



The Private Rented Sector in North Lanarkshire Local Housing Strategy 2021-2026 Evidence Paper

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1. Introduction

After rapid growth in the early part of the 21st century, the private rented sector (PRS) has become an established and important part of North Lanarkshire's housing system. Almost one in twelve (7.6%) of all North Lanarkshire households now live in the PRS, 64% more than a decade ago. Despite this growth, evidence suggests that PRS landlords in the area are predominantly 'amateur' and the sector has some of the lowest rents in the country.

The PRS in Scotland has been subject to much political attention and policy intervention in recent years. This includes reforms of the taxation and mortgage finance systems, which have the potential to reduce returns and discourage investment from amateur landlords, support for institutional investment in the sector and the introduction of a new tenancy regime providing tenants with greater security of tenure.

In *Housing to 2040*, its vision for the future of Scotland's housing system, the Scottish Government sets out an aspiration that 'the rented sector offers a range of high-quality homes that are affordable for those who choose to live in it. This means a private rented sector which offers affordable options for most people, allowing them to benefit from the flexibility the sector offers.'

In our Local Housing Strategy (LHS) for the five years between 2021 and 2026, the council is embracing the vision to 2040 and aims to ensure that North Lanarkshire's PRS meets this aspiration.

National guidance for local authorities requires that LHSs set out how they intend to meet national priorities for the PRS, note the extent and location of private rented properties within their boundary and consider any issues affecting their local PRSs. LHSs should also provide information on any designated 'Rent Pressure Zones' in their area and demonstrate that the role of 'Build to Rent' has been considered. This paper meets and exceeds the requirements set out in the guidance, by considering key evidence and identifying a range of actions for improving the condition and quality of North Lanarkshire's homes.

2. Strategic and Legislative Context

This section outlines the strategic and legislative drivers for housing in the private rented sector in North Lanarkshire.

Strategic context

In *Housing to 2040*, its vision and principles for the housing system in Scotland over the next two decades, the Scottish Government sets out its aspiration that:

'The private rented sector is the right size to provide quality, affordable and secure options for the households who want or need a rented home.' (*Principle 14*)

This is a continuation of the vision set out in the instructively titled *A Place to Stay, A Place to Call Home* strategy for the PRS:

‘A private rented sector that provides good quality homes and high management standards, inspires consumer confidence, and encourages growth through attracting increased investment.’

The strategy identified three key aims for delivering on this vision:

- To improve the quality of property management, condition and service
- To deliver for landlords and tenants, meeting the needs of people living in the sector; consumers seeking accommodation; and landlords committed to continuous improvement
- To enable growth, investment and to help increase overall housing supply

Ten key actions were published in the strategy, with many of these subsequently delivered on. This includes the development and implementation of letting agent regulation, a new housing tribunal to consider repair and rent cases and a new tenancy regime for the sector.

While powers for housing (and some of the associated fiscal matters, like land and building transaction taxes) are devolved to Scotland, other policy areas which impact upon the PRS in Scotland are reserved matters. These include for taxation, mortgage finance and welfare, each of which has had a significant impact on Scotland’s PRS.

In 2015, then Chancellor George Osborne announced a new tax regime for amateur landlords in the private rented sector (landlords operating as limited companies were unaffected). Landlords had been able to deduct finance costs, like mortgage interest, from their earnings to reduce the income tax they paid on their rental profits. Landlords could also claim a 10% ‘wear and tear’ allowance, further reducing their taxable income. The reforms meant that landlords would pay tax on all their income (not just profits), could only reclaim any wear and tear costs that had been incurred, and could only claim limited tax relief at the basic rate. These changes were phased in between April 2016 and April 2020.

An ‘additional dwelling supplement’ of 3% on top of Land and Buildings Transaction Tax was introduced in April 2016, increasing the costs for landlords purchasing homes to rent. A similar surcharge was later introduced on stamp duty in the rest of the UK. In 2017, new rules brought in by the Prudential Regulation Authority (which regulates risks in the financial markets) required lenders to impose stricter criteria when considering loans for Buy to Let (BTL) mortgages, restricting the amount that could be borrowed.

These reforms have had a significant impact on the sector. Data from industry body UK Finance¹ finds that more than one in 10 (11%) of homes sold in 2015 were bought with a Buy to Let mortgage. BTL borrowers’ share of the market had declined to just 6% by 2019. Attributing this decline to the tax system, it noted that the decline was greatest in markets with high capital values and low rental yields. Research by real estate consultancy Hamptons² finds that the number of landlords operating in the UK fell by 220,000 (around 8% of the total) during this period.

