
**WESTMINSTER HOUSING COMMISSION
BACKGROUND PAPER No 8**

***THE PRIVATE RENTED SECTOR
IN WESTMINSTER***

**Prepared by
Housing Strategy & Performance
Westminster City Council
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INTRODUCTION

As has been demonstrated in previous studies, Westminster has a very large private rented sector. According to the 2001 Census, 36% of Westminster households were living in private rented accommodation, significantly more than proportions at both regional and national levels. The sector is a diverse one, playing many roles within the Westminster (and regional) housing market. The sector spans the full range of price levels – from low cost Houses in Multiple Occupation, to very high cost executive dwellings, while catering for both long and short term residents.

This paper aims to provide Commissioners with further information about the characteristics of Westminster's private rented sector, and in particular, its diverse sub-sectors. As there is no single, comprehensive source of information about the private rented sector, the properties within it, or the people who reside in it, the paper draws on a range of data sources including: the Census; Council Tax records; housing needs surveys; house condition surveys; Planning department records; and data from the Department for Work and Pensions.

In carrying out this analysis, we also draw on a number of reports that have already been prepared for the Housing Commission, and which are included as appendices to this paper.

The paper is divided into three sections:

Part 1 provides a general picture of the characteristics of *properties* in the private rented sector. Included in this section is information on number and location of dwellings, size and condition as well as data on average rents charged.

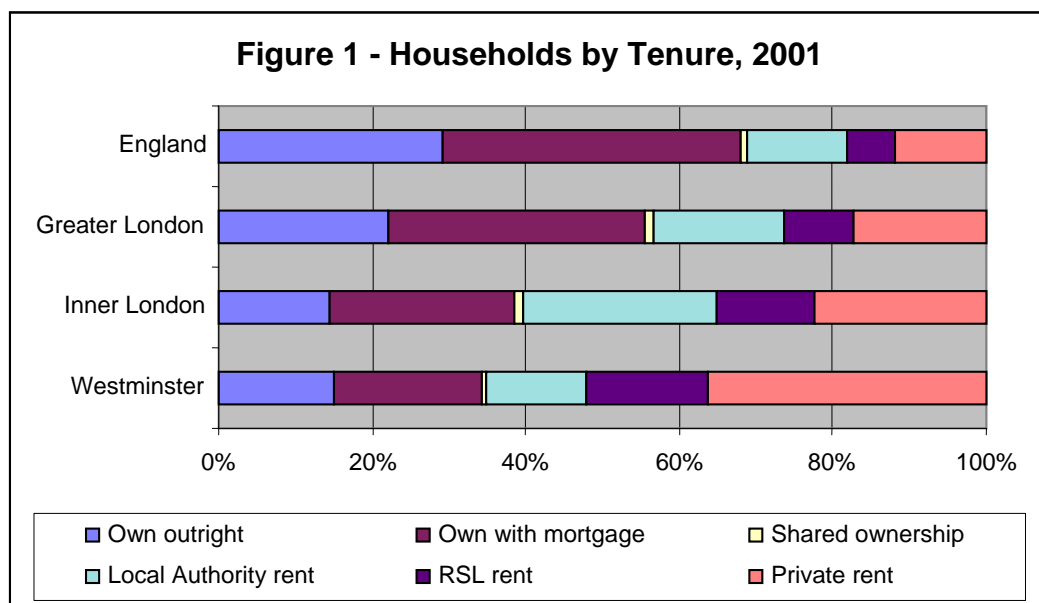
Part 2 examines characteristics of *tenants* in the private sector, in terms of income, age, ethnicity, economic activity and socio-economic status, household composition and occupancy levels.

Part 3 provides information on the following sub-sectors: empty properties, second homes, short-term lets and student accommodation. Although the first two of these sub-sectors are not strictly private rented accommodation, it could be argued that they include private dwellings that could be utilised for such accommodation and hence are included in this analysis.

PART 1: PROPERTIES WITHIN THE PRIVATE RENTED SECTOR

Number / location of dwellings

Census 2001 estimated that 36% of Westminster's households were living in private rented accommodation, equivalent to 33,000 households at that time. Compared to Inner, Greater London and England as a whole, Westminster has very high levels of private renting, as shown in Figure 1 below.

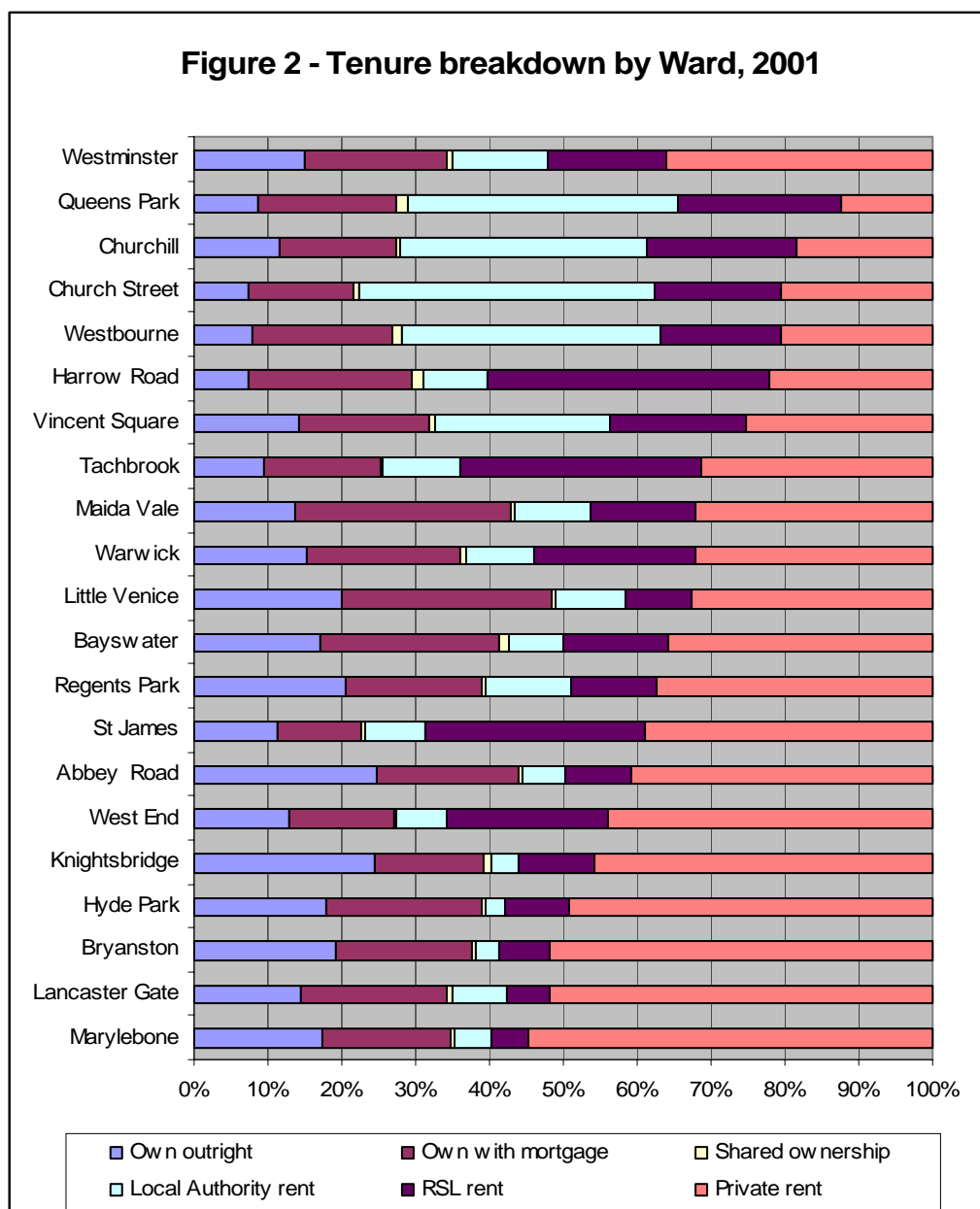


Source: Census 2001

Chris Hamnett's paper prepared for the Housing Commission (*The Changing Household Tenure Structure of the City of Westminster and Inner London, 1961-2001*, 7th September 2005, attached as Appendix 1), points out that Westminster has had historically high levels of private renting – over 80% in 1961. The sector shrank rapidly in the 1970s through sales to sitting tenants, flat break-ups and conversions and local authority clearance of poor quality housing, but has been growing again since the 1990s.

Little is known about ownership patterns of dwellings in the private rented sector, apart from the fact that over 12,000 residential units are owned by larger, institutional type landlords such as the Grosvenor and Portman estates. Further information on these larger landholdings is provided in Part 3 of this paper.

Dwellings within the private rented sector are not evenly distributed across Westminster, but concentrated in some of the more affluent parts of the City such as Marylebone, Hyde Park, the West End and Knightsbridge. The areas immediately to the north and south of Oxford Street are home to large numbers of private renters. In less affluent areas where social housing is a dominant tenure, however, private renting is much less common. Figure 2 overleaf shows the tenure breakdown for wards within Westminster.



Source: Census 2001

Market sub-sectors

Westminster's private rented sector provides accommodation for both low and high-income groups, and we have used a number of sources to attempt to quantify these different sectors.

Housing for low-income groups

DTZ's paper prepared for the Commission (*Westminster Private Rented Sector Analysis*, 28th March 2006, attached as Appendix 2) estimates that Westminster's private rented sector provides accommodation for approximately 4,100 Housing Benefit claimants. This represents a small percentage of the sector – about 13%, compared to 35% in England as a whole – which is unsurprising given the high cost

of accommodation in Westminster. The paper does, however, point out that given the sheer size of Westminster's private rented sector, this represents a comparatively high proportion of all households (4.5% compared with 3.5% in England). The number of Housing Benefit claimants living in the private rented sector has been growing in Westminster since the early 2000s, following a significant fall through the second half of the 1990s.

Local authorities are increasingly placing homeless households in private sector accommodation, due the shortage of social rented housing. In Westminster, approximately 1,750 homeless households are accommodated within the private rented sector and will undoubtedly be in receipt of Housing Benefit and so included in DTZ's estimate above.

