



BRIEFING

HOUSING

COST OF LIVING

Is the private rented sector shrinking?

Recent market fluctuations and higher interest rates are leading some amateur landlords to sell up. This could offer a chance for better-off renters to be first-time buyers, but the lowest income renters are those most likely to lose out unless policy responds.

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1. Introduction

Surging interest rates in late 2022 led to much speculation about the future of the housing market, including concerns that the greater share of private landlords exposed to rising interest rates today compared to previous downturns would lead to a rapid retrenchment in the supply of long-term lets in the private rented sector (PRS) and that this would lead to higher rents and homelessness. In response, we published ‘Reboot: building a housing market that works for all’ in January 2023, which set out an assessment of the likely direction of travel for the housing market and how policy-makers should respond, with a focus on maintaining and expanding access to homes for low-income households at risk of poverty and homelessness.

Our update paper on housing supply (Lloyd et al., 2024) noted that higher interest rates have so far had a modest impact on house prices. While housing supply is now in decline, housing affordability remains a problem, potential first-time buyers are frustrated with having to rent privately for longer, and the supply of social and affordable housing is still at historic lows – these factors create acute pressures in the PRS.

In this context, there has been much speculation about what is happening to the PRS and, particularly, whether higher interest rates are driving landlords out of the market to the detriment of private renters. This briefing sets out what is happening in the rental market,

finding that private renters with low incomes, and especially those using Local Housing Allowance (LHA) to help pay the rent, are being hit hardest. While the evidence does not support claims of a large-scale exodus of private landlords in recent years, it seems that some parts of the sector have shrunk, specifically smaller-scale landlords dependent on buy-to-let (BTL) mortgages. Across the whole sector, the story is more one of stagnation and consolidation than of shrinking, with some small declines in recent months. Urgent action is needed from the Government to reduce the country's overdependence on an unregulated, unaffordable PRS, including passing the planned Renters' Rights Bill at the earliest opportunity.

2. Investing in buy-to-let has been an easy route to wealth

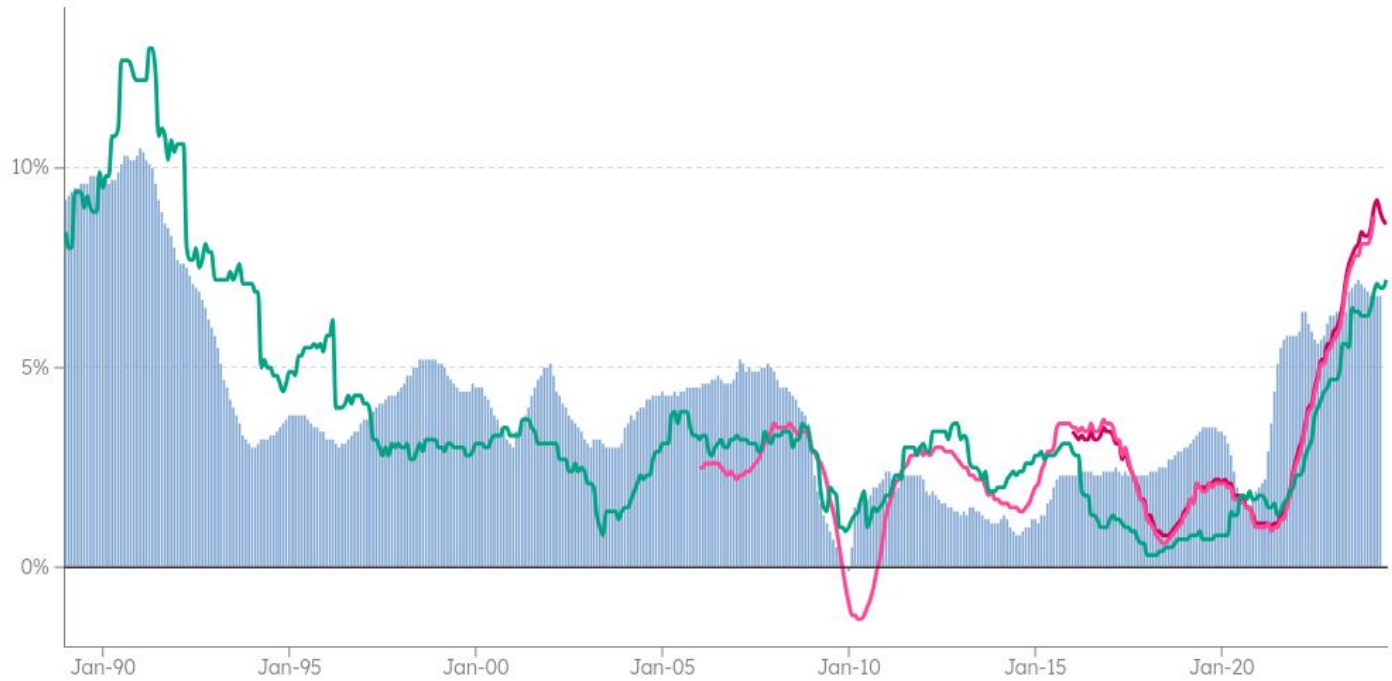
Investing in a BTL property has been an incredibly popular and successful way to amass wealth since the introduction of the assured shorthold tenancy in 1988 and growth of the BTL mortgage market from the 1990s.

Between 2000 and 2017, BTL's share of all UK residential mortgages ballooned from 1.7% to 17.4% (Rugg and Rhodes, 2018). Rapid house price growth generated large returns for landlords while rent increases closely mirrored earnings, providing a hedge against inflation. For a significant proportion of landlords (27%), the focus was on capital growth or boosting their pension, making them less concerned about maximising rent levels in the near term, as long as their rental income covered the cost of any mortgage and lettings agency fees, and voids were kept to a minimum. Some BTL investors (particularly overseas buyers of flats in London) seem to have been paying more money on their mortgage and fees than they were taking in from rent, a situation which they presumably accepted because they expected to make more on their investment from rising property values.

Figure 1: Annual change in rents and earnings

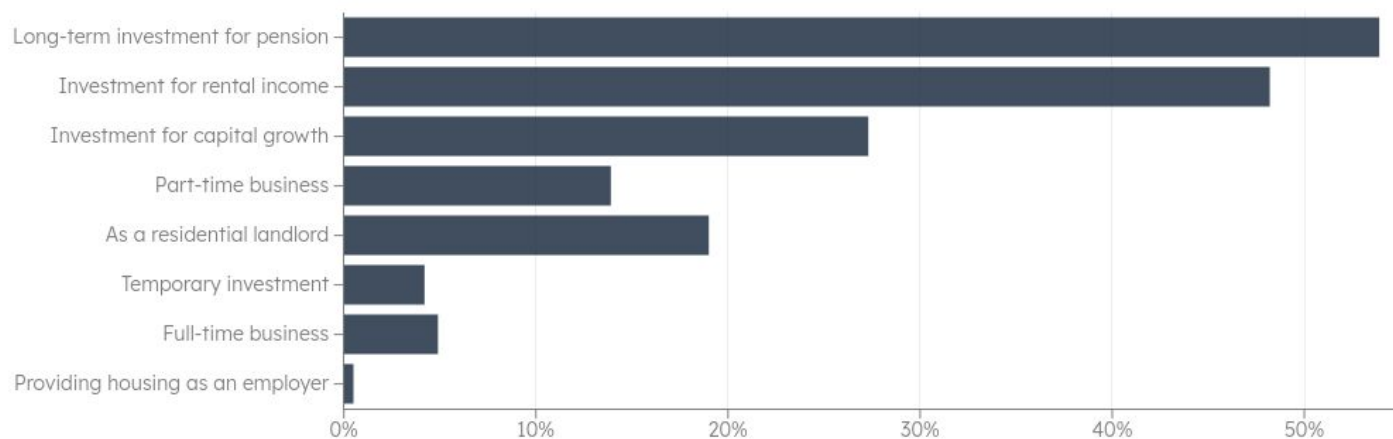
■ New ONS Rents (UK) ■ Old ONS Rents (Eng) ■ CPI Actual Rents For Housing ■ Earnings