At the lower end of the market, welfare reforms have also had a significant impact, constraining returns for landlords. Local Housing Allowance (LHA), which is the maximum contribution paid to private renters for their housing costs through the benefits system, has

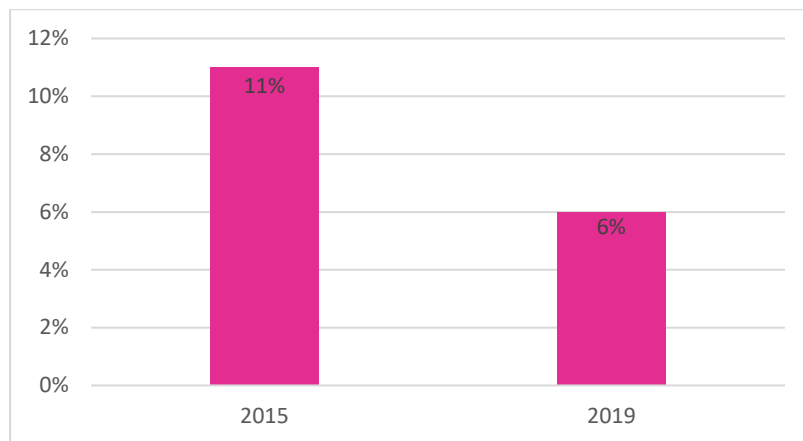
¹ <https://www.ukfinance.org.uk/system/files/The-changing-shape-of-the-UK-mortgage-market-FINAL-ONLINE-Jan-2020.pdf>

² <https://www.hamptons.co.uk/research/reports/2020/MarketInsight-Spring-WEB.pdf/>

been capped at 30% of local market rents (within a 'Broad Rental Market Area') since its introduction in 2008. A five-year LHA freeze was introduced in 2015, meaning that the maximum housing benefit paid to private renters would be frozen at the 30th percentile of rents in 2015.

The current policy environment favours institutional investors and both the Scottish and UK Governments support the emerging 'Build to Rent' (BTR) sector. BTR refers to professionally managed, often new build, homes in the PRS which are typically owned by institutional investors (like pension funds). Build to Rent in the UK has its origins in the aftermath of the global financial crash when new apartment blocks in London, originally intended for sale, were instead rented at scale. The sector has evolved, and most new schemes are now purpose-built and feature amenities including concierge services and common areas.

Chart 1: Percentage of house sales to Buy to Let buyers



Source: UK Finance, January 2020

In Scotland, research by Rettie & Co³ finds that there were 564 BTR properties 'in operation' in 2019 and a further 6,672 in the 'pipeline'. More than half of these homes, if built, will be in Glasgow with the remainder in Edinburgh, Aberdeen and Dundee. This research does not, however, consider the growth of 'mid-market rent', where properties managed by social landlords are privately rented at typically below-market rents. 1,133 new mid-market rented homes were completed in 2017-18, with schemes developed throughout Scotland, including in North Lanarkshire.

Legislative context

The Housing (Scotland) Act 1988 introduced rent deregulation in Scotland. Prior to the Act commencing in 1989, tenancies were agreed on a 'fair rent' (rather than market rent) basis and tenants had secure tenancies. The 1988 Act established the assured tenancy regime, including for 'short' assured tenancies allowing landlords to evict tenants on a 'no fault' basis.

The now deregulated sector grew quickly, aided by the contraction in the social rented sector caused by the Right to Buy and fuelled by the introduction of Buy to Let mortgages in 1996. By the turn of the Millennium, concerns over poor practice in the PRS was growing. The Antisocial Behaviour (Scotland) Act 2004 brought in a compulsory [register for landlords](#)

³ https://mr3.homeflow.co.uk/files/site_asset/image/3883/0767/BTR_Forum_2019.pdf

renting properties, managed by local authorities who were given powers to consider whether landlords were 'fit and proper' to be registered.

The Housing (Scotland) Act 2006 introduced the 'Repairing Standard', a minimum standard required in all privately rented properties. This standard is significantly higher than the minimum tolerable standard (it is, however, less onerous in some regards than the Scottish Housing Quality Standards which applies to social rented properties).

The Tenancy Deposit Schemes (Scotland) Regulations 2011 requires every tenancy deposit to be lodged with a government approved deposit scheme within 30 days of the tenancy commencing. Landlords failing to do so are liable to pay compensation of three times the deposit should they fail to lodge it in one of the approved schemes.

Regulation of the sector was further strengthened following the commitments made in *A Place to Stay, A Place to Call Home*, the national strategy for the PRS in 2013.

