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The Revival of Private Landlordism in the UK and the Mobilization of Housing Wealth

Richard Ronald, Department of Social Policy and Social Work, University of Birmingham, UK & Centre for Urban Studies, University of Amsterdam, the Netherlands

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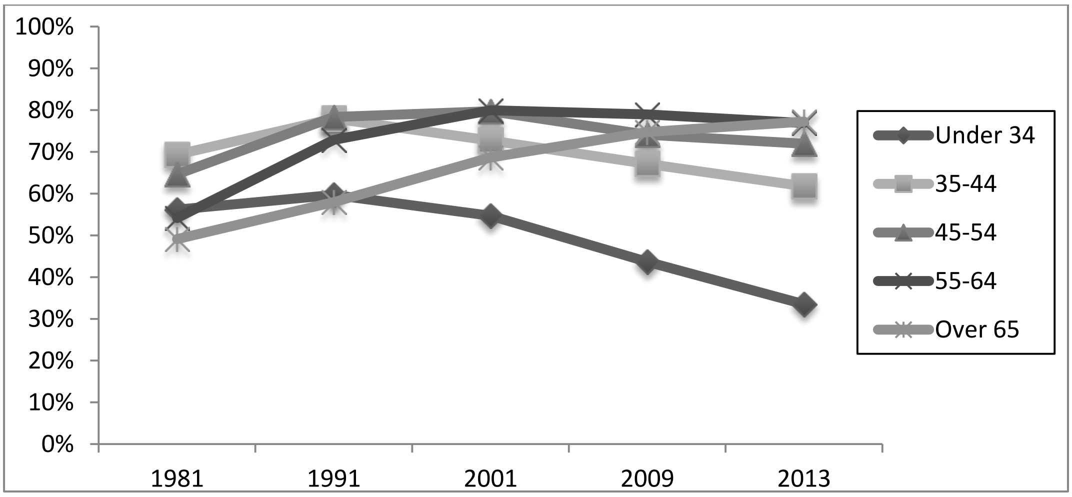
Introduction

In recent years various claims have been made concerning the emergence of 'generation rent', with research focusing on intergenerational divides in housing market access and the diminishing movement of younger people along standard housing career trajectories (see Clapham et al., 2012; Mckee, 2012; Pattison et al., 2010). A clear indicator of this phenomenon has been the remarkable revival of the private rental sector, expanding from approximately 10% of UK households on 2002, to 18% by 2014 (ONS, 2014). While research has focused, from a demand perspective, on the market conditions of younger renters, little attention has been paid to the significant restructuring of the supply side. Indeed, the UK private rental sector is highly fragmented and has increasingly been augmented by small-scale landlords, the vast majority of whom let out just one property (Kemp, 2015). To put this into perspective, while 60% of English 16 to 34 year-olds were home owners in 1991, by 2013, the rate was just 34% (English Housing Survey, 2013). Meanwhile, the number of private landlords increased from about 560,000 to around 2.1 million over the same period (Ronald et al, 2015). This briefing paper considers the rise of 'generation rent' in terms of 'generation landlord', focusing on the transformations in housing wealth, policy and market conditions that helped facilitate it.

The Augmentation of Housing Wealth Among Established Homeowners

Two key factors arguably lie behind the emergence of a new generation of landlords: the historic growth of owner-occupation between 1980 and 2000 and the augmentation of housing equity among established homeowners. Improvements in both significantly enhanced the capacity of many – particularly those already better positioned in regard to income and other assets – to later invest in other property to let. In 1981, approximately 49% of households aged 65 and over and 54% of 55 to 64 year olds were homeowners. By 2013 the rate was 77% for both age groups. In contrast to this exceptional growth, rates among younger age-groups have seriously diminished (Figure 1). Moreover, while distribution is uneven, those who purchased their homes before the 2000s have been particularly advantaged by historical house price increases adding significantly to owner occupied housing equity. Indeed, the average UK house price has advanced from just over £20,000 in 1980 to almost £190,000 in 2015 (Halifax, 2015). The most notable increase in property values occurred between 2002 and 2014 with the total value of UK housing rising from £2.9 to £5.75 trillion (Savills, 2014).

Figure 1: Home ownership rate (%) by age group



Source: English Housing Survey, 2013

Astonishing equity has thus been accrued by particular demographic segments, many of which have also added to the liquidity of their homes as their mortgages have matured. Rates of 'outright' (un-mortgaged) ownership have escalated rapidly, from 24.8% to 32.5% percent of households between 1991 and 2013 (Savills, 2014). In terms of property asset values, £1.71 trillion worth of owner occupied housing was free of mortgage debt in 2012, almost double the 2002 figure of £973 billion. The aggregate value of mortgaged property, meanwhile, only increased from £1.29 trillion to £1.83 trillion. Essentially, while the number of people entering home ownership declined, both the net equity and wealth of those already in the sector, despite the 2008 Financial Crisis, has increased substantially in the last decade.

