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Raising standards in the private-rented sector



The NLA is a not-for-profit membership organisation. We believe that representing the interests of private landlords can most effectively be done by raised standards throughout the private-rented sector, benefiting both landlords and tenants. We recognise that ownership of property that is rented to others not merely represents an investment, it provides much-needed homes for those disinclined, or unable, to buy their own property. ▶▶

The NLA, founded in 1973 as the Small Landlords Association, exists to protect and promote the interests of private residential landlords. Based in Westminster, we provide a range of benefits and services to individual and local authority members and strive to raise standards in rented accommodation. We seek to safeguard landlords' legitimate interests by making their collective voice heard by local and central government.

The NLA is growing. With a current membership of more than 13,000 individual landlords from all regions of the country plus around 80 local authority associates, the NLA can justifiably claim to be the pre-eminent representative body in the UK for private landlords.

▶▶ Raising standards in the private-rented sector *cont.*

Around 10% of the UK's households make up the private-rented sector. As a result of demographic changes, together with changes to the structure of the housing market over the last 20 years, this proportion is growing. As such the profile of the sector is increasing as is its complexity. This is why we are striving to improve the sector's public image and the relationship between landlords' representatives, government at all levels, and other bodies working in the industry. We believe the NLA is well on the way to achieving a unified voice for private landlords and, as such, is well placed to act as an effective link between them and policy makers.

A core activity of the NLA is to seek a fair and equitable legislative and regulatory framework within which the private-rented sector can continue to make an essential contribution to the nation's housing stock and economy. To accomplish this we:

- Are creating a regional and local branch network that can work in co-operation with local authorities and devolved bodies;
- Work in co-operation with non-government organisations and other agencies where there is a common interest in the private-rented sector;
- Develop, promote and offer a range of services designed to meet the needs of private landlords, promoting greater responsibility;
- Sponsor a government-approved insurance based tenancy deposit protection scheme, administered by our insurance partners, Hamilton Fraser Insurance;
- Provide a telephone advice line for members staffed throughout the working week by experienced practitioners in the sector;
- Produce a widely-circulated specialist journal, UK Landlord, containing articles of general interest and information designed to keep landlords up to date on current issues and their changing obligations and responsibilities;
- Provide a range of information and fact sheets on the major issues affecting the letting of private residential property;
- Hold regular meetings to exchange information with members and update them on developments in the sector;
- Offer a landlord development programme designed to help landlords make a success of their lettings businesses, comprising attendance courses, a manual and an online learning package.

This bulletin is the first in what we plan to be a series of publications. The purpose of the bulletin is to communicate our views, concerns and objectives in relation to public policy for the private-rented sector. We would welcome views and comment on the issues we have highlighted.

Possession



The private-rented sector is making an increasingly important contribution to the nation's economy. It provides flexible and affordable accommodation that facilitates mobility of labour, in turn contributing to economic growth. This was not always the case. Prior to the Housing Act 1988, rent control and indefinite security of tenure drastically curtailed the appeal of residential letting as an investment vehicle and severely limited the supply of homes for rent.

Since 1988 legislation governing the letting of private residential property has sought to balance the need for landlords to be able to regain possession of their property with the need to provide secure homes for people who need to rent. The NLA believes that the current legislation represents a fair and equitable legal framework for letting residential property with clear grounds for possession available should the tenancy not run according to plan.

We feel that the current legal framework incentivises investment whilst providing much needed homes and therefore would not benefit from further reforms. However in practical terms there are some measures that may allow for more effective implementation. An NLA survey has revealed that 47% of respondents stated that it had taken them three to six months to regain possession of their property. Some 21% said that it took six to nine months, and 8% had spent more than a year to gain possession by application to the courts. We believe this is unsatisfactory and that these delays, together with the associated costs, demonstrate that the county court system is unable to cope.

If landlords lack confidence in the court system to end unsatisfactory tenancies they are less likely to offer property to let. Far fewer homes would be available for rent. The impact on the supply of affordable rented accommodation would be serious.

The NLA believes the Government should examine ways of improving the current arrangements. Consideration should be given to removing jurisdiction for landlord-tenant matters, including possession, from the county courts and either placing it within the remit of a properly resourced specialist court or property tribunal system.

Council Tax

For the majority of private residential landlords council tax does not represent a major issue since liability falls to their tenants. Yet 20% of the private-rented sector comprises houses in multiple occupancy (HMOs), for which the landlord is responsible for paying council tax. Although subject to a number of differing definitions, HMOs are generally accepted to be properties occupied by two or more households sharing facilities. For the purposes of council tax banding, an HMO may be considered to be a single dwelling house or to comprise a number of smaller units, making it subject either to a single tax demand at a relatively high band, or to several separate demands at a lower banding.