The Housing (Scotland) Act 2014 established a new, specialist 'first-tier tribunal' (the Housing and Property Chamber) to consider civil legal cases connected with disputes about rents, repairs and evictions. Prior to the Chamber's establishment, eviction and some other cases had been heard in the Sheriff Court and there were concerns about both the consistency of decision-making and the length of time required for cases to be resolved. The 2014 Act also introduced a new mandatory [register for letting agents](#), administered by the Scottish Government. Agents had to register with the scheme by October 2018 and are required to undergo compulsory training and abide by a statutory [Code of Practice](#) to obtain and keep their registration.

The Private Housing (Tenancies) (Scotland) Act 2016 introduced a new tenancy regime for Scotland. The Act established the 'private residential tenancy' (PRT) and requires that every tenancy created from December 2017 is a PRT. Assured and short assured tenancies created prior to this date remain valid but will automatically become PRTs should a new agreement be made or at any change of tenancy. The key features of the PRT include that it is open-ended in nature and provides greater security of tenure, with the removal of the 'no fault' ground for eviction. It does however extend some of the protections available to landlords, including that eviction is mandatory where rent arrears are above a certain level. The 2016 Act also allows local authorities to apply to Scottish Ministers for a 'Rent Pressure Zone' (RPZ) to be designated, enabling a cap to be applied to rent increases in that area.

The Energy Efficiency (Private Rented Property) Regulations 2019 requires PRS properties to meet minimum energy efficiency standards. Privately rented properties must meet EPC E by March 2022 and EPC D by March 2025, subject to a cost cap (of £5,000 for works required to meet the standard).

New regulations requiring local authorities to licence 'short-term lets' comes into force in April 2022, when local authorities are required to have established a local licencing scheme.

3. Key Evidence

This section considers the key evidence on private rented sector housing in North Lanarkshire, including a profile of housing stock and local and national data.

Stock Profile

North Lanarkshire's private rented sector grew significantly in the aftermath of global financial crash. In 2009, there were 5,283 PRS properties in North Lanarkshire (3.7% of all stock). By 2016, the PRS had more than doubled to 11,982 (7.8%). While growth has stalled (with 11,954 PRS homes recorded in 2021), the sector has now established itself as an important part of the housing system and provides homes to around one in twelve (7.6%) households in the area, around half of the Scottish average (14.2%).

Table 1: PRS Growth in North Lanarkshire 2009-2021

	2009	2016	2021	Change 2009-16	Change 2016-21
Number of homes	5,283	11,954	6,699	6,699	-28
% of stock	3.7%	7.8%	7.6%	+4.1%	-0.2%

Source: North Lanarkshire Council Area Profiles as at 31st March 2021

In terms of overall stock this compares to 29.5% of households in North Lanarkshire that rent from a social landlord (23.2% from the council and 6.2% from other social landlords) and 63% that own their own home.

The size of the PRS varies by location, and it varies in age, size and type when compared to other tenures.

The PRS provides 9.5% of all homes (almost 2,200 dwellings) in the Cumbernauld Local Housing Market Area (LHMA) and a similarly large proportion of housing in Bellshill (8.9%), Wishaw (9.0%), Coatbridge (7.8%), Airdrie (8.3%) and Kilsyth (8.2%). It however contributes a below-average proportion of homes in Motherwell (6.0%), Shotts (5.8%), Viewpark (5.7%) and Moodiesburn (3.5%).

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Chart 2: PRS as percentage of housing stock, by LHMA



Source: North Lanarkshire Council Data – Area Profiles as at 31st March 2021

The Private Rented Sector and Town Centres

There are 1,473 homes within North Lanarkshire’s town centres. The PRS provides a higher proportion (22.6%) of homes within North Lanarkshire’s eight town centres, which is greater than the social rented sector as a whole (20.1%).

The town centre PRS is particularly large (in relative terms) in Coatbridge (37.7% of all stock), Bellshill (30.8%) and Kilsyth (25.5%) and smallest in Cumbernauld (which only has 50 properties, split equally between owner-occupation and social rented). Every town, with the exception of Cumbernauld, has a significantly larger PRS within its town centre than it does in the rest of the town.

Chart 3: Comparative size of PRS, town centres and towns



Source: North Lanarkshire Council Landlord Registration Data as at 31st March 2020

PRS stock has a slightly different age profile to non-PRS stock. Almost twice as many of the oldest homes in North Lanarkshire, built in the years before 1919, are in the PRS (10.1%) than in other tenures (5.5%). The PRS (12.2%) also has a higher proportion of newer stock, built after 2002, than other tenures combined do (9.2%).