The Emergence of Generation Landlord

The recent revival of the Private Rental Sector (PRS) has not only been remarkable in regard to growth in tenure share. In terms of aggregate value, while PRS represented £354 billion in 2002, or 12% of the total value of UK housing, by 2014 the figure was close to £1.16 trillion, around 20% of the total[1]. Critically, however, rather than corporate or institutional investors, it appears that a growing mass of well leveraged owner-occupier households are driving the return of PRS and have benefited from much of this equity augmentation. As Figure 2 illustrates, the sharp rise in private rented dwellings has been closely matched by an increase in numbers of landlords. Indeed, the ratio of PRS landlords comprised of private individuals increased from 61% in 1998 to 89% by 2010, while the proportion derived from private and public companies and other organisations fell from 22% and 18% to 5% and 6%, respectively (DCLG, 2010).

The evidence also attests to the recent arrival of most landlords with 51% of all PRS dwellings being acquired after 2000. Most landlords are highly inexperienced, and while 69% have had properties for 10 years or less, 22% have three years' or less experience (DCLG, 2010). The amateur status of PRS ownership and management is also illustrated by the fact that as many as 78% of all landlords rent out just a single dwelling. Many older homeowners, with the passing of generations above, have also become landlords through inheritance[2] with letting representing a practical means to manage an extra property.

While the favourable asset conditions established among post-war homebuyers were important to the revival of investment in PRS after 2002, a number of institutional transformations are also salient. Firstly, the 1988 Housing Act, in context of a shrinking rental sector and a deregulatory legislative atmosphere, removed rent controls and standardized short-term tenancies making lettings less risky and more profitable for landlords. Secondly, a particular driver of the PRS revival has been the inauguration of, and expansion of Buy-to-Let (BtL) mortgage lending since 1996. The growth of the BtL market allowed a growing diversity of individuals with an equity stake of around 30% or more to buy another property to let on relatively flexible terms. BtL became a particular focus of a new breed of small-

[1] Of such housing, 37% of the total value of PRS, and 19% of UK stock is located in London (Savills, 2014).

[2] According to the DCLG 2010 landlord survey, around 9% of all private landlords entered the sector in this way.

scale investor who could draw on existing assets or even leveraging against their existing home equity (see Leyshon and French, 2009) in order to buy rental property.

While the initial BtL boom was more speculative[3], most new landlords effectively benefited from the squeeze on regular mortgage lending after 2008. Volatile prices and emerging lending conditions (with 20-25% down-payments becoming standard) pushed many (younger) potential buyers into renting[4], increasing sector demand and subsequently rental returns[5]. According to a 2014 report by mortgage financers Paragon, BtL investments have had unparalleled returns with, for example, a £1,000 investment in 1996, buoyed by rising house prices and rents, turning into £13,048 by 2014, despite the effects of the GFC. This represents an annual rate of return of 16.3%, which, over the same period, compares to 6.8% from shares, 6.5% from bonds and 4% from bank savings. According to the CML (2014), approximately one in seven new mortgages now go to landlords[6] who are not subject to the same affordability checks as homebuyers and can include projected rental incomes in loan applications. Nonetheless, cash buyers have also become common, especially for properties that are let, and since the late-2000s mortgage-free acquisitions have accounted for more than one-third of home purchases (Halifax, 2015).

Among the means available to cope with austerity, economic volatility and increasing pension insecurity, translating savings, or even leveraging owner-occupied housing equity into an extra property has become particularly attractive. According to a National Landlords Association Survey (NLA, 2012), four out of five BtL landlords consider their property income as their pension, and almost three in five (61%) plan to live entirely off rental income in retirement. While not all homeowners who have accumulated housing wealth look to landlordism to maximize economic security, evidence suggests that significant numbers have. There are now more than 2.1 million landlords serving over 4.6 million rental households overall (Ronald et al. 2015, ONS, 2014). Assuming that nearly all landlords are also owner-occupiers, the data suggests that one in seven home owning households in Britain also let out at least one residential property for rent.