Annual change



Source: Office for National Statistics

Figure 2: How landlords view their role, percent of landlords



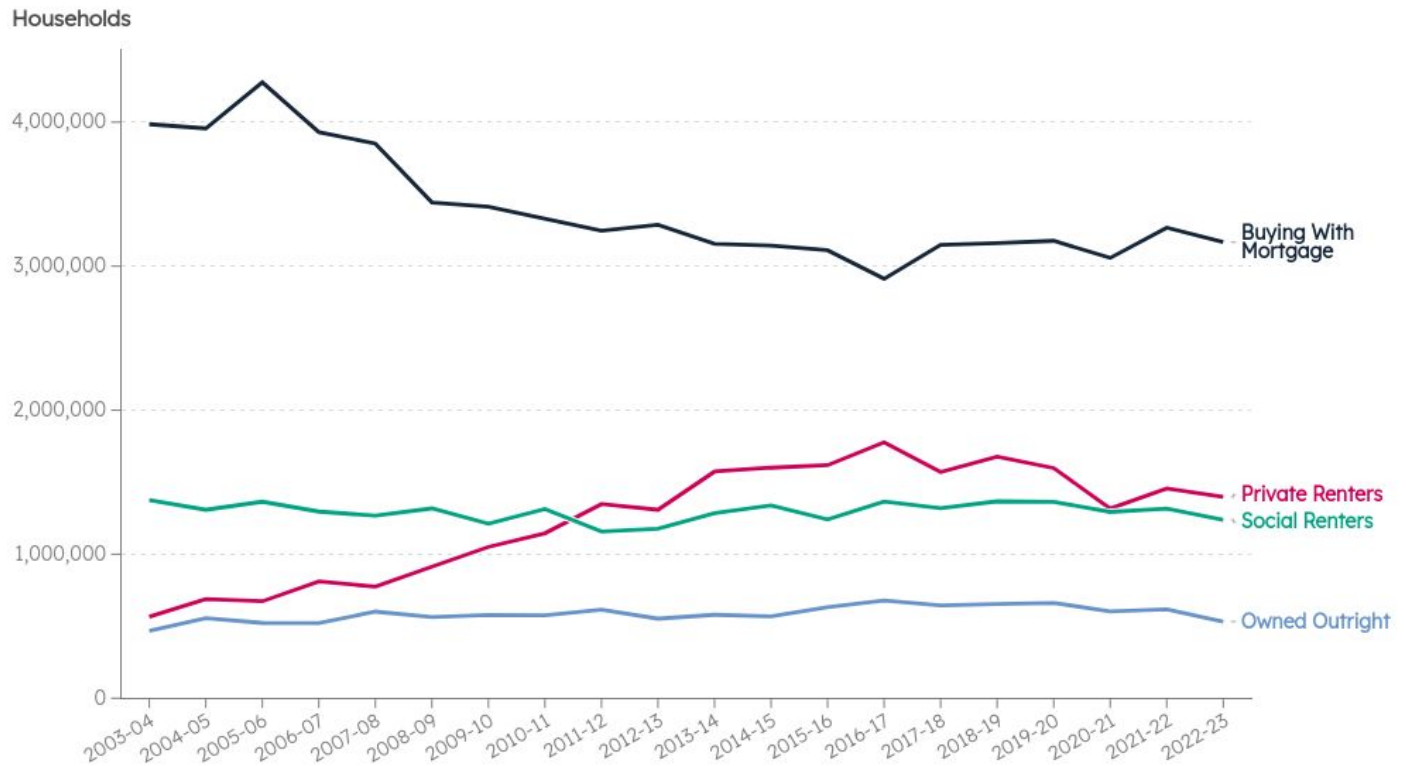
Source: MHCLG Landlord Survey 2021

3. The private rented sector has been the tenure of last resort

This growth in the PRS was welcome news for landlords but not for many of those who now live in it. As house price growth worsened affordability for first-time buyers, and national policy choices saw the social rented sector steadily shrink, the PRS became the tenure of last resort for many households.

Despite the growth in the number of people living in the tenure, its popular perception has remained stuck in the 1980s and early 1990s: many commentators still seem to think of it primarily as a short-term home for students or those at the beginning of their professional careers, before they naturally progress to buying their first home. In reality, as other options have become less accessible, the PRS has become a much more diverse tenure, housing everyone from wealthy professionals and international students to growing numbers of retirees and low-income households who would previously have lived in social housing. One of the consequences of these shifts is that the PRS is now home to 22% of households with dependent children in England, up from 9% in 2003/04.

