Protecting Generation Rent

A report for Money.co.uk

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Contents

This report was produced by the Centre for Economics and Business Research (Cebr) for Money.co.uk

Executive summary

- This research, undertaken by the Centre for Economics and Business Research (Cebr) on behalf of Money.co.uk aims to understand recent trends in the UK's private rental market, and the role that measures such as tenancy deposits schemes can play in protecting the UK's growing generation of renters.
- With average property prices in the UK rising at a forecast annual rate of 4% in 2015 - and 9.3% in London - homeownership has become a distant dream for many, and high property prices are forcing people to stay in the private rental market for longer than they would like.
- Between 2001 and 2014, the homeownership rate in Great Britain dropped from a high of 70% to 63%. By comparison over the same time period, the share of private renting households grew by 9 percentage points to represent almost one fifth (19%) of households, suggesting that the current UK population is moving towards being a generation of renters.
- In many parts of the UK, people are increasingly viewing renting as a permanent form of tenure – even though the shorthold tenancy agreements through which most properties are let, provides minimal security of tenure.
- At the same time, average rents have been growing alongside average house prices, further squeezing the ability of renters to afford to purchase a house. The average size of rental deposits required by many landlords (in terms of number of weeks' rent) has also increased. This has meant that average deposits across the UK have been growing at an even faster rate than average rents.
- The combination of these factors mean that private renters have been left in a precarious situation within the housing market and need greater protection of renters and their deposits.

Executive summary

- One measure that has been taken to protect renters is to oblige all landlords to put the deposit in a government-backed tenancy deposit scheme (TDP) – this has been mandatory since 2007. Landlords who do not comply leave their tenants vulnerable to the loss of thousands of pounds in unreturned deposits, and since June 2015, put themselves at risk of being fined.
- According to the most recent HMRC land and property tax returns completed by landlords (March 2015), we estimate that there are currently approximately 1.9 million landlords* in the UK.
- In 2015, we estimate that approximately 85% of landlords are in compliance with tenancy deposit protection legislation. This suggests that roughly 284,000 landlords are not placing their tenants' deposits in a TDP.
- By early 2015, an estimated 3.1 million deposits are protected through a TDP, with a total estimated value of £3.2 billion. This suggests that the average deposit equates to approximately £1,040.
- Given the total estimated value of deposits protected in Q1 2015 (£3.2 billion), we estimate that landlords are currently sitting on roughly £514 million worth of unprotected tenants' deposits.

*This figure excludes individuals who have: rental income but pay through their PAYE code and do not submit a return; rent out rooms but income is below threshold for the Rent a Room tax relief; income from furnished holiday lettings; and individuals receiving rental income via companies. Therefore this figure is an approximation.