Student housing

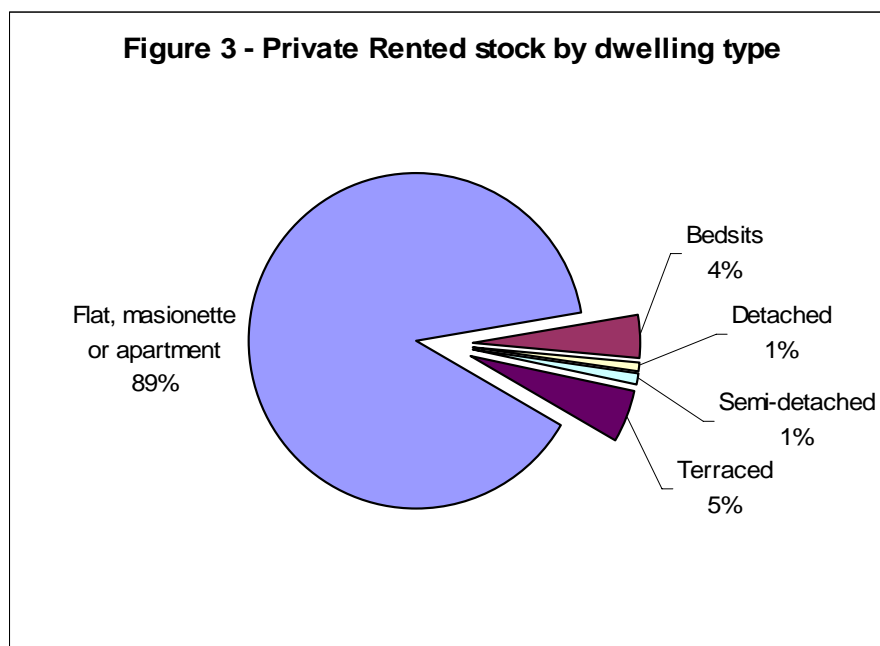
Central London universities have a small number of bed spaces available in halls of residence, but the majority of students reside within private accommodation. Data from Council Tax suggests that there are approximately 1,500 dwellings receiving Class N exemptions because of full time student occupation. Westminster's most recent Housing Needs Assessment (still in draft), however, estimates a substantially larger number of over 8,000 student-only households.

Short term letting

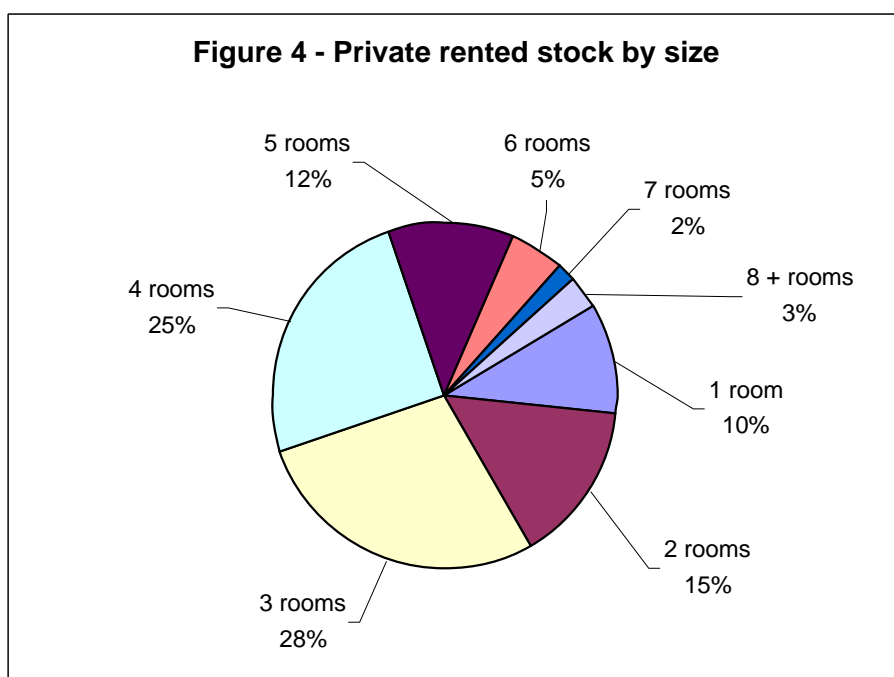
A study undertaken for the City Council in 2005 estimated that there may be as many as 4,000 residential properties used for short-term lettings (occupied for less than 90 consecutive days), usually for business people or tourists from abroad. This represents over 10% of the private rented stock.

Dwelling stock characteristics

Westminster's housing stock is dominated by one- and two-bedroom flats. The vast majority (89%) of privately rented dwellings are flats, a slightly higher proportion than found in the City's overall housing stock (87%). Census figures show that over half of the privately rented stock in Westminster consists of properties with three or four rooms, which are likely to be one- or two-bedroom dwellings. 15% have two rooms, and 10% have only one room (see Figures 3 and 4 overleaf).



Source: Census 2001



Source: Census 2001

Westminster's private sector stock condition survey of 2000 shows that 62% of tenants lived in dwellings constructed pre-1919, and 13% in post-1964 dwellings, which is roughly in proportion to the age breakdown of stock overall, and with other tenures. The survey report notes that this similarity of dwelling age and tenure is unusual as at the national level, private renters are much more likely than owner-occupiers to live in the oldest stock.

A significant proportion of newly completed dwellings in recent years are also likely to have been bought by investors for letting, as is evidenced by the West End Quay development at Paddington where 61% of purchases were for investment purposes.

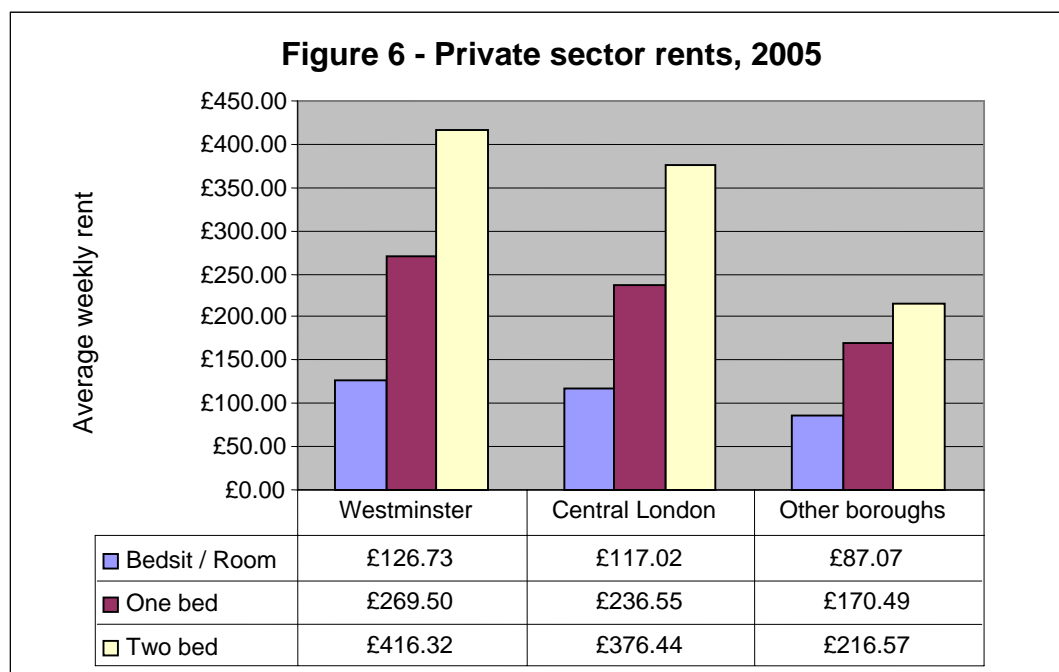
Private sector rent levels

The private rented sector is generally very diverse as can be seen from the range of different rents charged for specific types of properties. Data from the most recent Housing Needs Assessment (still in draft) shows that minimum monthly rents varied from £890 (1-bed) to £2,617 (4-bed), with average rents approximately 30% more expensive (see Figure 5).

Property Size	Minimum rent (monthly)	Average rent (monthly)
1 bedroom	£890	£1,120
2 bedroom	£1,290	£1,570
3 bedroom	£1,785	£2,270
4 bedroom	£2,617	£3,665

Source: Westminster Housing Needs Assessment, 2006 (draft)

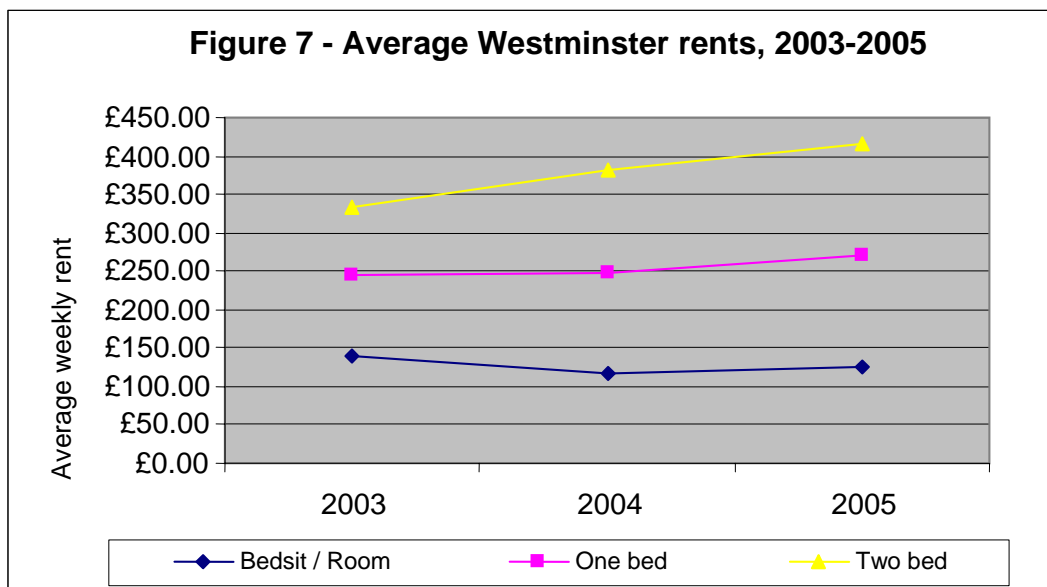
As illustrated by Figure 6 below, average rents in Westminster are higher than in London as a whole.



Source: GLA PRS Bulletin 2005

Figures from the GLA show that in the past two years (2003-2005), prices for 2-bed flats in Westminster have increased by just over 25%, and the average price for a 1-

bed has increased by almost 10% (Figure 7 below). For London as a whole, rents have increased by 5% for 1-bed properties and 12% for 2-beds.



Source: GLA PRS Bulletins, 2003-2005

Property condition

Data from the last private sector House Condition Survey suggests that in December 2000, 5.0% of Westminster's private sector stock was estimated to be unfit for human habitation. The survey showed that Westminster's stock was in a better condition than the national and regional averages, and this was true for all tenures (tenure breakdown shown in Figure 8 below). Just over 7% of Westminster's private rented stock was considered to be unfit, so is in significantly poorer condition than the rest of the private sector stock.

Figure 8 – Rates of unfitness by private sector tenure, 2000

Tenure	% Unfit (National)	% Unfit (Westminster)
Owner-occupied	6.0	3.6
Private rented	19.3	7.1
RSL owned	5.2	4.0
Total	7.5	5.0

Source: Westminster Private Sector Housing Condition Survey, 2001

PART 2: CHARACTERISTICS OF TENANTS IN THE SECTOR

Income / occupational class

Westminster's latest Housing Needs Assessment (still in draft) shows that tenants in the private rented sector have significantly higher average incomes than residents in other tenures, which clearly demonstrates how the sector in Westminster plays a very different role to its usual function in the rest of the country where private renters generally have incomes lower than those in owner-occupation.

