



Raising the standards of privately rented property

How landlords have driven improvements in the standards of private rented sector homes over the past decade





Foreword

Richard Rowntree

Managing Director of Mortgages
Paragon Bank

Standards of property in the private rented sector (PRS) have improved significantly over the past decade, driven by investment from landlords.

Properties in the sector are larger, more energy efficient and newer than a decade ago, giving tenants wider choices and higher-quality homes.

Landlords have driven this improvement in two ways. They have added better homes to the PRS over the period, diluting the proportion of poor-quality stock. They have also invested in existing properties to drive up quality.

Too often we hear of the negative side of the PRS, and we shouldn't shy away from that. Rogue landlords who provide a poor product drag down the name of the sector to the detriment of the wider market.

Our research shows that three quarters of landlords are frustrated that local authorities don't take action against landlords who let sub-standard homes and we urge local councils

to use the powers available to them to help drive out this element of the market.

We also back Government plans to introduce a minimum 'Decent Homes Standard', which should again target the peripheral poorer properties and landlords.

But the great work carried out by the broader population of landlords should be recognised and celebrated. This report examines the Government's own data on housing stock in England, plus we surveyed over 500 landlords to examine how and when they invest to upgrade property, and by how much.

There is more work to do to bring the quality of properties in the PRS up to the level of the owner-occupied and social housing sectors, but I am confident that landlords will achieve that feat with the right financial support and a regulatory and fiscal environment that fosters continued investment.



Driving standards of rented property

The percentage of homes in the PRS classed as ‘non-decent’ has halved over the past decade

The proportion of privately rented homes in the English PRS classed as ‘non-decent’ has experienced the sharpest fall of all housing tenures in recent years. In 2008, 44% of homes in the sector were defined as non-decent according to the Government’s English Housing Survey. Today, that figure stands at 23%.

A similar reduction was seen in the proportion of properties with a HHSRS Category 1 hazard. The HHSRS is a hazard assessment tool; if a hazard is a serious and immediate risk to a person’s health and safety, this is known as a Category 1 hazard.

In the PRS, 14.2% of homes are classed as having a HHSRS Category 1 hazard, down from over 30% in 2008.

What has driven that improvement? Primarily, it is the dilution of poor stock by the addition of good quality homes into the sector. In 2008, 1.8 million privately rented homes were classed as decent, rising to 3.3 million in 2021 – an 83% increase.

83% increase in properties classed as decent since 2011

There has also been a reduction in the number of properties classed as non-decent – falling from 1.4 million to 990,000, a 29% reduction.

This growth has coincided with continued investment into the sector via buy-to-let finance. UK Finance data shows that between 2008 and 2021, there has been a 98% increase in the number of buy-to-let mortgages to 2 million, with a 100% increase in the value of outstanding balances to £280 billion.

Despite this improvement, there remains a stubborn sludge of property that falls below the standards required and the PRS performs less favourably compared to the owner-occupied and social housing tenures.

Stringent underwriting and property assessment by buy-to-let lenders is helping to ensure better quality homes are brought to market, benefitting tenants and the overall housing market.

Unlike the owner-occupied sector, where homeowners have a financial and emotional incentive to improve their homes, owners of legacy properties in the PRS may have less motivation to carry out property improvements, leading to this stagnation of stock. However, proactive, engaged landlords who have driven the growth of stock typically will invest in their property.

61% increase in outstanding buy-to-let balances

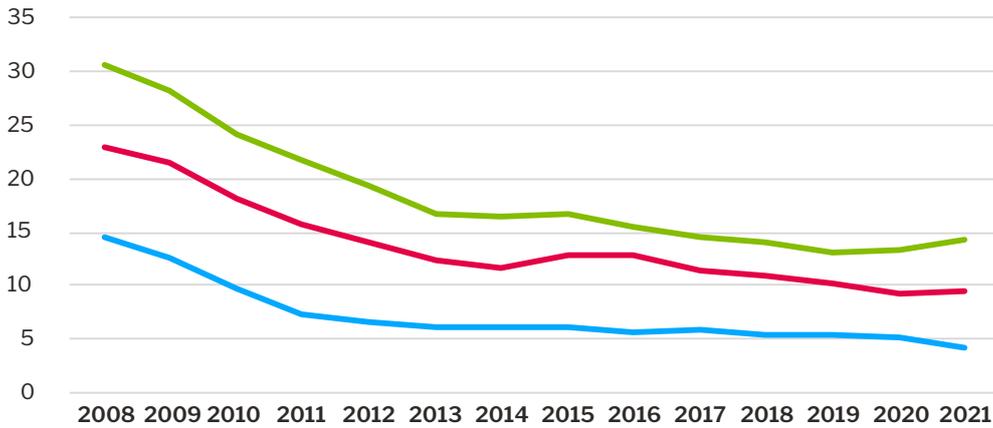
The Government is currently consulting on the introduction of a Decent Homes Standard for the PRS, which outlines a minimum quality level for homes in the sector. A similar standard has been in place for the social rented sector since 2001 and that tenure boasts the lowest proportion of non-decent stock.

