

A PLACE TO STAY, A PLACE TO CALL HOME

A Strategy for the
Private Rented Sector
in Scotland



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The Scottish Government
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EH1 3DG

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A handwritten signature in black ink that reads "Margaret Burgess". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Margaret Burgess MSP
Minister for Housing
and Welfare

This Strategy sets out the Scottish Government's vision and strategic aims for the private rented sector (PRS). We want to work with our partners to further develop a sector that can deliver for Scotland's people and communities by providing high quality homes.

The private rented sector has always catered for a broad range of tenants. Recently, there has been growth in the number of younger people, including those with families, calling the PRS their home.

Ensuring that the sector can meet the needs of all households renting from private landlords, or seeking private rented accommodation, is a key theme in the Strategy.

Publication of this Strategy, the first focused on the PRS since devolution, was a commitment made in *'Homes Fit for the 21st Century'*, the Scottish Government's Strategy and Action Plan for Housing 2011-2020.

Working with our colleagues on the Scottish Private Rented Sector Strategy Group, chaired by Professor Douglas Robertson, we launched a consultation on a draft Strategy in 2012. I was delighted to see the level of interest in this policy area and the large number of informative and helpful contributions we received. All of these views and ideas have helped inform the Strategy.

The Strategy sets out an ambitious agenda, aimed at improving management standards and quality of service for tenants and prospective tenants, as well as enabling growth and investment in existing and new private rented stock.

The key actions in the Strategy will build on achievements to date, including the recent introduction of Tenancy Deposit Schemes to Scotland and clarification of the law on charging tenants premium payments.

We want to make the private rented sector in Scotland an attractive and affordable housing option for anyone who wishes to live in it. The flexibility and affordability it can offer a range of households is a key strength.

To ensure standards continue to rise, the Scottish Government is determined to support the development of a more targeted and effective regulatory framework. We want to work with good, professional landlords to help them prosper, but we are determined to tackle the practices of landlords who do damage to the image of the sector and undermine the cohesion of communities.

Just as the Scottish Government wants to set out a national vision for the sector, tenants have a role to play in improving the sector at a local level, by being well informed consumers helping to drive up the quality of service, as well as knowing their rights and responsibilities.

As the Minister for Housing and Welfare, I recognise the impact of the UK Government's Welfare Reforms on Scotland in general, and specifically the PRS. The Scottish Government will work with partners to do what it can within the current constitutional framework to minimise the negative impacts of these reforms.

VISION, STRATEGIC AIMS AND KEY ACTIONS

This Strategy aims to improve and grow the private rented sector by enabling a more effective regulatory system, targeting tougher enforcement action and attracting new investment.

The Strategy has been informed by the work of the Private Rented Sector Strategy Group who helped the Scottish Government to produce and consult on a draft Strategy in 2012.

VISION AND STRATEGIC AIMS

THE VISION

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

”

In order to achieve this vision, three strategic aims have been identified:

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

Progress towards meeting the vision and strategic aims will be made through taking forward ten key actions and assessing the PRS contribution to the achievement of the *Scottish Government's Housing and Regeneration Outcomes*, described in Chapter 1.

Informed by dialogue with the PRS Strategy Group, we have identified a number of strategic challenges involved in improving the PRS:

- tackling the minority of landlords and tenants who act unlawfully or antisocially, and have a disproportionate impact on vulnerable communities and the reputation of the sector overall;
- creating a regulatory framework that works for both tenants and landlords - one that is effective, proportionate and sets standards to ensure quality but is also affordable and does not constrain growth;
- ensuring that the sector meets the growing demand for private rented housing from a range of different household types;
- encouraging tenants to think of themselves as consumers who can drive improvement within the sector; and supporting landlords to deliver improvements;
- taking account of the needs of vulnerable tenants, particularly in light of the UK Government Welfare Reforms;

- attracting more investment to increase the supply of private rented housing and to improve physical quality, against a backdrop of challenging economic times; and
- responding to the need for improved energy efficiency in PRS properties.

Addressing these challenges will not be easy. The Scottish Government does not have a monopoly on good ideas, in order to deliver on the vision for the sector, we will engage with all of our partners on their innovative ideas. Partnership working at all levels, national to local, will be essential in taking this work forward.

Key Actions

The Scottish Government will work with our partners and stakeholders to take forward 10 key actions.

