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**Manchester City Council  
Report for Information**

**Committee:** Communities and Neighbourhoods Overview and Scrutiny  
Committee – 11 January 2011

**Subject:** Private Sector Rented Housing

**Report of:** Director of Neighbourhood Services

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**Summary**

This report provides an overview of the private rented sector, currently the fastest growing housing tenure in the city. The report considers the impact of the emerging policies of the Government and the effectiveness of regulation and licensing of landlords. The report also addresses the emerging issue of housing intended for owner occupiers being bought up by buy to let landlords.

**Recommendations**

- To note the contents of the report and the actions being taken.
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**Wards Affected**

All wards in Manchester

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**Background documents (available for public inspection):**

- Private Rented Sector Licensing, Final Report. Manchester Salford Pathfinder (September 2010)

## **1.0 Introduction**

1.1 This report provides an overview of the growth of and changes to the private rented housing sector, currently the fastest growing housing tenure in the City. Communities and Neighbourhoods Overview and Scrutiny Committee have requested a report outlining the changes to the private rented sector, particularly in relation to:

- The impact that emerging Government policies will have on the sector;
- Regulation and licensing of landlords – including the problems of poor practices and long delays in getting licenses; and
- Estates intended for owner occupiers that are being bought up by buy to let landlords, particularly concerning how widespread it is and what actions are being taken to counter this trend.

## **2.0 Background**

2.1 The housing market in Manchester has changed dramatically over the past 15 years with an increase in city centre living and an increasing number of landlords and properties entering the private rented sector. There are well over 25,000 households in the private rented sector and over 10,000 landlords. This number continues to grow as a result of the ongoing difficulties for first time buyers entering owner occupation and continuing pressures on the social housing market with demand far outstripping supply. Not only has the private rented market grown significantly but it has also diversified considerably with high end rented properties, particularly in the city centre, providing a viable alternative to owner occupation.

2.2 There are areas that are stable and have retained relatively high house prices, with growth in the private rented sector largely attributable to students, demand from young professionals and the housing needs and aspirations of BME communities. However, elsewhere, low house prices led to speculative purchases by private landlords many of whom were non professional first time investors often based in other cities.

2.3 Quality varies hugely, with on the one hand serious concerns around poor conditions and safety in some Houses in Multiple Occupation (HMO's) and B&B's, linked to general disrepair and anti-social behaviour to high quality accommodation, particularly in the city centre. The sector caters for segmented markets covering a wide range of users:

- High-end rented (based primarily around the city centre apartment living)
- Student market (concentration HMO's in the south of the city)
- Mid range affordable housing (supporting affordable housing)
- Poorer quality market (safety net for those unable to access home ownership or social accommodation including asylum seekers and supporting homelessness prevention)

### **3.0 Emerging policies and strategic framework**

3.1 Following the general election and change of Government, there are a number of emerging new policies which will affect private sector housing in Manchester:

- Welfare changes- particularly to Housing Benefit
- Student fees
- Empty homes
- Finance and social housing
- Deregulation- light touch approach

3.2 The Coalition Government have announced a series of changes to benefits and the headlines which will affect housing are:

- An overall reduction in benefits
- Housing Benefit (HB) will not cover all costs in more expensive areas
- Local housing allowance will be capped to a 4 bed property rate
- Increase shared room rate/ single room rent age threshold from 25 to 35

3.3 Whilst it is unclear exactly what impact these changes will have, they are likely to result in a shift of the housing market as residents reliant on Housing Benefit (HB) cases are directed to cheaper areas. It is anticipated that there will be potentially greater demand for services as residents reliant on HB have reduced choices about the types of properties they can afford. The reduction in HB and increase in the age for the shared room rate could lead to an increase in the number of HMO's/ shared houses in some areas. Issues which will require close monitoring and appropriate action include:

- Ensuring appropriate health and safety checks are carried out to HMOs, B&Bs and properties in disrepair;
- Protecting tenancy rights for vulnerable households displaced from social housing; and
- An increased requirement for effective neighbourhood management in areas of low end private rented properties.

