



The Impact of Housing Benefit Changes in London

Analysis of findings from a survey of Landlords in London

September 2010

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Headline Findings

Between 5-22 of August 2010, London Councils and the London Landlord Accreditation Scheme (LLAS) carried out a survey with landlords renting properties to housing benefit tenants in London to explore the impact of the housing benefit changes announced in the June 2010 budget.

The survey received 270 responses and the key findings were:

- 82,000 tenants across London will be at risk of losing their home as a result of the changes.
- Approximately 15,000 London tenants may risk losing their home after next April and a further 67,000 London tenants may be at risk of eviction or not having their tenancy renewed after next October.
- 60 per cent of landlords in London would not reduce their rent *by even a small amount* if the tenant could no longer pay the full rent due to changes in LHA.
- When the rent shortfall is more than £20 a week, over 90 per cent of landlords renting properties to LHA recipients in London would look to evict the tenant when they fall into arrears or not renew the tenancy at the end of the period.
- 22,000 households could potentially be saved from eviction as 46 per cent of landlords responding stated that they might be prepared to lower their rent if landlord direct payment was re-instated.
- The number of properties available to people on housing benefit in London could significantly fall, as 26 per cent of landlords responding indicated that they plan to decrease their portfolio, with only 14 per cent planning to increase their properties available to LHA recipients.

1. Executive Summary

1.1 Changes to Housing Benefit

The June 2010 budget set out a range of changes to housing benefit including the introduction of a cap on the maximum Local Housing Allowance (LHA) rate payable for each property size¹ and changing the method of calculating LHA from the 50th percentile to the 30th percentile of Private Rented Sector (PRS) properties in an area. All but one of the changes aim to reduce the housing benefit bill, and the impact on tenants in London is expected to be significant.

In July, the Department for Work and Pensions (DWP) provided data² on the total number of households in the UK that will be affected by these changes. Based on this data, London Councils estimate that in London over 106,000 households would be affected by the changes introduced in 2011/2012. The level of losses in housing benefit will vary significantly across the capital, as whilst approximately 29,000 households (27 per cent of the total affected) will only face losses of £10 a week or less in housing benefit, the majority (73 per cent or 77,000) will lose out by more than £10 a week. Over 36,000 households (34 per cent) in the capital will face a shortfall of more than £20 a week.

1.2 Anticipating landlords' reactions to the changes

Some commentators have suggested that a number of households affected by the changes will be able to remain in their homes as landlords are likely to reduce their rent to keep their properties occupied. However prior to the announcement of the changes there was no evidence of how London landlords might respond to their tenant's new financial circumstances and the extent to which landlords might be prepared to lower their rents following the changes to housing benefit. Whilst landlords are likely to want to keep their properties occupied, the latest figures from the Royal Institute of Chartered Surveyors indicate that the rental market in London is buoyant³.

London Councils, together with the London Landlord Accreditation Scheme (LLAS) has therefore conducted a survey with landlords renting properties to housing benefit tenants in London and the surrounding areas in order to arrive at an estimate of how many of the 106,000 tenants affected by the changes in 2010/2011 would be at risk of eviction based on their landlord's reaction to the shortfall in rent caused by changes to housing benefit.

¹ £250 a week for a 1 bed; £290 for a 2 bed; £340 for a 3 bed and; £400 for a 4 bed and above.

² See <http://www.dwp.gov.uk/docs/impacts-of-hb-proposals.pdf>

³ http://www.rics.org/site/scripts/documents_info.aspx?categoryID=409&documentID=37

1.3 Key findings from the landlord survey

The key findings from the landlord survey were that:

- Approximately 60 per cent of landlords in London would not reduce their rent *by even a small amount* if the tenant could no longer pay the full rent due to changes to their housing benefit⁴.
- When the shortfall in rent rises to over £20 a week, over 90 per cent of landlords renting properties to housing benefit tenants in London would look to evict the tenant when they fall into arrears or not renew the tenancy at the end of the period.
- Using DWP figures and results from the survey with landlords, it can be estimated that 82,000 households across London will be at risk of losing their home as landlords would not be willing to lower their rents following the housing benefit changes.
- Approximately 15,000 London tenants may risk losing their home following the April caps and a further 67,000 London tenants may be at risk of eviction or not having their tenancy renewed following the 30th percentile change in October 2011.
- 46 per cent of landlords indicated that they might be prepared to lower the rent, even to the new levels, if landlord direct payment was re-instated. This could potentially save 22,000 households from eviction in London.
- Similarly 39 per cent of landlords indicated that they might be prepared to act differently if the tenants have been in the property long term.
- The number of properties available to people on housing benefit in London could fall significantly, as 26 per cent of landlords that responded to the survey indicated that they plan to decrease the size of their portfolio - with only 14 per cent of respondents planning to increase their portfolio of properties.
- Significantly, landlords with a large portfolio of more than 50 properties are more likely to decrease their portfolio (43 per cent plan to decrease) compared to those with only 1-5 properties (15 per cent); therefore amplifying the fall in properties available for housing benefit tenants.

⁴ 60 per cent of landlords that are renting smaller properties (1 and 2 bed) and 63 per cent of landlords that are renting larger (3 bed+) properties to housing benefit tenants would not lower rents by any amount.

2. Introduction

2.1 Background to housing benefit changes

In the emergency budget on 22 June 2010 the coalition government announced a series of significant changes to housing benefit and LHA. The changes will mean an annual reduction of £1,765 million of government help with housing costs⁵ by 2014/2015 and form part of the government's drive to make savings across all areas of public spending.

From April 2011 the maximum LHA rate payable for each property size will be capped at:

- £250 a week for a one bedroom property;
- £290 a week for a two bedroom property;
- £340 a week for a three bedroom property; and
- £400 a week for a four bed and above.

From October 2011 the method of calculating LHA will be changed from the 50th percentile to the 30th percentile of rents in each Broad Rental Market Area (BRMA). This will mean that tenants in receipt of housing benefit will have access to the bottom 30 per cent of the market instead of the bottom 50 per cent as at present, and tenants currently in properties where LHA meets the rent will find themselves with a shortfall. Tenants who cannot find a property priced in the first 30th percentile will have to make up the difference in rent.

Other changes in 2010 include the removal of the £15 weekly housing benefit excess, an increase in non-dependent deductions and from 2013 updating LHA on the basis of the consumer price index rather than local rents⁶. The expected savings generated by these changes are shown in Table 1 below.