Figure 3: Households with dependent children, England



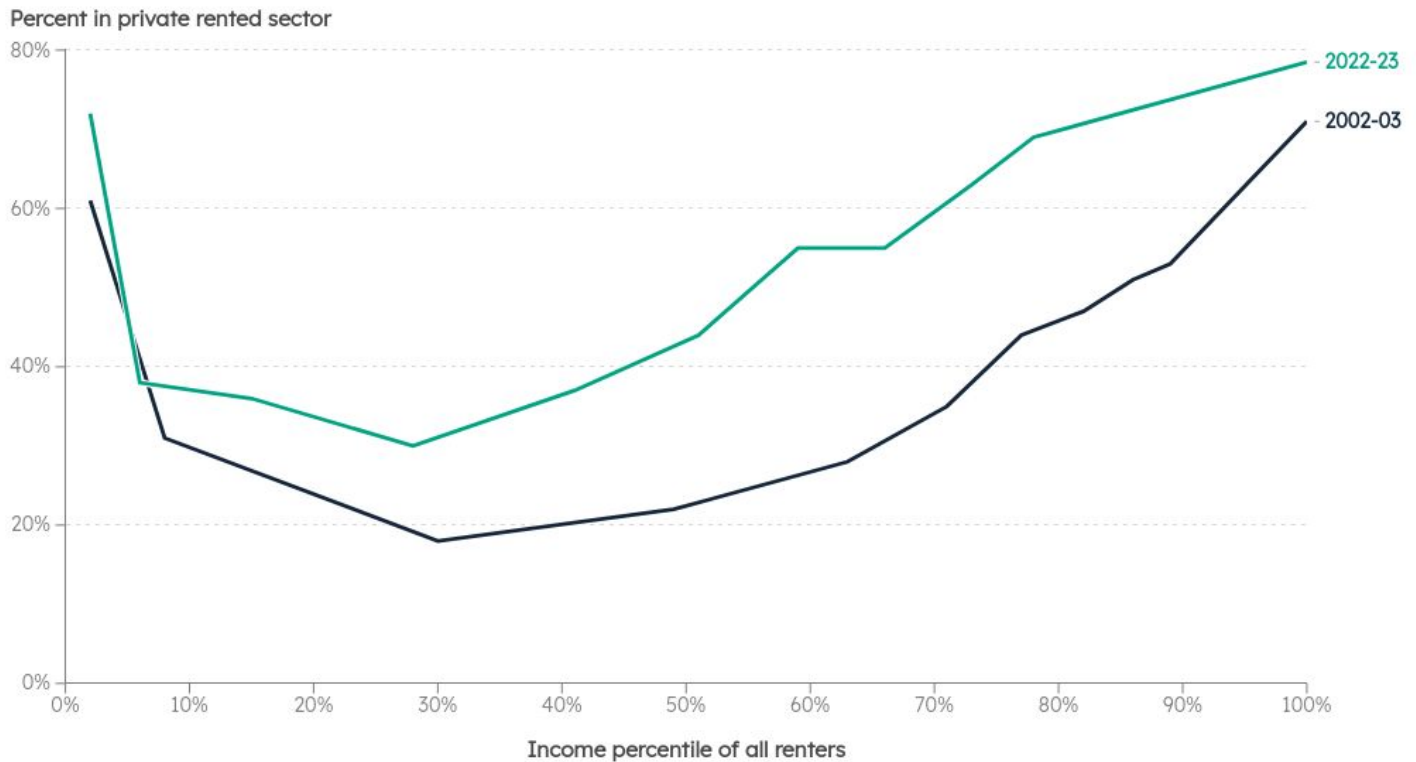
Source: DLUHC English Housing Survey

Policy and regulation of the PRS is still yet to catch up with this more diverse profile of residents, and particularly the rise in families with dependent children, for whom insecurity and frequent moves are especially damaging.

Shrinking social housing has led to more private rent low-income households

Our analysis of Department for Work and Pensions (DWP) data shows that while the shift from social renting to private renting over the last 20 years has been greatest for renters with mid-to-higher incomes, there has been an increasing dependence on the PRS across all income percentiles. This has inevitably led to an increase in spending on housing benefits to support low-income households in the PRS.

Figure 4: Proportion of renters in private rented sector by renter income percentile



Source: DWP Family Resources Survey

Despite this, the Assured Shorthold Tenancy agreement that most private renters sign allows landlords to terminate the tenancy almost at will, which makes renters reluctant to complain about poor conditions or resist rent rises. Consequently, private renting is both the most expensive tenure and the one with the worst housing conditions (MHCLG, 2024).

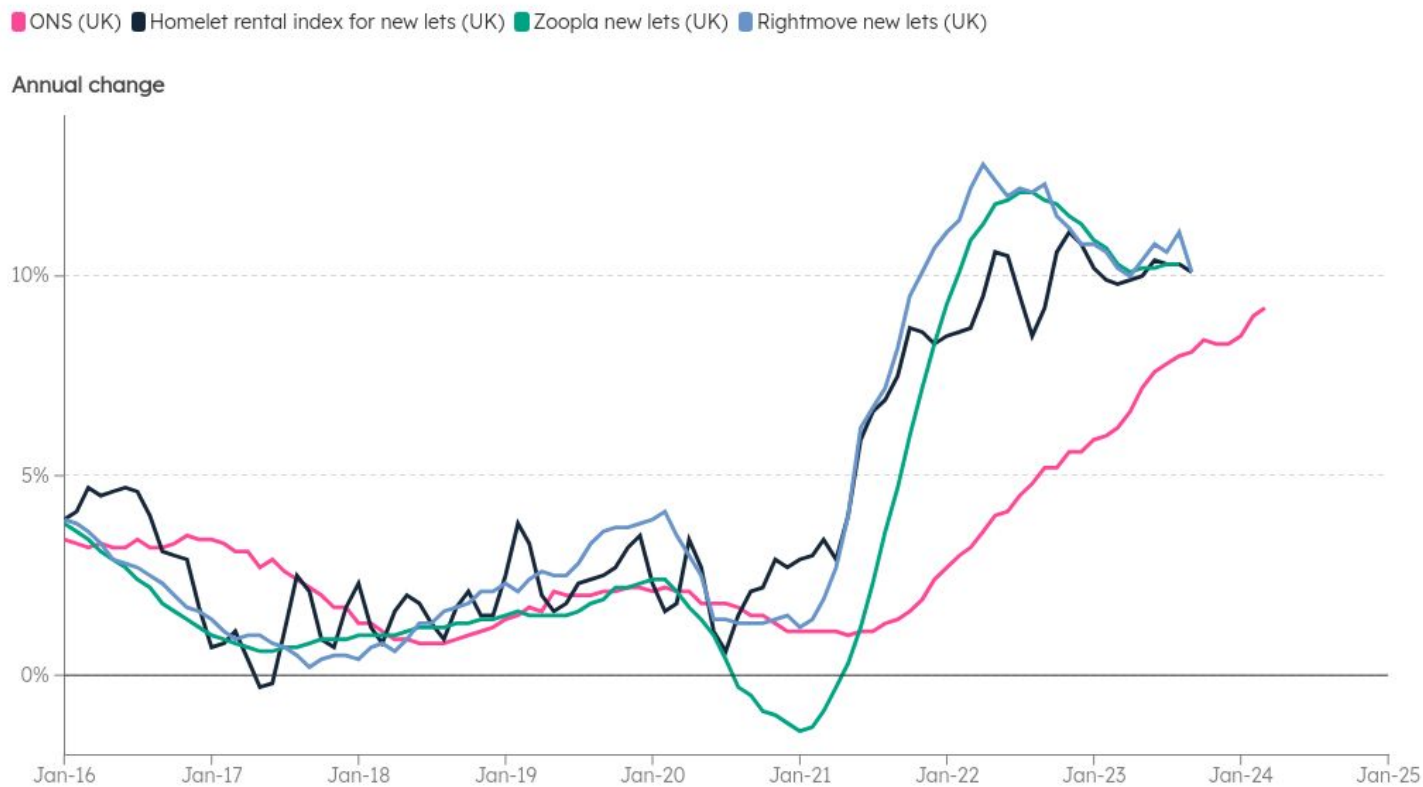
The previous government ultimately failed to pass its long-promised Renters (Reform) Bill, despite removing its headline measure of ending ‘no fault’ evictions following objections from

Conservative backbenchers and landlords. The new Labour Government announced a Renters' Rights Bill in the King's Speech in July 2024, establishing long-overdue regulation of the PRS as an early priority. As our Reboot report called for last year, it is essential that Section 21 'no fault' evictions are banned and that renters are empowered to raise concerns about standards in the PRS without fear of eviction (Lloyd et al., 2023). Further action is also needed to tackle worsening affordability and poor conditions in the PRS, this is explored below.

