Alienating, insecure and unaffordable
Living in Scotland’s Private Rented Sector

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Executive Summary

- The findings of this analysis paper are based on data in the Scottish Households Survey 2016, published by the Scottish Government at the end of September. This data provides fresh insight into the experience of living in housing in Scotland — this paper focuses on the private rented sector (PRS) in particular.

- Young people are the demographic most affected by the growth of PRS, with 40% of 16-34 year olds using PRS today compared to 13% in 1999. Young people face specific challenges in terms of low-incomes, insecure work and poverty. While poverty levels among young people for those in social housing has fallen, it has nearly tripled in PRS from 2005-15. Other demographic groups disproportionately represented in PRS include students and people of Asian descent.

- Private rent is uniquely insecure, with over two-thirds (68%) of people staying less than two years in one flat and 41% staying less than one year. The average PRS stay is 2.8 years, compared to 10.6 years in social housing, nearly five times longer. While it is too early to assess the effectiveness of new Scottish Government legislation to address security of tenure, further measures could be taken to make the power between landlords and tenants more balanced.

- Tenants in PRS accommodation are considerably more alienated from their community than in social housing. Only one in five (19%) PRS tenants had a very strong connection to their neighbourhood, compared to 33% in social housing. 40% in PRS felt they were not very or not at all connected to their neighbourhood, compared to 23% in social housing. Alienation has been linked to public health problems in Scotland. Increasing security of tenure and tackling gentrification — which acts to displace poorer people from their communities — could be part of addressing this issue.

- There is significant demand within PRS for moving to social housing. Approximately 40,000 people in PRS (11%) are on a social housing waiting list. Approximately 5,000 (12%) of that number have been on a waiting list for 10+ years. Nearly one-third (31%) of those are on the waiting list because they can’t afford their current housing, while 11% are on because they’ve been threatened with homelessness. These figures are an indication of the lack of affordability of PRS housing and the under-supply of social housing. The introduction of rent pressure zones is likely to have some effect in restricting future rent rises and tackling regional inequities, but is not necessarily going to reduce the number of PRS tenants finding rent unaffordable. A Dutch model of rent controls which links cost to quality of property and ensure affordability would be a step forward. The Scottish Government’s social housebuilding programme should be stepped up considerably.

- PRS has lower energy efficiency levels than social housing, with only one-third (34%) of homes meeting the Scottish Government’s band-C energy efficiency rating target. Poor energy efficiency is a major driver of fuel poverty, with the PRS sector being the highest contributor of emissions per home. One-third (33%) of PRS households are in fuel poverty. Over half (51%) of PRS properties still fail the Scottish Government’s Scottish Housing Quality Standard, which is mandatory for social housing. 5% of PRS homes fall below the Tolerable Standard, which is categorised as homes that it is not reasonable for a person to continue to live in, compared to 1% in social housing. Quality could be addressed by a system of rent controls which ties quality to cost, incentivising the landlord to improve the property.

- The value of the private rented sector to society as a whole should be reassessed by the Scottish Government, and consideration given to a long-term strategy to reverse the trend since devolution towards increasing privatisation of the rented sector. This could be done through a combination of strengthening and increasing the diversity of social housing so that it is once again a universal service and establishing a regulatory regime for PRS that puts it on at least a level playing field with social housing in terms of quality, affordability and security, restricting its profit-making capacity for landlords. The reversing of privatisation in Scotland’s rental market should be something for Scottish politicians to triumph not fear.
Introduction

The 2016 Scottish Household Survey, published at the end of September 2017, contains new data on housing in Scotland which provides fresh insight into our understanding of not just the basic information – like tenure type – but also the lived experience of households.

In this analysis paper, we focus on the private rented sector (PRS), which has tripled in size since the beginning of the Scottish Parliament in 1999 from 5 to 15% of all households, to become the single biggest rented sector in Scotland.

Demographics

While the tripling of PRS has affected all age groups in Scotland, its importance to the 16-34 year olds is particularly important. In 1999 only 13% of 16-34 year olds were in PRS – that number has more than tripled to 40% in 2016.