⁵ Chartered Institute of Housing (July 2010) Briefing paper on the impact of changes to Housing Benefit and Local Housing Allowance in the budget

⁶ A table outlining all proposed changes to housing benefit is presented in Annex One

Table 1: Estimated savings from housing benefit changes in the UK

Exchequer impact GB (£million)	2011-12	2012-13	2013-14	2014-15
Savings				
Remove £15 excess	280	490	520	550
Remove 5 bedroom rate	5	10	15	15
Cap LHA Rates	50	55	55	50
Set LHA at 30th percentile	65	355	400	410
Costs				
Extra room for carer	15	15	15	15
Increase Discretionary Housing Payments	10	40	40	40
Total	370	860	940	970

Source: DWP Memorandum for the Social Security Advisory Committee, 23 July 2010, p11

To help offset the impact of housing benefit changes, the government announced that the discretionary housing payments pot will be increased by £10 million in 2011/2012 and £40 million in each year from 2012/2012. This is designed to be a short term measure.

2.2 Impact of housing benefit changes in London

The April cap is in reality a London issue; no other regions in the country are affected by the cap. The cuts will have an immediate impact on inner London boroughs which will essentially become no-go areas for anyone on housing benefit. There will also be an indirect long term impact on outer London; where families from inner London who are relocating to “cheaper” boroughs will need housing, school places and access to welfare services.

The cap has been driven in part by a move to stop the use of large properties in expensive BMRA for people on benefit, following several high profile media stories of families living in large, expensive properties at a significant cost to the taxpayer. In reality, the cap has been set so low that in London 83 per cent of the claims affected by the cap are in fact 1, 2 and 3 bedroom properties⁷.

The April cap will render the October percentile change irrelevant in many parts of inner London as the caps will reduce rates to a level well below the 30th percentile rate⁸. In central London, for example, the four bed LHA rate is currently £1000, so some claimants will see a £600 per week fall in their housing benefit when the caps come into force. The caps also affect outer

⁷ Of the 17,382 claims affected in London, 14,383 claims are for 1, 2 and 3 bedroom properties. Figures are taken from London Councils estimates of the total number of tenants affected by the caps in London, based on DWP Impact Assessment Data available at <http://www.dwp.gov.uk/docs/impacts-of-hb-proposals.pdf>

⁸ Tenants affected by the cap in April can not be affected by the 30th percentile rate in October

boroughs as well as those in central London, with over a third (36 per cent) of claimants living in a three bedroom property in Brent⁹ affected by the caps.

Based on the DWP figures, London Councils estimate that in 2010/2011 approximately 106,000 households will be affected by the caps. This includes 17,000 households affected by the April caps and a further 89,000 households that will face a shortfall following the October percentile changes¹⁰.

Table 2. Estimate of number of tenants affected by the changes in 2010/2011

	London
April Caps	17382
30 th Percentile	89204
Total affected	106586
Base number	144070
% affected	74%

2.3 Projected shortfalls in rent following housing benefit changes

The projected shortfalls resulting from the LHA caps vary greatly across London boroughs, including severe cases of average shortfalls of over £250 a week for three bed properties in Westminster and Kensington and Chelsea to average losses of around £10 a week for three bed properties in Hackney and Tower Hamlets.

Whilst the October percentile changes will impact on LHA claims across England, the rent shortfalls will be greater in London compared to other regions due to higher rents. Table 3 shows that 21 per cent of LHA claimants in London will lose more than £20 per week under the new calculations, compared to only two per cent in the East of England and Scotland and one per cent in the South East and South West. In no other region will tenants lose out by £20 a week or more as a result of the October percentile changes.

⁹ 482 tenants out of a total of 1,340 living in 3 bed properties in Brent will be affected.

¹⁰ Figures sourced from the DWP Impact data. These figures have been recalculated so that households that are affected by the April caps are not counted again for the impact of the 30th percentile change.

Table 3: Impact of setting LHA rates at the 30th percentile in 2010/ 2011

Percentage of LHA recipients	Not losing	Losses £0-£5	Losses £5-£10	Losses £10-£15	Losses £15-£20	Losses £20-£30	Losses £30-£40	Losses over £40
London	29	5	22	21	3	11	7	3
East of England	16	17	41	22	2	2	0	0
Scotland	21	16	47	12	1	2	0	0
South East	22	7	36	29	5	1	0	0
South West	15	12	51	20	1	1	0	0
East Midlands	12	26	39	17	6	0	0	0
North East	12	14	60	14	0	0	0	0
North West	13	21	38	26	2	0	0	0
Wales	11	25	43	20	1	0	0	0
West Midlands	16	16	42	25	1	0	0	0
Yorkshire and the Humber	10	20	50	18	0	0	0	0

Source: DWP (July 2010), Table 17

The combined impact of the April caps and the October 30th percentile change will potentially mean that tens of thousands of households in London will be priced out of their homes and communities where they are currently living. Not all of these are workless households; a large proportion of families affected are working (in Hackney, 50 per cent of those families impacted by the caps are working households¹¹).

Of the 106,000 claims affected 77,000 (73 per cent) will lose out by more than £10 a week, with over 36,000 households in the capital facing a shortfall of more than £20 a week and more than 10,500 households experiencing losses of more than £50 a week. Some commentators have suggested that landlords will reduce their rents in order to keep their properties occupied. However in the absence of any evidence of how London landlords might respond to the shortfalls in rent, it has not been possible to put a figure on how many of the 106,000 households affected might be likely to lose their home.

London Councils and the LLAS therefore undertook a survey with which landlord' that are renting properties to LHA tenants in London¹² to identify the extent to which they might be prepared to lower their rents; and from this calculate the number of households that would be at risk of eviction following the changes to housing benefit in 2011/2012.

¹¹ Out of 1,688 claims affected by the cap, 830 have been assessed using an earned income.

¹² The LLAS also includes a small proportion of landlords that rent properties in areas that border London, including areas of Kent, East Sussex and Surrey etc.

2.4 Aim of the research

2.4.1 Anticipate landlord reactions

The aim of the survey is to identify the proportion of landlords renting properties to housing benefit tenants in London that would evict tenants if the full rent could not be met due to a change in LHA levels. The survey presented different 'shortfall scenarios' (e.g. £1-10 shortfall; £10-20 shortfall etc) in order to identify the point at which landlords would consider evicting tenants that could not pay their full rent. Landlords were presented with different bands of shortfalls for smaller and larger properties to reflect the differences in rental income.

5. This question relates to one and two bedroom properties only.

Please work through each 'weekly rent shortfall' scenario, selecting the action that you would be most likely to take if your tenants are no longer able to pay their full rent because of a reduction in HB/ LHA. Please assume that the tenant is unable to make up the shortfall.

	Reduce the rent to the new HB level in the long term	Reduce the rent until the end of the tenancy agreement and then terminate the tenancy	Keep the rent the same but evict tenant if they fall into arrears	Other (please outline below)
£1-10	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
£10-20	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
£20-40	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
£40-80	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
£80+	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Data from the survey is then analysed against the impact data provided by DWP on the number of households affected by the changes and the average shortfall for tenants in each London borough. Using this data, an estimate of the number of tenants who are at risk of eviction based on the proportion of landlords that would not lower their rents to the revised LHA rate is calculated.