4. Recent trends in the PRS

The last few years have seen turmoil in the private rental market. Tenant demand collapsed during the pandemic as people stayed away from urban areas which had previously been the most competitive. In some markets, there was a fall in rents as the number of homes available to rent increased. As the pandemic ended, the resurgence of urban living was rapid as increasing numbers of young people moved from across the country and abroad to live, work and study in cities across the UK. The resurgence in demand has helped propel rents to record highs amidst competition for a reduced number of homes available to rent. However, there is still a lack of understanding about exactly what has driven these changes, hampered by the lack of available data.

Figure 5: Annual change in selected rental measures



A lack of data hampers our understanding of the PRS

While there have been improvements in recent years, there are still significant gaps in what we know and that limits our ability to appropriately target policies and interventions. These gaps in our knowledge have also enabled less scrupulous commentators to step into the gap with misleading or incorrect analysis. There have been some improvements, with institutions now

publishing local authority level rental indices (ONS, 2024) and a snapshot of the BTL rental market (UK Finance, 2024), but there are still significant gaps. We welcome the new research project from Nationwide Foundation and Dr Julie Rugg that will help identify these gaps and how addressing them could lead to change in the sector.

Unaffordability is growing

Poor quality data is also hampering our understanding of the true impact of spiralling rents on affordability. The English Housing Survey (EHS) shows that, on average, private renters spend 33% of their household income on rents, but data from Dataloft, based on actual tenancies and published by the Office for National Statistics (ONS), puts the figure around 27% for a similar time frame. This is still significantly higher than the 22% or so now being spent on mortgage repayments by recent first-time buyers, but raises questions about actual levels of affordability in the sector.

Figure 6: Proportion of gross income spent on rent

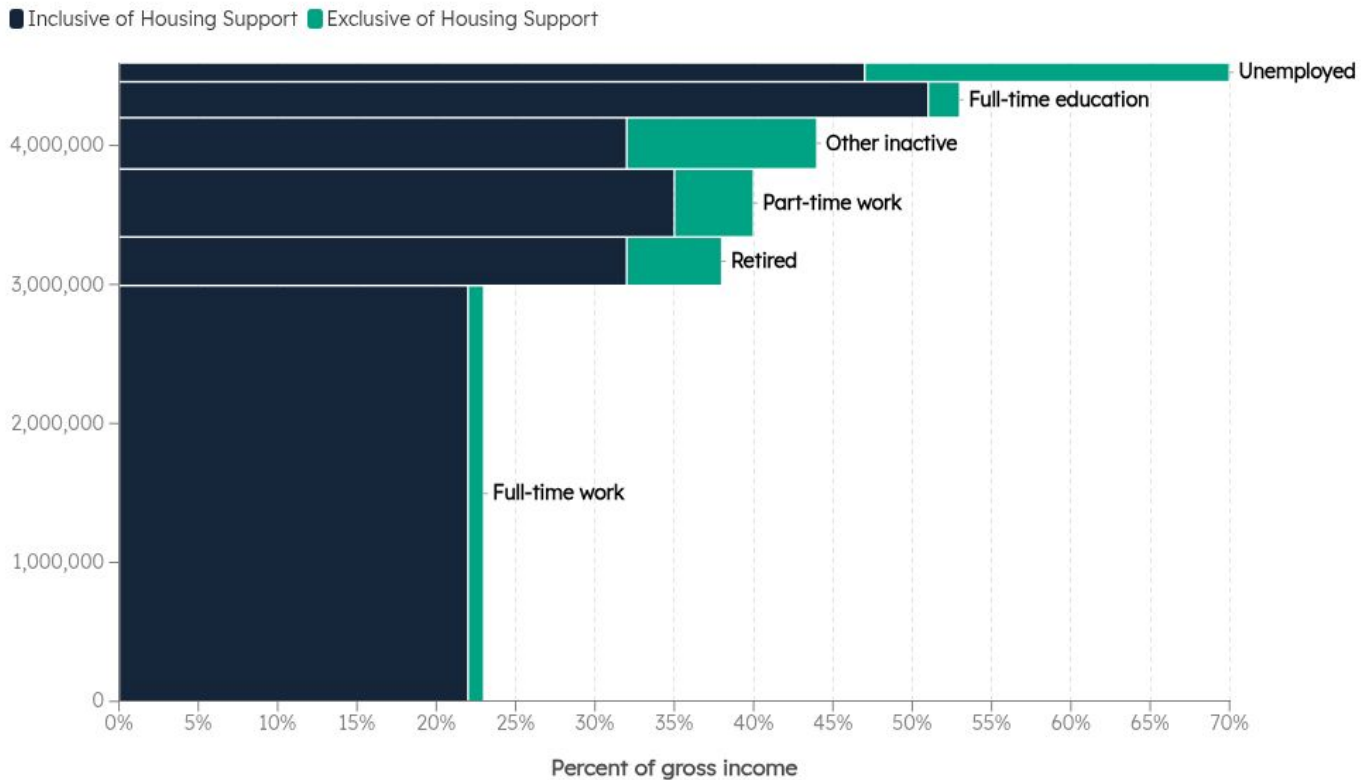


Source: ONS, Dataloft • Non-zero y-axis.

Part of the answer to this question lies in understanding the diverse profile of today's PRS. Data from 2021/22 EHS shows that private rented households headed by someone in full-time employment (two-thirds of all private rented households) spent 25% of their income on rent, similar to the Dataloft data from actual tenancies. However, the EHS figures for other households are more concerning. Privately renting households headed by someone in part-time work spend on average 39% of their income on rent, while those in full-time education spend over 80%. It is likely that a significant proportion of students can afford their rent thanks to

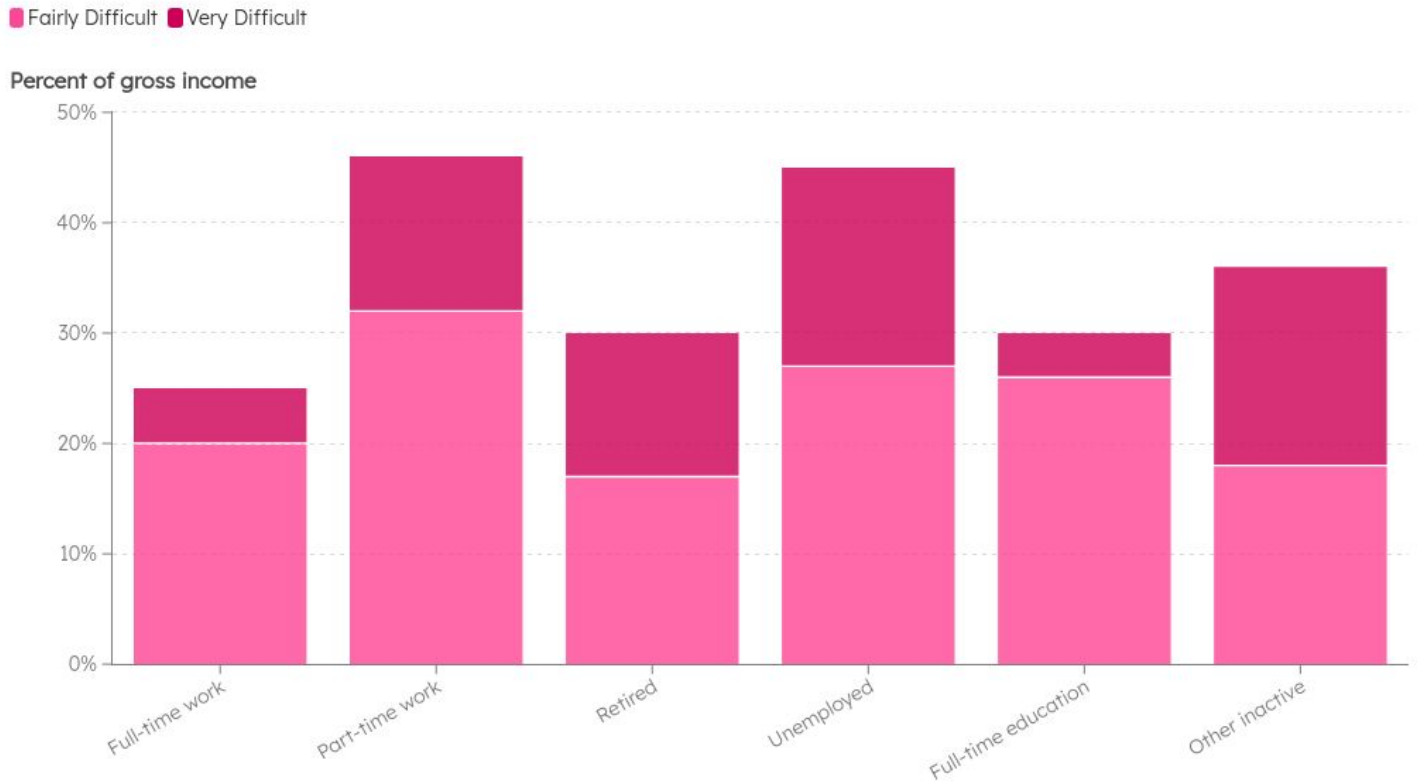
sources other than their own income such as parents. This is one of the reasons why comparing the income profiles of residents to the cost of rent can be misleading for understanding affordability.