A report by Hoolachan and Mckee (2015) used qualitative data to show the specific challenges ‘Generation Rent’ face in PRS, including low-income and precarious work, as well as draconian social security cuts, which have recently been ratcheted up with the ending of housing benefit for 18-21 year old’s. 28% of homelessness applications in 2015-16 were made by 18-24 year olds (Deery, 2017).

A report by Joseph Rowntree Foundation (JRF) in 2015 found those under-30 now make up the biggest share of people experiencing poverty in Scotland. Poverty among young people in PRS has nearly tripled – up to 29% from 11% a decade previously – while the number of young people in poverty in social housing fell over the same period.

The PRS sector has a wide mix of income groups, catering as it does across the market, but over a quarter (29%) earn 15,000 or under and nearly half (46%) earn 20,000 or under, which is below the Scottish median income. Therefore out of 370,000 PRS homes, approximately 170,000 are low-income. In 2014, analysis by JRF found one-quarter of households in poverty were in PRS, compared to one-tenth a decade earlier.

Other notable demographic features of PRS households are that 20% are in further or higher education, significantly higher than any other sector of the housing market, with only one-fifth of that demographic in social housing. It is assumed that PRS works best for students who may not be planning to stay at one place for a long-time. However, students are sometimes at the brunt of exploitative practises – Halls of Residence, some of which are privatised and some run by university bodies, charge rents well above market rates, exploiting the captive market of new first year students who are new to a city as well as international students (a rapidly growing market) (Hoolachan, Mckee, 2015). There is no reason why social housing could not be tailored to meet student need.

PRS also has a significantly higher level of people of Asian descent (8%) than the owner-occupier (2%) or social housing (1%) sectors. Ethnic minority communities generally tend to have higher poverty rates and live in over-crowded housing more than society as a whole (BBC, 18 August 2016), but there may also be other issues for this demographic with accessing social housing, including discrimination and lack of knowledge about how to access this sector. The size of this demographic in PRS may also be connected to the fact that a disproportionate number of immigrants use PRS as well (Scottish Government, 2012).

Security

The Private Rented Sector stands out for its insecurity of tenure, with over two-thirds (68%) of people staying less than two years in one flat and 41% staying less than one year. This level of insecurity is stark compared to social housing, where 15% stay less than two years and 12% less than one year. The average time someone lives in a PRS is 2.8 years – compared to 10.6 in social housing, nearly five times longer.

Research by Smith, Albanese and Truder (2014) into private rented accommodation found that PRS was a specific source of insecurity, with threatening communication by landlords and short-assured tenancies a key driver of this.

The Scottish Government’s Private Housing Act in 2016 improved security of tenure in PRS by removing the ‘no-fault ground’ for repossession which allowed landlords to remove tenants at the end of a contract for no reason, and introducing an automatic open-ended tenancy at the end of the contract period which increases the flexibility tenants have in how long they stay for.

It is perhaps too early to assess the impact of the legislation on security of tenure. The Scottish Household Survey 2016 figures do show a slight improvement on 2015 and 2014 but future surveys will be necessary to see if this is a consistent trend. Specific research should be conducted on the effectiveness of new security of tenure laws.

Regardless, there is clear areas for building upon the 2015 legislation going forward to improve security of tenure. First
off, whereas private landlords tend to have access to the details of current legislation, tenants don’t. Landlords can use this information deficit to pressure tenants to leave. An information campaign to let tenants know about their existing rights could increase the ability of tenants to uphold their rights in practise.

Second, the discretionary grounds for eviction from a property are weighted strongly in favour of the landlord. For instance, a tenant can be evicted if ‘suitable alternative accommodation is available to the tenant’. What is suitable or not is highly subjective and therefore the clause could in and of itself intimidate a tenant into believing they would have little power in preventing their eviction if their landlord sought it. The Scottish Government should look at beefing up security of tenure rules to put the weight of proof for eviction more firmly on the shoulders of landlords. The German ‘Sozialklausel’ system ensures that tenants who are likely to face hardship if they are evicted, for instance due to illness, disability or pregnancy, have the right to continuance regardless of the landlords desire to take the property back.

Finally, it is impossible to make a clear distinction between security of tenure and affordability of tenure. Inability to fund ones rent is directly connected to insecurity, both legally and psychologically. Controls on rent cost and affordability is discussed further below.