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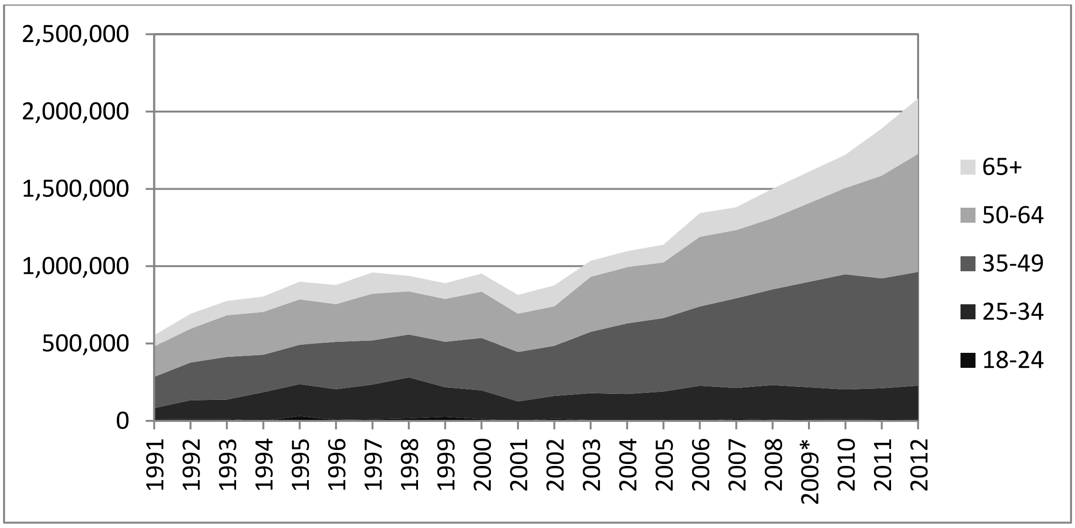
[3] While there were 346,000 BtL mortgages taken out in 2007, this dropped to 89,600 by 2009. Meanwhile, the diversity in BtL product types fell from 3,662 to just 218. Around 0.35% of BtL properties were possessed by lenders in the first quarter of 2009, almost triple the rate for owner-occupied homes (CML, 2010)

[4] Around 51% of all renters were aged 35 and under in 2011 (English Housing Survey, 2012).

[5] Rents have also increased ahead of inflation, and more than double this rate in London

[6] This equates to 1.5 million mortgages worth £174bn going to BtL investors since 1996.

Figure 2: Growth in UK landlords by age



Source: UKHLS (2015), author's calculations

As Figure 2, which is based on calculations from UK panel data, indicates, among those aged 65 and over the number of landlords has more than doubled since 2002, while their share of the total has significantly diminished. Indeed, the largest group of landlords in 2012 was made up of those aged 50 to 64, although growth has been most significant among those aged 35 to 49. Meanwhile, landlordism among younger age groups is lower than it was in 1998. Arguably, older homeowners heading toward retirement have, in the 2000s, advantaged by historic house price increases and shaped by experiences of housing as a resilient investment good, led a charge into PRS investment. Nonetheless, the cohort that has followed appears even more orientated towards housing wealth and multi-property ownership, despite ostensibly less equity behind them. Of course, there are significant inequalities within cohorts, not only defined by tenure, but also by relative housing market position, geographic location etc.

The Impact of Generation Landlord

This report has largely implicated historic home ownership and property wealth conditions in the emergence of a new generation of landlords. This group has mirrored the growth of 'generation rent' in the last decade or so. Of course, this 'generation' is actually made up of different cohorts who have, over time, become more proactive in the accumulation of property. They have also increasingly taken advantage of developments in mortgage markets and liberalization of the PRS.

While, on the one hand, becoming a landlord may have bolstered the economic position of large numbers of people approaching retirement and a potential loss of income, one the other, their proactivity has contributed to the exclusion of younger people from home ownership. Indeed, owner-occupation has declined from around 70% of households in 2002 to 64% by 2012, which has ostensibly been driven by the decline in younger people buying. Only one-in-three people aged under-35 in England are now homeowners compared to more than half a decade ago (English Housing Survey, 2013). Since the introduction of the Help-to-Buy policy in the second half of 2013, the flow of new homebuyers has improved, although subsequent house price increases have reinforced exclusion via regular market entry routes.

The rise of generation landlord illustrates how the housing stock, especially since 1980, has been appropriated as a means to accumulate household wealth, which for millions has meant buying an extra home to rent too. In some cases, the very units once built by local authorities with public funds, and sold-off at discount to sitting tenants, have ended up in the hands of private landlords, with more than a third of homes bought under 'right to buy' in London now let-out in the PRS (Inside Housing, 2013). Arguably, the long-term consequences of the 1980s Conservative government push for home ownership has been a lower owner-occupancy rates in the 21st century, especially among people aged 35 and under, and, consequently, higher public spending on housing, with the cost of housing benefits for renters doubling in cash terms between 2001 and 2013 (Wilcox and Perry, 2014).

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