Figure 7: Rental spend by employment status of household reference person



Source: DLUHC English Housing Survey, 2022-23

Figure 8: Ease of paying rent by employment status of household reference person



Source: DLUHC English Housing Survey, 2022-23

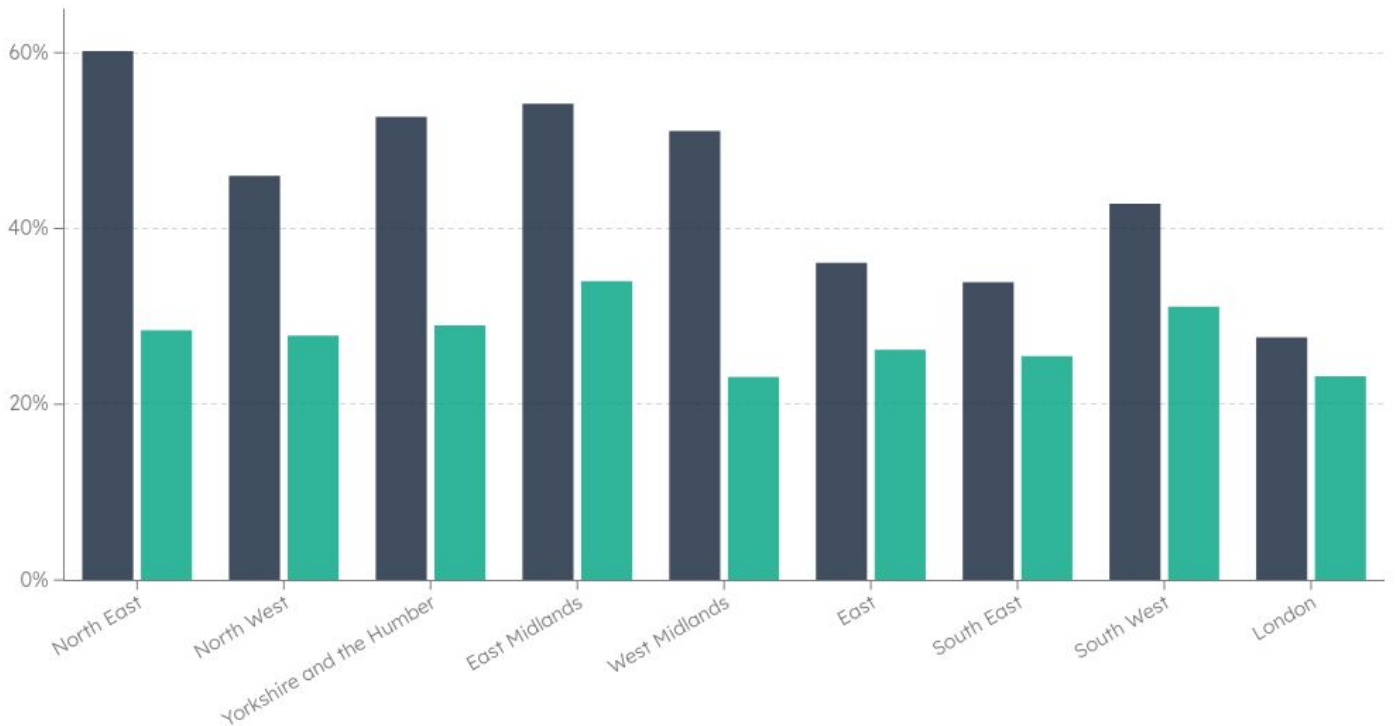
Above all, low-income households now face acute affordability challenges (measured by the average share of income spent on private rents). For example, EHS data shows that the proportion of privately renting households in the bottom 40% of gross incomes was 41% across England, ranging from 24% in London to 60% in North West England. Though the proportion of privately renting households in the bottom 40% of incomes was lowest in London, 88% of all private renters in the capital were also paying more than 30% of their income on rent – so that

21% of London households in the PRS were both on the lowest incomes **and** experiencing stretched affordability. Meanwhile, just over half of low-income renting households in North West England were spending over 30% on rent, so that in total 34% of households renting privately in Manchester had both low incomes **and** stretched rental affordability. The Joseph Rowntree Foundation's (JRF's) cost of living survey finds that 89% of the privately renting households in England who are also in the bottom 2 income quintiles are spending more than 30% of net income on rent (Johnson-Hunter and Earwaker, 2024).

The high-rent burden for low-income households partly reflects the challenges of measuring affordability for those using government support; the housing element of Universal Credit may make up a large share of a household's total entitlement, particularly in parts of the country where rents are highest. But it also reflects the diminishing share of housing costs the benefits system covers over time, as benefits have failed to keep up with the real costs of private renting (Mulheirn et al., 2023).