Under the Government’s proposals, a decent home in the PRS must meet four criteria:

- It meets the current statutory minimum standard for housing
- It is in a reasonable state of repair
- It has reasonable facilities and services
- It provides a reasonable degree of thermal comfort

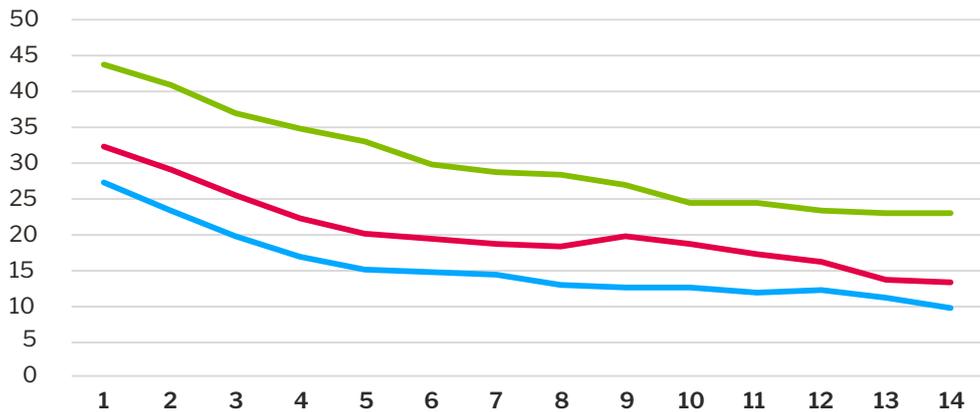
To help raise standards further in the sector, Paragon is supportive of this initiative and believes it will support the long-term reputation of the PRS and better outcomes for tenants.

% of stock with a HHSRS Category 1 hazard



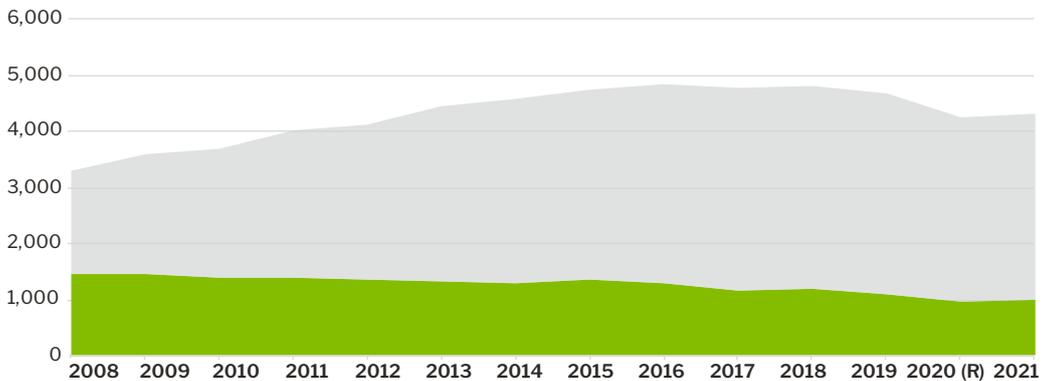
Source: DLUHC — Owner-occupied — Private rented — Social housing

The percentage of PRS homes classed as non-decent has halved



Source: DLUHC — Owner-occupied — Private rented — Social housing

The expansion of the PRS stock has diluted the proportion of non-decent homes



Source: DLUHC — Non-decent — Total rental stock

Understanding the profile of privately rented homes

Homes in the PRS have undergone considerable change over the past decade

The stock of PRS property has undergone considerable change over the past 10 years. Tenants now have a choice of a greater number of property types in more diverse locations. In addition, PRS homes are generally larger and encounter fewer issues.

Property age

Over the past decade, landlords have swelled the proportion of property built within the last 30 years. The number of homes in the PRS built after 1990 has increased 47% to one million today. Of that number, 602,000

were built after 2002. Conversely, there has been a reduction in the number of pre-World War One properties - down from 1.5 million to 1.3 million - although this age of home is by far the largest in the sector.

Compared to other tenures, property in the PRS is typically older. Over half of social homes were built in the post-WWII housing boom between 1945 and 1980, with the owner-occupied sector spread more evenly between the periods. However, the PRS has a higher proportion of homes built post-2002 than other tenures.

