



Driving standards in the private rented sector

How the quality of stock in the private rented sector has improved over the past decade





A word from Paragon Bank Managing Director of Mortgages

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Over the past 10 to 15 years landlords have made tangible improvements to the private rented sector (PRS) that millions of tenants call home.

Standards of property in the PRS have increased significantly over that period. Homes in the sector are newer, larger, warmer and more energy efficient than they were 10 years ago, plus tenants have more choice.

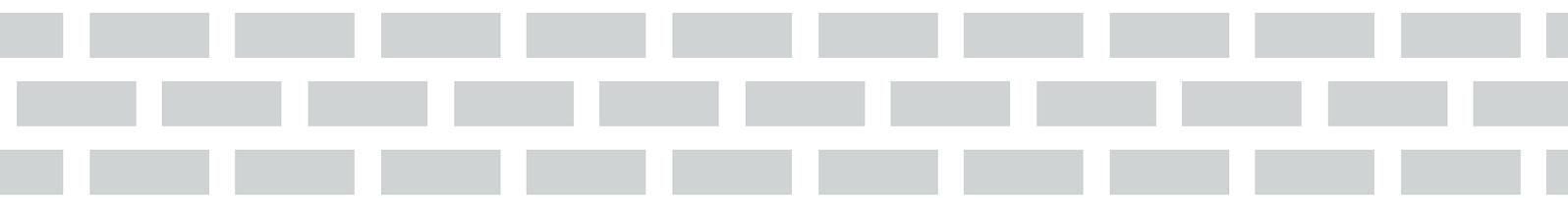
Since 2009, there are nearly three times the number of properties with an energy rating of C or above, a 100% increase in the number of homes built after 1990 and a substantial expansion in the types of property available to rent in the PRS.

This improvement has coincided with significant investment in the sector through the form of buy-to-let finance, whilst tighter and more stringent regulations have hopefully seen the more 'rogue' elements at the periphery of the landlord community diminish.

Around three quarters of homes in the PRS are now classed as decent, compared to less than half in 2006. Clearly, more needs to be done to improve that further but it's important to recognise the great strides hundreds of thousands of landlords have made and their commitment to providing their tenants with a good quality home.

That proportional increase has not been driven by a significant improvement in the quality of existing stock from the start of that period. Rather it is better quality, new homes that have been added to the sector - largely funded through buy-to-let finance - that have diluted those poorer properties and raised the standards of the sector overall.

At Paragon, we strive to help improve standards in the sector for the benefit of our customers, their tenants and our business. We do not lend on poor quality homes and employ our own team of in-house surveyors to ensure our standards are met.



01

A growing proportion of decent homes

The proportion of privately rented homes classed as decent has increased significantly, fuelled by investment into the sector

Along with all tenures, standards of property in the PRS in England have increased substantially over the past 15 years, coinciding with significant funding in the sector from buy-to-let finance.

Since 2006, the portion of homes in the sector classed as 'non-decent' has fallen from 46.7% to 23.3%.

For a dwelling to be considered 'decent' under the Decent Homes Standard it must:

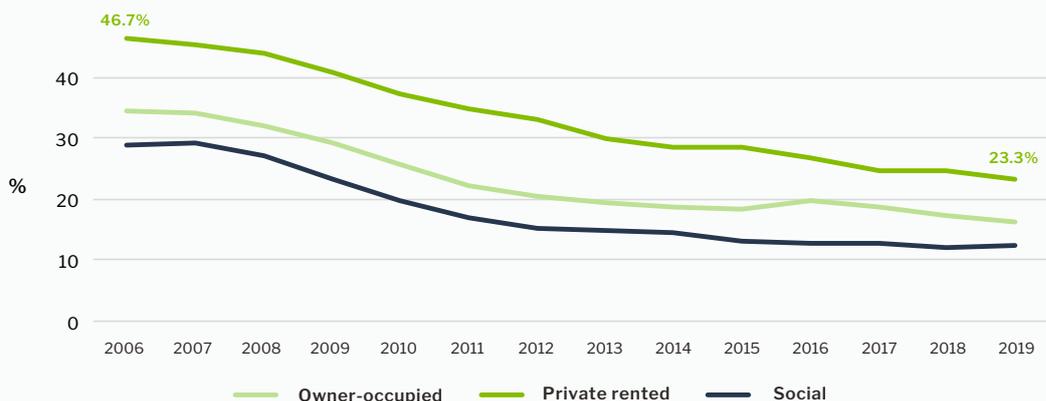
- meet the statutory minimum standard for housing under the Housing Health and Safety Rating System (HHSRS). Homes which contain a Category 1 hazard under the HHSRS are considered non-decent
- provide a reasonable degree of thermal comfort