Table 2: Age profile of housing stock, PRS and non-PRS

Period built	PRS	Non-PRS	Difference
Pre-1919	10.1%	5.5%	4.6%
1919-1949	18.6%	20.3%	(1.7%)
1950-1983	42.8%	48.1%	(5.3%)
1984-1991	5.8%	4.9%	0.9%
1992-2002	10.4%	12%	(1.6%)
Post-2002	12.2%	9.2%	3%

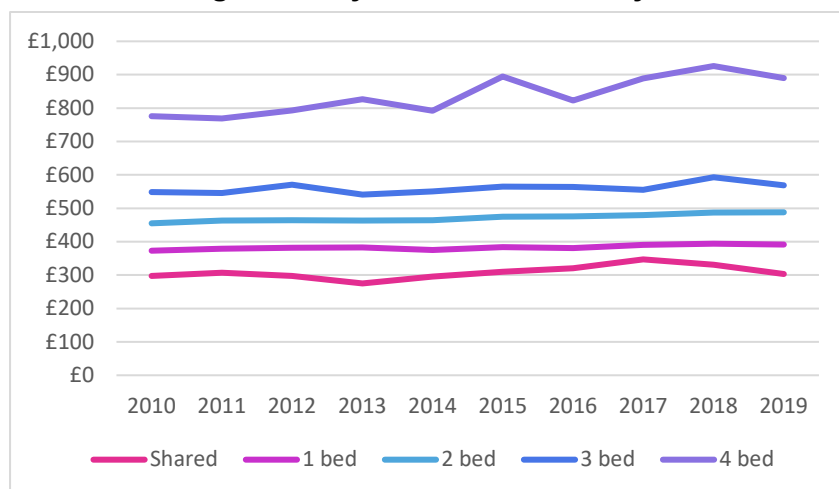
Source: Home Analytics Data, March 2020

Affordability of the Private Rented Sector

Private rent levels in North Lanarkshire are relatively low and broadly stagnated over the past decade. Official statistics (and Local Housing Allowance rates) consider rent levels by 'broad rental market area' (BRMA). There are 18 BRMAs in Scotland, some of which contain more than one local authority area. North Lanarkshire is a self-contained BRMA and ranks towards the bottom for average rents and LHA levels.

Average rents have risen only slightly in the years between 2010 and 2019 – increasing by 2% (for shared properties), 3.6% (3 beds), 4.8% (1 beds) and 7.3% (2 beds). Average rents for 4 bed properties grew the most (14.7%) during this period however this was still significantly below inflation, which totalled 29.2% during the decade.

Chart 4: Average rents by bedroom size and year, 2010-2019



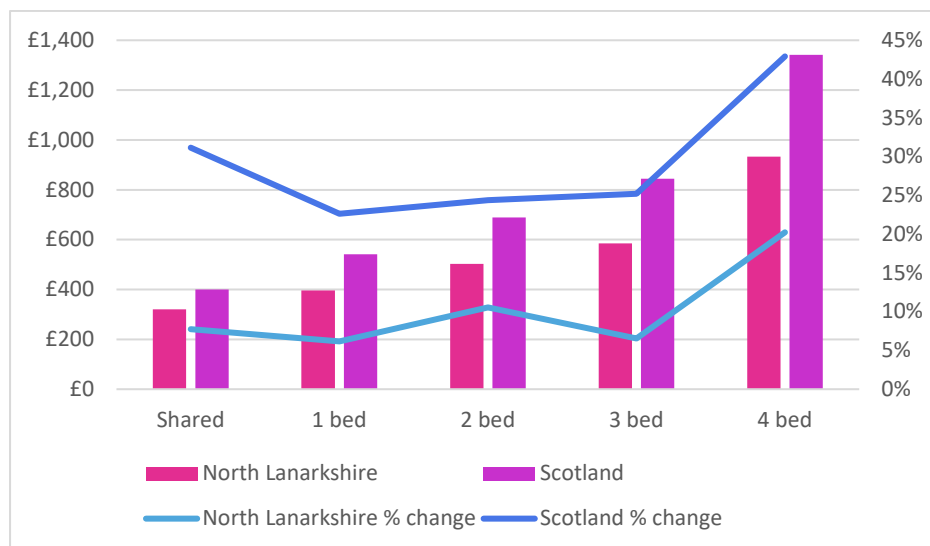
Source: Scottish Government Private Rent Statistics (2010-2020)

Average rents range from £320 per month for a shared bedroom to £933 per month for a home with four or more bedrooms. Average rents in North Lanarkshire are between a fifth

(shared bedroom) and three-tenths (3 and 4 or more bedrooms) lower than the Scottish average, and this gap has grown over the past decade⁴.

