shelter, Letting agencies: The price you pay, 2013
http://england.shelter.org.uk/__data/assets/pdf_file/0006/671649/Letting_agencies_-_The_price_you_pay.pdf

Standards in private rented housing

Despite the higher cost of private rented housing, its quality is much lower. Private rented homes are much more likely than other tenures to contain a Category 1 hazard which means that an aspect of the property makes it dangerous to occupy. 17% of private rented homes are unsafe, compared to 12% of owner-occupied homes and 6% of social rented homes. Overall 700,000 households in England privately rent unsafe housing.

Private rented households on lower incomes are more likely to live in an unsafe property – one in five of those with an annual income under £10,000 lives in unsafe housing. But the proportion of households living in unsafe properties remains high as incomes increase. 14% of private renting households with an annual income of over £40,000 live in unsafe housing. Across the income scale at least 1 in 8 private renting households are living in unsafe housing. Of all private rented properties with a category 1 hazard, 30% are occupied by households earning over £30,000 including 18% earning over £40,000.

Private rented households in unsafe housing by income



Source: English Housing Survey, Homes dataset 2013

The higher proportion of lower income households living in unsafe private rented housing might be because those with limited means are more inclined to tolerate unsafe living conditions in order to reduce their housing costs. But of the 700,000 private rented households in unsafe homes, only a minority are in workless families (210,000 are workless or pension aged). The majority are working households, including 170,000 households containing children.

Types of household living in unsafe private rented housing

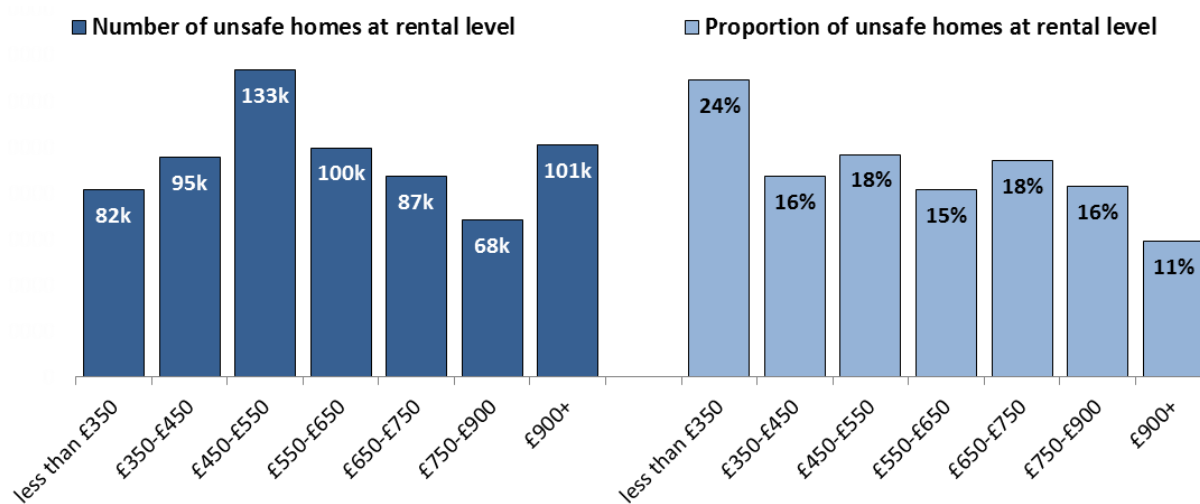
Workless or pension age	Working sharers	Working single	Working couple	Working with kids
210,000	80,000	100,000	130,000	170,000

Source: English Housing Survey, Homes dataset 2013

In fact, the average cost of unsafe private rented housing is only slightly lower than the average for housing that does meet the minimum standard: the average monthly rent for a home that meets the minimum standard is £720, for a home that is unsafe it is £650. Overall lower cost properties are more likely to be unsafe than other properties: 24% of properties with rents of less than £350 per month were unsafe compared to the average of 17%.

Nonetheless at least of 15% of private rented properties costing between £350 to £900 per month were unsafe and more than 10% of households paying £900 per month or more to rent their homes were living in unsafe housing (over 100,000 households). Many unsafe properties still incurred high rents so would be occupied by relatively wealthy households.