Tenure	Average annual gross household income (Westminster)	Average savings (Westminster)	Average annual gross household income (England)*
Own outright	£40,400	£62,286	£23,500
Own with mortgage	£58,789	£16,971	£38,300
Council rent	£13,211	£1,265	£11,700
RSL rent	£19,610	£3,334	£12,400
Private rent	£63,470	£22,285	£23,300
Average	£46,400	£24,476	£27,300

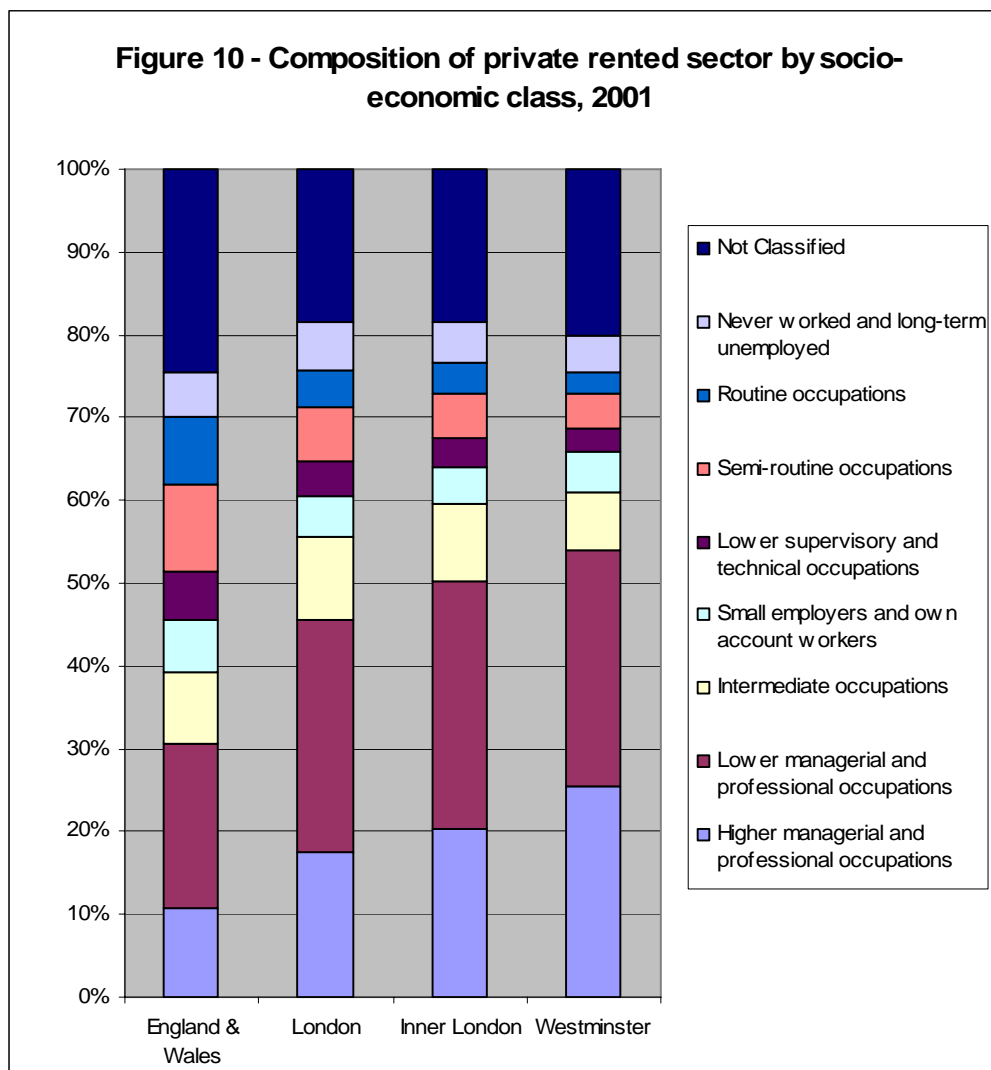
Source: Westminster Housing Needs Assessment, 2006 (draft)

* Source: www.odpm.gov.uk ODPM live tables, Table 808, figures for 2003/04

Chris Hamnett's paper (*The Occupational Class Composition of Housing Tenures in Westminster, 2001*, 25th October 2005, attached to this report as Appendix 3) shows that the more highly skilled and better off are most strongly represented in the tenure. Private renting attracts over 40% of higher managers and professionals in Westminster compared with only about 20% of those in routine or semi-routine occupations.

Another way of describing this peculiarity of the Westminster market is to look at a breakdown of the private rented sector by socio-economic status of tenants. As Figure 10 below clearly illustrates, over half (54%) of those in the private rented sector are in managerial and professional occupations – a significantly greater proportion than the national or regional averages, but only slightly higher than the figure for Inner London. In England & Wales, nearly 20% of those renting privately are in routine or semi-routine occupations, compared with only 7% in Westminster.

Figure 11 shows the breakdown of the private rented sector by economic activity of tenants. While not too dissimilar to the pattern at national and regional level, it is clear that the Westminster private rented sector houses a smaller than average proportion of economically inactive residents.



Source: Census 2001

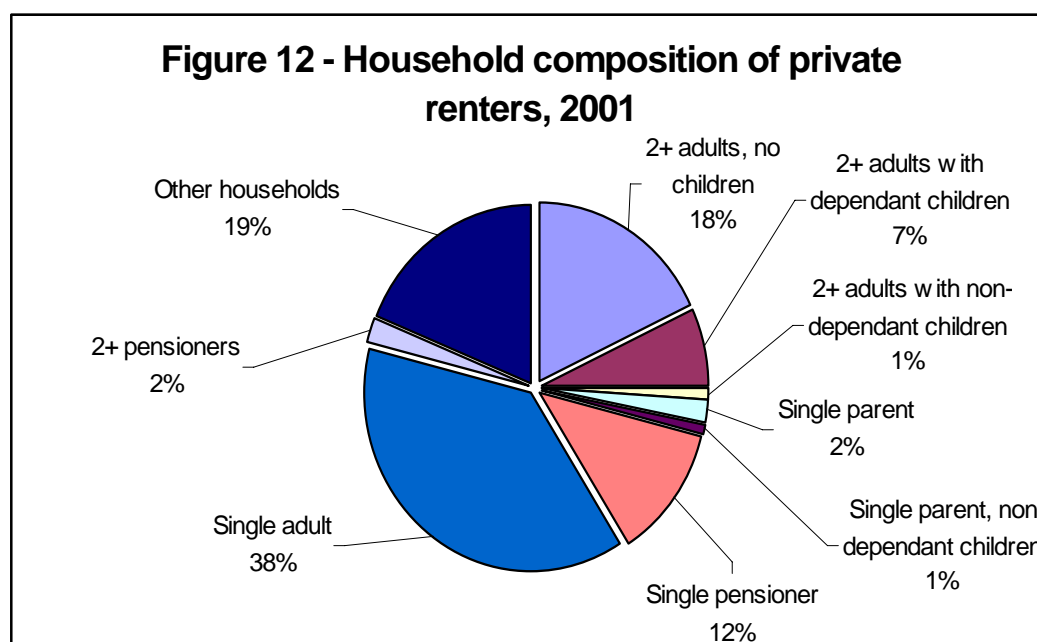
Figure 11 – Economic activity of private sector tenants, 2001

Economic Status	England & Wales	London	Inner London	Westminster
<i>Economically active</i>				
Employee	49.8%	56.8%	57.8%	56.0%
Self employed	7.5%	7.5%	7.9%	9.5%
Unemployed	5.3%	4.9%	4.9%	3.8%
Full-time student	4.3%	4.1%	3.9%	2.3%
<i>Economically inactive</i>				
Retired	5.7%	3.6%	3.3%	4.8%
Student	10.3%	9.5%	10.6%	11.2%
Looking after home/family	7.6%	6.0%	4.7%	5.7%
Permanently sick/disabled	5.1%	2.6%	2.2%	2.1%
Other	4.4%	4.9%	4.6%	4.5%

Source: Census 2001

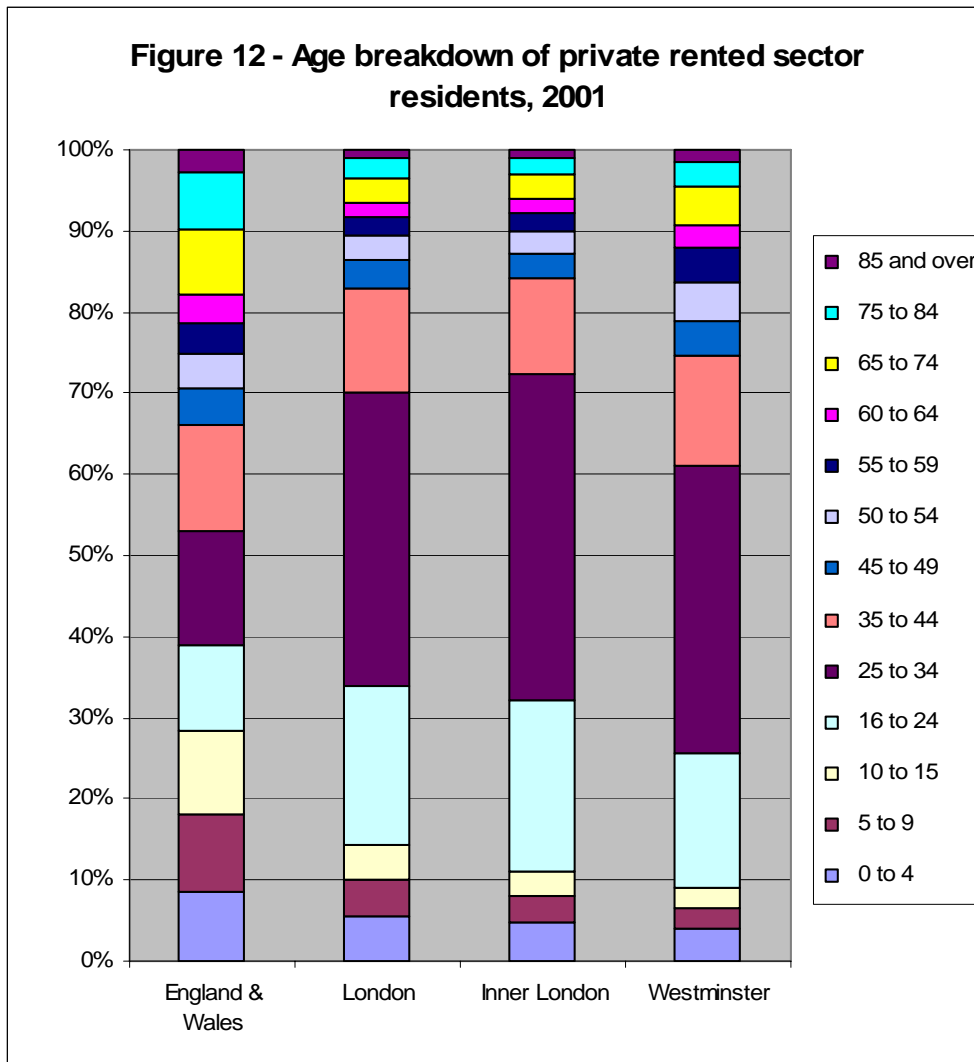
Household composition and age of residents

Single-person households account for around half of all private tenants – of which single adults account for a larger proportion than single pensioners. Childless couples also account for a relatively large proportion (18%) of private tenants. Dependent children live in only 9% of rented households.