Introduction

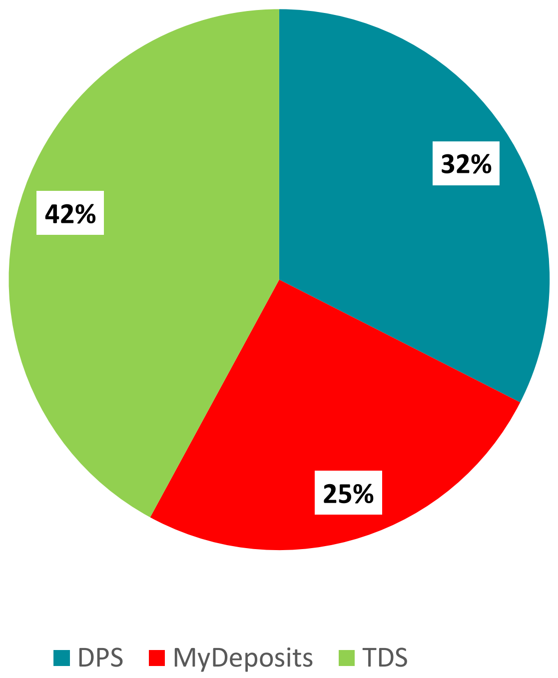
- This study, undertaken by the Centre for Economics and Business Research (Cebr) on behalf of Money.co.uk explores the growing trend of people renting homes rather than owning, and how there still remains large numbers of landlords who are unfairly putting their tenants at risk by not placing their deposits in a tenancy deposit scheme.
- This study comes in the context of a resilient property market where average house prices in the UK are projected to rise at an annual rate of 4% in 2015 - and 9.3% in London. This is on top of consecutive years of robust price growth that have priced many first time buyers out of the market, making homeownership a distant dream for many. A knock-on effect has been to maintain households in the private rental market for longer than they prefer.
- In many parts of the UK, people are increasingly viewing renting as a permanent form of tenure. In the UK, renting has traditionally been a stepping stone towards becoming a homeowner – unlike in countries such as Germany where it is more common for households to rent throughout their lives. Between 2001 and 2014 the homeownership rate in Great Britain fell from 70% to 63%, with an increasing proportion of households living permanently in rented accommodation.
- At the same time, growing demand for private rented properties has driven up average rents. Many tenants have also experienced a knock-on impact through higher rental deposits required by many landlords.
- This combination of a growing number of households living permanently in private rented accommodation, strong growth in average rents and larger deposits mean that there is a need for greater protection for renters, and their deposits.
- With these recent trends in mind, this study aims to understand recent developments in the private rental market with a particular focus on tenancy deposits, and what these trends mean for today's renters.
- The study specifically considers the following areas:
    - Recent trends in rental prices and what this means for the future of renters;
    - The characteristics of Generation Rent;
    - The role of Tenancy Deposit Protection schemes as a measure of protecting tenants.
- The research draws on data sources such as the ONS, DCLG, Scottish Government, and StatsWales, in addition to published statistics from deposit protection scheme providers, and Cebr's in-house forecasts to provide a comprehensive picture of the private rental market.

Protecting Generation Rent: Tenancy deposit schemes

Tenancy deposit schemes covering a growing number of rental properties

- With growing numbers of people renting, schemes to protect tenant deposits are becoming increasingly important.
- Since 2007, landlords with assured shorthold tenancies have been required to place their tenant's deposits in a Government-backed tenancy deposit scheme (TDP)*.
- Landlords who do not comply leave their tenants in an unacceptable position that they might not get their deposit returned. To reflect the severity of this action, since June 2015, landlords can be fined for not registering deposits in a TDP.
- As illustrated by the graph opposite, of the three TDPs, the Tenancy Deposit Scheme (TDS) had the greatest share in terms of the total value of deposits protected by all schemes (£3.2 billion).
- This is likely to be because the majority of the TDS' membership is comprised of agents and professional bodies (due to stricter membership requirements).
- These landlords tend to have higher value properties, which hence require larger deposits.

Share of the total value of deposits protected (%), split by provider*, 2015 (England and Wales only)



Source: TDS, Cebr analysis

*The three Government-backed TDPs are: Deposit Protection Service (DPS), MyDeposits, and the Tenancy Deposit Service (TDS)

By 2015, 85% of landlords are projected to be in compliance with requirement to place deposits in a TDP

- Information collated by TDS indicates that an estimated 77% of landlords in 2013 were compliant with the tenancy deposit protection legislation**.
- Based on recent trends, we project that the current compliance rate in 2015 is approximately 85%.
- Landlord compliance is likely to rise with greater awareness of schemes, and the risk of being fined, as enforced by 2015 Government legislation.
- Unprotected deposits give landlords the capacity to unfairly retain tenant's cash. During a dispute situation, tenant's money can be retained without reason, leaving tenant's powerless, out of pocket and with no option but to resort to legal action.

** These estimates were derived by the TDS using a range of published studies. It accounts for estimations of the number of existing tenancies, the number of assured shorthold tenancies and the number that have deposits. It also accounts for the number of protected deposits.