2.4.2 Explore shrinkage of private rented sector in London

Another concern for London is that the new LHA rates could potentially see the shrinking of the number of properties made available to housing benefit tenants, as landlords withdraw because rental income no longer sufficiently covers costs and/or tenants on benefits are viewed as liabilities due to the uncertainty of benefit levels. The survey therefore also explored whether in light of the housing benefit changes, landlords are planning to increase or decrease their portfolio of properties available to people in receipt of LHA in London.

2.4.3 Retaining landlords in the social housing sector

Lastly, the survey explored whether there are any incentives that could encourage landlords to continue letting properties to housing benefit tenants, even at the reduced levels, for example through restoring landlord direct payment. This section aimed to identify whether any tenancies at risk of eviction in London could be saved as a result of government or local authorities introducing incentives that appeal to landlords.

2.4.3 Methodology

An online and postal survey was sent to landlords registered with the London Landlord Accreditation Scheme (LLAS), a pan London partnership of local authorities, private landlords and private landlord associations. The survey was open for three weeks in August and 270 responses were received. Full details of the methodology are outlined in Annex 2.

3. Reactions from landlords: main findings

Over half of the landlords renting properties to housing benefit tenants in London at the time of completing the survey stated that they would either evict their tenants or not renew the tenancy agreement at the end of the term even if there was a **very small** shortfall in rent. This section explores the main findings from the survey.

Different weekly rent shortfall scenarios (e.g. £1-10; £10-20 etc.) were presented for smaller and larger properties in London and landlords were asked to identify what action they would be most likely to take if their tenant was unable to make up the shortfall in rent due to a change to their housing benefit. Specifically, landlords were asked whether they would:

- Reduce the rent to the new LHA level;
- Accept the shortfall in rent until the end of the tenancy agreement and then not renew the tenancy; or
- Keep the rent the same but evict tenant if they fall into arrears.

The first option indicates that the landlord is willing/able to reduce the rent in the long term, whereas the latter two options indicate that the landlord is not willing to reduce the rent in the long term, although some would be willing to accept the shortfall until the end of the tenancy before asking the tenants to leave.

Even at the lowest shortfall level of £1-10 a week for smaller properties, 60 per cent of landlords renting smaller properties would evict when the tenant falls into arrears or not renew the tenancy. For larger properties, 63 per cent of landlords would evict/ not renew the tenancy at the lowest shortfall of £5-20 a week.

At the next shortfall level, 77 per cent of landlords that own smaller properties would evict / not renew the tenancy if the tenant could not make up a shortfall of between £10-20 a week; and 91 per cent of landlords that own larger properties would evict/ not renew the tenancy if the shortfall was between £20-50 a week.

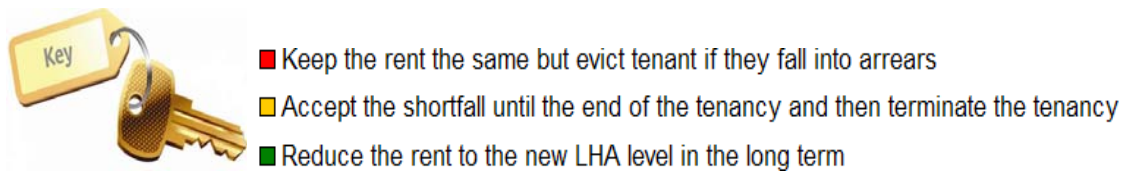
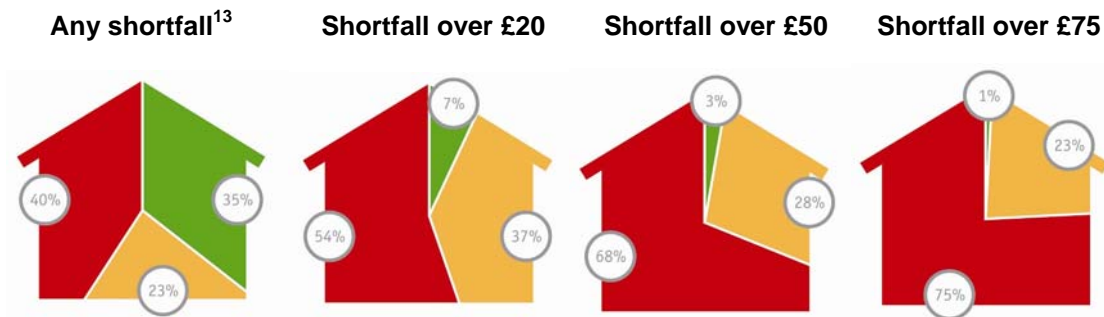
Headline findings from the survey are outlined in Figure 1 below which shows that over 90 per cent of landlords in London who face a shortfall in their rent of in excess of £20 are likely to either evict the tenant when they fall into arrears or terminate the tenancy at the end of the short-hold period.

Figure 1: Actions landlords would be most likely to take if their tenant(s) was unable to make up the shortfall in rent (per week).

Smaller Properties (one and two bed)



Larger Properties (three bed plus)



If the probabilities of landlords evicting their tenants or terminating the tenancy agreement are applied to the data provided by DWP¹⁴ it can be estimated that approximately 82,000 tenants across London will be at risk of losing their home as a result of the LHA caps and 30th percentile change being introduced in 2011. This comprises approximately 15,000 tenants that will be at risk following the April caps and 67,000 tenants that may be evicted or not have their tenancy renewed following the October percentile changes.

This calculation is demonstrated in Table 4 below.

¹³ Any shortfall over £5 a week

¹⁴ See <http://www.dwp.gov.uk/docs/impacts-of-hb-proposals.pdf>

Table 4: Impact of the April caps and October percentile changes when probabilities of eviction are applied from the survey of landlords

	Shortfall	April Caps			October Percentile Change		
		Total population affected by shortfall ¹⁵	Per cent landlords evict/ not renew tenancy	no. at risk (estimate)	Total population affected by shortfall ¹⁶	Per cent landlords evict/ not renew tenancy	no. at risk (estimate)
Smaller Properties	£1-10	2962	60%	1776	25995	60%	15598
	£10-20	1036	77%	798	32864	77%	25305
	£20-40	1395	94%	1311	13087	94%	12301
	£40+	6090	97%	5908	143	97%	138
Larger Properties	£0-5	90	0%	0	9	0%	0
	£5-20	531	63%	335	6620	63%	4171
	£20-50	875	91%	795	10033	91%	9129
	£50-75	1149	97%	1115	336	97%	325
	£75+	3255	98%	3190	118	98%	116
Total		17383*		15228	89205*		67083
Grand total	82,311						

**Due to rounding, these figures vary by one point from those quoted above in Table 2*

Source: DWP Impact Assessment Data (July 2010) and London Councils and LLAS Landlord Survey, August 2010

Our survey findings corroborate the view that the rental market in London is currently buoyant¹⁷, with over 60 per cent of landlords indicating that they will evict tenants or not renew the tenancies even if the rent shortfall was very low, and over 90 per cent stating that they would evict/ not renew the tenancy when the shortfall reaches more than £20 a week. Given that landlords are unlikely to reduce their rents when there is a buoyant market, tenants across London are likely to face evictions, particularly those living in central London.