Source: Census 2001

The majority of people in the private rented sector are young. Relatively few children live in the sector in Westminster; it is largely dominated by those in the younger working age groups between 16 and 44. 10% of Westminster renters are aged over 64, about half the proportion found at the national level. Figure 13 overleaf shows the age breakdown for private renters in Westminster, Inner London, London and England & Wales.



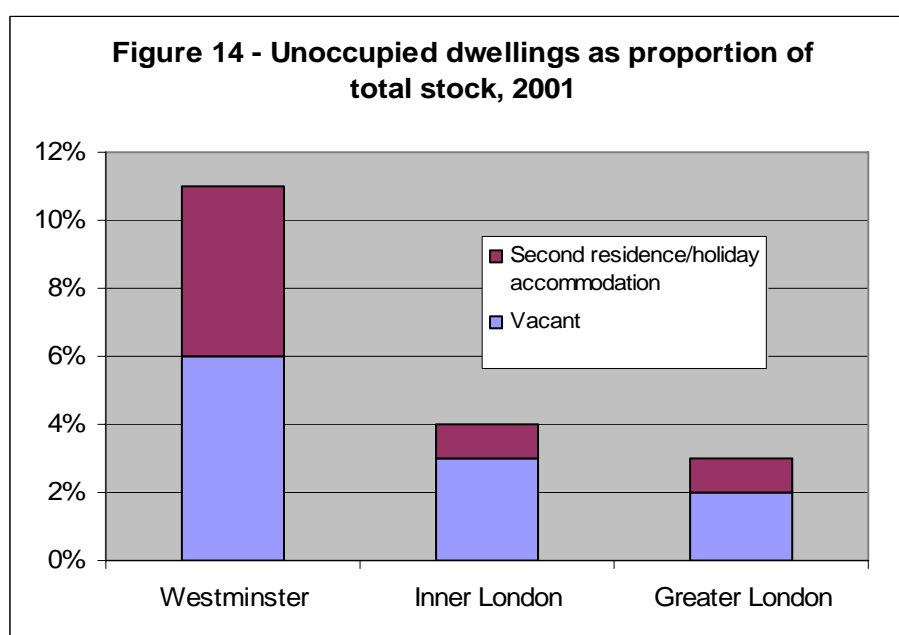
Source: Census 2001

PART 3: MARKET SUB-SECTORS

This section aims to provide details of some of the various sub-sectors which could make up the private rented sector in Westminster, including empty properties, second homes, student accommodation, and short term lets.

Empty properties

According to the Census, Westminster has a very high level of unoccupied dwellings – 11% of all dwellings were unoccupied on Census night 2001, nearly three times the levels seen in Inner and Greater London. Approximately 6% of stock in Westminster was vacant, and a further 5% was classed as second or holiday homes.



Source: Census, 2001

Census data provides no picture of the reason for the property being empty, nor how long it has been vacant. Given that we know Westminster residents are highly mobile, and own other properties, it is likely that a large number will have been away from their principal home at the time of the Census, thus leaving their property empty.

From Council Tax data we estimate that only 3,490 dwellings (3% of the City's total housing stock) are currently empty, with 51% being vacant for six months or less and 49% being vacant for over six months. We know, however, that this is an underestimate as there will be many owners who do not register for discounted Council Tax. It is likely that Westminster's private rented sector significantly contributes to the number of short term empty dwellings in the City, as these properties periodically move from being vacant to being occupied.

The table below shows that dwellings of greater value (Band E and above) are more likely to be vacant than low value dwellings. The London Housing Strategy also found that in London empty homes tend to be found in areas with the highest house prices and that many owners of long term empty properties did not plan to bring their properties back into use in the near future, but were holding them for capital appreciation.

Figure 15 – Empty homes by Council Tax band, 2005				
Council Tax Band	Property Value*	Homes in Westminster	Empty Homes	Proportion of stock within Band
Band A	up to £40,000	1521	64	4.20%
Band B	£40,001 to £52,000	6130	162	2.64%
Band C	£52,001 to £68,000	15481	285	1.84%
Band D	£68,001 to £88,000	21623	417	1.92%
Band E	£88,001 to £120,000	20908	558	2.66%
Band F	£120,001 to £160,000	15350	470	3.06%
Band G	£160,001 to £320,000	20894	808	3.86%
Band H	£320,001 and above	13608	716	5.26%
Total		115515	3480	3.18%

Source: Council Tax, 2005

* Property values at 1 April 1991

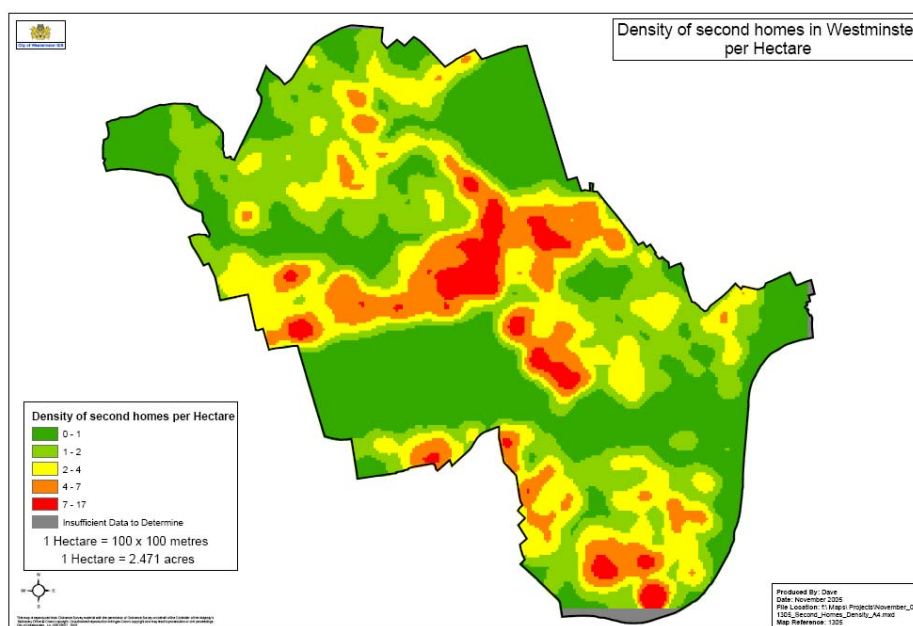
Second Homes

Council Tax records indicate that there are 9,889 homes in Westminster for which the second homes discount has been applied, accounting for approximately 8.6% of the total dwellings within the City. As with empty homes, they are concentrated amongst the higher value properties. Figure 16 below shows that, for example, 18% of all properties in Band H are second homes. Figure 17 displays the geographic distribution of second homes, clearly showing the concentration that exists in more affluent areas such as Hyde Park, Bryanston and Dorset Square and Marylebone.

Figure 16 – Empty homes by Council Tax band, 2005			
Council Tax Band	Homes in Westminster	Second Homes	Proportion of stock within Band
Band A	1521	93	6.10%
Band B	6130	157	2.56%
Band C	15481	446	2.88%
Band D	21623	903	4.17%
Band E	20908	1202	5.74%
Band F	15350	1516	9.87%
Band G	20894	3108	14.87%
Band H	13608	2464	18.10%
Total	115515	9889	8.6%

Source: Council Tax, 2005

Figure 17 – Density of second homes in Westminster



This not only reflects the attractiveness of dwellings in the City in terms of location and quality but also the extent to which homes are bought by companies, overseas residents as well as UK residents who work in London but have a main residence elsewhere.

Short / Holiday lets

In 2003 a limited survey commissioned by the City Council's Overview and Scrutiny Committee of properties being advertised on the Internet and local agents as short term holiday lets, found 3,000 such properties concentrated in the Hyde Park, Bryanston and Dorset Square and Edgware Road area.

The survey showed that whilst most of the accommodation being advertised for short letting was directed primarily towards people taking holidays in London, there was also an increasing emphasis on visiting business people and students.

Owners of short term let accommodation (i.e. occupied for less than 90 consecutive days) were identified as mainly private individuals although companies featured in a minority of cases. Overwhelmingly, agents who were interviewed for the survey felt that owners chose to let on a short term basis for financial reasons as it is significantly more profitable than long term letting. Examples at the time of the survey were, 2 bed flats in W1 being advertised for £850 per week on a long let and £1,200 per week for a short let.

Overall, agents felt that the future of short term letting in central London was buoyant and likely to expand further. Agents saw potential tenants coming from companies looking for corporate standard accommodation within reach of the City, and summer interns working in the capital.

This limited survey not only showed that there is a significant 'hidden' market but it also provided evidence in support of the notion that dwellings being used for short let were previously let to permanent residents, resulting in a reduced stock of permanent dwellings.

Student Accommodation

The two main universities with student halls of residence in Westminster are Imperial College London with 1,070 bed spaces and University of Westminster with 400. Typically for most central London universities, the majority of students are resident in the private sector. Imperial College London, for example, has only 3,000 beds for 9,000 students.

This not only explains the increasing trend of short term lets being targeted at students but why universities are increasingly entering into partnerships with the private sector and local authorities to develop and manage private halls of residence. With the average student expected to spend up to £9,000 over three years on rent, it is also not surprising that 1 in 6 students now choose to live at home (Guardian August 24, 2005).

As mentioned earlier in this paper, data from Council Tax suggests that there are currently 1,477 dwellings in Westminster receiving class N exemptions because of full time student occupation. Our latest Housing Needs Study (still in draft), however, estimates a much larger number of 8,000.

Large Landlords

Westminster has a number of landlords that have significant land holdings. Their stock is a mixture of units let to long lessees and as short-term lets.

Based largely on the "1990 Land Use Survey" and residential pipeline survey which monitors the implementation of planning permissions for residential use, we believe there are approximately 12,344 residential units owned by these landlords, accounting for just over 10% of total residential stock in the City. These figures may, however have reduced significantly over the past decade due to tenants buying their homes and portfolio holders disposing of vacant property on the open market.

The Portman Estate, with 3,960 residential units, is the largest landlord in Westminster. The Estate owns approximately 3.5% of total residential stock in the City and is closely followed by the Howard de Walden Estate with 2.7% or 3,126 dwellings.

Figure 18 – Large landlords' residential holdings		
Landlord	Number of residential properties	Proportion of total residential stock
Portman Estate	3,960	3.4%
Howard de Walden	3,126	2.7%
Grosvenor Estate	2,485	2.1%
Crown Estate	2,051	1.8%
Shaftesbury Estate	258	0.2%
Eyre Estate	250	0.2%
Langham Estate	241	0.2%
Total	12,344	10.7%

Source: Planning Department, Westminster City Council

The Changing Household Tenure Structure of the City of Westminster and Inner London, 1961-2001

Introduction

I have prepared a short analysis of the changing housing tenure structure of the City of Westminster and of Inner London as a whole, using data for each of the last four censuses using both absolute figures and percentages. I hope that this will provide a useful long-term background to the work of the Commission.