Figure 9: Low income households with stretched affordability

■ Percent In Bottom 40% of Income ■ Percent in Bottom 40% & Paying More Than 30% On Rent



Source: DLUHC English Housing Survey, 2022-22

Government support for renters has been inadequate

There has been a growing disconnect between actual market rents and the support offered to low-income households through the LHA. In April 2024, the previous government raised LHA rates compared to the April 2020 levels at which they had been frozen. However, these new rates were based on rents in the 12 months up to September 2023. Our analysis of local

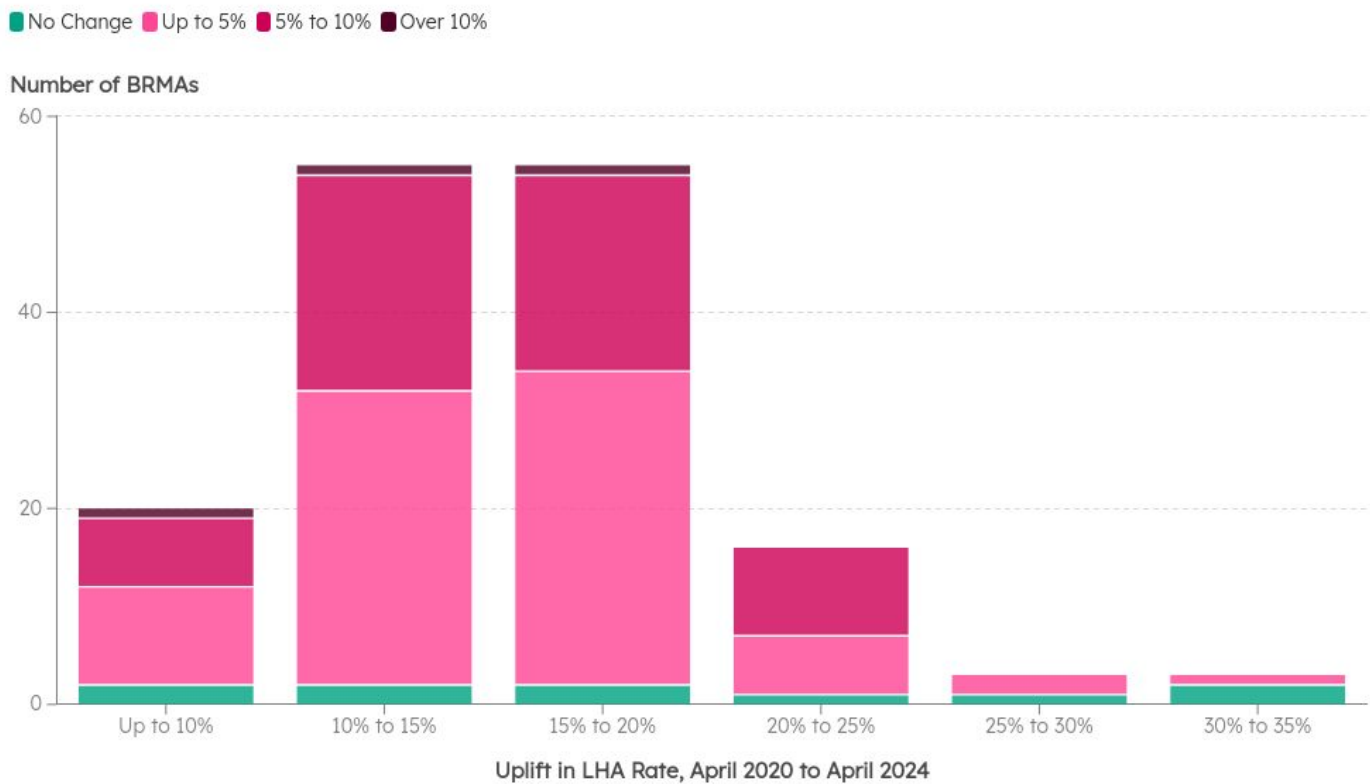
reference rents from September 2023 to April 2024 shows most markets have seen significant further rental growth since this time, creating a new disconnect between rents and support. In other words, despite the recent increase, LHA rates have still not caught up with spiralling private rents, and low-income private renters continue to struggle to afford basic living costs. Without action from the new government to keep LHA rates pegged to market rents, it is likely that the gap between the rents landlords charge and what low-income households can pay will continue to grow rapidly.

JRF has long campaigned for all political parties to commit to reliably uprating benefits in line with inflation, and to ensuring that benefits provide a minimum level of support for households to afford the essentials in life (Schmuecker, 2024). Despite an ongoing cost of living crisis, the previous government's Household Support Fund is due to end in September 2024. While welcome, this fund was always too short-term and too small-scale to tackle poverty effectively. As an emergency measure, the current scheme should be extended by up to a year while a new approach to hardship payments and support is developed. This should combine the Household Support Fund with Discretionary Housing Payments to create a single, longer-term, more flexible fund.

For over a decade, low-income households have faced a permanent cliff edge in the support they can get to cover housing and basic living costs. Long-term certainty on how the benefits system will support households is now essential to avoid a further decline in affordability for low-income private renters (Schmuecker, 2024). This must include a guarantee that LHA will be

rebased to market rents as a permanent feature of benefits uprating. As we argued in Reboot, the alternative is that households using benefits to help pay rents in the private sector will be progressively squeezed out of the mainstream housing system almost everywhere, increasing financial distress and homelessness – and ultimately leading to higher costs and worse outcomes from housing more people in temporary accommodation (TA) (Lloyd et al., 2023).

Figure 10: Uplift in LHA rate by BRMA & change in rents since September 2023



Source: VOA - CAT C: Two Bed Properties - as of April 2024

A sell-off by landlords – or professionalisation?

The drivers on the demand side of the rental market are relatively well understood, but what has been happening on the supply side is still uncertain. There have been regular media reports that landlords are selling off their portfolios, but until recently the evidence was mostly limited to surveys of landlord intentions. Analysis from Hamptons suggests there have indeed been more landlord sales than purchases since 2016, though this trend will be more representative of smaller landlords and less likely to pick up the growth in the build-to-rent sector. Industry experts estimate that around 200,000 new build-to-rent homes have entered the market over the same period, offsetting most but not all of the exits by smaller landlords. Taken together, these 2 trends suggest that there has been a consolidation in the sector in recent years, with fewer small landlords but a similar overall number of homes. However, build-to-rent has so far tended to target renters with higher incomes, potentially putting further pressure on affordability as lower-rent homes are replaced by more expensive ones in some markets (LSH, 2024).