Similar patterns are observed at all quartiles, with no growth at all in lower quartile and median rents for 3-bedroom properties. Rental growth was greatest for upper quartile 4-bedroom properties (17.1%), compared to 10.1% for the median property of this size, suggesting that the outsized growth in average rents for 4-bedroom properties was skewed by price rises at the top of the market.

Chart 5: Average rents and percentage change, 2010- 2020 by property size, North Lanarkshire and Scotland



Source: Scottish Government (2020) Private Sector Rent Statistics

Over this period, the average one bedroom rent in North Lanarkshire has risen by 6.2%, from £373 to £396 (compared to a 22.6% rise in Scotland). The average rent for larger properties with four or more bedrooms have increased by a fifth (20.2%) in North Lanarkshire, less than half the rate of growth across Scotland as a whole (42.9%). Price inflation rose by 31.1% during this period. This suggests that private renting (across all property sizes) has become more affordable in North Lanarkshire over the past decade, however, this may make investing in our PRS less attractive when compared to other local authority areas and other sectors.

Rent Pressure Zones

Section 35 of the Private Housing (Tenancies) (Scotland) Act 2016 enables local authorities to apply to Scottish Ministers for an area within its boundary to be designated as a Rent Pressure Zone (RPZ). This allows Ministers to cap any rent increases for existing tenants who have a Private Residential Tenancy agreement.

Authorities applying for such a designation must only do so where they believe that:

- Rents are rising by too much.
- The rises are causing undue hardship to tenants, and.

⁴ As at 31st March 2020

- The rises are having a detrimental effect on the local authority’s broader housing system.

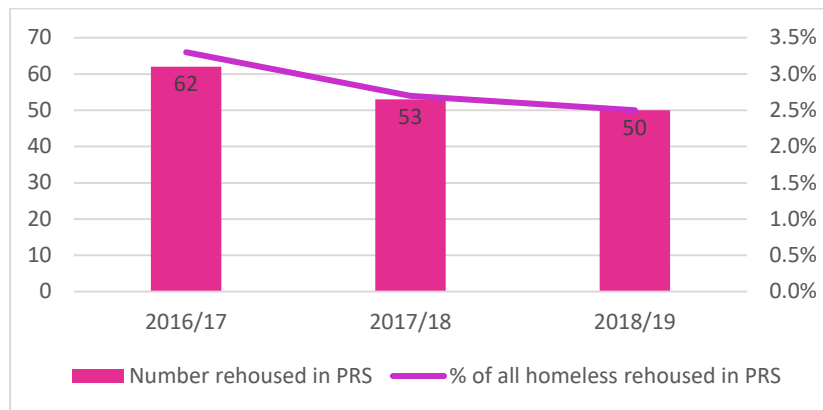
Any application must be supported by a range of evidence, including a profile of PRS properties in the proposed area detailing house types, size, age and location. It must also provide rent data which demonstrates that rents are rising significantly for existing tenants.

The council collects data on advertised rents (which is largely the same method as used by the Scottish Government in collating statistics on average rents across an authority area), recording these by property and postcode area. Analysis of this data suggests that while there are pockets of North Lanarkshire where rents are higher than average, these have remained broadly flat in recent years. There is no evidence to suggest that rents for existing tenants have grown significantly, or that rent increases are having a detrimental effect on the local housing system. The council has not therefore made any applications for RPZs in North Lanarkshire. It will however continue to monitor rent levels across the area and may make a future application should the above noted conditions be met.

Homelessness and Housing Options

In 2018/19, 389 new homeless applicant households had previously resided in the private rented sector prior to their homelessness. During the same year, just 50 homeless households were rehoused in the sector. This continues a long-term trend of the sector making a significant net contribution to homelessness (i.e., more households become homeless from the PRS than are rehoused into the sector). The 2.5% of homeless households rehoused into the PRS in 2018/19 is the lowest proportion on record, despite the increased levels of security now offered by the sector. Across Scotland as a whole, the PRS rehoused 4.5% of homeless applicant households.