- be in a reasonable state of repair
- have reasonably modern facilities and services

However, what has driven the improvement in the PRS is not necessarily investment in existing stock, but rather the dilution of poor housing through the expansion of the sector overall with better quality homes.

Proportion of non-decent homes

Source: MHCLG



Overall, the number of homes classed as non-decent in the PRS has not reduced significantly, with 1.01 million homes categorised as non-decent today compared to 1.21 million in 2006, a 10% reduction. During the same period, the owner-occupied sector has seen the number of non-decent homes decrease from 5.31 million to 2.54 million, while social sector non-decent homes now number just over half a million after a reduction from 1.13 million.

This suggests that the growth in new properties coming into the PRS over that period is driving up standards for the sector overall and diluting the stubborn proportion that remains non-decent. Stringent underwriting and property assessment by buy-to-let lenders is helping to ensure better quality homes are being 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.

Buy-to-let lending between 2006 and 2019 has increased significantly

However, proactive, engaged landlords who have driven the growth of stock typically will invest in their property. Data from insurance firm LV shows that landlords spend a combined £4.7 billion a year on maintaining and improving their property, whilst Paragon research shows that landlords spend an average of £8,720 on upgrading a buy-to-let property after purchase.

Expansion of PRS stock has diluted non-decent proportion since 2006

Source: MHCLG

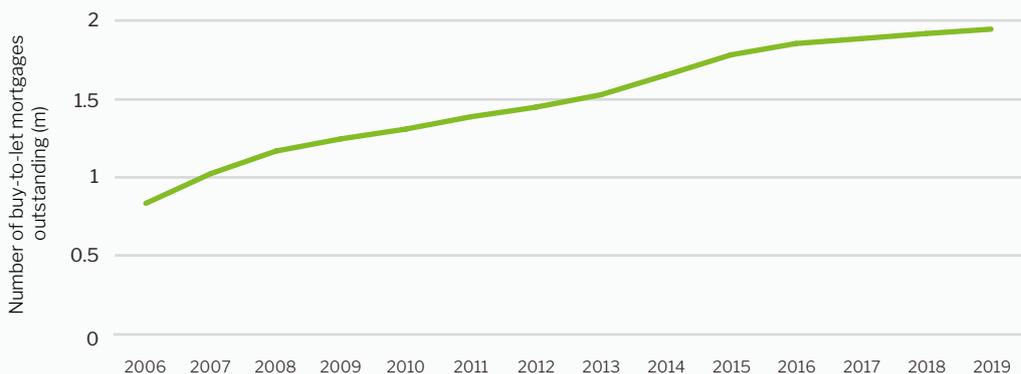


The growth in overall stock numbers has coincided with an expansion of buy-to-let finance. Buy-to-let lending between 2006 and 2019 has increased significantly – the number of outstanding buy-to-let mortgages has risen from 835,000 to 1.9 million, whilst the value of those loans has increased from £93 billion to £260 billion.

Overall, 1.3 million buy-to-let loans for new house purchase have been written since 2006, but it's important to consider overall lending across the period, including remortgage numbers, as landlords will typically remortgage existing loans or take out a further advance to fund work on their rental properties.