To improve PRS quality:

1

Work with COSLA, individual local authorities, and landlords to refine the landlord registration regime to identify new means of targeting tougher enforcement action on the worst landlords in the sector. Specifically by:

- using learning from the work of the Govanhill Hub, and other good practice across Scotland, to influence formation of local partnerships to assist vulnerable communities and individuals experiencing problems with bad landlord practice; and
- examining how the powers available to local authorities might be enhanced, enabling them to take stronger, targeted enforcement action in the most vulnerable communities.

2

Work with all partners and stakeholders to identify the most effective form for further regulation of the letting agent industry in Scotland, considering legislative change where required.

3

Use findings from Scottish Government consultations on (i) options for improving dispute resolution in rented housing, including the potential creation of a new Housing Panel, and (ii) proposals for reforms in the sheriff court, to inform action aimed at improving redress for consumers, including legislative change as required.

4

Broaden access to the Private Rented Housing Panel to drive greater compliance with the Repairing Standard by seeking to enable new third party reporting rights for local authorities and other relevant bodies.

5

Publish a *Sustainable Housing Strategy in 2013*, bringing together policies on climate change, energy efficiency, fuel poverty, planning and the built environment. In addition, work with stakeholders to develop options for setting minimum energy efficiency standards in private sector housing, ahead of public consultation on draft regulations.

To create a sector that can deliver for Tenants and Landlords

-
- 6** Consult with all stakeholders to examine the suitability and effectiveness of the current private rented sector tenancy regime, considering legislative change where required.
-
- 7** Work with stakeholders to develop an online information hub aimed at tenants and landlords in the private rented sector. This will provide a 'one stop shop' for accessible information and advice on the private rented sector.
-
- 8** Monitor the impact of UK Government Welfare Reforms on the sector as it progresses and continue to work with COSLA and other stakeholders to support the sector to respond.

To enable growth and investment

-
- 9** Consider, with local authorities, how a better understanding of the need for private rented housing and its role within overall housing supply can be developed and integrated into Local Housing Strategies, informing and influencing future investment decisions by pension funds and institutional investors.
-
- 10** Continue to drive actions set out in 'Homes fit for the 21st Century' to encourage growth and investment in the PRS by:
- engaging with landlord representative bodies, prospective institutional investors, pension funds, the construction sector and registered social landlords to identify suitable business and investment models enabling opportunities for investment in new private homes for rent in Scotland; and
 - continuing dialogue with the UK Government on reserved matters where a change in the taxation system will stimulate investment in new or existing PRS housing.

CHAPTER 1
POLICY CONTEXT



POLICY CONTEXT

This document describes a Strategy for the private rented sector in Scotland. It is set within the broader context of the Scottish Government's outcome-based approach, including the overarching *National Performance Framework and the Housing and Regeneration outcomes framework*. It follows on from policy commitments made in the Scottish Government's Strategy for Housing - 'Homes fit for the 21st Century' (2011 - 2020)¹.

Homes fit for the 21st Century

The Scottish Government's Housing Strategy was published in February 2011. The Strategy presents an ambitious agenda to increase new supply of housing, and to enhance the quality and sustainability of our existing housing stock and the surrounding neighbourhoods.

The Scottish Government is committed to taking a tenure neutral approach to housing and promoting mixed tenure communities, seeking sustainable choices for all rather than encouraging one particular tenure.

The Strategy emphasised the importance that housing plays in the physical, economic and social fabric of Scotland, and in delivering the Scottish Government's Purpose of sustainable economic growth. This was highlighted by Scottish Ministers in the foreword to that Strategy:

“Housing is about more than simply bricks and mortar. From children needing space to play and learn, to those seeking to buy or rent, to those requiring adaptations to continue living in their homes, housing touches everyone's lives, and in different ways. We believe that everyone should have a safe, warm home which they can afford, and we are committed to ensuring that this becomes a reality.”

Scotland's National Performance Framework

Housing plays an integral part in achieving the Scottish Government's Purpose “...to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.”

The National Performance Framework outlines the outcomes-based approach to delivery of this Purpose. An outcomes approach shifts the focus of policy from processes and inputs, to a greater emphasis on the impact that the policy and its delivery has on the quality of life and experience for the people of Scotland.

As outlined in Figure 1 on the following page, the Purpose is the overarching ambition for Scotland. This is supported by Purpose Targets, demonstrating progress towards the Purpose; Strategic Objectives, describing the focus of actions; and National Outcomes, describing in more detail what the Scottish Government wants to achieve. The National Indicators and targets track progress towards the achievement of the National Outcomes and ultimately the delivery of the Purpose. Further information is available on the Scottish Government website².