Chart 6: Number and % of homeless households rehoused in PRS, 2018/19



Source: North Lanarkshire Council HL1 data

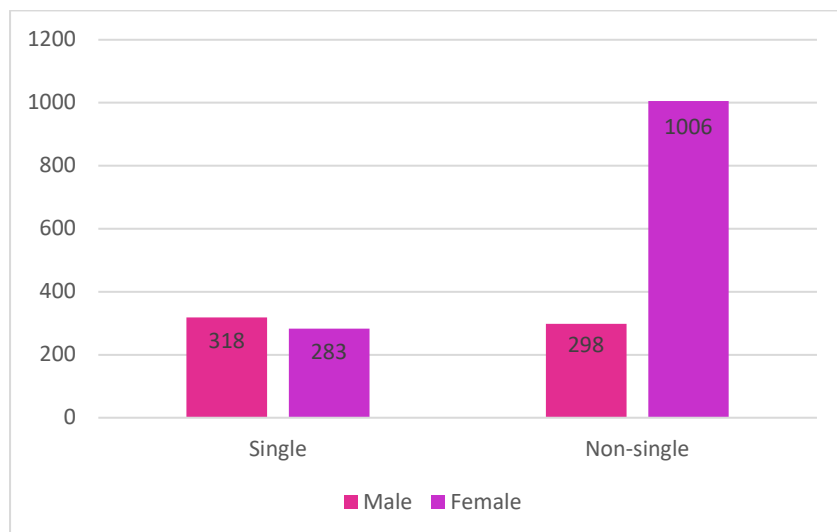
1,905⁵ applicants from the PRS have registered with the North Lanarkshire Common Housing Register, which social rented homes are allocated from. This is equivalent to 13.2% of all registered private rented properties in the area, meaning that more than one in eight PRS households in the area are seeking social rented housing in the area. (This compares to around one in 10 PRS tenants in England who are on social housing waiting lists⁶).

⁵ As at 31st March 2020

⁶ Shelter England data finds 468,080 PRS tenants are on housing waiting lists (https://england.shelter.org.uk/media/press_releases/articles/9_in_10_private_renters_missing_out_on_a_social)

Analysis of demand for social rented housing by PRS households find female-led households and families are significantly more likely to be on the 'waiting list'. More than two-thirds (67.7%) of PRS households on the CHR are led by females, with almost four-fifths (78%) of female lead applicants having additional members of their households, like partners or children. In contrast, just 22.3% of applications were for households led by men, and more than half (51.6%) of these made by single applicants.

Chart 7: Sex and household composition of PRS households on the CHR

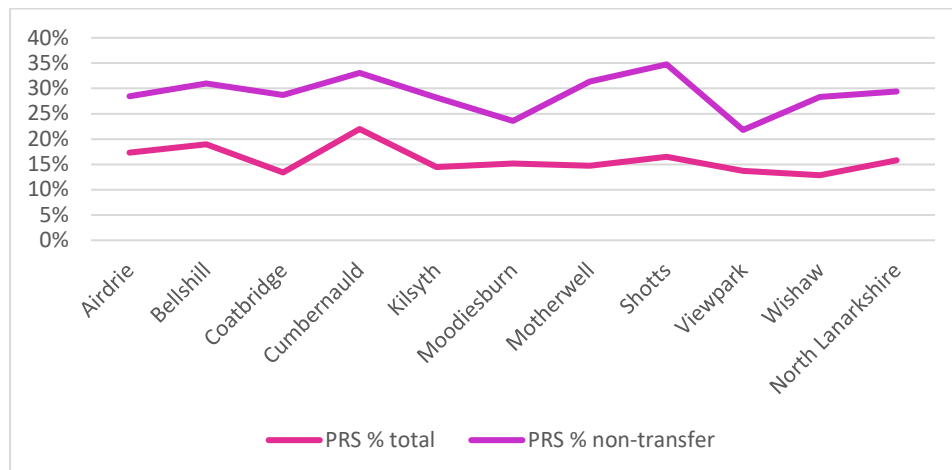


Source: NLC CHR Data as at 31st March 2020

In total, 15.8% of all North Lanarkshire residents on the common housing register currently reside in the private rented sector. The proportion of PRS tenants on the CHR varies by LHMA, from 12.9% in Wishaw to 22% in Cumbernauld. If discounting 'transfer list' applicants (current tenants of the Council or partner housing associations), almost three in 10 (29.4%) of applicants are PRS tenants. The proportion of PRS tenants who are 'non-transfer' applicants on the CHR ranges from 21.8% in Viewpark to 34.8% in Shotts.

[home](#)) while the Office for National Statistics (<https://www.ons.gov.uk/economy/inflationandpriceindices/articles/ukprivaterentedsector/2018#tenants>) reports there are 4.7m PRS homes in England.