Buy-to-let investment 2006-2019

Source: UK Finance



02

The burning issue

The energy efficiency of PRS homes now outperforms the owner-occupied sector, but more needs to be done

Another measurement of improvement of homes in the PRS is the energy performance of the sector. According to the Government's Standard Assessment Procedure (SAP) rating of properties in the sector, the PRS now sits above owner-occupied homes, although still lags behind those in the social housing sector.

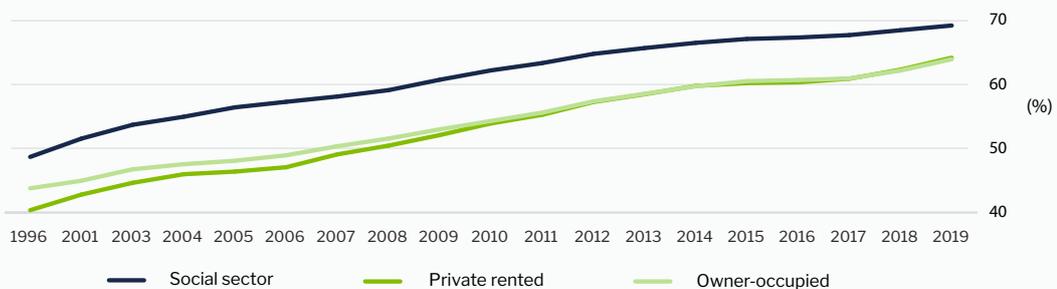
When looking at the Energy Performance Rating of the PRS, the sector has made significant improvements over the past 10 years.

Nearly four out of 10 homes (38.3%) in the PRS now have an EPC of C or above, equating to 1.8 million properties, compared to just 13.5% in 2009. This is higher than the owner-occupied sector, which sits at 35.6%, but below social housing at 61%.

Conversely, the proportion of PRS homes with an EPC rating of E or below currently stands at 14.8%, against 50.1% in 2009.

SAP rating by tenure

Source: MHCLG



EPC Rating by proportion of stock in PRS

Source: MHCLG

2019
2009





Clearly, more needs to be done as nearly half of PRS properties (46.9%) have an EPC rating of D, whilst there are still properties in the sector that are being let with an EPC rating of F and G.

The Government has an overall target of making the UK's housing stock carbon neutral by 2050

are first in line of sight. Overall, greenhouse emissions from homes has reduced by 16% compared to 1990 levels, but they are still responsible for 15% of UK greenhouse gas emissions, which increases to 22% if electricity consumption is included.

Under Government proposals, all new property being let for new tenancies in the PRS must have an energy performance rating of at least C by 1 April 2025. By 2028, that applies to all let property.

The Government has an overall target of making the UK's housing stock carbon neutral by 2050, but private rented homes

Therefore, the clock is ticking for landlords to make upgrades to their properties and 2.9 million homes in the sector will need to be improved.

Another element for landlords to consider is the Government's proposal to increase the 'landlord cap' for poorer rated properties. As it stands, landlords are allowed to offer homes with a lower rating than band E if they spend £3,500 every five years to improve the property's energy efficiency. However, this minimum spend will increase to £10,000 after the band C rules are implemented.

Government, landlords and lenders will all need to work together on the road to this target and the provision of finance to facilitate property improvements will be essential. Paragon has made its first step in this area with the launch of a green further advance range. In addition, we have launched a mortgage that encourages landlords to invest specifically in properties with an A-C rating to further improve the overall quality of stock.