¹⁵ Data sourced from the DWP Impact Assessment Data.

¹⁶ Data sourced from the DWP Impact Assessment Data. Figures have been adjusted in order to estimate the population affected only by 30th percentile, which would exclude all those that have already been affected by the cap that can not be affected by the 30th percentile separately.

¹⁷ http://www.rics.org/site/scripts/documents_info.aspx?categoryID=409&documentID=37

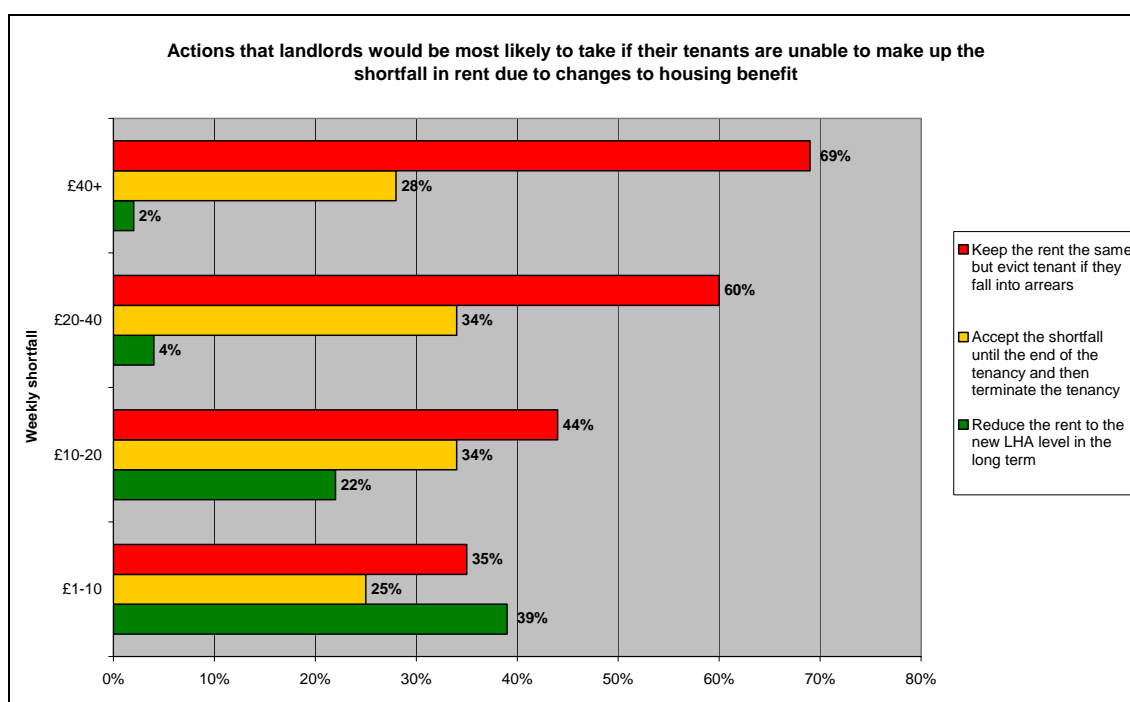
4. Reactions from landlords: detailed findings

Section 4 provides a more detailed picture of the actions that landlords are likely to take when faced with a shortfall in rent. It explores whether landlords with different portfolios of properties would be likely to react differently and whether certain tenants may be more at risk of losing their home than others.

As larger properties typically attract higher rents¹⁸, it would be expected that the shortfall accepted by landlords for larger properties would be greater compared to smaller properties. However, the survey results indicate that the maximum shortfall accepted by the majority of landlords is £20 or below for both smaller and larger properties. This suggests that tenants in larger properties (3 bed+) are equally at risk of eviction for even small shortfalls in rent.

A full outline of the actions that landlords responding to the survey would be most likely to take is shown in Figure 2 (smaller properties) and Figure 3 (larger properties) below.

Figure 2: Landlord action following LHA changes: smaller properties

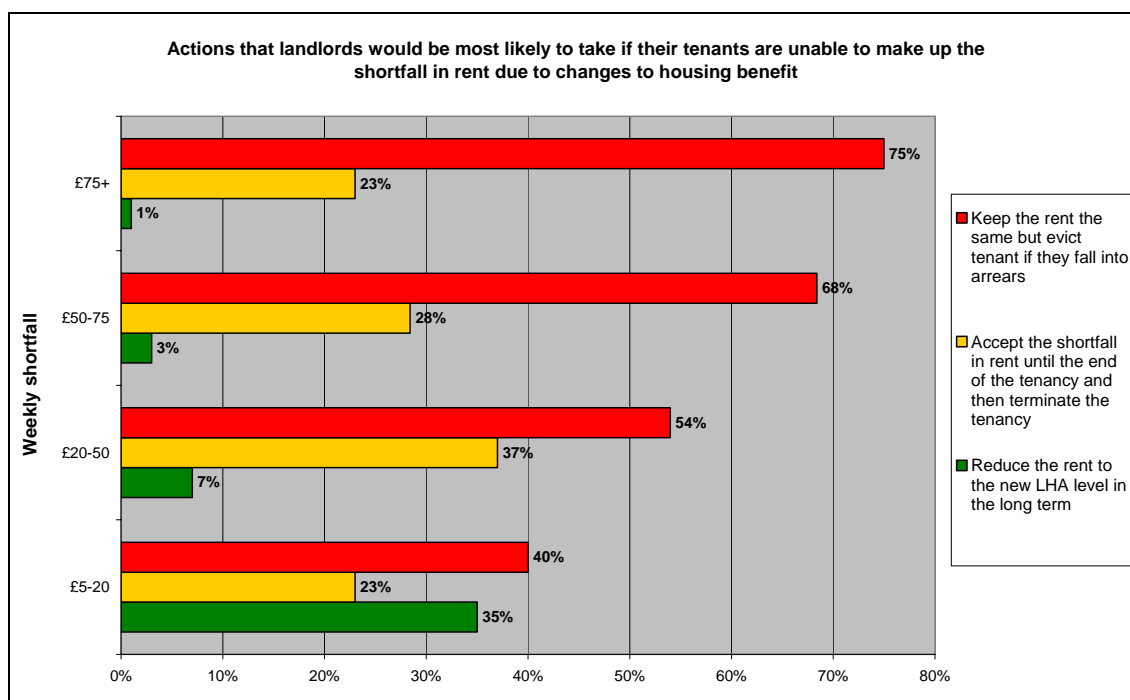


Base Number: N is equal to 181

Source: London Councils and LLAS Landlord Survey, August 2010

¹⁸ Assuming properties in the same area are compared

Figure 3: Landlord action following LHA changes: larger properties



Base Number: N is equal to 120

Source: London Councils and LLAS Landlord Survey, August 2010

The results above indicate that some tenants may be able to prolong their stay despite a shortfall in rent as landlords may accept the shortfall in rent until the end of the tenancy agreement and then terminate the tenancy. In relation to both smaller and larger properties, around a quarter of landlords that completed the survey indicated that they would accept the shortfall in rent until the end of the tenancy agreement and then terminate the tenancy – even when the rent shortfall is significantly high (see Figures 2 and 3).