Chart 8: PRS tenants as % of NL residents on CHR by town, all and non-transfer

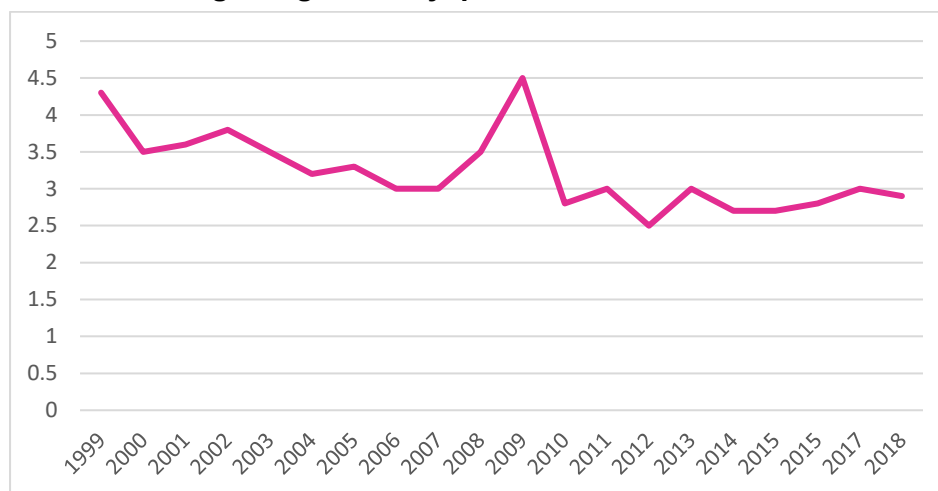


Source: NLC CHR Data as at 31st March 2020

In most LHMA, PRS tenants on the CHR as a proportion of all applicants and of non-transfer applicants are around the North Lanarkshire average. Where there is a significant disparity it is unclear whether this is due to particular issues in the local PRS or other factors. This analysis does however suggest that a significant proportion of PRS tenants are seeking a move into the social rented sector, implying dissatisfaction with their current housing circumstance.

The 2018 Scottish Household Survey finds that the average duration of a PRS tenancy in Scotland is slightly less than three years (2.9 years). The average length of stay has broadly stayed at around this level since 2010, down from a peak of 4.5 years (in the immediate aftermath of the Global Financial Crisis in 2009).

Chart 9: Average length of stay, private renters in Scotland, 1999-2018



Source: Scottish Household Survey, 2018

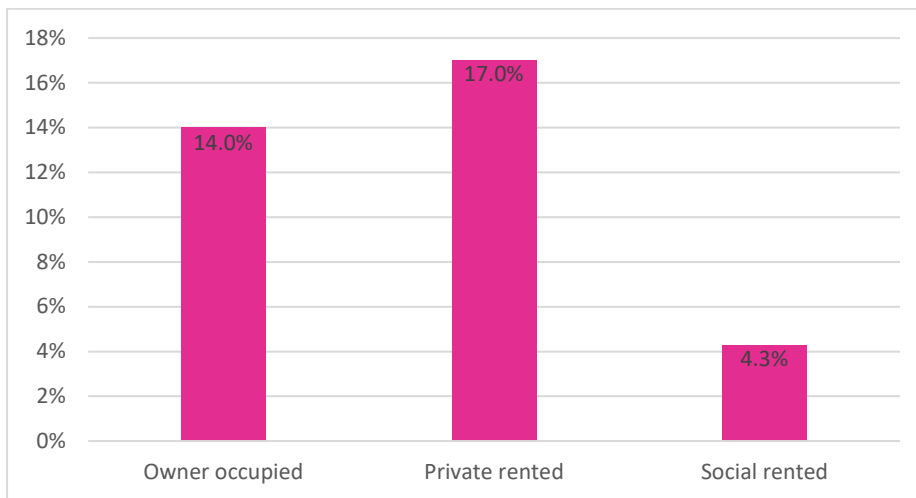
This compares with an average of 16 years for owner occupiers and 11 years for social renters, suggesting that the PRS continues to house a much more transient population than other tenures. It is unclear whether these disparities reflect the increased insecurity of the PRS, its greater flexibility, or both – and what, if any impact, the provisions of the Private

Housing (Tenancies) (Scotland) Act 2016 will have on tenancy duration. No evidence on length of stay is available at a local level.

Energy Efficiency Standards in the Private Rented Sector

Homes in the PRS are also disproportionately more likely to be energy inefficient than in other tenures. 17% of PRS homes in North Lanarkshire have a current EPC rating in bands E-G (and therefore require to be improved or exempted from the new regulations by 2025), compared to 14% of owner-occupied and 4.3% of socially rented homes.