03

Understanding the profile of stock in the PRS

The stock of PRS homes have undergone considerable change over the past 10 years

100%

Increase in the number of PRS homes built after 1991



Growth in the number of PRS homes since 2009

31%



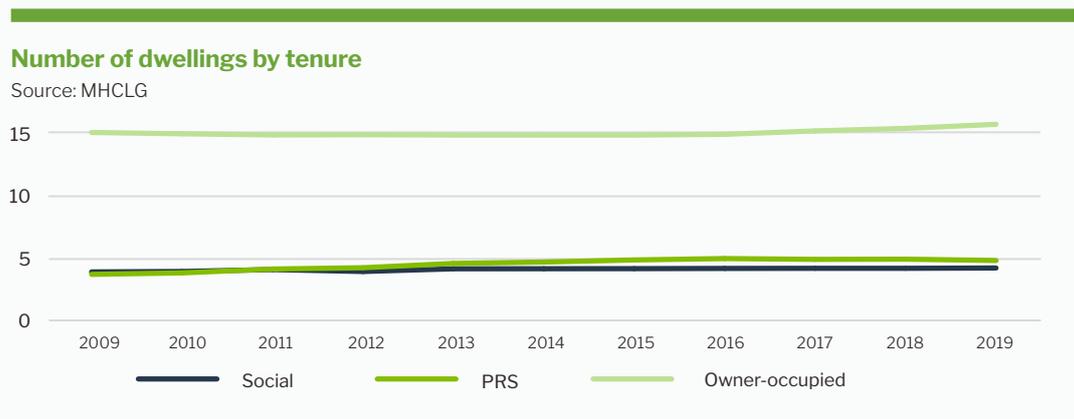
Proportion of PRS homes located in suburban residential areas

51%



34%

Increase in number of homes with 70m² floorspace or above



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.

Number of dwellings

The number of dwellings in the PRS increased by 31% between 2009 and 2019 to 4.7 million properties, although the impact of Government measures to slow the growth of the sector can be seen in more recent years.

Following changes to the tax treatment of landlords and the introduction of a Stamp Duty surcharge, the overall number of PRS properties has fallen slightly from a high of 4.85 million in 2016. This is matched by growth of the owner-occupied sector since 2016, growing from 14.8 million dwellings to 15.6 million.



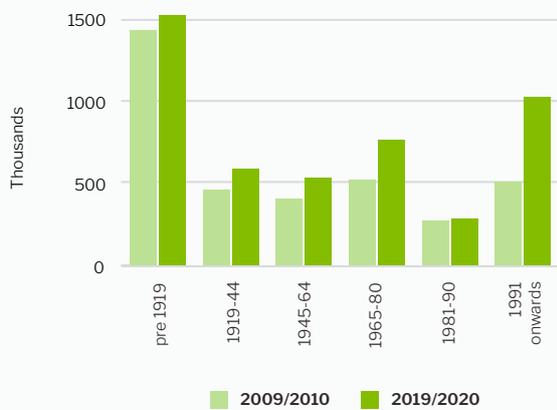
Property age

Over the past decade, landlords have been adding more modern stock to their portfolios. The proportion of PRS stock built from 1991 has grown from 14% in 2009 to 22% in 2019, with the number of homes in this category doubling over the period – 509,000 to 1 million. Of the homes built since 1991, more than half (55%) have been constructed in the past 18 years, suggesting newer stock is fuelling the increase.

Despite this, PRS property is typically older than those in the owner-occupied and social housing sectors. Just over four in 10 (44%) of PRS homes were built before the end of WWII, equating to 2.1 million homes, compared to 38% in the owner-occupied space. The vast majority of social housing homes (57%) were built between 1945 and 1980, reflecting the post war housing boom.