### Alienation

Housing insecurity feeds into another problem: the alienation people feel from their local communities. Only 19% of people in PRS had a very strong connection to their neighbourhood, compared to 33% in social housing. 40% in PRS felt they were not very or not at all connected to their neighbourhood, compared to 23% in social housing. These are stark differences in alienation from the community between private and social housing.

McKee and Hoolachan’s research identified insecurity as a major influence on alienation from the community, with one interviewee stating: “...because it’s not very secure for people there’s a sort of reluctance for them to then put down roots in a community sense and they won’t really participate in anything because they don’t know how long they are going to be there for and that affects things on a wider scale.”

Alienation isn’t just a not very nice thing; it has serious health repercussions. Harry Burns, former Scottish chief medical officer and senior professor in global public health at Strathclyde University, has identified increased community participation to being a key aspect in improving mental and physical health (The Guardian, 2014). The Glasgow Centre for Population Health (Walsh et al, 2016) has identified alienating housing environments in Glasgow as one explanation for why the city has ‘excess mortality’ as compared to cities with a similar socio-economic profiles like Liverpool and Manchester.

One aspect to developing more stable and settled communities is tighter regulation and planning to mitigate against gentrification, especially in urban environments. Gentrification acts to displace poorer people for wealthier people through using ‘regeneration’ approaches which price out those lower down the socio-economic scale and attract a more culturally, socially and economically upwardly mobile clientele, with landlords gaining through higher rents.

In cities like Barcelona and Berlin a series of policy interventions have been made to prohibit gentrification: planning measures like giving local authorities first option on property for sale and acting to stop renovation and developments aimed at displacing existing tenant communities. Most importantly these cities have restrictions on rent prices which prevent soaring costs (more on this below).

### Social housing demands within PRS

One interesting statistic which has not been available in previous Scottish Household Surveys is the number of people in PRS who are on a social housing waiting list. This reflects the active demand within PRS to switch to social housing.

Over 40,000 tenants in PRS (11%) are on a housing waiting list. 12% of those, nearly 5000 people, have been on a housing wait list for 10+ years. This shows a clear and consistent demand for social housing within PRS.

Nearly one-third (31%) are on the waiting list because they can’t afford their current housing, which was by some distance the main reason given. One in ten (11%) are on the waiting list because they have been threatened with homelessness. Clearly, the insecurity and unaffordability for a significant number of those in PRS is driving them towards social housing.

PRS rent rises have been geographically uneven across Scotland, but in Edinburgh rents are up 25% since 2010, 23% in Greater Glasgow and 15% in Aberdeen. These rises are significantly above wages and inflation over that period (Scottish Government, 2016). In 2016, the HomeLet Rental Index indicated Scotland had the second highest annual increase in rents other than Greater London, at 7.3% (Scottish Housing News, 2016).

In 2016 the Scottish Government passed legislation for rent pressure zones to be introduced from December 2017. A cap on rent rises is established when the local authority applies to Scottish Ministers for the establishment of a rent pressure zone. The application must show that rents in the area are rising too much, the rent rises are causing problems for tenants and the local council is coming “under pressure” over the issue. Scottish Ministers will then consult landlords’ and tenants’ representatives before setting a cap,
of which the minimum cap would be CPI plus 1%, which at the current inflation rate would be a minimum of 3.7%.

It will take time to assess the effectiveness of this policy, but some limitations are evident. First off, because the rent rate is not linked to any objective indicator of social need or the quality of the property, this policy could help to tackle regional inequities in housing affordability but it does not necessarily reduce housing costs as a percentage of income (which has nearly tripled since 2005) or incentivise landlords to improve the quality of their properties. It is widely known that wage rises have been significantly below inflation levels, which is why CPI-linked rate rises will not necessarily reduce household costs.

Second, the best that can be achieved by a rent cap, as opposed to controls on the price of rent, is that costs get no more unaffordable, but the cost of housing is already a major poverty risk factor, therefore this policy is likely to have limited effect in reducing the number of people in PRS who are seeking alternatives due to high costs. The initial rent is also still set by the market, providing another means for landlords to push up rents through new lettings, including by setting initial rents artificially high to offset reduced profit return from the cap.