Looking at Britain as a whole, the most significant changes in household tenure over the last 40 years have been:

1. The long term decline of private renting until the early 1990s, since when it has expanded somewhat as a result of changes in legislation and the rise of buy to let.
2. The rapid growth of the local authority sector in the 1960's, 70's (reaching a peak around 1981 prior to the introduction of RTB) and its subsequent decline. The causes of the decline were a decline in government funding for new council housing from the mid 1970s, the growth of RTB and transfers to housing associations and RSL's.
3. The continued long term growth of home ownership, though this has slowed in recent years (partly as a result of the contraction of the privately rented stock many of which were sold for owner occupation) and partly due to the rise of buy to let.
4. The growth of the housing association and RSL sector, partly offsetting the decline in the local authority housing sector.

Tenure Change in Westminster and Inner London

Inner London, and Westminster and K and C in particular, have long been distinctive in that they had a very high proportion of private rented housing (partly a result of their development history). In 1961, some 64% of households in Inner London rented privately, and in Westminster the figure was over 80%. The owner occupied and local authority sector were both relatively small at that time (**figures 1 and 2**).

The **privately rented** sector began to shrink rapidly in the 1970's, falling from around 750,000 households in inner London in 1961 to 560,000 in 1971 and 220,000 in 1981. In Westminster, the fall was from 85,000 in 1961 to 65,000 in 1971 and 30,000 in 81 (**figures 3 and 4**). This was partly a result of sales for owner occupation (through sale to sitting tenants, flat break-ups and conversions) and partly a result of local authority clearance and redevelopment of areas of poor quality housing.

The **local authority sector** grew rapidly in inner London during the 1960's and 70's reaching a peak of 42% in inner London in 1981, and just under 30% in Westminster. Since then it has contracted sharply. The proportion in Westminster in 2001 was 20% - the same as in 1971.

The **home ownership sector** in Westminster almost doubled in size in each decade from 6% in 1961 to 10% in 1971, 21% and 35% in 1991, since when it has stabilized.

In absolute terms, the greatest growth was in the 1980s (from 15,000 to 29,000) as a result of four main processes: 1. sales to sitting tenants, 2. RTB, 3. the break-up and sale of privately rented blocks of flats (which was significant in both Westminster and K and C) in the 70's and 80's, and 4. the conversion of houses into flats for sale which took off in the 80s.

The **housing association and RSL** sector has grown rapidly in both Westminster and Inner London from the early 1980s and now accounts for 16% of households in the City and 13% in Inner London. NB data on this sector was included in PR until 1981.

fig 1. Changing tenure structure % of Westminster, 1961-2001

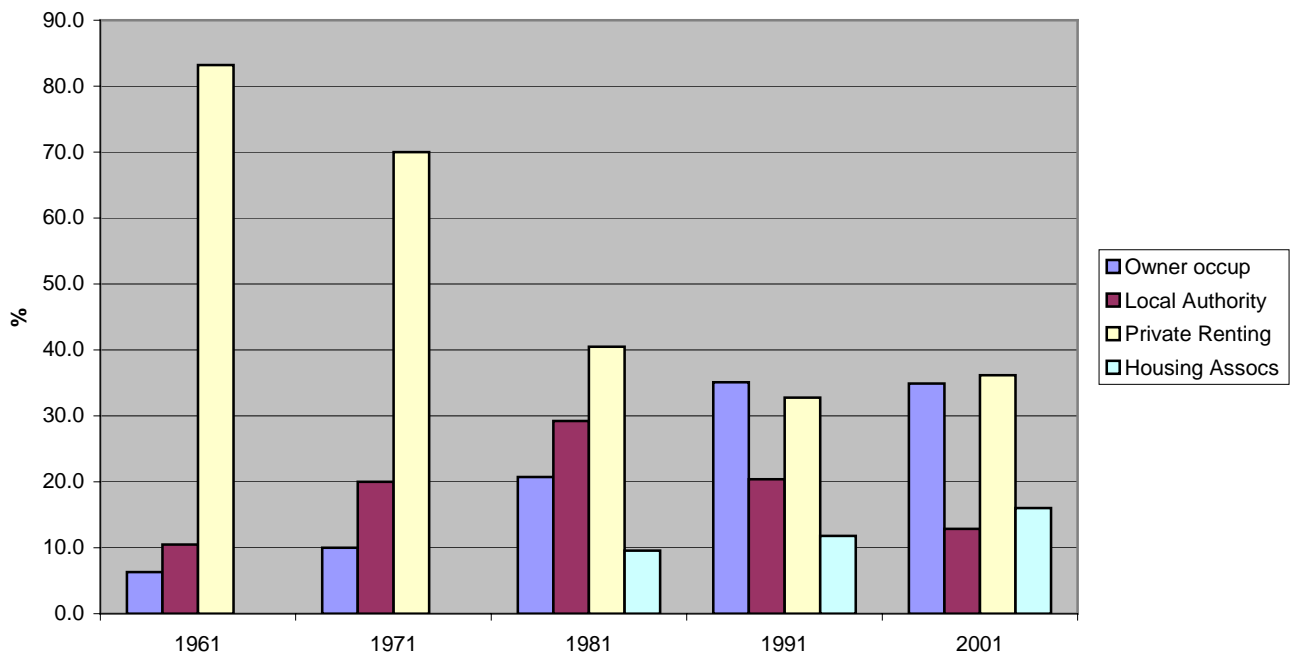
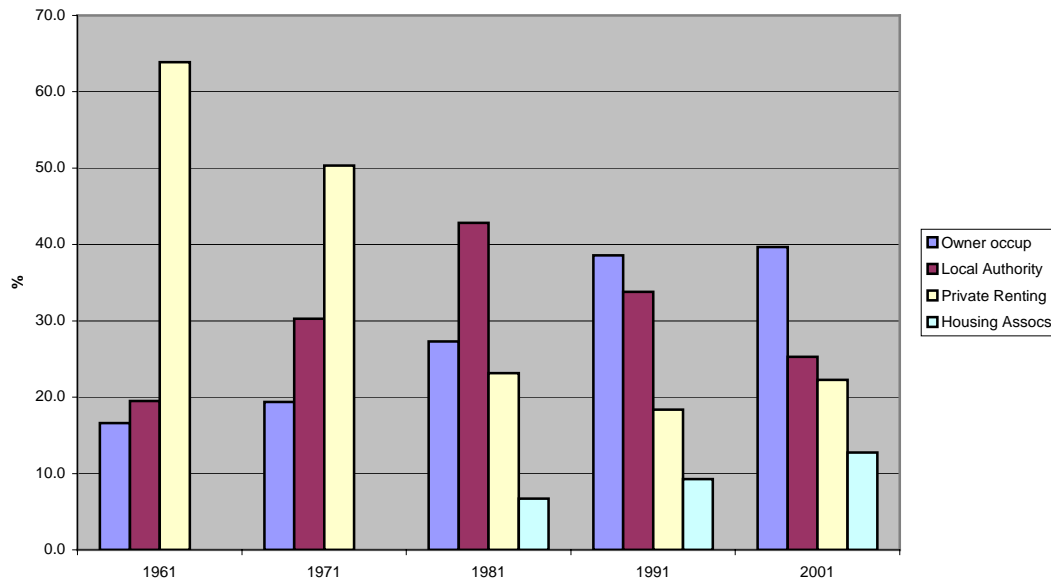


Fig 2.. Changing Tenure Structure % of Inner London, 1961-2001



Change in Household Numbers, Overcrowding and Tenure Change

It should be noted that the absolute number of households has begun to increase in both Westminster and Inner London from a low in the mid 1980s. This reverses a trend which had been going on from before WWII and, in Westminster from 1870 when the population peaked at over 500,000. Its population fell as a result of both suburbanisation and an improvement in housing conditions linked to tenure change.

It should also be noted that in the 1950's and '60's the level of overcrowding and sharing of both dwellings and facilities was very high in inner London. In 1961, 27% of households in Westminster shared a WC, 21% shared a fixed bath and 19% lacked a fixed bath. In Paddington and St Marylebone, which were independent boroughs, the situation was much worse. In Paddington, 45% of households shared a WC and almost 60% lacked or shared a fixed bath.

I would argue that the decline in household numbers in the 1960s and 1970's in inner London was primarily a result of the contraction of the private rented sector (which contained large numbers of sharing, overcrowded or multiply occupied households) and its replacement by local authority and owner occupied housing both of which had lower densities. This process of tenure transformation in the housing stock has now largely finished, the residential population has been thinned out (some leaving for the new towns etc) and the long term population decline of inner London is now over. It has also left a greatly improved housing stock, at least in terms of internal facilities. This is not an argument for complacency, but things are much better now in terms of overcrowding, sharing households and facility provision than in the 1950's and 60's (when the Milner Holland report on housing in London reported).

Chris Hamnett, King's College London 7th September 2005

Fig 3. Changing Tenure Structure of Westminster, 1961-2001 (absolute numbers)

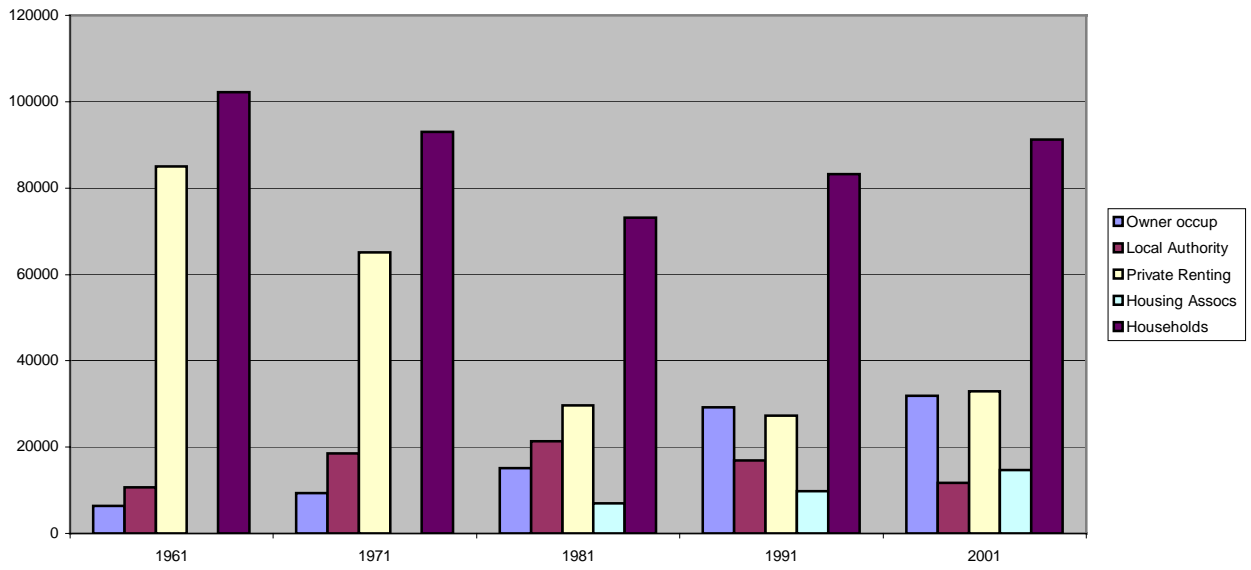
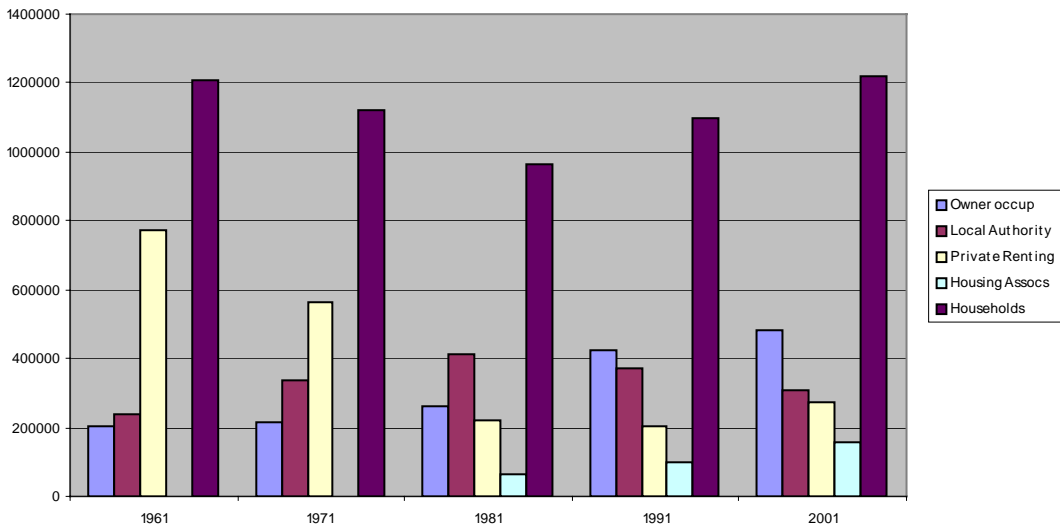