3.4 It is anticipated that the majority of landlords will respond to changes in order to protect their investment. As this may include converting properties to Houses in Multiple Occupation (HMO's) this will need to be closely monitored.

3.5 Students play a significant role in Manchester's housing market. In some areas of high student population there is an uncomfortable co-existence with long standing communities with issues around HMO's, anti social behaviour and conflicting life styles. The announcement of an increase in student fees could have an impact on the private rented market including:

- Potentially overall student numbers falling as becoming a student becomes less affordable;

- More students choosing to live at home; and
- Continuation of the recent shift of students moving into the city centre, reducing demand in the more 'traditional' student areas.

3.6 Bringing empty properties back into use is key target for the Government. £100m has been allocated to tackle empty homes although it is unclear as to exactly how this will be distributed and as there are 324,733 long term privately owned empty homes in England<sup>1</sup> it is unlikely to have a significant impact.

3.7 Reduced social housing new build and reduced access to finance for first time buyers means that there will be increased pressure on the private rented sector to meet affordable housing needs. The Government is keen to encourage the private rented sector to meet more and more of housing need. The demand on social housing continues to outstrip supply and access to quality accommodation in the private rented sector is crucial to meeting housing need and helping to prevent homelessness.

3.8 The Government has adopted a 'light touch' approach to addressing the private rented sector determining that there are already enough tools and forms of legislation to tackle the sector without introducing new powers such as a 'landlord register' or 'mandatory written tenancy agreements'.

#### **4.0 Challenges and implications**

4.1 The housing market has changed dramatically over recent years and is continuing to change.

4.2 It is anticipated that there will be additional demand pressure on the poorer quality end of the market and less incentive to invest in maintaining properties. This is compounded by the expectation that increasing numbers of vulnerable tenants will be directed towards the sector because of increased demands on the social housing stock and the reduced investment in new build.

4.3 The changes to the Housing Benefits regulations appears to create an incentive for properties to be rented out on a shared basis, creating the potential for increasing numbers of houses in multiple occupation (HMOs). These properties are often the poorest quality homes with the highest risks associated with them.

4.4 These changes to the market are taking place whilst there is significant financial pressure on the city council and its services are transforming to meet future challenges. Clearly, it will not be possible to deliver the current level of service in the future and some activity will need to be reduced or even cut.

4.5 In addition, the Neighbourhood Services transformation will see the development of Integrated Neighbourhood Delivery Teams in locations across the city, with staff providing a generic service including tackling private sector

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<sup>1</sup> Empty Homes Agency- November 2009 figures

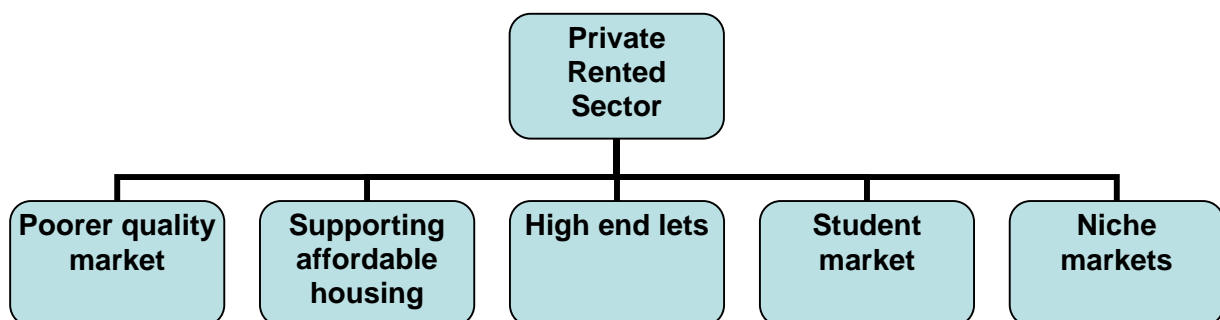
housing issues along with other activity such as environmental and highways work.