47%

increase in PRS homes built post 1990

44%

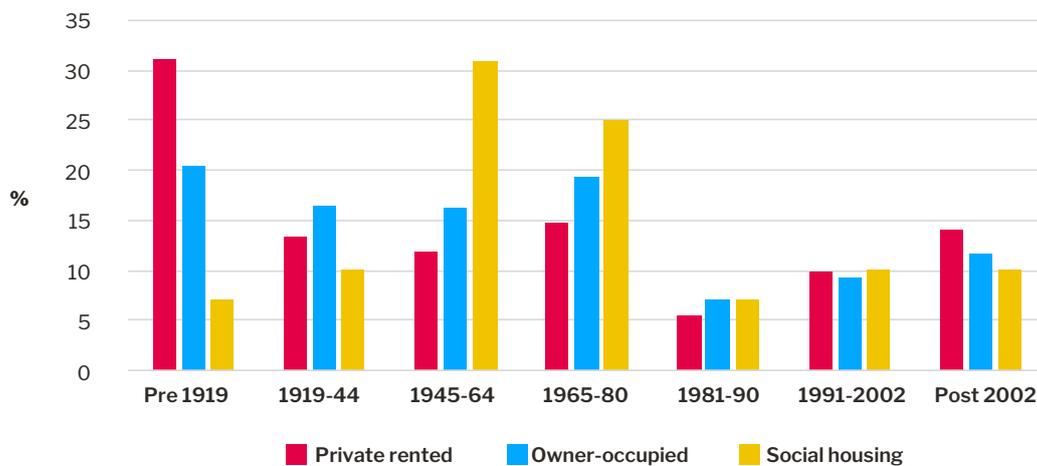
of homes in the PRS are flats

190,000

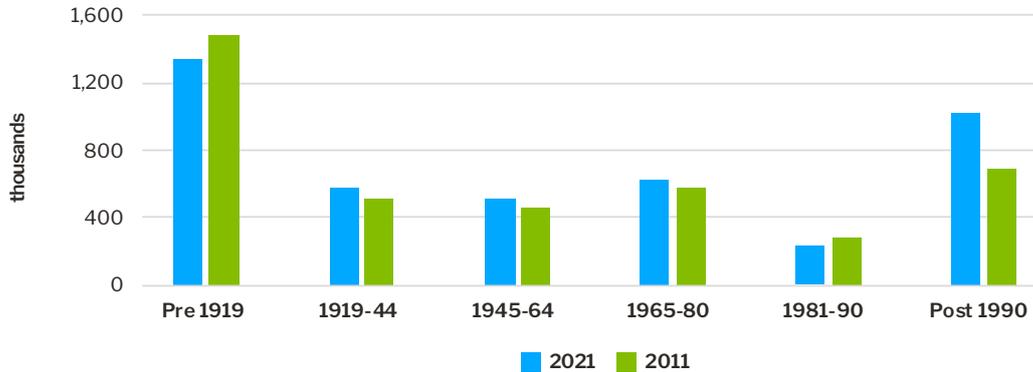
increase in number of PRS homes sized between 70 and 80 sqm



Proportion of stock by property age



There has been strong growth in PRS stock built after 1990 over the past decade



Source: DLUHC

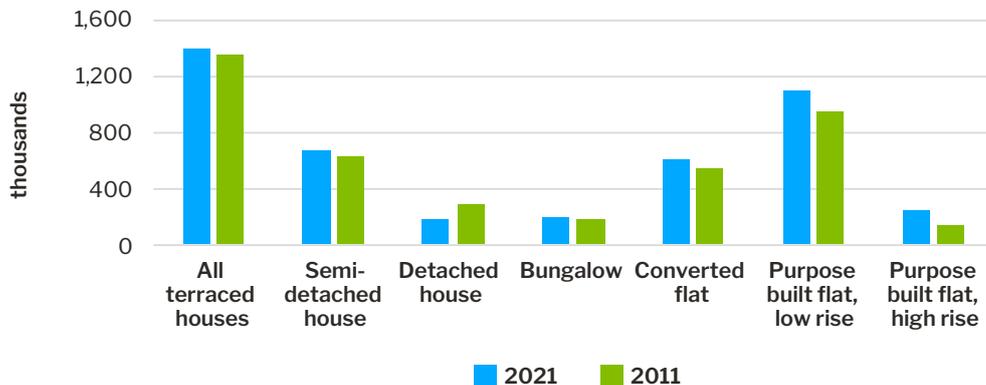
Property type

Terraced housing remains the most common property type in the PRS, accounting for 32% of homes, or 1.4 million by number. Over the past 10 years, there has been a slight shift in the volume of flats versus houses.

Government figures show 44% of privately rented properties are now flats, compared to 40% in 2011. By number, that equates to an additional 300,000 units to 1.9 million. Conversely, proportionately there has been a decrease in terraced, semi-detached and detached houses, with bungalows the only property type seeing an increase (rising from 4% to 4.6%).