4.1 Analysis by area where landlords are renting properties

Rent levels can vary greatly both within and across different London boroughs, but with rents typically being higher in central and west London. The survey aimed to capture whether landlord reactions to the changes in housing benefit would vary according to where they are renting their properties. The findings in this section should be treated as indicative due to the low response rate when responses are broken down to an area level; the fact that rent levels also vary within boroughs; and that some landlords will have properties across the city.

In order to make the analysis manageable, area demographics were collected at the BRMA level - the area boundaries used to calculate LHA, of which there are six across London. BRMAs cross borough boundaries and some boroughs have areas in multiple BRMAs. As it is unlikely that most landlords would know the BRMAs that their rental properties fall into, landlords that completed the

survey were asked to identify the boroughs¹⁹ where they are renting properties to LHA tenants; with these boroughs being coded into the BRMA area²⁰. Where a borough fell into multiple BRMAs, a decision was made to code the borough into one area only based on best fit.

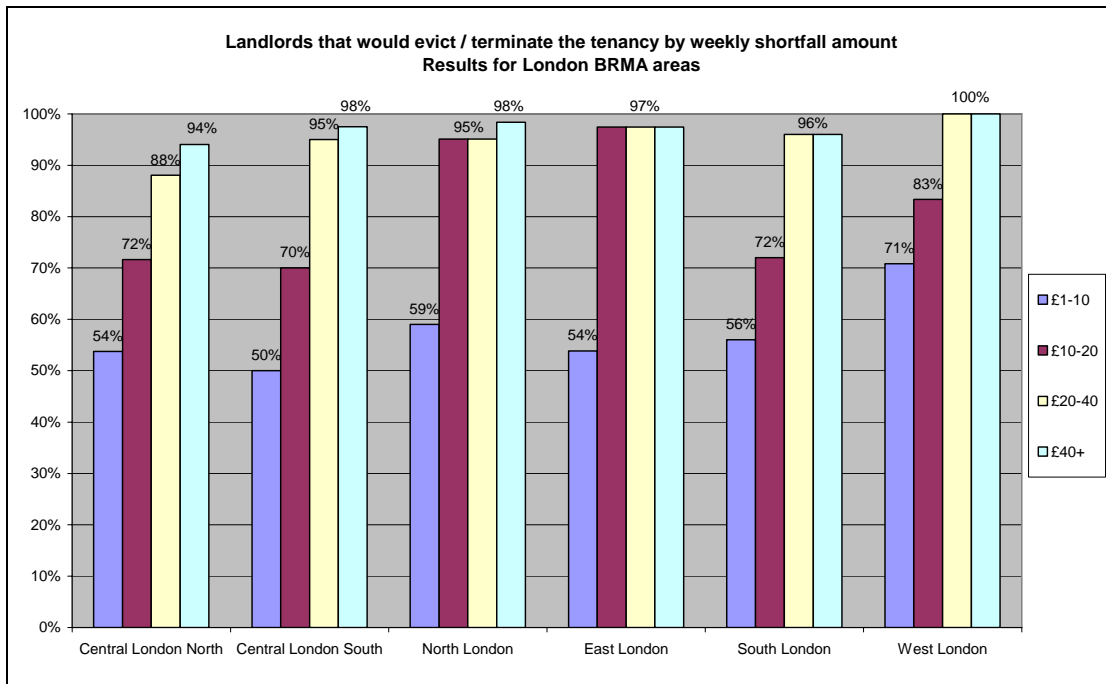
The survey results did not highlight any significant difference in the actions taken by landlords renting in central BRMAs compared to those renting to LHA recipients in south, east or north BRMAs, which are typically less expensive. The only exception was in Westminster, where nearly three quarters (71 per cent) of landlords renting properties in west London would evict/ not renew the tenancy if their tenants could not meet this shortfall.

The difference in actions that landlords renting properties in different BRMAs are likely to take following the changes to housing benefit are shown in Figure 4 (smaller properties) and Figure 5 (larger properties) below.

¹⁹ Landlords were asked to identify the borough(s) rather than the region(s) of London that they were renting properties in to avoid confusion over regional compositions.

²⁰ Central London North = Camden, City of London, Hackney, Hammersmith & Fulham, Islington, Kensington & Chelsea, Tower Hamlets and Westminster; Central London South = Lambeth, Lewisham, Southwark, Wandsworth; North London = Brent, Barnet, Enfield, Haringey, Harrow and Waltham Forest; East London = Bexley, Barking & Dagenham, Greenwich, Havering, Newham, Redbridge; South London = Bromley, Croydon, Kingston upon Thames, Merton, Sutton; West London = Ealing, Hillingdon, Hounslow and Richmond upon Thames.

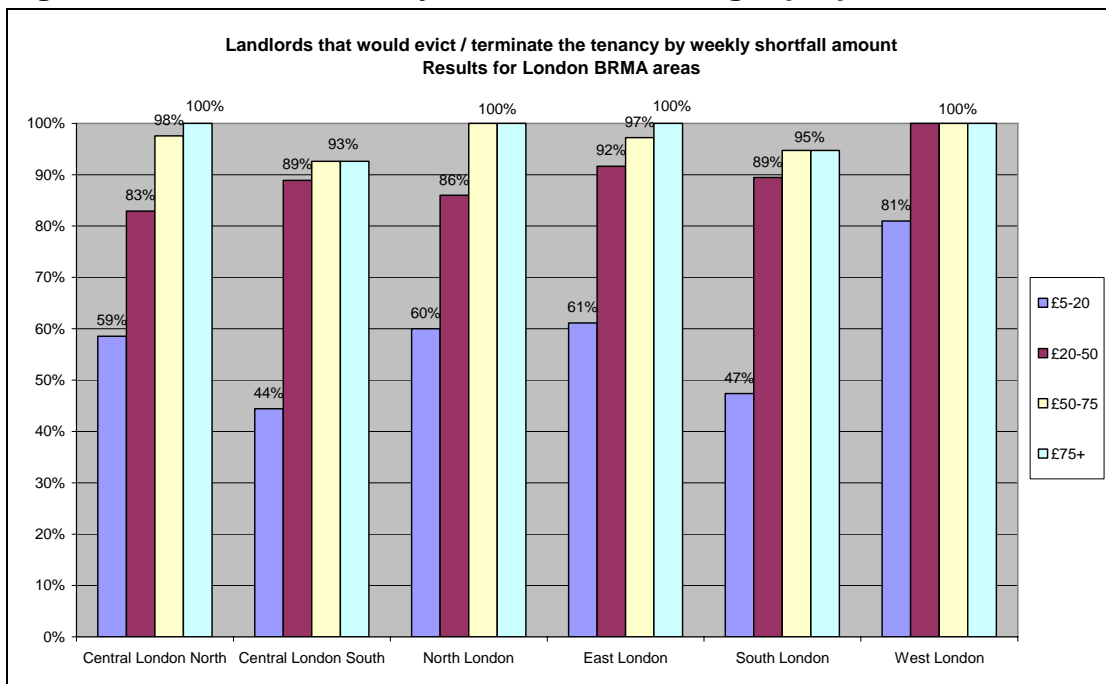
Figure 4: Landlord action by London BRMA: smaller properties