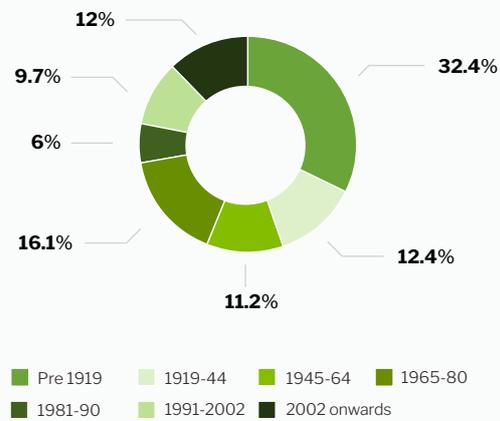
PRS stock by age of properties built

Source: MHCLG



PRS dwelling age

Source: MHCLG



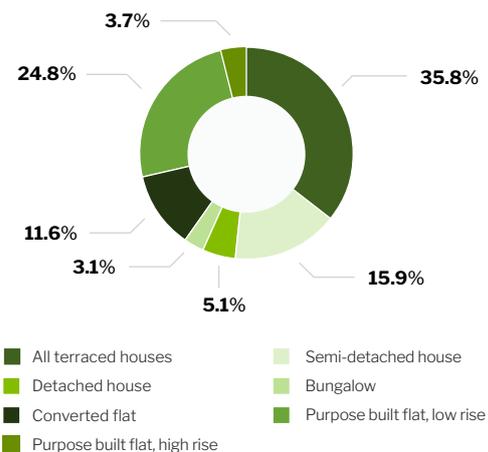
Property type

Terraced housing is the predominant property type in the PRS, accounting for over a third of homes in the sector. Purpose-built low rise flats is the next most common property type, representing one in four PRS homes, followed by semi-detached housing.

The number of purpose built flats in the PRS has grown substantially over the past 10 years, rising from 857,000 properties in 2010 to 1.4 million last year – a 56% increase. The number of terraced houses and semi-detached houses have also achieved double digit growth over the same period, whilst detached houses and bungalows have declined.

PRS dwelling type

Source: MHCLG



The over 55 age group is the fastest growing tenant type in the UK

This latter trend could reverse in the coming years as people re-evaluate the type of home they want to live in post coronavirus, whilst bungalows may also become more popular as the over 55 age group is the fastest growing tenant type in the UK.

Over the past 10 years, the number of purpose-built flats in the PRS has increased by

56%



Property area

Half of PRS stock is located in suburban residential areas, although the sector has a greater concentration of homes in city centre or urban locations than other housing tenures. Nearly four in 10 (39%) PRS homes are located in these areas, compared to 17% of owner-occupied homes and 30% of social housing.

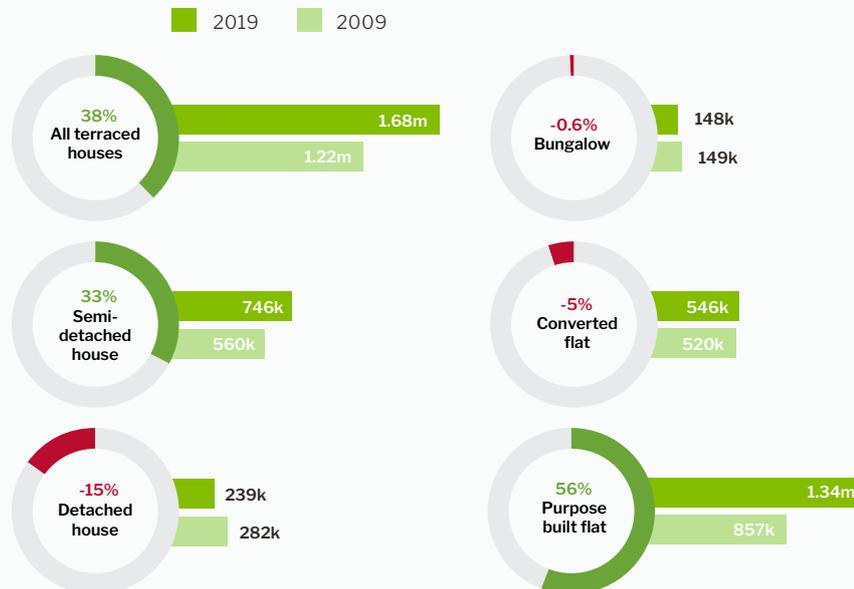
The PRS has a significantly smaller exposure to rural or village locations than the owner-occupied space, which reflects the greater level of fluidity of urban

housing markets, which tend to be more transient and more suited to rented property.

In terms of shifts over the past decade, properties are increasingly located within urban areas outside of city centres or within suburban residential areas. That may reflect the trend for people to stay in rented property for a longer period, plus the growth in the proportion of tenants over the ages of 35 who rent. This group may be looking for more suburban locations, close to schools, larger homes and more open spaces.