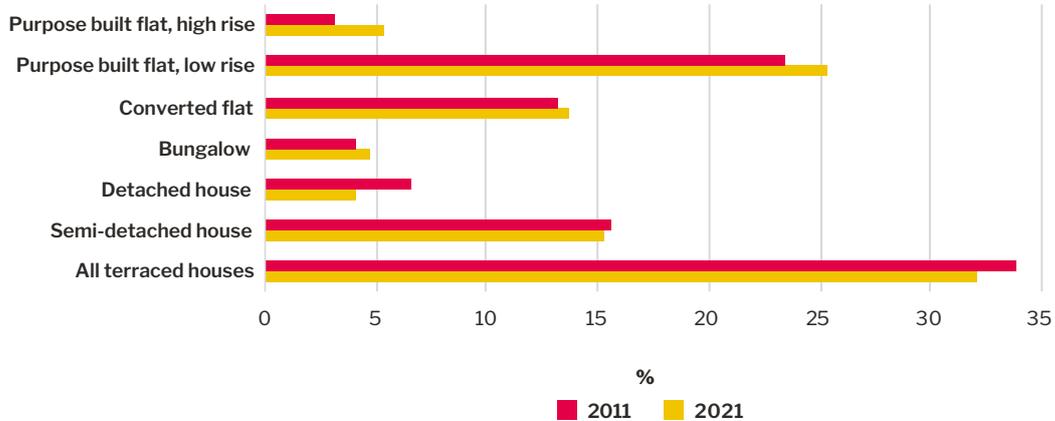


Terraced housing remains the most common property type in the PRS

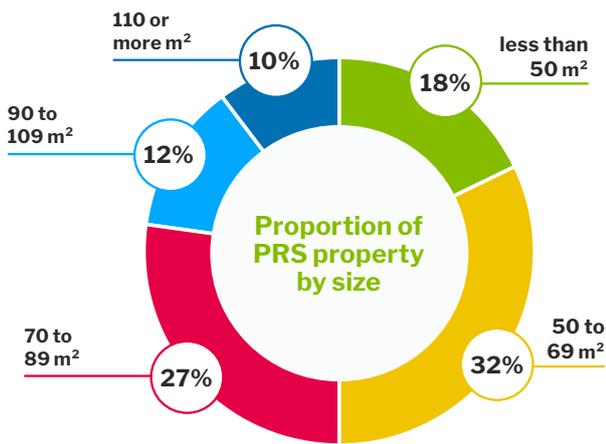


Source: DLUHC

There has been a slight shift in the proportion of houses and flats over the past 10 years



Source: DLUHC

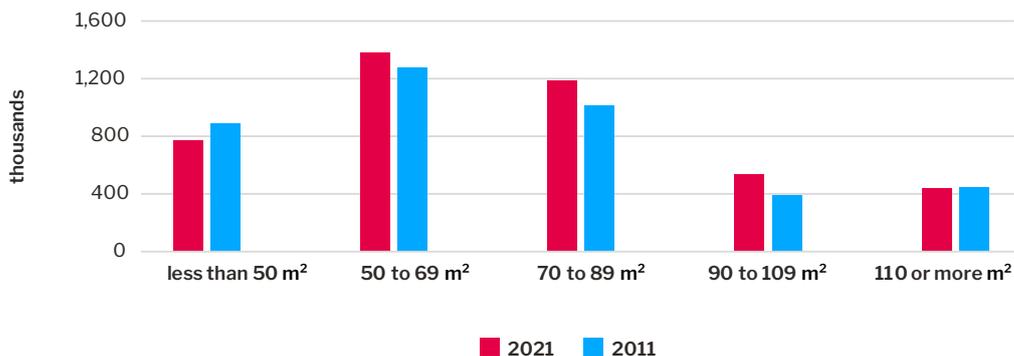


Property size

The average size of a home in the PRS has increased over the past decade to 75 m², up from 74.1 m². This increase has been driven by an expansion in the number of properties between 70 and 80 m² (up 190,000 to 1.19 million) and those sized between 90 m² and 109 m². Half of all PRS properties are now 70 m² or larger, compared to 46% in 2011.

However, whilst there has been a reduction in the smallest-sized properties, the largest proportion of homes are between 50 m² and 69 m², which reflects the growth of flats in the sector.

There has been an increase in larger privately rented properties



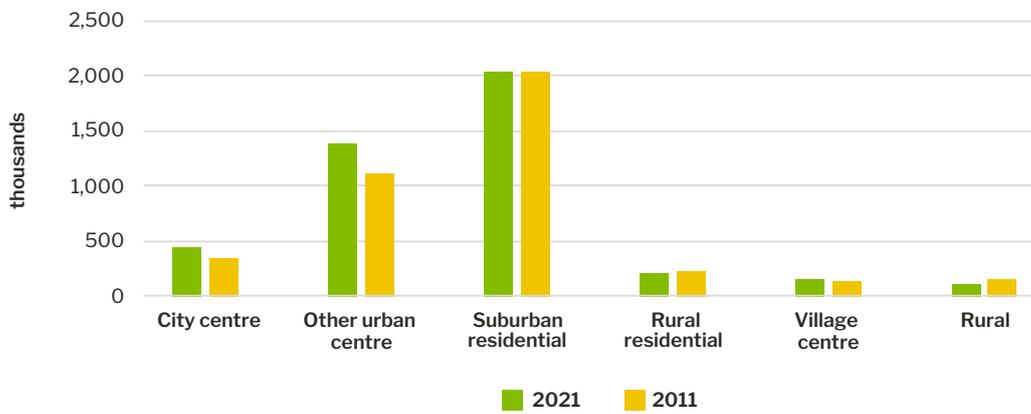
Source: DLUHC

Location

The PRS has seen growth in the proportion of properties located in city or urban locations. Today, 42% of homes are located in these areas, with the number of properties increasing from 1.47 million in 2011 to 1.83 million. PRS properties located in suburban areas have remained static over the period, with rural or village located-properties declining slightly.