Finally, the danger with a cap is that landlords bunch prices at the capped rate and promote it to tenants as the rate mandated by government. This is similar to fears about the response of energy companies to the idea of an energy cap. While this fear can be overstated, it is nonetheless clear that more direct government regulation over rent costs is likely to be more effective in ensuring fairness and a reduced rent burden for tenants, while also driving necessary house standard improvements (more on this in next section).

Common Weal published a joint paper with Living Rent in 2015 by Gordon Maloney, proposing a system of rent controls based on the Dutch model, which is a points system whereby the cost of rent reflects the value of the property, including initial rents. Maloney also proposes that in setting rates an affordability index is created to ensure tenants are not pushed into hardship by rent levels.

The decline in social housing in Scotland has been much starker than in England, with a 17% fall from 2004-2014 alone (compared to 5% in England) (JRF, 2014). This has been while housing need has been rising, with a report by Audit Scotland (2013) arguing that just to keep up with where we are right now, an additional 21,230 homes were needed each year between 2011 and 2035 (over 500,000 in total) to cope with changes in the way we live and increasing life expectancy. As of 2015, the total number of dwellings in Scotland had only risen 54,000. Evidently, as supply falls further behind demand, rent prices are pushed up as more people chase fewer homes.

The Scottish Government’s plans to build 50,000 homes from 2016-2020, 35,000 in social housing, is an increase on social housebuilding in recent years, but it falls short of keeping up with housing availability now, never mind meeting the demand for social housing reflected in the waiting list or creating more to change the dynamics of the rental market so that people have real choice between social housing and PRS. Much greater ambition is needed if the Scottish Government is serious about meeting need for social housing.

**Quality of property**

The Scottish Households Survey does not have data on the quality of PRS properties, but the Scottish Housing Conditions Survey 2015, published in December 2016, has detailed information on this that is worth noting.

Housing quality in PRS is systemically poor. PRS has lower energy efficiency levels than social housing, with only one-third (34%) of homes meeting the Scottish Government’s band-C energy efficiency rating target. Poor energy efficiency is a major driver of fuel poverty, with the PRS sector being the highest contributor of emissions per home as heating costs rise. One-third (33%) of PRS households are in fuel poverty. Over half (51%) of PRS properties still fail the Scottish Government’s Scottish Housing Quality Standard, which is mandatory for social housing. 5% of PRS fall below the Tolerable Standard, which is categorised as homes that it is not reasonable for a person to continue to live in, compared to 1% in social housing. That 5% has remained roughly static for the past five years.

As mentioned above, private landlords have little commercial incentive to improve the quality of the property at the lower-end of the market, as there is no regulation linking quality to cost and cost to affordability, leaving tenants with little option but to rent from where costs are cheapest, regardless of quality.
Should we reverse the privatisation of the rental market?

One interviewee in research by McKee and Hoolachan (2015) who had been working in the housing sector for nearly 40 years suggested he was surprised at the rise of PRS, arguing no one would have anticipated it when he began:

“I first started in Housing in 1979 and at the time the private rented sector was 3% of the housing stock and we were all very confident the private rented sector would disappear. Nobody could have foreseen the consequences of the credit crunch, the Buy-To-Let boom, the glut of landlords...all that. So the housing system has been turned upside down in Scotland and elsewhere, obviously.”

1979 was the year Margaret Thatcher became Prime Minister, though it took many years of right-to-buy, a collapse in social housebuilding and, finally, the end of the home ownership boom for the PRS sector to take off. Ironically, it has been under Scottish devolution – where Thatcher’s successors in the Conservative party have been politically marginalised and where opposition to ‘Thatcherism’ is at its rhetorical apex – where this growth occurred, as the graph below from Gibb (2017) illustrates.

During that time, it’s remarkable how little PRS’ fundamental value to Scottish society has been questioned. A report by the Scottish Government in 2012 did assess PRS, and concluded the demand would rise due to “restrictions in accessing owner occupation and the social rented sector” as well as demographic changes which was increasing the number of households as people increasingly live alone. The report therefore suggests that the Scottish Government should look at ways to support the expansion of the sector, including “tax advantages”. The first issue, far from being out with the Scottish Government’s control, is within their power to change, especially when it comes to social housing which is very directly affected by government policy decisions. The second issue is derived from the first – there is no reason why social housing, rather than PRS, could meet the increasing need for more homes. In fact, it is likely it will be absolutely essential to do so.