- 4.6 With fewer resources available, the Neighbourhood Services Transformation is looking to increasingly target enforcement activity on those cases where there are serious risks or where appropriate enforcement including prosecution would send an important message to other landlords. This builds upon the approach that the PSH service has been developing since the restructure in April 2010.

## 5.0 Different private rented markets

- 5.1 It is important to recognise that there are a number of very different markets which make up the private rented sector housing offer in Manchester. Therefore, it is not appropriate to adopt a single approach to try and address all market areas.

- 5.2 The private rented sector markets:



- 5.3 Further work will be undertaken to develop an appropriate vision and priorities for each market area early in the New Year.
- 5.4 A balance will be required between supporting and encouraging the expansion of the private rented sector where it plays a positive role and focussing on enforcement and tackling issues of poor quality and management.

## 6.0 Regulation and Licensing of Landlords

- 6.1 The Council has been at the forefront of seeking regulatory powers to support a more effective approach to the performance management of the private rented sector. In the poorer end of the market and student market (predominantly HMO's), the City Council have introduced two landlord licensing schemes.
- 6.2 All Houses in Multiple Occupation (HMO's) in the city are covered under Statutory HMO licensing (2006 onwards) and there is a Selective Licensing (SL) Scheme which commenced in 2007 targeting specific areas of the city.

### **6.3 Selective Licensing**

Manchester implemented SL as part of wider package of measures supported by Housing Market Renewal (HMR) funding in 2007. The Council considered that SL would contribute to securing sustainable mixed communities in targeted areas through:

- Improving accommodation in terms of property condition & management;
- Reducing antisocial behaviour;
- Tackling landlords who fail to maintain their properties;
- Increasing consumer confidence amongst private tenants;
- Reducing turnover & empty properties;
- Supporting areas to attract new residents; and
- Raising house prices & rent levels to encourage investment and support a more sustainable tenure mix.

#### **6.3.1 Difficulties with the current scheme**

Both the legislation and the City Council's approach to introducing Selective Licensing have created difficulties. Members and landlords have rightly criticised the scheme as being overly bureaucratic, with too much effort focussed on the paperwork and administration and not enough on tackling the poorer landlords through enforcement and prosecution.

#### **6.3.2 The current position**

An external evaluation was commissioned by the Manchester and Salford Pathfinder. The evaluation recognised that in some challenging areas SL could play a complementary role to general neighbourhood enforcement activity, providing that the associated landlord enforcement work is funded and the schemes are much more tightly focussed. However, the legislation does not allow SL fees to be used for this complementary activity and is only intended to be self funding to cover the administration of the scheme.

Enforcement of the current schemes was limited with a focus on applications and income generation rather than quality checking and taking action where landlords fail to comply. Up to the end of 2010, we had not taken one prosecution and no sanctions were imposed on landlords who had not complied with the scheme.

#### **6.3.3 Completing the existing schemes to achieve positive outcomes**

Despite the historic issues with the scheme, changes have been implemented in order to deliver the remainder of the scheme as successfully as possible. The existing schemes are time limited to the end of 2012 and immediate improvements are being made to improve their delivery with a change of emphasis to quality assurance and compliance. The improvements can be achieved within the existing policy framework through a change of emphasis, improved efficiency and training.

The revised approach shifts the focus to enforcement to effectively tackle poor and uncooperative landlords. The speed and efficiency of the scheme is being improved by:

- Developing a robust enforcement policy and guidance for staff;
- Programmed enforcement activity commencing in priority areas;
- Enforcement action to ensure compliance with licensing requirements; and
- Simplification of the payment process for the fee arrangements, speeding up processing of applications and reducing the risk of bad debt.

The shift in focus to enforcement and compliance is already delivering a positive impact with 3 prosecutions lodged in court and a further 20 cases being considered for prosecution before the end of the financial year. These prosecutions, if successful, will send out a strong message to all landlords in the areas that poor management and property standards will no longer be tolerated.