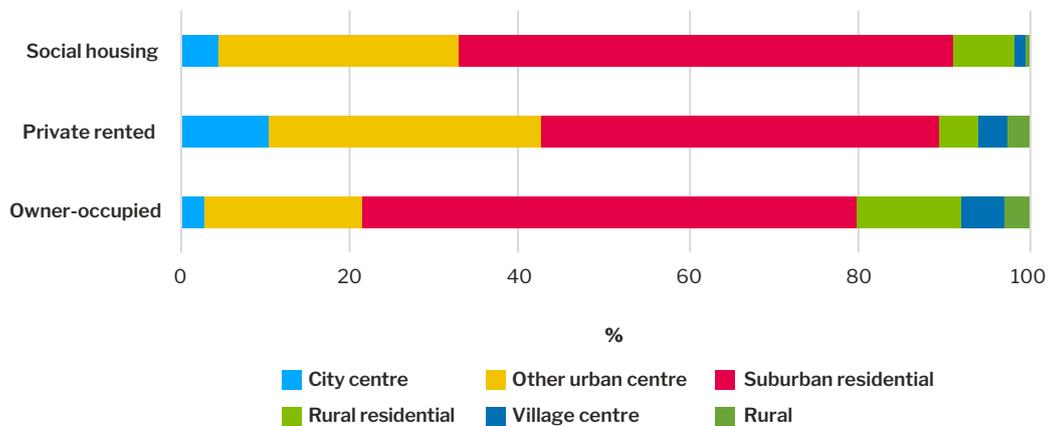
Compared to other tenures, the PRS has a greater proportion of urban properties and fewer located in suburban locations. The PRS has a significantly smaller exposure to rural or village locations than the owner-occupied space, which reflects the greater level of fluidity of urban housing markets, which tend to be more transient and better suited to rented property.

There has been an increase in PRS property in cities and urban centres



Source: DLUHC

Compared to other tenures, the PRS has a greater concentration of urban stock



Source: DLUHC

Overcrowding and under-occupation

Despite the clear improvements made to overall quality of stock, overcrowding remains an issue for the PRS. The latest figures show that 5.4% of private renting households live in overcrowded accommodation, although that has declined in the past two years. Overcrowding applies to just 1.1% of owner-occupied homes, but 8.1% of those in the social sector.

Meanwhile, under-occupation – classed as having two or more spare rooms – has declined, decreasing from 19% of stock to 14.8% over the past 20 years. Under-occupation is far more prevalent in the owner-occupied sector, accounting for 53% of dwellings.

Energy performance improves but questions remain

The PRS now outperforms owner-occupied homes for energy performance, but are new rules on the way?

165% increase in PRS homes rated EPC A-C since 2011

21% reduction in homes rated D and E



The energy efficiency of homes in the PRS has improved significantly since 2011. The number of properties with an Energy Performance Certificate of between A and C has risen by 165% over the past decade to 1.92 million.

Additionally, those rated D and E have fallen by 21% to 2.18 million, whilst those rated G – which is not legal under current rental legislation – have reduced to 54,000.

The PRS now outperforms the owner-occupied sector for energy performance, with 44.5% of stock between A and C, compared to 42.9% in owner-occupied homes. Lenders, including Paragon, have encouraged landlords to buy more energy-efficient homes through preferential pricing, and the sector has made great strides over the past 10 years.

However, there is more to be done. Just over half of homes are still rated at D and below and the Government has proposed that all new tenancies will have to be rated C or

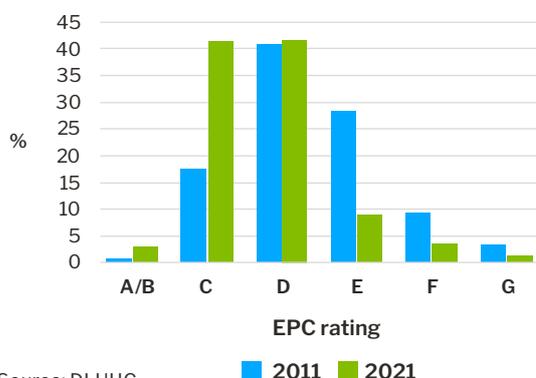
above from 2025, with all tenancies meeting that level from 2028.

The Government has also proposed that the minimum cap landlords must spend to upgrade property is raised to £10,000.