Therefore it may now be time for the Scottish Government to carry out a reassessment of PRS’ worth. The data from the Scottish Household Survey presented above shows PRS has an appalling record across a range of indicators on social wellbeing. Beyond this, it is difficult to point to what the PRS sector contributes to the common good economically, beyond meeting a demand due to the under-supply of social housing and the inability of a generation to get on the housing ladder. In other words, its benefits are all derived from the failures of other sectors of the housing market.

Landlords would perhaps argue that they are investing in the housing stock. But PRS homes tend to emerge from existing housing stock, with just one in ten of the increase in PRS coming from new builds (Bentley, 2015). This is partly a reflection of the huge rise in buy-to-let homes, with home owners buying second homes and using them for rental purposes. Thus, PRS is contributing little to increasing total supply in the market, while leading to increased control of the housing stock by those already with their own home, exacerbating housing inequality.

Furthermore, whereas rents from social housing are reinvested, private landlords have no such imperative. Rents become profits and are lost from the housing stock. This dynamic is perhaps reflected in the tendency for PRS to be poor quality and have low energy efficiency ratings, as discussed above.

The damage of an alienating, insecure and unaffordable PRS is not restricted to the housing sector: poor health outcomes from homes that are damp and poorly heated increases pressure on the NHS; rise in homelessness increases pressure on social services; alienated people with little housing community connection increases pressure on mental health services; spending on rents reduces spending in other areas of the economy, and so forth. If the Scottish Government is serious that improving housing is a key aspect of its prevention strategy in public service delivery, then surely the problems of a growing PRS is damaging the ability of that strategy to be successful.

What is the answer? Just as the increasing privatisation of the rented sector has come about because of the failure of other housing sectors and a weak regulatory regime, a resurgence of social housing and a strong regulatory regime can reverse the privatisation trend.

As the Scottish Household Survey points out, whereas 40 years ago the profile of social housing was broadly the profile of Scotland as a whole, today it tends to provide provision only for the poorest and most vulnerable. While this is clearly essential, and indeed more is urgently needed in this respect given the rise in rough sleeping in many of Scotland’s urban centres, the Scottish Government should look at broadening and deepening its social housing strategy for wider sections of society. The idea that social housing is only for the poor creates an unnecessary stigma around for those living in the sector and drives an unhealthy obsession with home ownership (which has not always existed). A rent system which tied quality to cost and cost to affordability could be applied to a more diverse social housing sector in the future as well, creating a universal social housing service once again.
Scotland’s regulatory regime was, according to a report on PRS by Shelter Scotland in 2014, one of the weakest in Europe, falling behind countries like Spain, Ireland, Germany and the Netherlands in terms of both security of tenure and control on rent costs. While recent legislative change has improved this situation, these improvements have a long way to go, as discussed above. Our performance comparator for the regulation of PRS should not be England, which has among the worst records on housing in Europe. Instead, we should be aiming to get at least to the European average. A fair regulatory regime would at least expect of PRS what is expected of the social housing sector in terms of quality, affordability and security. The fact that such a level playing field would deter some landlords from continuing in PRS should not cause trepidation as long as a far bigger and more diverse social housing sector is being built in parallel. The benefits of social housing should be clear from this report, as there is a clear trend towards greater security, affordability and community connection in that sector than PRS.

Upfront costs should not be held up as an impediment to such a strategy – housebuilding has the great benefit of being very reliable in paying for itself through rent returns. This then opens up opportunities to borrow against future rents. Common Weal has proposed various ways this could be done, including a Scottish National Investment Bank (Macfarlane, 2016).

The tripling of PRS under devolution is something that should cause politicians at Holyrood who claim to stand against Thatcher’s legacy embarrassment – equally then, its reverse should be something to triumph not fear.
References


ALIENATING, INSECURE AND UNAFFORDABLE — Living in Scotland’s Private Rented Sector

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