Base Number: N Varies²¹

Source: London Councils and LLAS Landlord Survey, August 2010

Figure 5: Landlord action by London BRMA: larger properties



Base Number: N Varies²²

Source: London Councils and LLAS Landlord Survey, August 2010

²¹ Central London North = 67; Central London South = 40; North London = 61; East London = 39; South London = 25; West London = 24

²² Central London North = 44; Central London South = 25; North London = 19; East London = 7; South London = 8; West London = 12

A common perception is that because central London areas are more desirable, landlords would be able to secure higher rental levels and may therefore be less willing to reduce rents to tenants who face a shortfall in their LHA payments. However, the reverse could also be true; in that because landlords in central London charge higher rents, that a shortfall of £10-20 for these landlords would be less severe (in terms of a proportion of the absolute rent) compared to those receiving less rent in outer London areas; and so they may be more willing to reduce their rent by a higher amount.

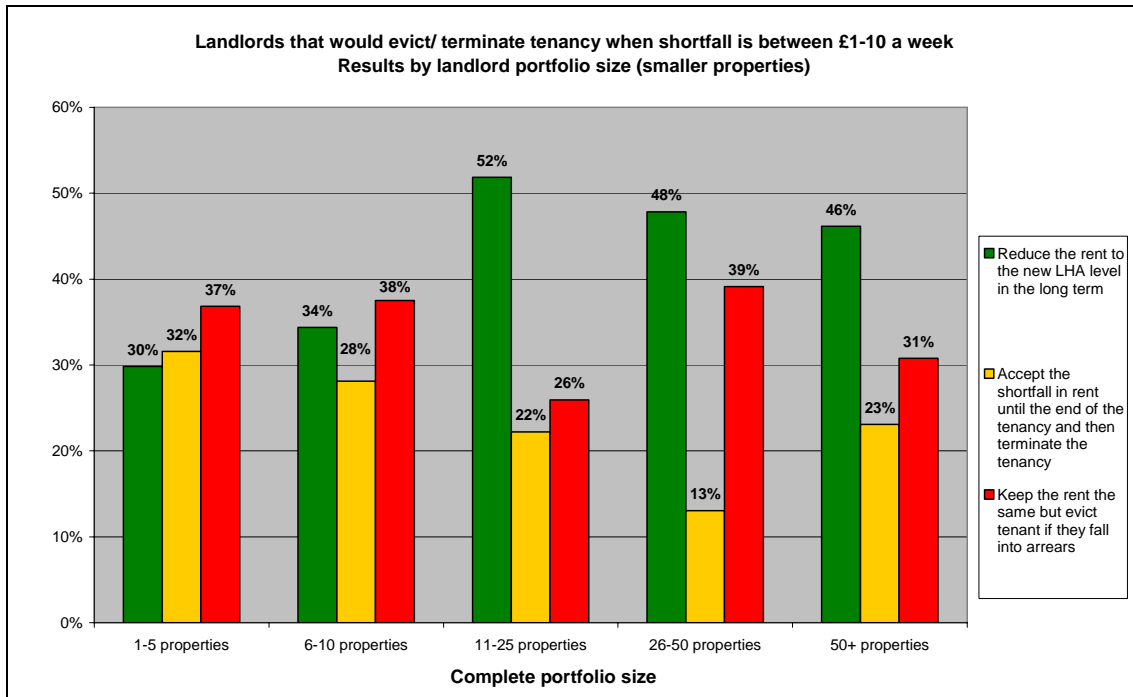
4.2 Analysis by landlord portfolio size

The survey also sought to examine whether landlords that have larger portfolios²³ are more or less likely to reduce the rent to the LHA level rather than evicting tenants that fall into arrears or terminating the tenancy at the end of the agreement.

The findings suggest that landlords with larger portfolios (more than 25 properties) would be more likely to reduce the rent than those with smaller portfolios (less than 10 properties). Landlords with larger portfolios would be more likely to reduce the rent on their smaller and larger properties by up to £20 a week. Any shortfall above £20 would not be accepted by the majority of landlords, regardless of their portfolio size. These findings are shown in Figure 6 (smaller properties) and Figure 7 (larger properties) below.

²³ This relates to complete portfolios, including properties that are let to tenants not in receipt of housing benefit.

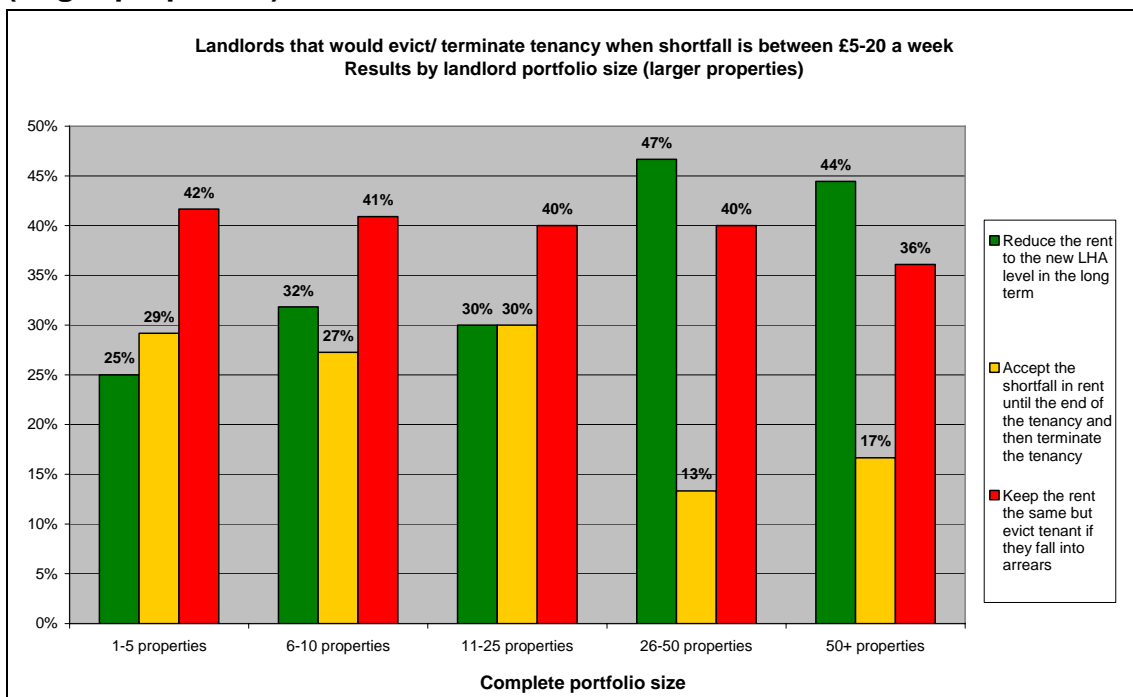
Figure 6: Landlord action when shortfall is small: results by portfolio size (smaller properties)