These steps will ensure that the management of the current schemes can be improved to be much more effective during the last two of their five year period. However, the underlying flaws in the schemes and the unfunded cost of the essential complementary enforcement activity means that it is unlikely that future schemes will be rolled out across the city.

#### **6.4 Mandatory Housing in Multiple Occupation (HMO) licensing**

There are approximately 1,100 licensed HMO's across Manchester which require a compliance inspection from Private Sector Housing as part of their licence fee. The programme for inspecting HMO's has seen just over 250 inspections undertaken in the first 4 years of the 5 year cycle. Our enforcement track record has been poor with very few prosecutions taking place and the presumption made that PSH should work with the landlords to put right serious breaches rather than enforce and prosecute. This poor performance was one of the main reasons that the PSH service was restructured.

##### **6.4.1 A fundamental change to the HMO inspection programme has been developed to:**

- Provide a greater understanding of the level of risk in the licensed HMO's and determine the resources required to inspect them and bring them up to a safe standard;
- Trial new approaches for compliance inspections to improve efficiency and reduce resource requirement;
- Gain a better understanding of the numbers and conditions of unlicensed mandatory licensable HMO's;
- Gain a better understanding of the number and condition of poorly converted HMO's (known as Section 257 HMO's) properties;
- Provide an evidence base to enable a review of HMO licensing; and

- Determine the skills and experience required to undertake HMO inspections.

A pilot scheme has been carried out and has highlighted that a high level of work is often generated after inspection. This is due to follow up inspections, enforcement action and further investigations required for potential prosecutions. It is essential that this is adequately resourced as mandatory HMO's are high risk properties in terms of safety for residents.

Over 70 compliance inspections were undertaken as part of the pilot programme. Around 14% were found to be 'fully compliant', 56% 'broadly compliant (satisfactory)' and approximately 30% were found to be 'non compliant'. Appropriate action (improvements and enforcement) is now being pursued to ensure safety and standards of the non compliant HMO's. Consideration is currently being given to whether three potential prosecutions cases should be lodged with courts early in the new year.

#### **6.4.2 Reviewing HMO Licensing and Future Delivery**

Following on from the pilot, Private Sector Housing are starting a review of HMO licenses and re-licensing. HMO's which received a 5 year licence in the first phase of mandatory licensing will start to expire from April 2011.

We are developing a business plan which will review how much we can charge for licences/ re-licences and the length of time they will be granted for. The plan will review the current conditions for licenses and propose new conditions in line with emerging policy and guidance.

The business plan will consider a model for ensuring that all HMO's can be inspected and managed appropriately in a given time period whilst being self funding from the fees generated. This will be completed by February 2011.

#### **7.0 Protecting Housing Investment- Buy to Let Landlords and Neighbourhood Management**

- 7.1 How we tackle and influence the private rented market will depend on which segment we are dealing with. An increasing private rented sector is not necessarily a bad thing. In some markets, particularly the high end, it could be appropriate to encourage the private rented sector to expand to bring additional investment into the City and to attract and retain a well skilled and economically mobile workforce.
- 7.2 However, there are some segments where an increasing private rented sector does not have a positive impact on the local area, particularly the poorer quality end of the market, and in these cases Private Sector Housing recognise the importance of tackling the issue.
- 7.3 Whilst there is undoubtedly still a market in 'buy to let' properties, there is no evidence of a significant increase in 'buy to let' landlords flooding predominantly family household neighbourhoods.

7.4 Although at this point the evidence does not exist that this is a significant and growing issue we will continue to monitor the situation closely, undertake focussed market research and take appropriate action as required. Recent work undertaken in Grove Village demonstrates that it is possible to promote high quality landlords and through the proposed use of Article 4 Planning powers to limit the spread of HMO's.