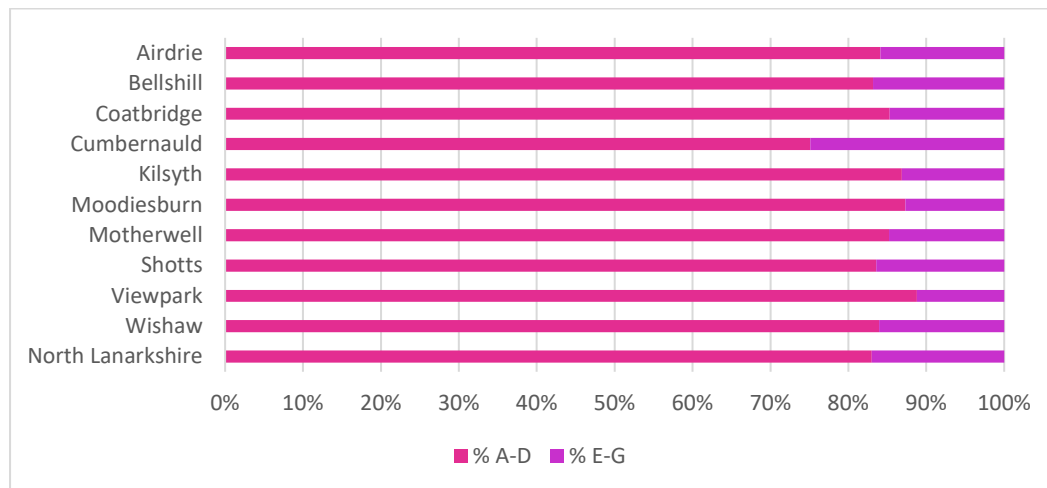
Chart 10: Percentage Stock in EPC Bands E – G, by tenure



Source: Energy Savings Trust (2020) Home Analytics – North Lanarkshire Report

The rate of potential non-compliance with the regulations varies across North Lanarkshire’s LHMA’s, from slightly more than one in ten in Viewpark (11.2%) to almost one in four in Cumbernauld (24.9%). There are more PRS properties in Cumbernauld than in any other LHA, and 27% of all potential fails are within the town.

Chart 11: Percentage Stock in EPC Bands E – G, by Tenure



Source: Energy Savings Trust (2020) Home Analytics – North Lanarkshire Report

4. Summary

North Lanarkshire's private rented sector has grown significantly over the past 15 or so years, fuelled by fertile market conditions and a supportive policy environment. Recent legislative and fiscal change has however challenged the sector's continuing growth across Scotland and the UK and local rents have largely stagnated over the past decade.

The vast majority of PRS homes in North Lanarkshire are owned by amateur landlords and market conditions makes it difficult to attract institutional investment and professional management into the local PRS. This includes the relatively low rents achieved in North Lanarkshire, which also constrains social landlords' ability to deliver mid-market rent in the area.

Despite these challenges, the PRS plays an important role in meeting housing need and demand in North Lanarkshire. The sector houses around 7% of all households, many of whom are unable to purchase a home or access social rented housing in the area. Over the next five years and beyond, the council will continue to engage with and support landlords, tenants and prospective investors to ensure that the PRS in North Lanarkshire provides good quality homes and high management standards.

5. Key Issues and Considerations

- The PRS is now an established feature of the local housing system but growth seen in the aftermath of the global financial crash has stalled
- While rents are relatively affordable, evidence suggests that the PRS is not a tenure of choice and is also a significant net contributor to homelessness
- Low rental returns may make investing in the local PRS unattractive, and undermine efforts to attract Build to Rent investors

- More than a fifth of homes in North Lanarkshire's town centres are in the PRS, suggesting that the sector will have a key role in supporting the delivery of our town centre visions
- Significant energy efficiency improvements will be required to much of the PRS stock to meet new requirements

6. Suggested Actions

- Develop and deliver new PRS access scheme to enable better access to the PRS
- Improve private sector housing advice, including promotion of the PRS as a suitable housing option
- Improve training amongst housing staff that deliver housing options advice
- Consider establishing local PRS champions to encourage wider improved PRS advice amongst housing teams
- Improve information provision on the PRS amongst housing teams to enable high quality housing options advice
- Involve and engage private landlords and PRS tenants more, consider establishing forums and linking with the tenant participation team
- Review the rent deposit guarantee scheme to improve access to the PRS for homeless households
- Support Build to Rent sector to deliver new high-quality, well-managed PRS homes
- Improve quality and management in the PRS by supporting good landlords and taking effective enforcement action