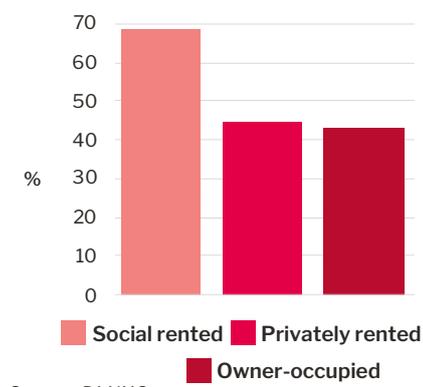
The industry, along with landlords, awaits further clarification on these proposals, together with confirmation of the dates, specific requirements and legislation. With less than two years to go to the proposed dates, it is increasingly unlikely that landlords would be able to meet these deadlines. A key inhibitor would be the lack of an infrastructure, together with a workforce with the necessary skills, to carry out the retrofitting work, potentially even before a 2028 deadline.

Paragon, along with other interested parties, has engaged with Government to represent the views of landlords and we hope that the potential impact of rushed legislation on the UK property supply is recognised by policymakers.

PRS homes are becoming more energy efficient



The PRS has the second highest proportion of A-C rated homes



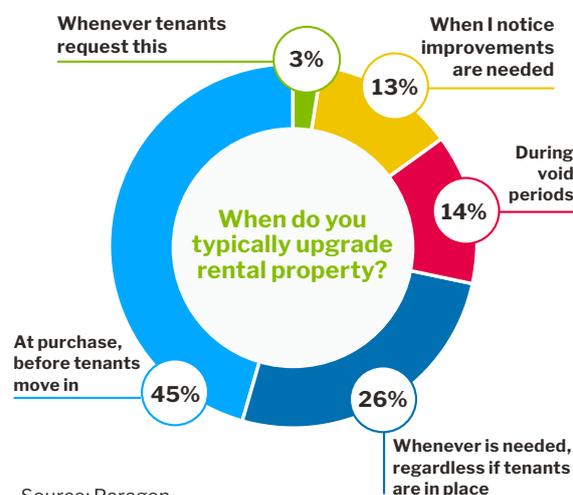
Understanding landlords' property upgrade strategies

Landlords have a strong track record of upgrading property in their portfolios

More than eight out of 10 (81%) landlords upgrade every property they add to their portfolio, Paragon research of over 500 landlords shows. Four in 10 landlords actively seek property that requires upgrading when expanding their portfolio, while 21% of landlords prefer homes that are ready to live in.

Asked about when they carry out upgrade work, 45% do so before their tenants move in, with 13% doing so during a void period.

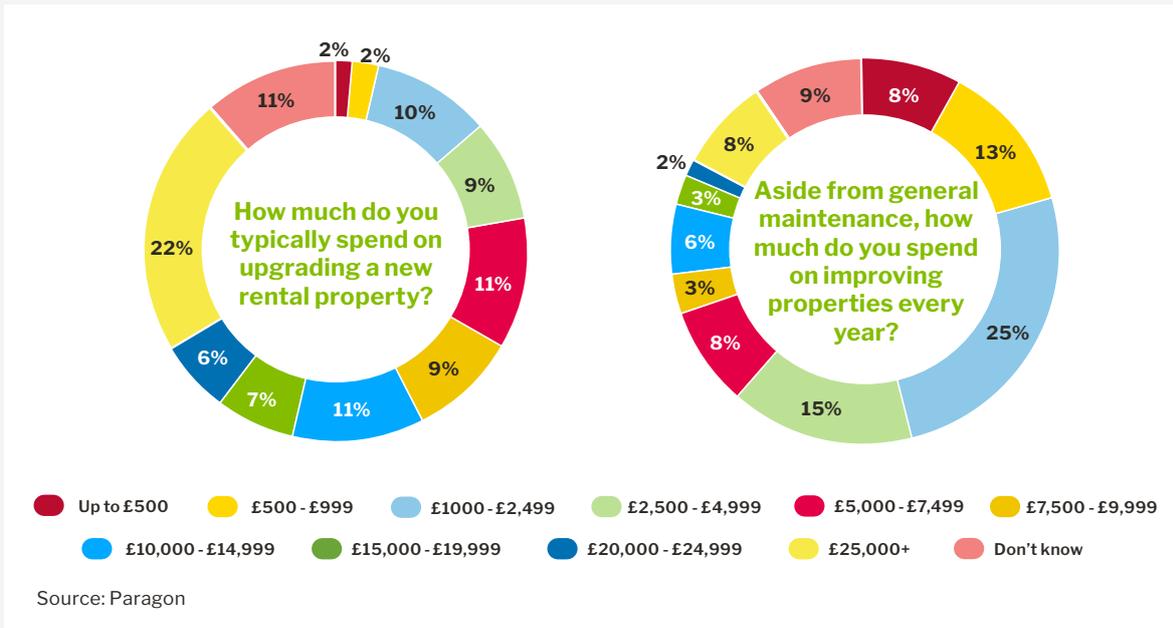
A further quarter (26%) do so whenever work is needed, regardless of whether the property is occupied.



How much do landlords invest in property upgrades?