Average monthly rent in private rented sector

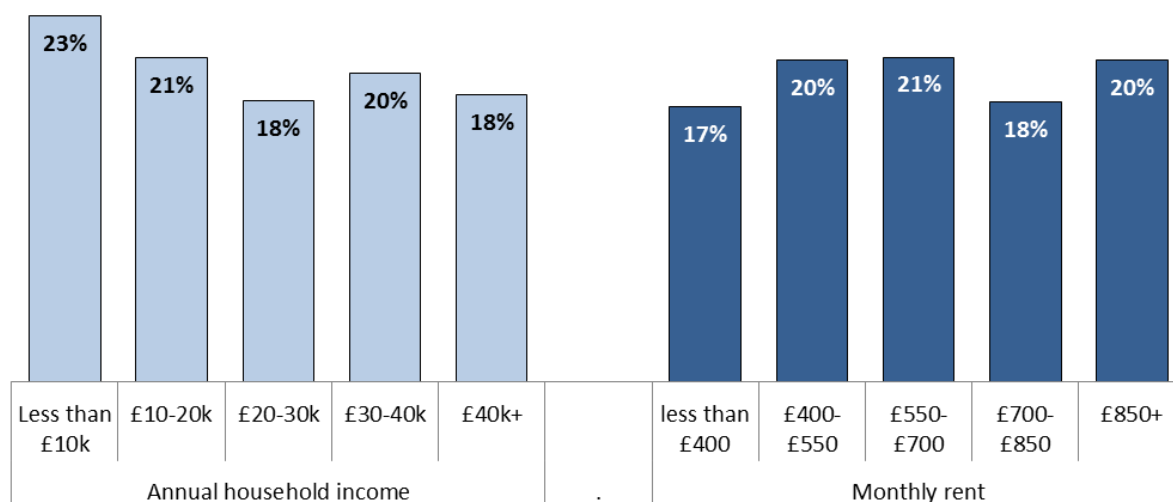


Source: English Housing Survey, Homes dataset 2013

Overall large numbers of families are spending a significant proportion of their income on rent even though their housing does not meet the minimum standard. With 700,000 households paying on average £650 per month to landlords for unsafe housing, this amounts to a total of £5.4 billion a year. Some households will be helped to meet this cost through housing benefit but many will not. Collectively households spend an estimated £4.2 billion of their own income per year renting unsafe housing (after accounting for rental costs met through housing benefit).

Improving the quality of private rented housing through arranging repairs can be a challenge for renters. Overall 20% of households were dissatisfied with the repairs that had been carried on their home. This did not vary considerably by income or by the amount of rent paid: some 220,000 private renting households paying at least £850 per month in rent were dissatisfied with how the landlord had dealt with repairs (20%).

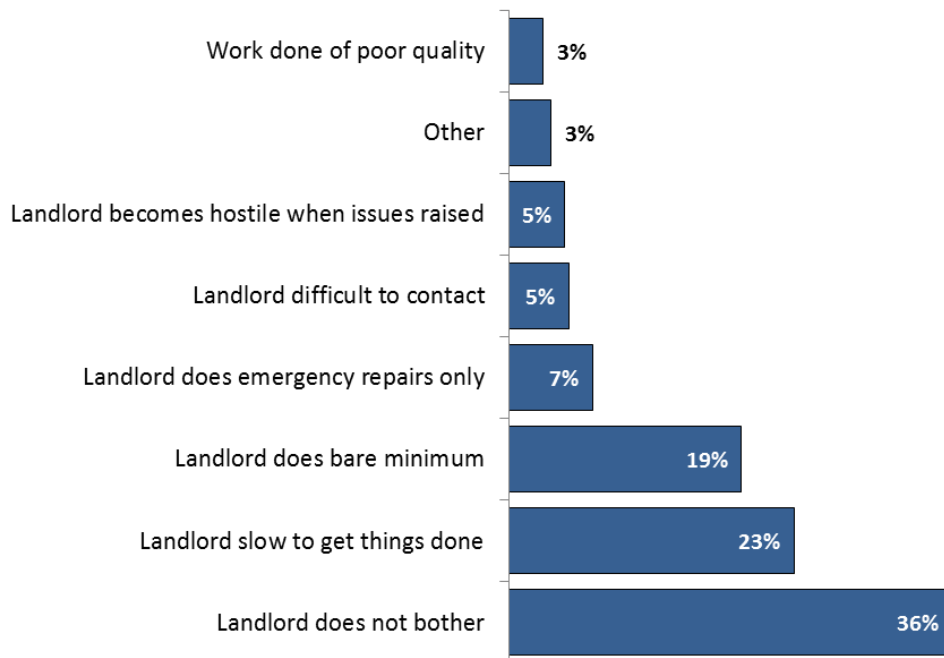
Proportion of private renting households dissatisfied with repairs



Source: English Housing Survey 2013/14

Among those who reported that they were dissatisfied, over a third (36%) said that it was because their landlord 'does not bother', almost a quarter (23%) reported that their landlord was 'slow to get things done' and a fifth said that it was because the landlord only does the bare minimum.

Reasons why households were dissatisfied with landlord's repairs



Source: English Housing Survey 2013/14

Conclusions and implications

Improving private renters' rights

With the private rented sector now housing more than a fifth of households in England, now is the time for tenants to get better protection against unsafe housing. This research shows that this tenure is not just for those who choose not to get a mortgage; nor is it comprised solely of people on low incomes. The challenge of improving the private rented sector affects a significant proportion of the population and a range of incomes, backgrounds and household types.