The status of such properties is based on guidance issued by the Valuation Office Agency (an executive office of HMRC).

Energy Efficiency

The NLA is a founder member of the Private-Rented Sector Sub-Group of the Energy Efficiency Partnership for Homes. We are also a member of the All-Party Parliamentary Group on Climate Change. Membership of these bodies has given the NLA an opportunity to publicise and promote energy efficiency issues to landlords and advise policy makers on the challenges facing the private-rented sector.

Using the Decent Homes Standard as a guide, it is noteworthy that the private-rented sector has shown improvement at a faster rate than either the social or owner-occupied sectors over the last eight years. However, unless a landlord is particularly motivated by ecological considerations, financial factors will invariably be the primary influence on decisions relating to energy efficiency improvements. By contrast with the owner-occupier, there is less incentive for the private landlord to make energy efficiency improvements because utility costs generally fall to the tenant. A reduction in the rate of VAT levied on installations

Taxation

Taxation policy should be consistent with the goal of developing a healthy private-rented sector. The NLA believes that taxation of the sector should incentivise investment in residential property to rent.

The NLA considers that the tax regime in relation to the letting of private residential property is generally sensible and workable. There are nevertheless anomalies that can distort supply and act as a disincentive to investment, potentially reducing the availability of affordable accommodation and impeding progress towards a diverse housing mix.

Most portfolio landlords run their lettings in much the same way as they would any other business activity. We believe there is merit in recognising the work they do, just as work put into any other business activity is recognised. While we consider the range of provisions to be relatively comprehensive and fair, there is a case for making allowances currently available to other types of businesses also available to residential landlords. The most important is that of 'landlord's time'. Currently, fees paid to a third party for services rendered may be deducted from a landlord's taxable income as a business expense. For instance, if a landlord employs a managing agent the fees are tax deductible. If on the other hand a landlord elects to manage their property personally they are not entitled to claim any relief for their time, even though this can be demanding for many landlords whose main source of income is their lettings. We think that an allowable deduction equivalent to the 10-15% of gross rents

There is however inconsistency regarding the banding of HMOs. This in turn causes confusion over the eligibility of residents of HMOs for council tax benefit, with criteria for payments varying between local areas. The NLA would like to see consistency in the interpretation of the rules relating to council tax banding, and consistency in eligibility for council tax benefit. We believe the rules should be harmonised across local authorities to improve clarity and provide peace of mind for residents of HMOs.

The Valuation Office Agency should review their guidance on what constitutes a dwelling for the purpose of banding council tax, enabling local authorities to take a consistent approach in the way this tax is administered.

to improve energy efficiency would act as an incentive to landlords to have the necessary work undertaken.

We would welcome greater efforts made to engage with landlords with a view to encouraging energy efficient improvements. More effort should also be made to publicise the assistance already available to improve rental properties.

From October 2008, rented residential property will require an Energy Performance Certificate (EPC). This certificate will record an assessment of the energy efficiency of the property and make recommendations for possible improvements. Whereas we recognise the desirability of improved energy efficiency and will continue to work to promote improvements, we strongly urge the Government to resist any suggestion that recommendations in EPCs should become mandatory requirements.

generally paid to a managing agent - could encourage better standards of management.

We welcome the Government's announcement of their intention to reform capital gains tax (CGT). The Treasury's proposals on rate changes will simplify the system making it more attractive for landlords to adapt their portfolio in response to changing demand for housing.

Assets held for the purpose of business activity in most other industries are normally considered to be a business asset. Residential property is classified as a non-business asset for CGT purposes. Landlords are thus ineligible for the roll-over relief that is available to most other business activities. Any capital gain realised following the disposal of a rental property - above the prevailing allowance - is taxable, even if the funds released are reinvested in another property that is offered for rent. In other industries taxation of gains generated by the sale of business assets may be deferred until a later time provided the gains are reinvested in the business.

We think that extending eligibility for some form of roll-over relief to individual residential landlords would incentivise responsible long-term investment and benefit the sector. Recognising that this is a complex subject, the NLA will commission an economic assessment to examine the possibilities.

As the UK's largest representative body for private residential landlords the NLA takes the views of our members and other stakeholders seriously. If we are to provide an effective service for our members we have to be aware of their needs and views, at the same time developing an understanding of the wider interests of the private-rented sector.

As someone concerned with housing issues you will understand the importance of ensuring that the market is able to operate effectively. We also hope that you support the goal of a healthy private-rented sector which can be considered a tenure of choice for many sections of the community. The NLA is working towards this goal and would welcome comment on the topics discussed in this bulletin.

If your response relates to one of our ongoing policy issues examined in this bulletin please contact our relevant member of staff as indicated below. If you would like to raise an unrelated item please email policy@landlords.org.uk

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