Nearly a quarter (22%) of landlords said they spend more than £25,000 improving a new rental property before they let it to tenants – by far the highest proportion. One in 10 (11%) spend between £10,000 and £15,000, with a similar proportion spending between £5,000 and £7,500. Meanwhile, 13% of landlords spend between £15,000 and £25,000.

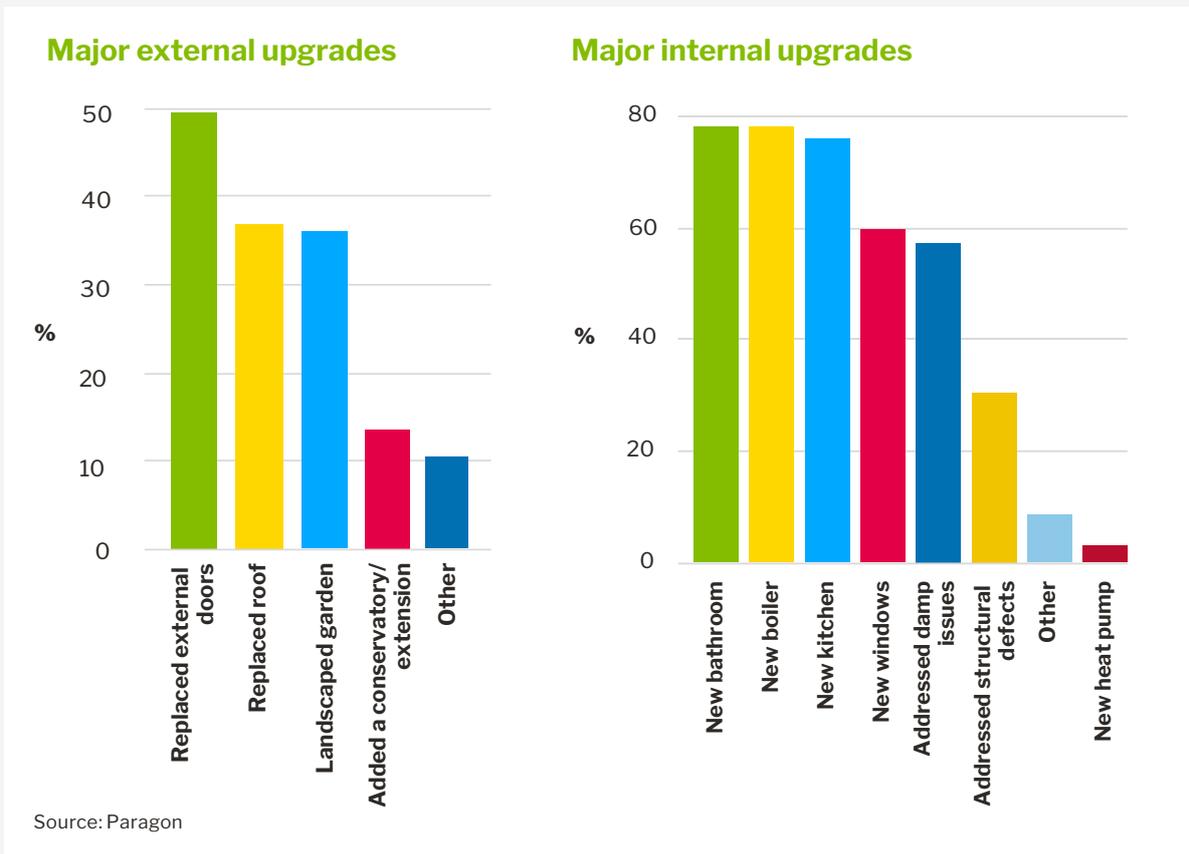
When asked how much they spend each year on an ongoing basis, landlords typically invested smaller amounts. The largest proportion of landlords (25%) spend between £1,000 and £2,500 each year, with 15% spending between £2,500 and £5,000.



What upgrades do they make?

The most common significant improvements landlords make to a property include a new bathroom, kitchen and boiler, with addressing damp and windows also high on the investment list. Major external upgrades include replacing external doors, replacing a roof and landscaping gardens.

In addition, 95% of landlords said they decorate a property at the time of purchase, with 64% replacing all white goods and four in 10 (44%) installing new radiators.



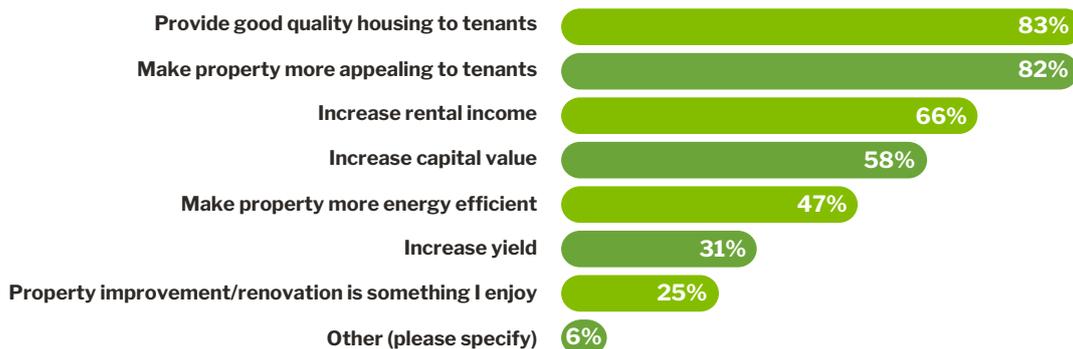
What drives landlords to invest in property upgrades?