Overall 700,000 private rented homes in England are unsafe and, excluding housing benefit costs, tenants are paying £4.2 billion in rent annually to live in these poor quality homes. They are enduring serious hazards such as exposed wiring, boilers at risk of exploding, leaking roofs and rat infestations. As a tenure the private is bigger than the social rented sector, but private landlords have few obligations to their tenants. Even when failing to meet these low standards, there is little recourse for tenants. This is evident in the high levels of unsafe housing within the tenure, with 17% of private rented homes unsafe compared to 6% of social rented homes, and 12% of owner-occupied homes.

For this reason, we welcome the rent refund proposals in the Housing and Planning Bill and would like the Government to go even further by ensuring that court fees do not deter tenants from taking unscrupulous landlords to court, where this is the only way they can exercise their right to live in decent housing.

The high cost of renting in the private sector

Although private renting is the most expensive tenure, almost a fifth (19%) of private renters are dissatisfied with repairs in their properties, and a third of this group said this was because the landlord simply didn't bother to do them. The average privately renting household pays £765 each month to their landlord - more than even first time buyers who spend on average £60 per month less, even though their mortgage payments go towards buying their home. The cost of rent amounts to a considerable share of household incomes, with households typically spending between a fifth and a third of their income on rent each month.

Letting agent fees and deposits also drain the pockets of private renters – with research suggesting an average fee of £355 to set up a tenancy, on top of a deposit which is often higher than four weeks' rent in advance. These high costs make it expensive for private renters to move to escape unsafe housing – and even if they do, there is an at least 1 in 8 chance that their next home will still be unsafe. Citizens Advice are working with local Trading Standards to ensure letting agents fulfil their new Consumer Rights Act obligations to make fees clear and upfront, so tenants are not hit by hidden fees each time they move.

Even some of those paying the highest rents live in unsafe properties

High costs are a particularly bitter pill to swallow for the 700,000 households paying to live in a property that is of unlawfully poor quality. Unsafe housing is not just confined to a small number of rogue landlords exploiting low income households forced to compromise on standards to secure a cheaper rent. The majority of unsafe homes are occupied by working households, many of them highly skilled professionals, and 170,000 of these households include children. Even among the most expensive private rented homes, 1 in 10 is unsafe, so even the wealthiest private renters are affected. Given the huge sums that households are paying in rent from their own income to live in unsafe housing in England (£4.2 billion every year), they at least deserve a mechanism to ensure that this housing meets minimum legal standards.

Matching redress to the high cost of rents

At the moment a large number of renters are spending a large proportion of their income on a product that is not fit for purpose. Private renters living in unsafe homes have few routes through which to address the problem. If their landlord is unresponsive, they could report the problem to the local authority. But there remains little incentive for the landlord to fix the problem once it's reported as the tenant is still required to pay rent during this period. If landlords were obliged to pay back any rent to households for the period between which a Category 1 hazard was reported and fixed, landlords would lose money if they did not deal with issues as soon as they arise. Delays would mean the average tenant could be entitled to a rent exemption or refund, saving them an average £650 per month until the problem was fixed.

We've reached a tipping point: it's not sustainable to leave the private rented sector as unregulated and renters as unprotected as they are today. Too many households are at the mercy of high rents without the quality they should expect for so high a price. Government and media attention has focused on the 'housing crisis', the lack of social housing and the rights and wrongs of expanding Right to Buy, all often at the expense of righting the wrongs faced by private tenants. Fixing the private rented sector should be a priority for Government: people of all incomes and family types would thank them for doing so.

Key statistics

Households, housing costs and standards in the private rented sector

	Working family with kids	Working couple	Working single adult	Working adult sharers	Workless/pension age
Households (000s)	1,280	920	640	490	1,040
Average income (pa)	£30,000	£39,000	£22,000	£41,000	£11,000
Average rent (pm)	£675	£600	£500	£870	£540
Gross-income/rent (%)	28	20	26	48	63
Net-income/rent (%)	31	24	32	*	44
Dissatisfied with repairs (%)	20	16	21	20	20
In unsafe housing (000s)	170	130	100	80	210
In unsafe housing (%)	15%	14%	16%	19%	19%

Source: English Housing Survey 2013/14 and Homes dataset 2013

This report was written and produced by the New Policy Institute (NPI) and Citizens Advice. The analysis of the Labour Force Survey, Family Resources Survey and Households Below Average Income was undertaken by NPI.

Our aims

To provide the advice people need for the problems they face. To improve the policies and practices that affect people's lives

Our principles

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. We value diversity, promote equality and challenge discrimination.

www.citizensadvice.org.uk

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