Fig 4. Changing Tenure Structure of Inner London, 1961-2001 (absolute)



Westminster City Council

Westminster Private Rented Sector Analysis

28 March 2006

Private and Confidential

DTZ Peda Consulting
Greyfriars Gate
5 Greyfriars Rd
Reading
RG1 1NU

1 Introduction

Westminster has a large private rented sector – 33,000 households, or 36% of all households in Westminster (2001 Census data). In fact the private rented sector accounts for a greater proportion of tenure than owner-occupation (31,800 households, or 35% of all households). Yet relatively little is known about the structure of the sector. What proportion provides housing for low-income groups? How much is aimed at the corporate renting market? What proportion of the market acts as temporary accommodation for homeless households? The aim of this work, undertaken as part of call off arrangements with WCC in connection with the Westminster Housing Commission, is to gain a better understanding of the private rented sector.

2 Scope

The particular focus of this study is to establish how many private rented tenants are in receipt of Housing Benefit – a good indication for how far the sector is providing for low-income groups. In order to do this, we have used data from the Department of Work and Pensions, and the Survey of English Housing (ODPM). A secondary focus is the extent to which the sector provides temporary accommodation for homeless households, which we have answered using data from the GLA. Finally, we have also been asked to identify relevant literature on the private rented sector market, in particular, the private rented sector in London.

3 The Findings

3.1 Housing Benefit Claimants in the Private Rented Sector

Data from the Department of Work and Pensions¹, states that there are 4,100 private rented tenants in receipt of housing benefit in Westminster. The data refers to benefit units, which may refer to an individual or a couple. Whilst some housing benefit claimants (for example, those in hostels) will not be classed as ‘households’, this does give a good proxy for the number of low-income households in the private rented sector.

Figure 3.1 shows the number of private rented sector housing benefits claimants as a proportion of the whole private rented sector, and as a proportion of all households. The figure highlights that in Westminster, housing benefit claimants account for a very small proportion of the private rented sector (13%, compared to 35% in England as a whole).

There is an interesting regional pattern, with housing benefit claimants accounting for a lower proportion of the private rented sector in the southern regions than northern regions. In fact, of all the regions, this figure is lowest in London. This is as would be expected. Affordability is more of an issue in the south of England, and this will have been a key factor in the growth of private renting for those on higher incomes

Figure 3.1 also shows that as a proportion of all households, the number of private rented sector housing benefit claimants is higher in Westminster (4.5%) than England (3.5%). This is due to the fact that many more households in Westminster are private tenants than elsewhere (the highest in the country at 36%). In other words, whilst only a small fraction of the private rented sector (13%) in Westminster is serving low-income groups, due to the sheer size of the private sector, this represents a relatively high proportion of all households when compared to the average for regions outside of London.

¹ Source: DWP - Housing Benefit and Council Tax Benefit Management Information System - Housing Benefit (HB) recipients by tenure and Local Authority: August 2005

Figure 3.1 – Housing Benefit Claimants as a proportion of the Private Rented Sector (Source: DWP)

	Housing Benefit Claimants in Private Rented Sector (thousands)	PRS HB Claimants as % of PRS	PRS HB Claimants as % of All Households
Westminster	4.1	12.9%	4.5%
Inner London	56.4	22.6%	4.6%
Outer London	79.5	36.0%	4.4%
London	135.9	28.9%	4.5%
East Midlands	46.0	31.9%	2.7%
East of England	60.2	30.6%	2.7%
North East	34.6	44.9%	3.2%
North West	112.9	47.0%	4.0%
South East	104.2	31.2%	3.2%
South West	84.3	36.2%	4.0%
West Midlands	59.9	38.1%	2.8%
Yorkshire and The Humber	69.0	36.7%	3.3%
England	707.0	34.6%	3.5%

Figure 3.2 presents the same statistics for the boroughs that make up Inner London. The figure highlights that the boroughs with the highest rate of private rented sector housing benefit claimants (of all households) are Camden, Hackney, Haringey, Lewisham, Newham and Westminster.

Figure 3.2 - Housing Benefit Claimants as a proportion of the Private Rented Sector (Source: DWP)

	Housing Benefit Claimants in Private Rented Sector (thousands)	PRS HB Claimants as % of PRS	PRS HB Claimants as % of All Households
Newham	8.4	21.0%	9.1%
Haringey	7.6	18.0%	8.2%
Hackney	4.7	17.0%	5.5%
Lewisham	5.6	10.4%	5.2%
Westminster	4.1	12.8%	4.5%
Camden	3.9	12.3%	4.3%
Lambeth	4.9	11.1%	4.1%
Hammersmith and Fulham	3.0	9.0%	4.0%
Kensington and Chelsea	2.7	7.8%	3.4%
Wandsworth	3.8	6.3%	3.3%
Southwark	3.2	9.6%	3.0%
Islington	2.3	8.7%	2.8%
Tower Hamlets	2.1	9.2%	2.7%
City of London	0.1	4.6%	2.3%

The trend emerging from the above figures is that the extent to which low-income groups are housed in the private rented sector is greater in London than other regions of England. Whilst housing benefit claimants do not account for a significant proportion of the private rented sector, this is more than compensated for by the sheer scale of the private rented sector in London, and in particular, Inner-London boroughs such as Westminster.

In order to cross-reference our findings, we have also obtained data from the Survey of English Housing. This regional data confirms that housing benefit claimants account for a

smaller proportion of the private rented sector in London than in other English regions (13% compared to over 30% in the North East and North West). This data does present a more accurate picture, since the data refers only to households, thereby avoiding the problem that some housing benefit claimants are housed in hostels etc. However, the main shortcoming of this source is that it does not account for the relative size of the private rented sector in each region.

Figure 3.3 – Number and proportion of Private Rented Sector Housing Benefit Claimants (Source: Survey of English Housing, ODPM)

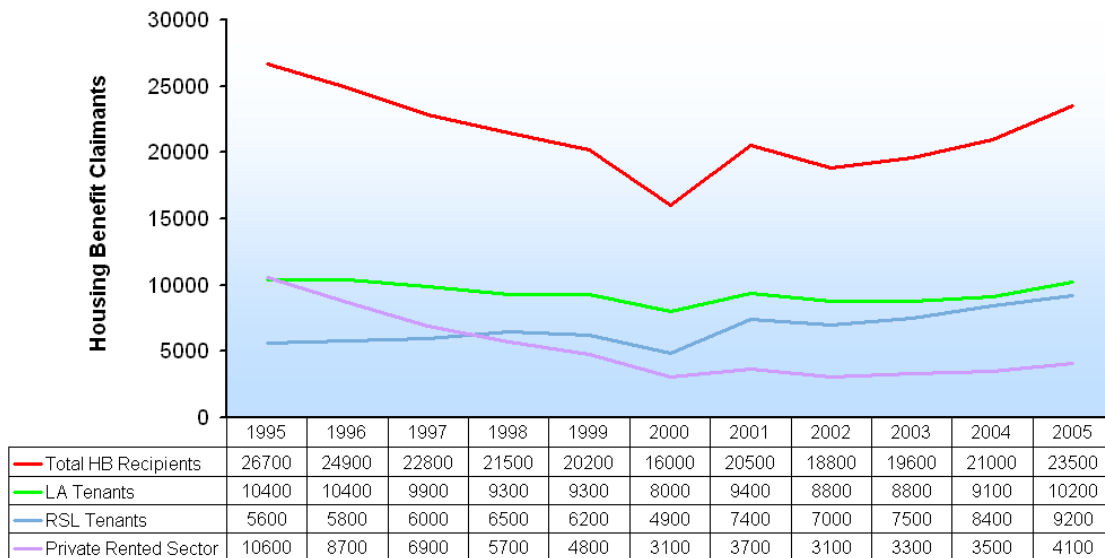
	Does household receive Housing Benefit?			
	Yes	No	Total	% Yes
East	28,000	195,000	223,000	12%
East Midlands	24,000	143,000	167,000	14%
London	74,000	496,000	570,000	13%
North East	33,000	70,000	104,000	32%
North West	80,000	160,000	240,000	33%
South East	64,000	347,000	411,000	16%
South West	53,000	213,000	266,000	20%
West Midlands	48,000	113,000	162,000	30%
Yorkshire and the Humber	49,000	149,000	197,000	25%
England	454,000	1,885,000	2,339,000	19%

3.2 Trend in the number of Housing Benefit claimants

To establish the trend in the number of housing benefit claimants in the private rented sector, we have again used data from the Department for Work and Pensions. Figure 3.4 shows that the total number of housing benefit claimants in Westminster was on a downward trend from 1995 to 2000, as was the number of housing benefit claimants in the private rented sector (reducing from 10,600 in 1995 to 3,100 in 2000). Since 2000, the total number of Housing Benefit claimants has risen significantly, whilst the number in the private rented sector has grown only slightly to 4,100. Thus the proportion of housing benefit claimants in the private rented sector decreased from 40% in 1995 to 17% in 2005.

In summary, our data shows that Westminster's private rented market serves low-income groups to a greater extent than in other areas, due to the sheer size of its private rental market. However, the dependence of housing benefit claimants on the private rented sector has reduced dramatically over the past decade.