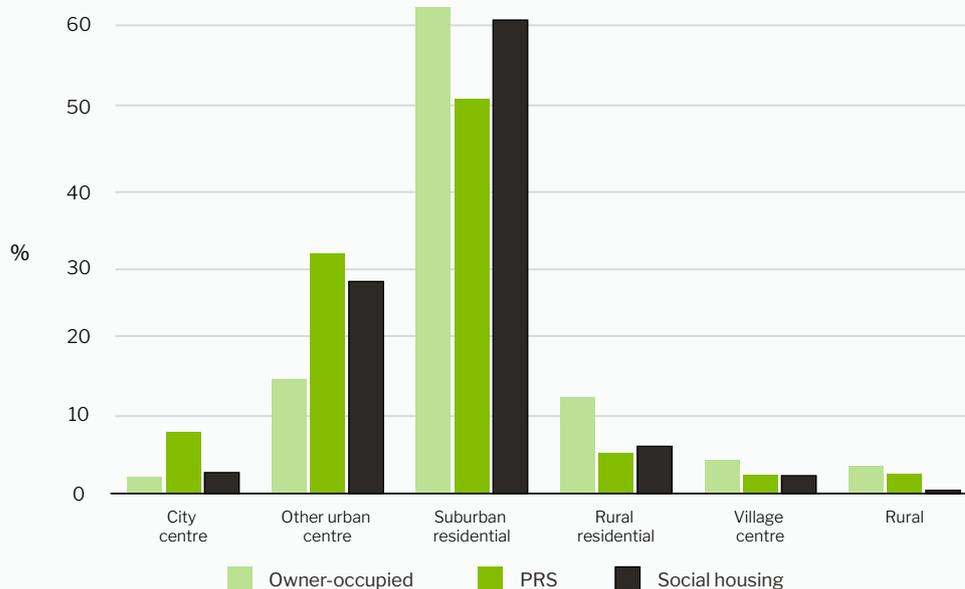
How property type has changed over the past 10 years

Source: MHCLG



Proportion of stock by area

Source: MHCLG



PRS property by area

Source: MHCLG

	2009 (%)	2019 (%)
City centre	9.6	7.9
Other urban centre	28.6	31.0
Suburban residential	48.1	51.0
Rural residential	6.6	5.2
Village centre	3.2	2.4
Rural	3.8	2.5



Size of homes

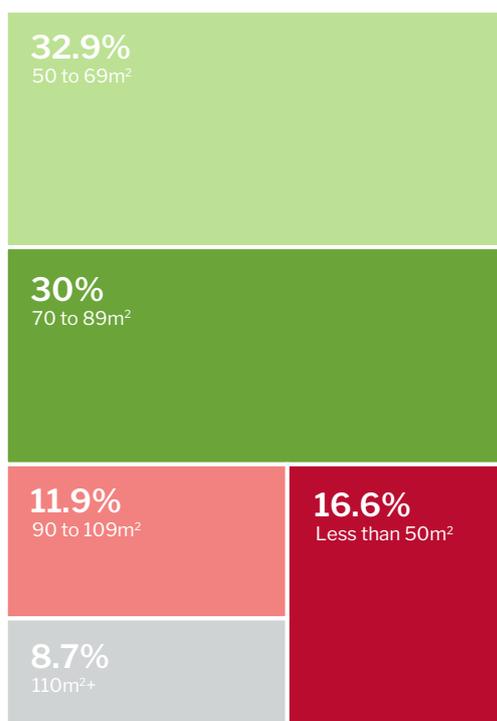
Due to the greater proportion of flats and terraced houses in the PRS, the average property size tends to be smaller than the owner-occupied sector. The average usable floor area of dwellings in 2019 was 95m². Homes in the social sector tended to be smaller (66m²) than homes in the PRS (76m²). Owner-occupied homes (108m²) were, on average, larger than social and private rented homes.