Base Number: N Varies²⁴

Source: London Councils and LLAS Landlord Survey, August 2010

Figure 7: Landlord action when shortfall is small: results by portfolio size (larger properties)



Base Number: N Varies²⁵

Source: London Councils and LLAS Landlord Survey, August 2010

²⁴ 1-5 properties = 57; 6-10 = 32; 11-25 = 27; 26-50 = 23; 50+ = 39

²⁵ 1-5 properties = 24; 6-10 = 22; 11-25 = 20; 26-50 = 15; 50+ = 36

5. Retaining landlords

Given the inevitable reduction in housing benefit that will be paid in the future, the survey explored whether landlords would be encouraged to keep renting to housing benefit tenants, even at the reduced level, if other incentives were offered. In particular the survey explored whether landlords would be more likely to reduce rents if landlord direct payment was reinstated, and if they would react differently for longer term tenants. It also explored whether landlords were looking to increase or decrease the number of properties they make available to housing benefit tenants in the future.

5.1. Landlord direct payment

When LHA was introduced for new tenancies in April 2008, the Government changed their policy on the payment of housing benefit so that payments were made by default to the tenant and not the landlord.

Nearly half of landlords stated that they either would be prepared to lower their rents (22 per cent) or *might* be prepared to lower their rents (24 per cent) if the government restored landlord direct payment (46 per cent combined). 44 per cent said that this would not incentivise them to lower rents.

Table 5: Landlords that would be prepared to lower rents to the reduced levels if the government restored Landlord direct payment

	Frequency	Percent
Yes	42	22%
Maybe	46	24%
No	84	44%
Don't know	19	10%
Total	191	NA

Source: London Councils and LLAS Landlord Survey, August 2010

The open responses given by landlords to this question suggest that many view landlord direct payment as an attractive incentive that would encourage them to rent at the reduced LHA level, as it would reduce the risk of the tenant falling into arrears and would mean a guaranteed income for the property.

Some landlords commented that they may only be prepared to lower their rents if the shortfall was low and/or if they could still cover mortgage payments and costs. Others commented that their decision would depend on the history of the tenant in paying rent and maintaining the property to a good standard, the quality of their references, or how 'let-able' the property was and if they could get a better price through renting to non-LHA tenants.

The main reason given by landlords that would not feel incentivised by the reinstatement of landlord direct payment was that a reduction in LHA levels

would leave them unable to cover their mortgage or costs, and so they would not be willing to take a cut in any circumstances.

A selection of open responses is provided below.

“Yes, I would be prepared to reduce the rent if the government restored landlord direct payment.”

“At least we would be receiving the payments and there would be little risk in the tenant not paying the rent.”

“[Yes] as this would reduce the risks of arrears.”

“[Yes] as there is a little more security in the rent being paid, and on time.”

“Much more hassle free. One provider to check. No awkward confrontations with tenants.”

“It enables rent to be paid on time to landlords rather than waiting for tenants to bring the rent to us. In addition it avoids tenants spending the rent money and going into arrears and facing eviction.”

“If the rent were reduced but we were guaranteed payments every week/fortnight/four weeks, at least our work would be reduced as we currently have to put a lot of man hours into checking the tenants have paid...At the moment we are losing a lot of money as we have to wait until the tenant is 8 weeks in arrears before we can get our money direct.”

“Maybe.....”

“It depends on the cost of mortgage payment and management cost.”

“I would be prepared to take a small discount of 2.5% of the weekly rent for direct payment.”

“Dependant on LHA rate reductions.”

“Only if rents covered the mortgage payments plus a little extra (5%).”

“Would depend on property, on the area, and how let-able the property was. Also depends on tenant occupier’s previous history in payment and treatment of property.”

“This would be an option but depends on the tenants’ history.”

“No...”

“Because the current losses probably come to more than the reduction would be.”

“I need to cover the mortgage payments etc. regardless of who pays the rent.”

“No shortfall is accepted.”

“The reduction in rent would be too large for central London.”

“The demand for good rental properties is currently very high - why would we want to reduce our income.”

As outlined above, some landlords may be prepared to accept a shortfall in rent if landlord direct payment was reinstated and the shortfall in rent is not significantly high. In fact, if 46 per cent of the landlords that would evict their tenants under the current system chose to reduce their rent by up to £20 a week following the reinstatement of landlord direct payment, then it can be estimated that a further 22,000 households may be able to meet their rent payments and remain in their home. This is shown in Table 6 below.

Table 6: Estimated number of households that may be able to remain in their homes if landlord direct payment was reinstated

		Number of households at risk of eviction ²⁶ in 2010/2011 due to LHA changes	Number that could remain in their homes if landlord direct payment was reinstated.
Smaller Properties	Shortfall of £1-10	17,374	7,992
	Shortfall of £10-20	26,103	12,007
Larger Properties	Shortfall of £5-20	4,506	2,073
Total		47,983	22,072

Source: Figures are taken from DWP Impact Assessment Data (July 2010) and London Councils and LLAS Landlord Survey, August 2010

²⁶ This refers to the estimated number of tenants that are at risk of losing their homes as a result of the actions that landlords take following the LHA changes. See Table 2 for more figures.

5.2 Long term tenants

Slightly fewer landlords (39 per cent) would be encouraged to lower rents for those tenants that had been in the property long term compared to those that would be encouraged to lower rents if landlord direct payment was reinstated (46 per cent); although these findings are still encouraging for long term tenants.

Table 7: Landlords that would be prepared to lower rents to the reduced for long term tenants

	Frequency	Percent
Yes	33	17%
Maybe	40	21%
No	98	52%
Don't know	18	10%
Total	189	NA

Source: London Councils and LLAS Landlord Survey, August 2010

Open responses given by landlords were similar to those given in relation to reinstating landlord direct payment as an incentive to lower rents for LHA tenants.

Some landlords that would be willing to lower rents to long term tenants commented that this was because their was value in having a long term and/or a 'good tenant' and that it is less 'hassle' for them to keep on this tenant than to find someone new.

Landlords that 'might' be willing to reduce the rent for a long term LHA tenant reported that the behaviour of the tenant would also be a factor in their decision. As with the issue of reinstating landlord direct payment, landlords also said that they may be willing to reduce their rents if the shortfall was relatively low and/or the rent still covered their mortgage and costs. Again some also said that it would depend on the market rent and demand in the area. One landlord commented that it may be worth them renting the property at the reduced level if they had to spend money on refurbishing the property in order to re-let it at the market value.