Figure 3.4 – Trend in the Number of Housing Benefit Claimants in Westminster by Tenure (Source: Department of Work and Pensions)



Source: Department of Work and Pensions

3.3 Homeless Households in the Private Rented Sector

We have analysed data from the GLA, which shows the number of homeless households placed in temporary accommodation by the placing borough and recipient borough. As at the 30th September 2005, there were a total of 1,877 homeless households placed in Westminster by London boroughs, of which 1,744 were placed in private rented sector accommodation. Almost the entirety of these placements were made by Westminster City Council itself (1,712), with just 32 placements by other boroughs. This is due to the fact that Westminster is a relatively high cost area, and there are many lower-cost options for other boroughs looking to place homeless households.

Figure 3.5 – Homeless Households in Temporary Accommodation placed by London Boroughs in Westminster

Placing Borough	B&B/shared annexes/HMOs	Annexes	Private rented sector	Total
Kensington		21	0	21
Southwark		1	1	2
Tower Hamlets		7	0	7
Hammersmith		0	0	11
Westminster		96	7	1712
Total		125	8	1744

The 1,744 placements in Westminster account for 5% of the private rented sector given that the entire sector accounts for 33,000 households. Figure 3.6 shows that this proportion is very low compared to other boroughs. For example, in Newham, homeless households in temporary accommodation account for 35% of the whole private rented sector. The table shows that with the exception of Newham and Haringey, boroughs with the highest rate of homeless households in the private rented sector are in Outer London. Core Inner London boroughs such as Westminster, Southwark, Kensington & Chelsea, Islington, Camden, Lambeth, Wandsworth and Hackney, all have a low proportion of homeless

households in temporary accommodation in their respective private rented sectors. This pattern may again be explained by the relatively high cost of placing homeless households in these boroughs versus lower-cost Outer-London boroughs.

Figure 3.6 – Placements of Homeless Households in Temporary Accommodation as a proportion of the Private Rented Sector (Total placements by all London boroughs)

Borough	Homeless Households placed in Temporary Accommodation in the PRS	Proportion of the whole Private Rented Sector
Newham	6,483	35%
Barking and Dagenham	1,516	32%
Enfield	3,000	23%
Haringey	3,842	17%
Brent	3,466	17%
Redbridge	1,775	13%
Hillingdon	1,403	13%
Ealing	2,446	11%
Harrow	1,126	10%
Tower Hamlets	1,467	10%
Waltham Forest	1,450	9%
Croydon	1,424	7%
Kingston upon Thames	610	6%
Barnet	1,297	6%
Hounslow	734	5%
Lambeth	1,385	5%
Westminster	1,744	5%
Hackney	667	5%
Kensington & Chelsea	1,067	4%
Hammersmith & Fulham	775	4%
Islington	582	4%
Wandsworth	1,075	4%
Lewisham	554	4%
Bromley	425	3%
Bexley	193	3%
Camden	699	3%
Southwark	404	3%
Richmond upon Thames	328	2%
Sutton	164	2%
Greenwich	176	2%
Havering	40	1%
Merton	38	0%
City of London	0	0%

4 Relevant Literature

We have identified literature relevant to the private rented sector in London – such as studies focused on London, or individual boroughs. We were particularly interested in issues such as; trends in the sector, the effect of Right to Buy, changes in the characteristics of landlords and institutional involvement.

We have identified three key studies, namely;

- *'Future of private renting in the UK'* (June 2004) Michael Ball, Social Market Foundation
- *'Market failure and the London housing market'* (May 2003) Greater London Authority Economics
- *'Short letting in the private rented housing market: the central London experience'* (2005) Anna Haworth, University of Westminster

Future of private renting in the UK

The first study sets out the broad context of private renting in the UK, highlighting the key characteristics of households in private rented tenure.

The areas with the highest rate of private rented tenure are generally in the South, in cities, university towns and seaside towns. Westminster has the highest rate of private rented tenure of all districts in the country.

In terms of the type of dwellings that make up the sector, it is surprising that only a third of rented properties are flats – intuition would tend to suggest that this proportion would be even higher. However, this still indicates a concentration of flats in private rented tenure, as only 16% of all properties are flats. The stock of private rented sector properties is generally older than dwelling stock as a whole, with 40% of properties built before 1919 and 60% before 1945. However, this may be due to the high rates of private rental tenure in London, which has a generally older stock profile anyway.

The private rented sector is a highly segmented market – serving students, low-income groups, properties rented by companies and rich individuals (the paper does not attempt to quantify these segments of the market). By the nature of the market, private tenants tend to be highly mobile, with half of the tenants in furnished accommodation moving within a year. Of recent movers to the private rented sector, on average 20% are newly forming households, 15% come from owner-occupation, and just 6% from the social rented sector. This remaining 60% come from within the private rented sector.

Most people in the sector are young (25% are under 25, and 37% are aged between 25-34). Common household types in the sector are single adults, shared households, and single parents. There is a disproportionately high rate of one-person households compared with the population as a whole, with a third of all one-person households being in private rented tenure. The majority of household reference people in the sector are in work (54% full time and 8% part time), in sharp contrast to the social rented sector.

As for future trends in the sector, the paper highlights that there is likely to be a reduction nationally in the number of 15-44 year olds – the current mainstay of the private rented sector. This trend is likely to be especially marked in London and the South East, where it is predicted there will be an 11% reduction in the number of 15-44 year olds by 2016. This is likely to lead to downward pressure on demand for rental properties, unless it is offset by other forms of demand (or if affordability issues mean that the profile of private tenants change – DTZ comment).

Another clear trend in the sector is the proportion of housing benefit claimants. The paper shows that 22% of households in the sector are on housing benefit, compared to 60% in 1987. This reflects the reduction in the number of claimants overall, as well as a diminishing role of the private sector, as landlords have become increasingly reluctant to

house housing benefit claimants and find they can let to those not on benefit – including students.

Market failure and the London housing market

This second paper looks broadly at the London Housing market, but picks up on affordability in the private rented sector. The main thrust of the paper is that the housing market in London suffers from ‘endemic’ market failure. The consequences of this are homelessness, households living in sub-standard accommodation, key workers unable to live where they work, and private companies unable to recruit. The presence of market failure is the rationale for government intervention into the market.

The paper states the key sources of market failure as; the cyclical nature of house prices, the under-supply of new housing in London, and the shortage of affordable housing. The recent uplift in house prices could be explained by a step-change in people’s expectations about long-term interest rates (due to the stability of the now-independent central bank) – interest rates are at their lowest level for decades, and are expected to stay low. This has been compounded by the fact that housing assets are susceptible to momentum behaviour.

At the same time, the supply of housing has been relatively constrained – house-building rates have been on a downward trend since 1968, and there has been an average rate of completions of just 14,000 dwellings per year in London over the past decade. Residential developers have expressed concern over affordable housing targets – they say that excessive targets will depress the value that developers can pay to landowners, to the extent that landowners will not develop the land as residential property.

The paper does contain some commentary on the level of affordability in the private rented sector. Private sector rents as a proportion of average incomes, increased over the 80s and 90s, as did LA and RSL rents. Given that the National Federation of Housing Associations define an affordable rent as below 25% of the net income of the head of household, this means that rents became unaffordable in all sectors in the late 1990s.

Short letting in the private rented housing market: the central London experience

The third relevant paper is specific to Westminster and relates to short letting. The premise for the paper is that a significant proportion of the rental properties in Westminster are not being used by permanent residents, but by short-term visitors (since it can be cheaper than staying in a hotel).

The City Council wish to discourage rental properties from being used in this way, due to the detrimental effect on permanent residents, and the fact that this reduces the stock of properties available to permanent residents. Legislation allows Westminster City Council to control short-term letting, defined as being for a period of less than 90 consecutive nights.

However, it is clear from the survey undertaken as part of this study, that a significant number of permanent dwellings in Westminster were being unlawfully used as short-lets – perhaps 4,000 properties. This constitutes more than 10% of the private rental stock, and more than 4% of overall stock. People seeking short lets were usually either businesspeople or tourists from abroad, although students featured as significant clients as well.

The survey also revealed the wide range of prices in the short-letting market – for instance, whilst the average 2-bed long-let property costs £380 per week, an equivalent short-let

property can cost between £340 and £4,900 per week. It is this high level of potential return that is attracting landlords to the short-letting market, despite the Council's attempts to enforce legislation.

Other relevant literature sources identified are as follows:

Housing in England 2003-2004: Part 3: Social renters and private renters (published Dec 2005), ODPM - This document gives an overview of results from the Survey of English Housing, relating to rented sectors. The key findings are; that private renters are generally younger than social renters; private renters earn typically around twice as much as social renters, but pay twice as much in rent; there is a higher rate of turnover in the private rented sector than in the social rented sector.

Characteristics of the modern private rented sector (summary – full study yet to be published) JRF – In completing the report the authors intend to analyse both Census and other secondary sources, and produce listings of the research results at district and ward level. The key findings so far are as follows; the private rented sector grew between the 1991 and 2001 censuses; elderly people rely on the private sector less than previously, but students rely on it more; the sector caters for international demand, particularly in central London.

The growth of buy-to-let in the UK (2005), Scanlon and Whitehead – The number of private individuals investing in rental housing has increased rapidly in the UK over the last few years, mainly facilitated by the growth in 'buy-to-let' mortgages. The rapid increase in buy-to-let investment can be seen as a rational response to economic incentives, both those affecting the private rental sector (deregulation; increasing demand; improved practice relative to other tenures) and the buy-to-let investor specifically (falling returns on alternative investments at the same time as house-price increases; increased supply of mortgage finance). This sudden expansion has attracted much media comment, but little research has been done into who these investors are, their motivations for investing in rental property, and how they might respond to changing market conditions. This paper addresses some of these issues, based on survey and secondary source analysis.

Property Investment Funds for the UK: potential impact on the private rented market (Feb 2005) CML – A discussion paper on the introduction of Property Investment Funds was published by the budget 2005. This report is intended to review the potential establishment of PIFs in the UK, explore the traditionally claimed benefits of REITs in other countries and their potential impact on the growing buy-to-let and private residential rental market in the UK.

Investment returns in the private rented housing sector (2002) BPF - With the important exception of the York Index of Private Rents and Yields, there is no industry-wide, national data about rates of return in the private rented sector collected regularly on a systematic basis. Evidence on rates of investment return being earned by residential landlords is very limited. This may of itself be detrimental to increasing supply, since it increases uncertainty for landlords and those who finance them, especially for those thinking of entering or funding the sector for the first time. This report examines evidence on current rates of return in the private rented housing sector and allows the evidence about returns to be compared with alternative investments, both commercial property and non-property.

Understanding housing market change in NDC areas (Nov 2004) CRESR – This report examines housing market change in NDC areas with particular attention focusing on identifying drivers of change. The emergence of the twin problems of 'low demand' in the North and Midlands of the country, and affordability primarily the South East, has

increasingly focused attention on the workings of housing markets, and housing market change in particular. The research comprised three key stages: a review of house-price change in NDC areas; a telephone survey of a representative sample of Partnerships; and four in-depth case studies: Aston, Sheffield, Tower Hamlets and Oldham. Aspects of the study look at the Private Rented Sector.