Compliance of landlords with requirement to protect deposits (%)

Year	Compliance rate
2008	35.2%
2009	54.8%
2010	63.0%
2011	70.6%
2012	72.2%
2013	77.2%
2014	80.8%*
2015	85.5%*

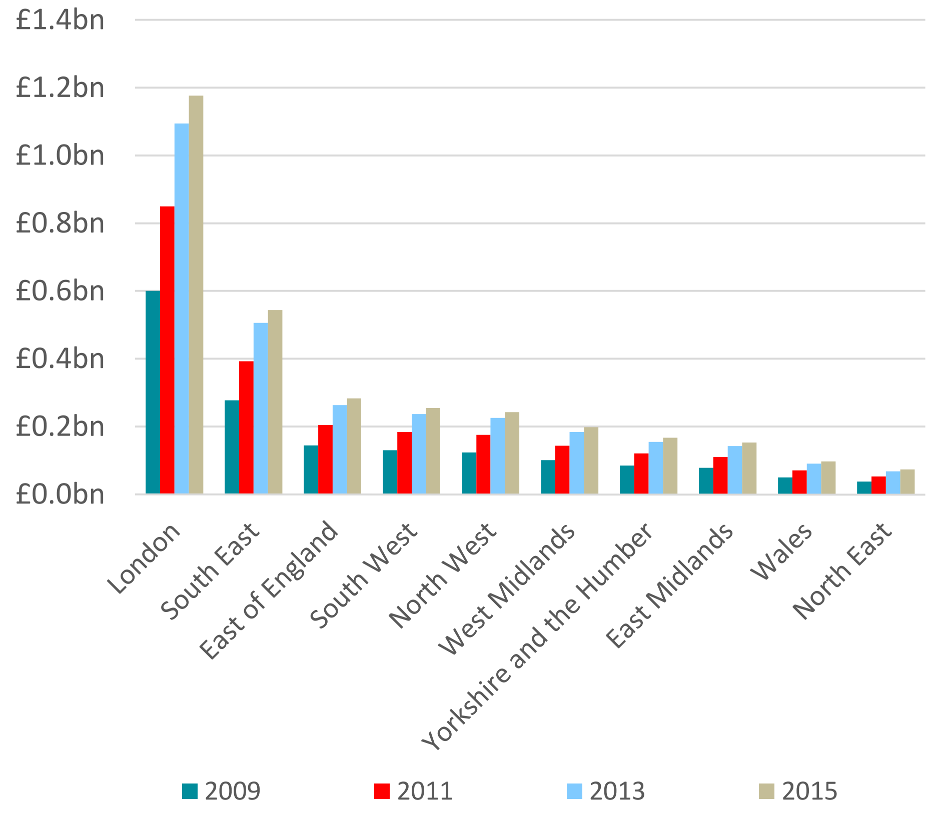
Source: TDS, Cebr analysis

*projected compliance rate, based on a moving average growth rate of previous 2 years.

An estimated £3.2 billion worth of deposits protected in 2015…

- The total number of deposits protected by landlords has risen steadily since 2009, from approximately 1.7 million to reach an estimated 3.1 million in 2015.
- The total value of deposits protected has also grown and is estimated to have reached £3.2 billion in 2015.
- Between 2008 and 2009, the total value of deposits grew 43%. By 2015, the annual growth in the total value of deposits has slowed to 5%. This points to a slowing growth rate in the number of deposits being placed in a scheme over the same time period.
- Using trends in the average value of a protected deposit, and the share of private renting households in each region, we estimate the regional distribution of the total value of deposits protected (see graph opposite).
- By a significant margin, the greatest value of deposits protected is in London and the South East, with an estimated £1.2 billion and £544 million respectively in 2015.