Again, those landlords that would not be encouraged to reduce rents for long term tenants commonly said that this option was not affordable or would not be an effective way of running a business.

A selection of open responses relating to landlords decision to reduce rent for long term tenants is provided below.

“Yes, I may act differently to a shortfall in rent if the tenant had been in the property long term.”

“A good long term tenant should be kept to avoid damage, voids, trouble.”

“As a landlord, you will want to keep a good tenant.”

“If tenant had kept property in good condition and wanted to stay longer.”

“If the tenant is a 'good' tenant then I would rather keep them for the hassle free rentals.”

“Maybe.....”

“If they have always paid their rent on time, are respectful and have not caused any problems; that would certainly influence my decision.”

“Depending on circumstances and payment history.”

“Depending on how good the property is kept. Neighbour complaints etc.”

“Depending on the overall conduct of the tenancy.”

“If they were a good tenant I will reduce the rent, but I cannot afford to reduce it that much. Maybe by £50.00 a month.”

“For a good tenant I may consider reducing rent in the long term up to £30 per week.”

“If costs are covered and tenants are good and pay promptly.”

“Depends on market rate and demand.”

“If the flat would require major refurbishment before it could be re-let at a market rent it may be as cost effective to keep the existing tenant at a below market rent.”

“No....”

“High borrowing on the properties. To keep up with mortgage payments, I am unable to subsidize tenants’ shortfall in rents.”

“I am trying to run a business and the rent I am paid enables me pay all expenses and maintain the property especially at a time when the banks continue to deny me essential funding.”

“Long term reduction in rent per week cannot be affordable.”

“Most of our tenants are long term - however if rents are reduced we would not be able to deal with a rise in interest rates. If anything the arrears would be left on the account and the tenant will have to clear the arrears when they are able (i.e. if they start working).”

These findings suggest that some tenants may be able to stay on in their property even at the lower rate if they have been consistent in paying their rents and keep the property in a good condition.

Communities and Local Government’s (CLG) work on the PRS and Local Authorities looking to form Local Letting Agencies highlighted the value landlords placed on long term stable clients. London boroughs may therefore wish to support tenants to maintain their properties and be timely with the rent as an incentive for being able to remain in their home.

5.3 Risk of landlords moving out of the housing benefit market

As outlined above, the rental market in London is buoyant and so the likelihood that landlords will withdraw from the housing benefit market due to housing benefit changes is a worrying possibility.

The survey sought to verify the risk of landlords withdrawing from the housing benefit market by asking landlords whether they plan to increase or decrease their portfolio of properties that are available to tenants on housing benefit in the future. Whilst over half (60 per cent) stated that no change to their portfolio was planned, over a quarter (26 per cent) stated that they planned to decrease the size of their portfolio that is available to people in receipt of housing benefit, with only 14 per cent planning to increase.

Table 8: Changes that landlords plan to make to their portfolio of properties available to LHA tenants in the future

	Frequency	Percent
No changes planned	155	60%
Plan to decrease	67	26%
Plan to increase	37	14%
Total	259	100%

Source: London Councils and LLAS Landlord Survey, July – August 2010

The survey findings also suggest that a higher proportion of landlords with larger portfolios would be looking to decrease their portfolio of properties available to housing benefit tenants in the future, compared to those with smaller properties; although these findings should be read as indicative due to the small base numbers when figures are analysed at this level. Table 7 below shows that 43 per cent of landlords with a large portfolio of more than 50 properties plan to decrease their portfolio size and only 16 per cent plan to increase. Conversely, only 15 per cent of those with 1-5 properties plan to decrease their portfolio.

Table 9: Changes that landlords plan to make to their portfolio of properties available to LHA tenants in the future: by portfolio size

Size of portfolio	No changes planned	Plan to decrease	Plan to increase	Base
1-5 properties	67%	15%	11%	110
6-10 properties	56%	27%	15%	47
11-25 properties	32%	39%	23%	29
26-50 properties	73%	15%	12%	26
50+ properties	41%	43%	16%	44
Don't know	67%	33%	0%	3

Source: London Councils and LLAS Landlord Survey, July – August 2010

This finding perhaps indicates that the number of properties available to tenants on LHA in the future could significantly decline due to changes in housing benefit and the continuing uncertainty around the 30 percentile change.

Annex One: Summary of all proposed changes to housing benefit

Change	Date introduced	Directly affects	Annual saving to government
Capping the maximum LHA payable for each property size, and applying a four-bed limit: £250 for one-bed £290 for two-bed £340 for three-bed £400 for four-bed+	April 2011	Private rented sector DWP expects it to affect just over 14,000 households ¹ . The vast majority of which are expected to be within London	£65m by 2014/15
Increasing deductions for non-dependents: they will no longer be frozen at £7.40 per week for non-earners and will be linked to prices	April 2011	Social & private rented sector	£340m by 2014/15
Calculating Local Housing Allowance (LHA) rates using the 30 th percentile of market rents rather than the 50 th percentile	October 2011	Private rented sector	£425m by 2014/15
Linking LHA increases to the consumer prices index (CPI) which does not include housing costs rather than the higher retail prices index (RPI)	April 2013	Private rented sector	£390m by 2014/15
Time limiting full HB & LHA payable to people on Job Seekers' Allowance (JSA) so that after 12 months HB is reduced by 10%	April 2013	Social and private rented sector	£110m by 2014/15
Limiting housing benefit for working age tenants so that it only covers the size of property they are judged to need	April 2013	Social rented sector	£490m by 2014/15
Total			£1,820m by 2014/15

Annex Two: Methodology

A survey was sent to approximately 6300 landlords that are registered with the London Landlord Accreditation Scheme (LLAS), a pan London partnership of local authorities, university accommodation units and private landlord associations. 6000 landlords were emailed a link to an online survey and 300 were sent a postal version of the same survey. Any differences emerging in the responses as a result of the different methods used (e.g. routing/ non-response) were managed at the data input and cleaning stages.

270 responses were received in total, giving a response rate of 4 per cent. The postal survey generated a higher response rate (20 per cent/ 61 out of 300 responses) compared to the online survey (3.5 per cent/ 209 responses out of 6000).

Respondents were routed so that they only answered those questions that are relevant to their portfolio of properties and the tenants that occupy them. For example, 181 of the 270 landlords that responded were currently renting smaller properties (one or two bedrooms) to HB tenants in London and only these landlords were asked to respond to the question on what action they would take if faced with a shortfall in rent for their smaller properties. On the other hand, all survey respondents were asked whether they would be looking to increase or decrease the portfolio of properties available to housing benefit tenants in the future, as this question depends on future actions and so it relevant to all. The base number of responses throughout the survey therefore varies, and is shown together with the figures that are presented.