## 7.5 Grove Village

Grove Village is a mixed tenure housing development, funded by PFI in Ardwick. Concerns were raised that a number of homes could be bought by buy to let landlords leading to difficulties in their management and having an impact on the neighbourhood. By using the covenants in the sale of properties, Grove Village have restricted the ability of owners to rent properties in an amateur or poor quality manner.

Any owner who wants to rent their property out must either be or use a Grove Village accredited agent. Grove Village Board have identified a preferred agent which it expects to manage the private properties and therefore:

- Improve standards of management in the neighbourhood;
- Improve/ sustain the quality of accommodation;
- Help landlords find responsible tenants;
- Encourage responsible and respectful behaviour by tenants;
- Develop a joint approach to tackling anti social behaviour;
- Provide advice and support for landlords;
- Provide opportunities to inform landlords about legislative, policy, and administrative changes; and
- Improve access for landlords to range of councils contracts and services.

## 7.6 Article 4 Planning powers

7.6.1 The City Council made the Article 4 Direction to remove permitted development rights for change of use from a dwelling house (Class C3) to a HMO (C4) in October 2011. This is intended stop landlords from converting single dwelling houses into HMO's in areas where there are already a significant number of other HMO's.

An increase in the concentration of Houses in Multiple Occupation (HMO's) in an area alters the population mix, impacting on the facilities and services that can be supported, as well as affecting residential amenity and social cohesion; and these issues cannot be addressed successfully by neighbourhood management measures alone.

In recent years HMO's have encroached into areas traditionally characterised by family housing and the City Council has taken action to try and control this. The emerging Core Strategy contains a draft policy which uses a threshold approach to control further HMOs in areas which already have high concentrations, and which will control their spread to neighbouring areas.

Planning have proposed the Direction to cover the whole of the Manchester City Council area. Although high concentrations of HMO's are only concentrated in a few wards, this will ensure that the problems are not dispersed to other parts of Manchester.

### **7.6.2 Impact of concentrations of HMO's**

The problems associated with high concentrations of HMO's have been recognised nationally. The study "Evidence Gathering – Housing in Multiple Occupation and Possible Planning Responses" carried out by Ecotec in 2008 summarised:

- Anti-social behaviour, noise and nuisance;
- Imbalanced and unsustainable communities;
- Negative impacts on the physical environment and streetscape;
- Pressures upon parking provision;
- Increased crime;
- Growth in private rented sector at the expense of owner-occupation;
- Pressure upon local community facilities; and
- Restructuring of retail, commercial services and recreational facilities to suit the lifestyles of the predominant population.

Over 50,000 students live in Manchester, with high concentrations in some parts of the city - over 20% of households within a Super Output Area in South Manchester claim exemption from Council Tax. In recent years, student HMO's have begun to spread further south, particularly in parts of Old Moat and Withington wards, where concentrations of student households have doubled between 2007 and 2010. This means that the stock of housing available for families is reduced and they become priced out of the area due to the shortage of accommodation.

In addition to students, a large number of HMO's are inhabited by other groups of unrelated people sharing a house or flat, such as young professionals. In Manchester the problems are felt most keenly by long-term residents in the areas where student concentrations have risen recently but which traditionally catered for families. Organisations and residents in these areas feel that this is having a negative impact on their residential amenity.

A number of initiatives, particularly around a more intensive approach to neighbourhood management, have targeted areas with high concentrations of HMO's, particularly in September when new students arrive in Manchester.

## **8.0 Conclusion**

- 8.1 Further work is taking place to develop overarching visions and priorities for all the different segments of the private rented housing market, including developing clear approaches to tackling issues at the poorer end of the market.

- 8.2 There has been a shift in emphasis to target resources on tougher enforcement action and more prosecutions. We have developed new methods to increase dialogue with landlords and managing agents in the private sector.
- 8.3 We have put in place systems to continually monitor and track changes in the private sector housing markets to ensure robust evidence can be used to respond to changing priorities.
- 8.4 As resources reduce, it becomes increasingly important that the city council's approach to the private sector is increasingly targeted, with more cases prosecuted and a reduced service where the impact is less significant.