Nearly two thirds (62.9%) of homes in the PRS are between 50m² and 90m², with nearly one in five above that size. In the owner-occupied space, 54% of homes are above 90m². Homes in the social sector are typically smaller. Over a quarter of properties (26%) are under 50m² and just 9% are larger than 90m².

Compared to 2009, there are a greater proportion of homes in the PRS of at least 70m². Just over half of properties (50.6%) are within this category, compared to 48%. In terms of absolute numbers, that equates to a 38% increase to 2.4 million properties.

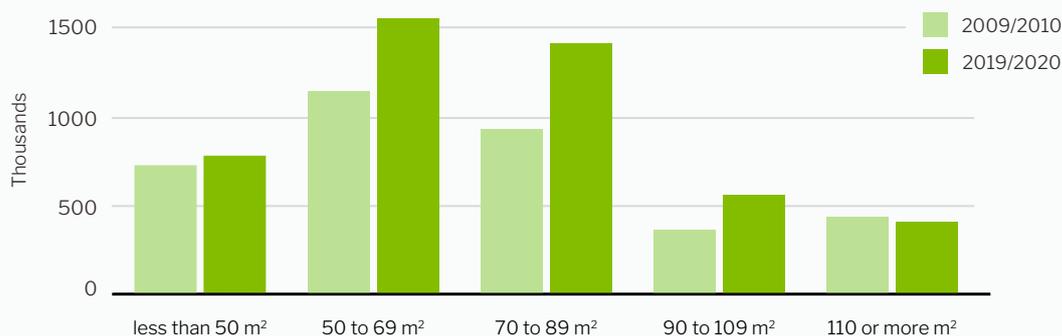
PRS homes by floor area

Source: MHCLG



PRS properties by floor area

Source: MHCLG



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 7% of private renters live in overcrowded accommodation, the highest level it has ever been.

Meanwhile, under-occupation – classed as having two or more spare rooms – has declined, decreasing from 19% of stock to 15% over the past 20 years. Under-occupation is far more prevalent in the owner-occupied sector, accounting for 52% of dwellings.

Damp and other hazards

The Housing Health and Safety Rating System (HHSRS) is a risk-based assessment that identifies hazards in dwellings and evaluates their potential effects on the health and safety of occupants and their visitors, particularly

vulnerable people. The most serious hazards are called Category 1 hazards and where these exist in a home, it fails to meet the statutory minimum standard for housing in England.

Since 2009, the number of PRS homes with a Category 1 hazard has fallen 39%. As a proportion of total stock, 13.2% of PRS properties have a Category 1 hazard, down from 28.2% recorded in 2009. In comparison, the owner-occupied sector has recorded a fall of 21.5% of stock to 10.3% over the same period.

Examining other common issues with property, 6.7% of homes in the PRS report issues with damp. This is a significant fall from 2009, when 15.4% of PRS properties reported damp issues.



04

The tenants' view

PRS property has shown significant improvement over the past decade, but what do tenants feel about the homes in which they live?

A Paragon survey of 2,000 tenants shows that contrary to the perception of reluctant renters, over half of tenants (54%) state that renting either suits their current situation or that they enjoy renting. Reasons for that include not having to worry about repairs (48%), the flexibility to move easily (35%), great location (32%), being able to live in an area they couldn't afford to buy (31%) and the property being perfect for them (22%).

Satisfaction with rented accommodation increases with age. Nearly seven in 10 (68%) of over 55s said that renting suited their needs or they enjoyed renting, compared with 49% in the under 55 group.

Overall, the majority of tenants (59%) like the property they live in, although four in 10 think improvements are required.

Over six in 10 (62%) tenants state that the property feels like home, even if they don't own it. Tenants also enjoy a strong relationship with landlords, with over half of tenants letting direct from their landlord and 39% letting via a letting agent. Overall, 68% said that they have a positive working relationship with their landlord, 80% said that their landlord is easy to contact, 65% report the landlord makes repairs promptly and 58% say that repairs are made to a good standard.