Tenant appeal appears to be the key driver for improving property – 83% of landlords said they upgrade property to ensure they are providing a good quality home to tenants, with 82% doing so to make their property more attractive to prospective tenants.

Financial incentives are also important – 66% upgrade property to increase rental income, with 57% doing so to increase the property’s capital value.

On average, landlords experienced a 19.8% increase in capital values following upgrade works, with the average rental income improving by 16.5%.

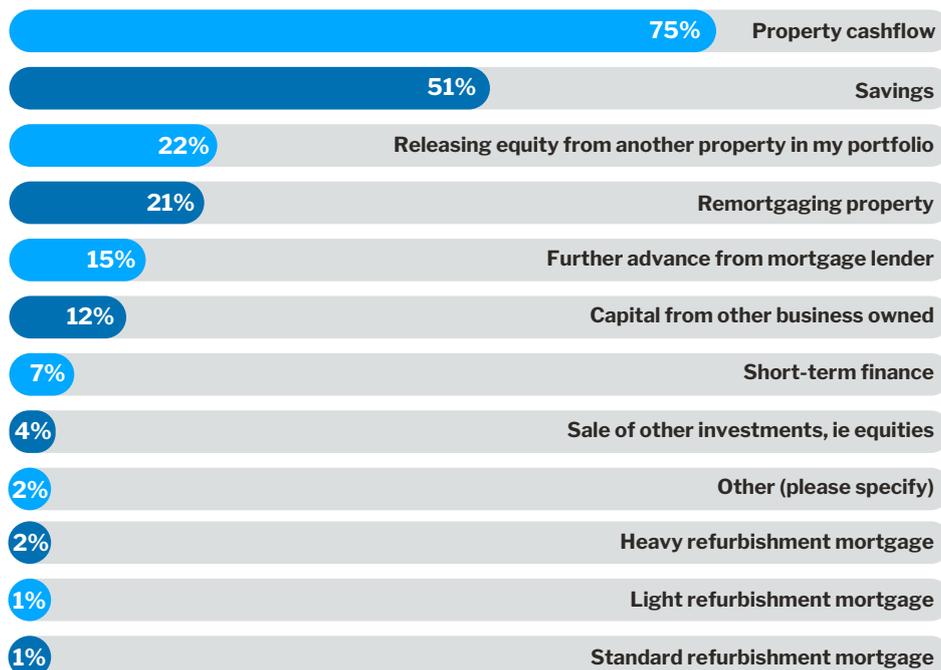
What are the main reasons for upgrading property?



How do landlords fund their investment?

The most common source of finance used to fund property upgrades is the cashflow from the property, cited by 75% of landlords. Savings was the second most popular source of investment, followed by releasing equity from another property in their portfolio or remortgaging.

How do you fund property upgrades?



Conclusion

There is clear evidence of a correlation between the growth of buy-to-let finance provision and landlords upgrading the stock of homes in the PRS. Buy-to-let is providing landlords with the finance to not only grow their portfolios, but to also improve them.

And what compels them to improve the homes they acquire? Of course, there is a financial incentive; improving a property will increase its value and typically landlords' rental income.

But the most common reason landlords upgrade a property is to ensure they are providing a good home for their tenants. As our research shows, over four in five landlords cite this as the main driver for the investment.

Given the poor portrayal of landlords generally, this may surprise people. But the stereotype of landlords as greedy and uninterested in the welfare of their tenants is outdated. Homes in the PRS are newer, warmer and larger than ever before, benefiting the millions of tenants that call the PRS home.

Yet too often we hear the same lines used by Government and others when discussing landlords. Yes, a 'rogue' element exists, but it is the minority and is diminishing.

Paragon urges the Government to consider the following steps to ensure the quality of homes continues its upwards trajectory:

- Soften antagonistic language used when referencing landlords and acknowledge the important role they play in providing good-quality homes. The demonisation of landlords is unwarranted and unnecessary
- Implement the Decent Homes Standard but ensure local authorities are resourced efficiently to tackle poor housing provision across the board, ending the piecemeal approach that currently exists
- Introduce a property portal and landlord registration scheme, making them available to lenders
- Strengthen Section 8 provisions relating to anti-social behaviour under the Renters' Reform Bill. Landlords should have the right to access their property if it is being unduly damaged by tenants
- Create a fiscal and regulatory environment that encourages landlords to continue to invest in PRS homes