Estimated total value of deposits (£ billions), 2009– 2015, by region

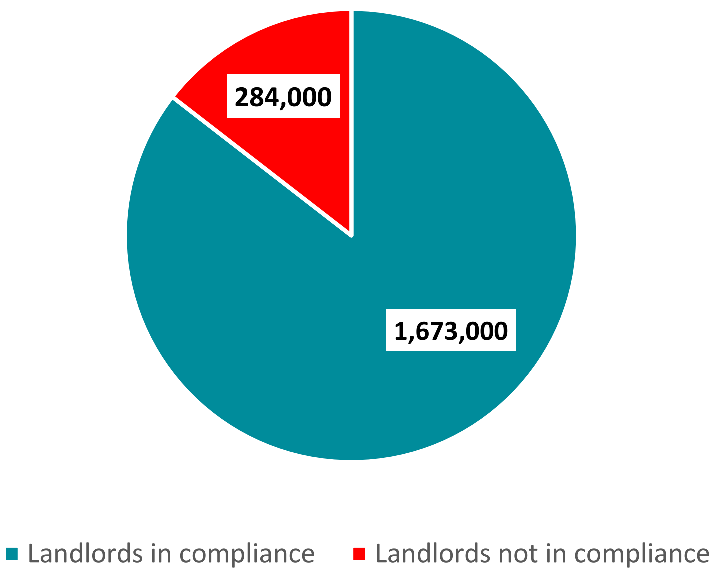


Source: TDS, MyDeposits, Cebr analysis

…of which potentially £514 million worth of unprotected deposits remain

- The last official estimate on the number of landlords was produced in 2010 which suggested there were 1.5 million landlords in England.
- However, according to the most recent HMRC analysis of land and property tax returns completed by landlords (March 2015), we estimate that there are approximately 1.9 million landlords* in the UK in 2015.
- An 85% compliance rate implies that of the 1.9 million landlords in the UK, roughly 284,000 landlords do not keep their tenants' deposits in a tenancy deposit programme.
- Given the total value of deposits protected by all schemes in March 2015 (£3.2 billion), we estimate that landlords are currently sitting on roughly £514 million worth of unprotected tenants' deposits.

Estimated number of UK landlords in compliance, 2015



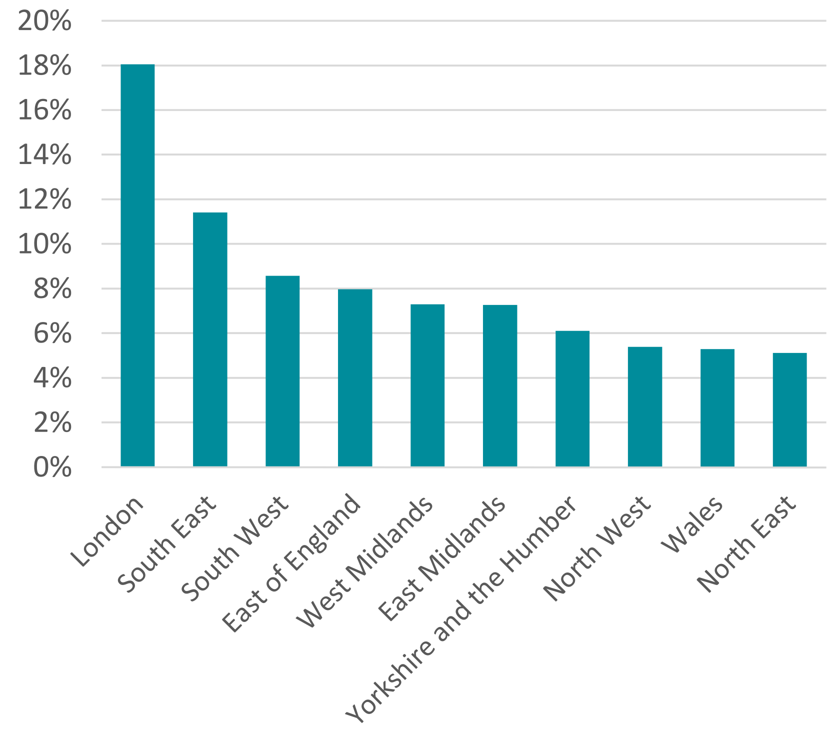
Source: HMRC, ONS Census 2011 (England &Wales), National Records of Scotland Census 2011, NISRA Northern Ireland Census 2011, Cebr analysis

*This figure excludes individuals who have: rental income but pay through their PAYE code and do not submit a return; rent out rooms but income is below threshold for the Rent a Room tax relief; income from furnished holiday lettings; and individuals receiving rental income via companies. Therefore this figure is an approximation.

The average deposit has increased 16% since 2010

- The average value of a protected deposit in England & Wales has been rising over time, growing from an average of £898 in 2010 to £1,040 in 2015.
- This has been driven by two factors - growth in average rents and an increase in the average size (in weeks of rent) required by the landlord as security on the property.
- London has witnessed the greatest growth in the average value of a protected deposit – rising 18% since 2010 to reach an estimated £1,674 value in 2015.

Estimated growth in the average value of deposits protected by landlords, (%), 2010 – 2015, England & Wales



Source: TDS, MyDeposits, Cebr analysis

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