Figure 11: Purchases and sales by Landlords, Great Britain

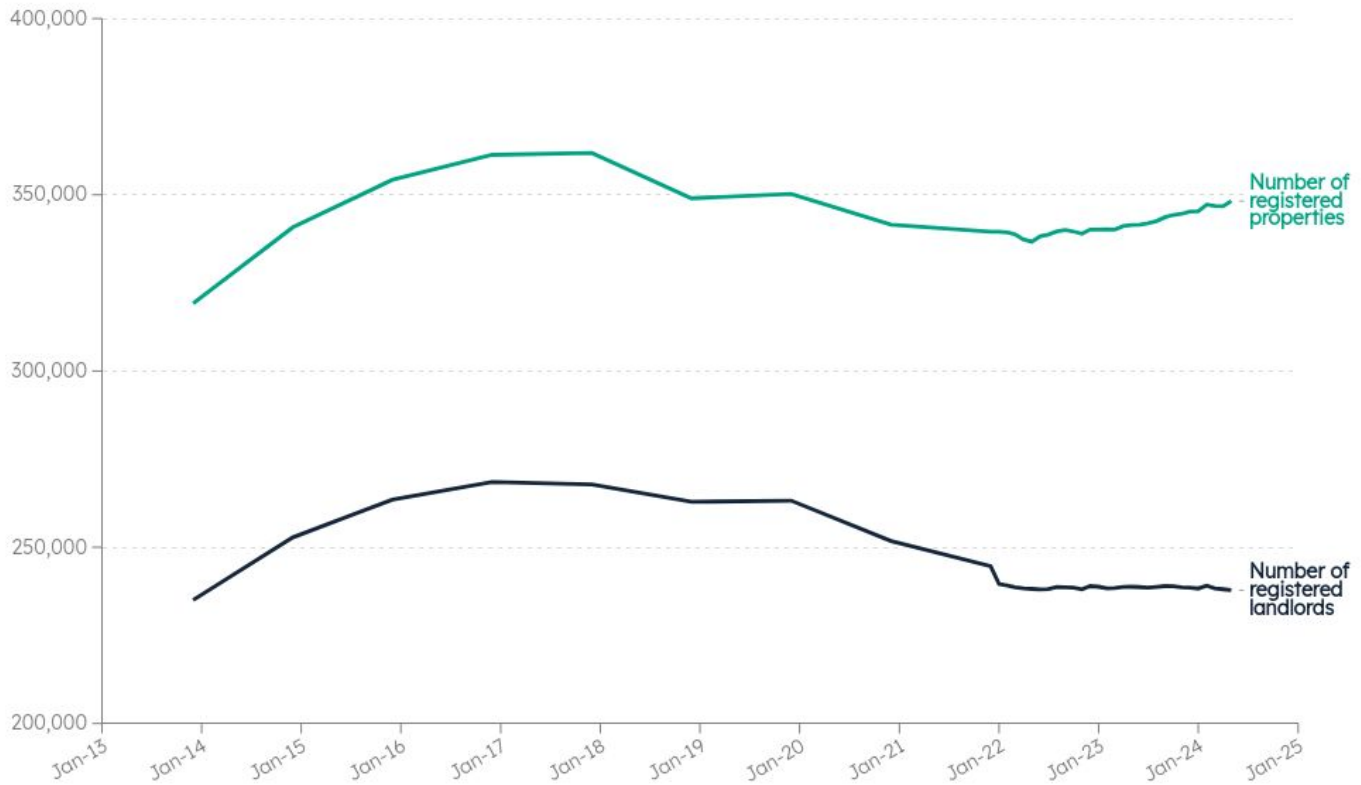
Share of homes bought and sold by landlords



Source: Hamptons • 2024 is YTD

Further evidence of a consolidation is provided by data from the Scottish Landlord Register. Their data shows that the number of landlords and properties registered did peak in 2016 and 2017 respectively, but the fall in landlord numbers has been greater, down 11.4% compared to 3.8% for properties. More recently, the number of registered properties has started increasing again but landlord numbers remain relatively flat.

Figure 12: Scottish Landlord Register - number of registered landlords and properties



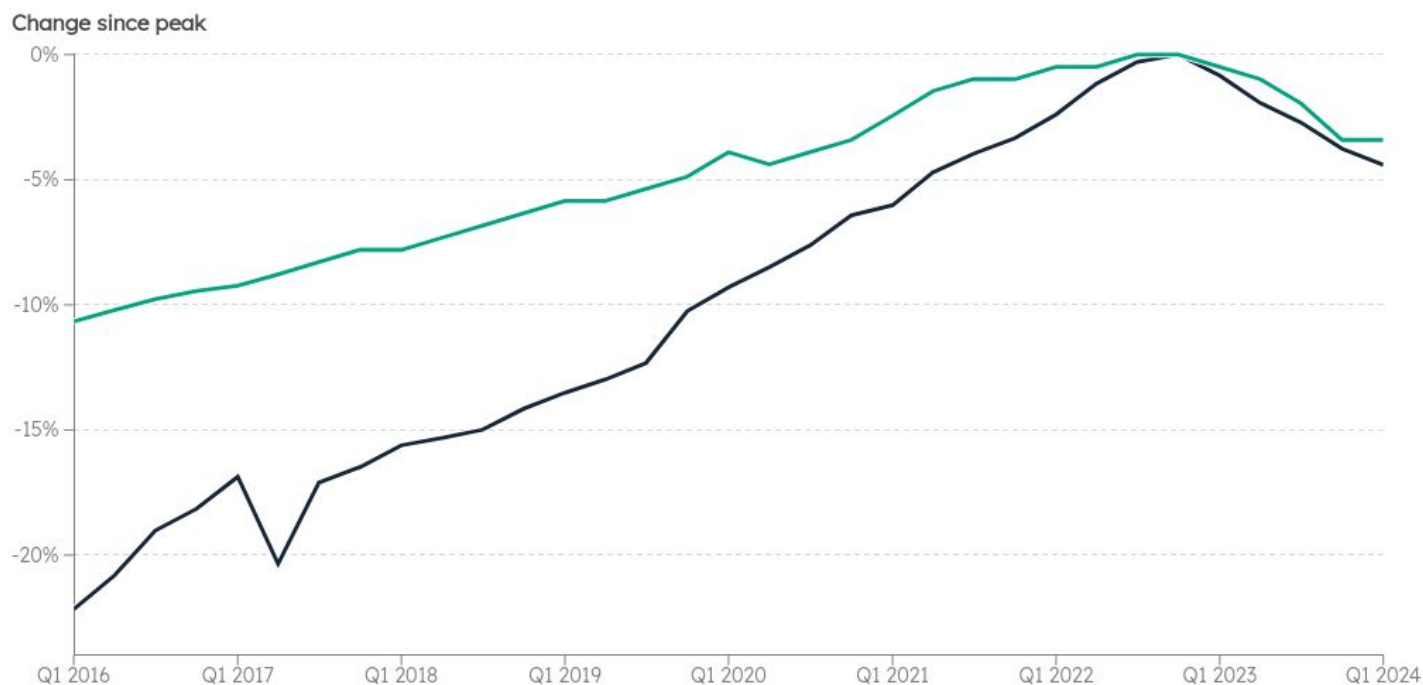
Source: Scottish Government • Between 2018 and 2019 there was a change in data system, which led to an overcount in these years

Across the UK, there are now clear signs that more rental homes are being sold off as landlords react to the changing economic and regulatory environment. The number of outstanding BTL mortgages has fallen by around 3.4% since late 2022. Meanwhile, Bank of England analysis ‘indicates modest shrinkage [in the PRS] on aggregate and across UK regions and property sizes’ (BoE, 2023).

Worryingly, the effects of landlord exits are hitting low-income renters harder. Analysis found there was ‘an increase in rented homes being sold and many of these are lower priced flats’ (BuiltPlace, 2023). Given the failure of LHA payments to keep up with current rents, these shifts in the make-up of the PRS are likely to be contributing to increasing pressures in England’s homelessness system, which cost councils £1.7bn in 2022/23, up 62% since 2017/18 (Shelter, 2023).