The Occupational Class Composition of Housing Tenures in Westminster, 2001

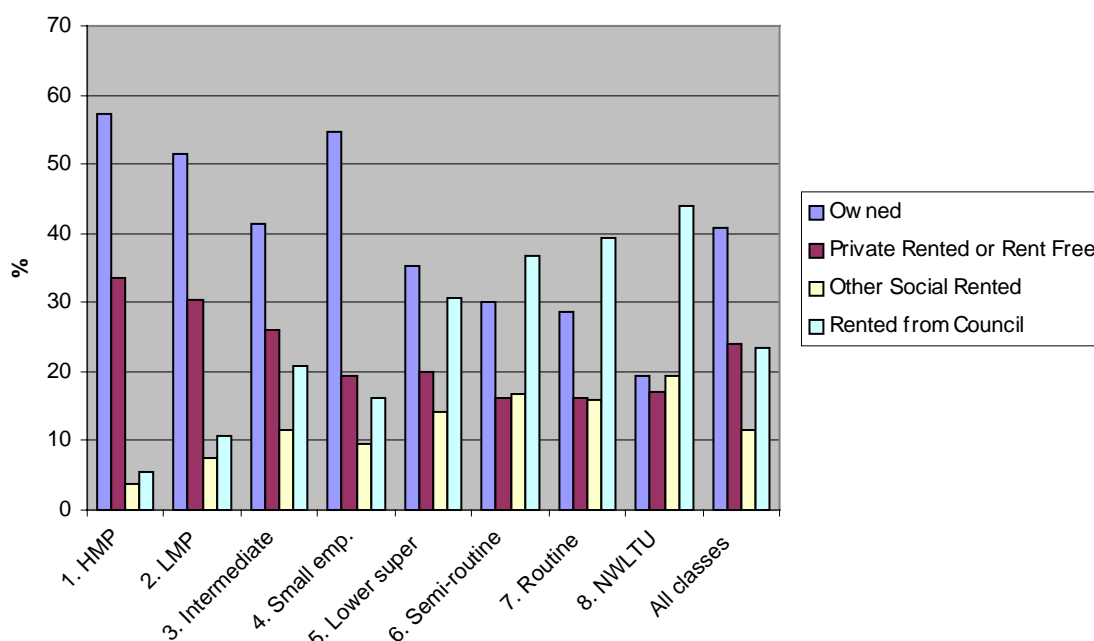
One of the frequent questions about housing accessibility and affordability is who lives in different tenures. This short note looks at which social classes live in different tenures in Westminster compared to other boroughs in Inner London. Data is from 2001 Census.

Inner London

Looking first at inner London as a whole for all classes, owner occupation is the largest tenure with 41%, followed by private renting (24%), council renting (23%) and social renting (11%). There is a simple relationship between class and housing tenure. Basically, the higher the social class, the higher the proportion of home ownership, and the lower the proportion of council or social renting (and vice versa). In Inner London approaching 60% of higher managers and professionals (HMP's) are home owners. This falls, fairly steadily, to 20% of the not working or long term unemployed. Conversely, less than 5% of higher managers and professionals are council or social rented tenants, whereas 45% of the not working and long term unemployed are council tenants and almost 20% are social rented tenants (figure 1). The social rented housing tenures are doing the job of housing those who cannot afford to enter home ownership or private renting.

Unsurprisingly given the current role of the private rented sector in inner London, the more highly skilled and better off are most strongly represented in the tenure with 30% of higher managers and professionals in this tenure, falling to about 15% of routine workers. A lot of the poor quality, rent controlled, private rented housing from the 1960s has been cleared and replaced or upgraded and private renting now has a different clientele.

Figure 1. Housing Tenure by Social Class, Inner London, 2001



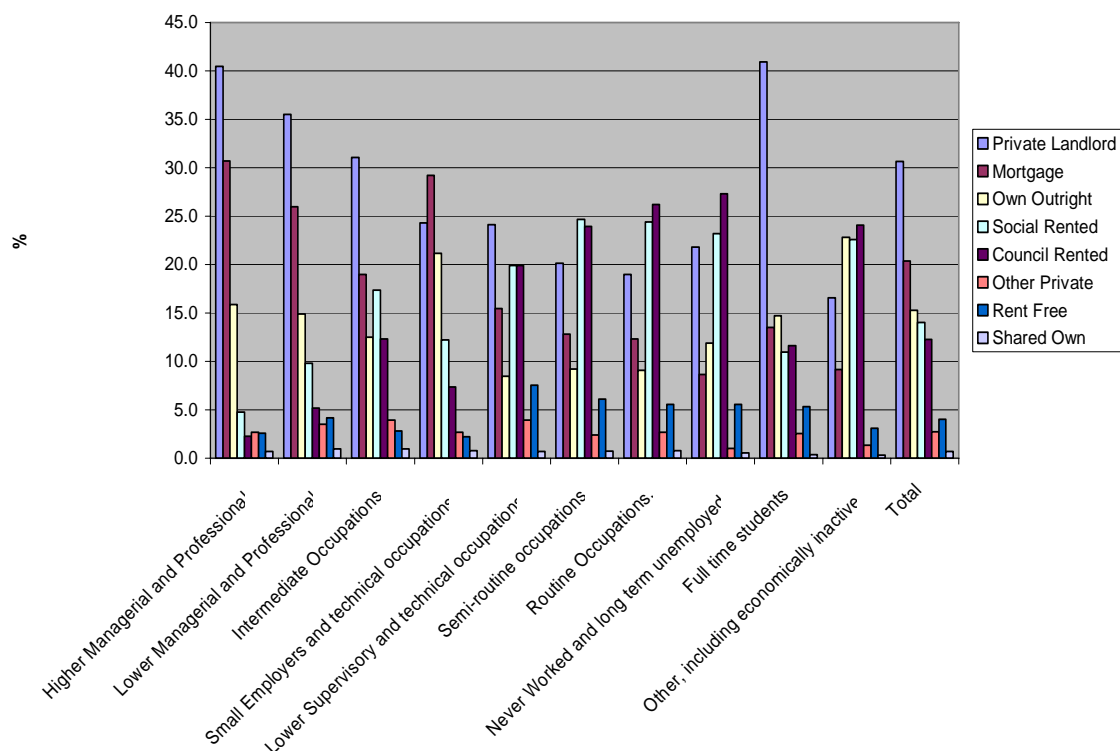
Westminster

The situation in Westminster (and K and C) is rather different from inner London as a whole. Looking first at the far right hand total column, private renting from a landlord is the largest single category overall (37% including other private rent and rent free). This is followed by owner occupation (35%) (mortgaged owners 20% and owned outright 15%), social rented (14%) and council rented (12%), shared ownership (0.7%) is insignificant. The importance of private renting is partly a legacy from the 1960s when Westminster and K+C had the largest PR sector in London, and partly a result of strong demand for high quality private renting from relatively well off national and international residents.

Interestingly, 40% of higher managers and professionals rent from private landlords, followed by 35% of lower managerial and professional workers and 31% of intermediate occupations. This reflects the strongly middle class nature of private renting in the City of Westminster and, differentiates it from the rest of London apart from K and C. A further 30% of higher managers and professionals own with a mortgage and 15% own outright.

Only 5% of higher managers and professions are social rented tenants and only 2% are council tenants. This parallels other boroughs in London. The proportion of council and social tenants rises as class position declines, reaching a peak among routine occupations and 'never worked and long term unemployed' (50% in both) and the other (including economically inactive) category (47%). This is common across inner London and the UK as a whole, though the proportion of council and social rented tenants is often higher.

Figure 2. Occupational Class by Tenure, 2001 Census

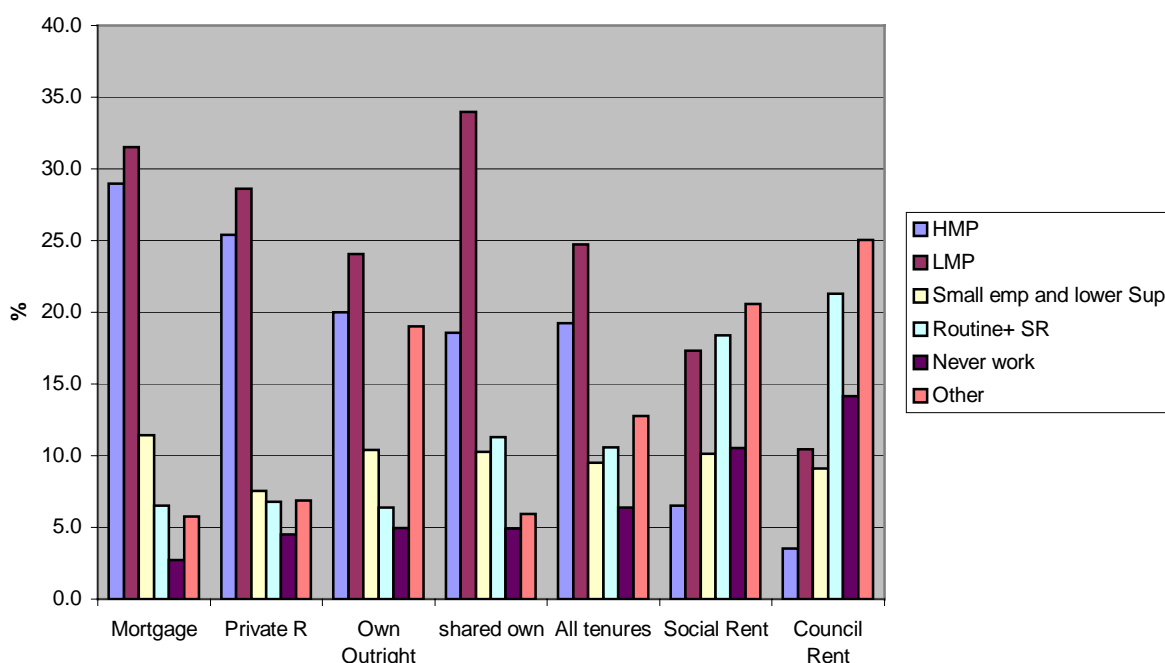


The Social Class composition of tenures in Westminster, 2001

Fig 2 showed the incidence of different tenures in each social class in Westminster. It is useful to turn this around and look at the social class composition of different tenures. Figure 3 shows that some 60% of mortgaged home owners are in the higher or lower managerial professional categories, with a further 11% in the small employer and lower supervisory categories. The private rented sector is not much below in terms of its social composition with 54% of residents in the managerial and professional groups. They both rank above outright ownership, which, probably because of the age structure of residents, has a high proportion (19%) in the 'other and economically inactive' category and just 44% in the managerial and professional groups. Shared ownership, though very small in absolute terms, is interesting in that it has the highest proportion of lower managerial and professionals which clearly suggests it is reaching a more mixed group.

Not surprisingly, both social rented and council rented tenures have the lowest proportion in the managerial and professional groups (24% and 14% respectively), a high proportion of routine and semi-routine workers (18% and 23% respectively), a high proportion of the 'never worked' (10% and 14%) and the other and economically inactive categories. This confirms what is generally known about council housing in inner London: that it tends to contain a very high proportion of less skilled, the unemployed and economically inactive. This analysis of class and tenure may simply confirm what is already well known but it useful to have the situation documented in terms of available census information.

Fig 3. Social composition of Tenures, Westminster, 2001



Chris Hamnett 25th October 2005