Figure 13: Change in value and number of outstanding buy-to-let mortgages since peak

■ Value of Outstanding BTL Balance - FCA MLAR ■ Number of Outstanding BTL Loan - UK Finance



Source: FCA MLAR, UK Finance

Growing affordability pressures in the PRS may also reflect landlords' changing priorities and their investment strategies in recent years. With lower house price growth, higher interest rates and tighter regulation, some landlords (who are also increasingly retired) have shifted their focus from capital growth to income generation. While this should be a welcome sign of the private rental market maturing and even professionalising, the current unique conditions in the market mean there are also negative side effects. Where once a fear of voids (and therefore a lack of rental income to pay the mortgage) may have held landlords back from pushing rents too high, the competitiveness of the current rental market has given them the opportunity to shift their focus to maximising their income returns, without the risk of leaving their property empty for long. In this context the need for higher regulatory standards is even more pronounced, as landlords currently face weaker incentives to voluntarily improve standards. Labour's Renters Rights Bill will include welcome measures to apply a new Decent Homes Standard and extend 'Awaab's Law' to the PRS.

The PRS has seen lower turnover in recent years

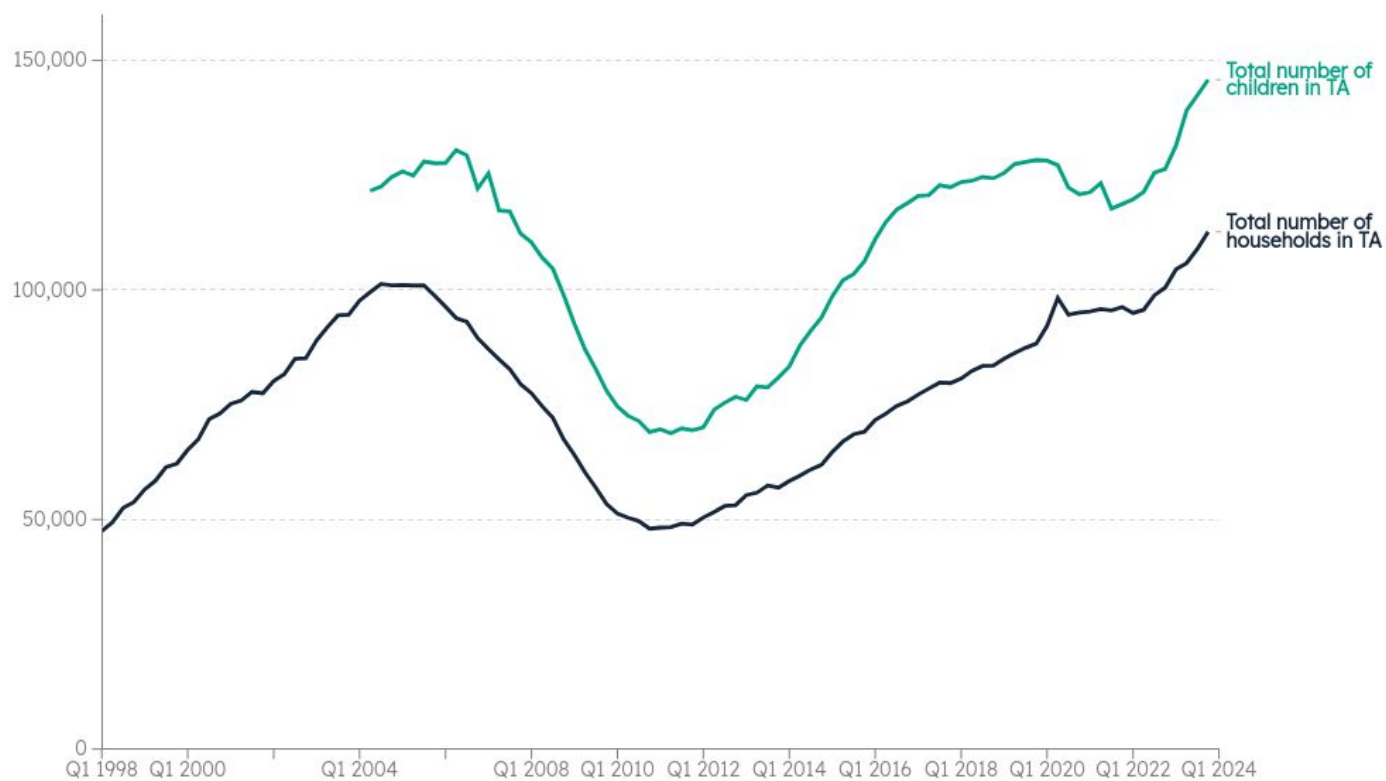
While the overall size of the PRS has fallen slightly, the post-pandemic market has seen much larger falls in the number of homes available to rent. For example, Rightmove reported that 'the number of available rental properties is 11% higher than last year, but 26% below 2019' and estimated that 'nearly 50,000 rental properties are needed to bring the supply of rental homes back to pre-pandemic levels' (Rightmove, 2024). One factor that might contribute to this lack

of supply is an increase in tenants staying in their homes for longer. The PRS is historically a high turnover market, with around one-third of households resident for a year or less. Anecdotal evidence suggests that tenancy lengths have been increasing, as many tenants have chosen to stick with their existing home, for a higher rent, rather than risk competing for the limited numbers of new lets available.

Squeezed at the top and bottom

Adding to the shortfall in supply, landlords in some markets have increasingly shifted to the short-term lettings market, contributing to the fall in homes available to rent longer-term (Propertymark, 2022). Meanwhile, some landlords at the lower end of the market have shifted their focus from the private rental market to offering TA at much higher rents – reflecting the recent rises in number of people in TA (Hackett and Farrelly, 2022). The Department for Levelling Up, Housing and Communities (DLUHC) data shows that as of September 2023 there were 109,000 households (including 142,490 children) living in TA, up 3.0% from the previous quarter and up 10.3% from the same time last year (DLUHC, 2024). As JRF argued in a recent report, a targeted programme of acquisitions of homes from the market in places with high demand for TA could ease these pressures, improving outcomes for homeless households and driving down costs for councils (Baxter and Elliott, 2024).

Figure 14: Households and children in temporary accommodation, England



Source: DLUHC

5. The future of the rental market

Rental growth does appear to be easing, though is still rising (Fig 3). As underlying wage growth also eases, this should reduce some of the upwards pressure, though there has also been an increase in the rental affordability ratio (Fig 4) and this could rise further. Meanwhile, the challenges facing prospective first-time buyers in this higher interest rate environment have led to more households renting for longer, adding further demand pressure to the rental market. This is an unfortunate but expected effect of a housing market downturn. Our Reboot report from last year recommended measures to rebalance local housing markets in the face of these pressures, including doubling the Stamp Duty Land Tax surcharge on investor purchasers (Lloyd et al., 2023). This would improve the purchasing power of social landlords, owner-occupiers and charities over private landlords and second homeowners.

6. Conclusion

The relationship between owner-occupied and private rented markets is complex, but it is entirely possible that recent market fluctuations and higher interest rates could start to feed through to lower house prices, opening up opportunities for more better-off renters to leave the PRS and become first-time buyers. In this case, declining numbers of homes in the PRS would be a welcome sign that more households were able to buy. On the other hand, while average house prices remain high by historic standards, homes lost to the PRS in this way are likely to be at the more affordable end of the market, intensifying the scarcity of homes accessible to low-income renters as long as social rented housing remains so hard to come by.

As the housing market downturn continues to play out there will still be an urgent need for more public intervention to increase the supply of genuinely affordable homes and the overall volume of housebuilding, as our last update highlighted (Lloyd et al., 2024). In the meantime, the need to improve the PRS remains acute and the new Government's Renters' Rights Bill should be urgently progressed.

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