1 Scottish Government (2011) Homes fit for the 21st Century <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/reform>

2 <http://www.scotland.gov.uk/About/Performance/purposestratobj>

Figure 1: The National Performance Framework

The Concordat between local government and the Scottish Government, agreed in 2007, established a new relationship between national and local government based on greater autonomy for councils to use their resources to drive progress on the outcomes featured in the National Performance Framework. This enables local government to set out local priorities for service delivery, including housing, in a Single Outcome Agreement (SOA).

Housing and Regeneration Outcomes Framework

The Housing and Regeneration Outcomes Framework supports the Scottish Government's National Performance Framework, with a focus on homes and communities. The Scottish Government's vision for housing in Scotland is for *"...a Scotland where all people live in high quality sustainable homes that they can afford and that meets their needs."* Four Housing and Regeneration outcomes have been identified as being crucial to achieving this vision:

- a well-functioning housing system;
- high quality, sustainable homes;
- homes that meet people's needs; and
- economically, physically and socially sustainable communities.

The operation and growth of the PRS contributes to all four of these outcomes. Therefore, achieving the vision and strategic aims for the sector set out in this Strategy is important for achieving the outcomes and vision for all housing in Scotland, and contributing to the Scottish Government's Purpose and National Outcomes.

CHAPTER 2
THE PRS IN SCOTLAND



THE PRS IN SCOTLAND

The private rented sector in Scotland has undergone significant recent change. This chapter examines the profile of the PRS, the drivers of change and the current market context which will influence development of the sector in future.

Commentary draws on the supporting analytical paper '*Evidence Review of the Private Rented Sector in Scotland*'³, which provides information on key statistics and trends.

What is the Private Rented Sector?

The private rented sector is a housing tenure with properties owned and let by private landlords on the open market. Most tenancies in the PRS are let under the assured tenancy regime, which came into effect from 2 January 1989⁴. Within that, the vast majority of lets are Short Assured Tenancies.

There were an estimated 267,000 households in the private rented sector in 2011, accounting for 11% of households in Scotland⁵. In some parts of Scotland, the proportion of local housing stock accounted for by the PRS is significantly higher. In Glasgow, the City Council estimates that private rented housing accounted for 19% of all dwellings in 2012⁶.

In the recent past, the sector was viewed as a tenure most suitable for those seeking flexibility in their living arrangements. In this sense, the PRS has been viewed as a 'transitional' housing option on the way to owner occupation or social housing.

Since the credit crunch, the role of the PRS is being re-evaluated by many as a longer-term housing option.

The Scottish Housing Market

As a result of the credit crunch, the Scottish economy experienced a recession during 2008-09 and in 2012, and subsequent growth has been weak. Such economic uncertainty has had a considerable impact on the housing market, where credit is much harder to secure (in particular for first-time buyers), and the 'Buy-to-Let' mortgage market is more constrained.

Home ownership has become harder to access for many. House sales have halved over the past few years, while house prices have remained relatively stable.

Research by the Joseph Rowntree Foundation⁷ predicts that by 2020, the private rented sector will house 37% of all young people in the UK. The Institute of Public Policy Research (IPPR)⁸ also recently highlighted the social impact this market context may have on the current generation of young people.

Growth in the PRS in recent years may be viewed both in the context of the housing boom years between the late 1990s and mid 2000s, and as a consequence of housing market conditions in the post-credit-crunch era. During the boom years, growth was facilitated by the easy availability

3 Scottish Government (2012) Evidence Review of the Private Rented Sector in Scotland
<http://www.scotland.gov.uk/Topics/Built-Environment/Housing/privaterent/evidencereview>

4 There remains a small number of 'regulated tenancies', under the Rent (Scotland) Act 1984, where tenants have a right to a 'fair rent' assessed by a Rent Officer from the Rent Service Scotland (RSS)

5 Scottish Household Survey 2011

6 <http://www.glasgow.gov.uk/CHttpHandler.ashx?id=14215&p=0>

7 Housing Options and Solutions for Young People in 2020

8 No Place to Call Home: The Social Impacts of housing undersupply on young people (IPPR, 2012)

of credit and 'Buy-to-Let' mortgages. Post-credit-crunch growth has been fuelled by stagnation in the housing market with many 'accidental landlords' entering the sector unable to sell properties.

The effect on the housing market, five years after the credit crunch, has persisted leading many to view this as a period of market re-adjustment that will continue for the foreseeable future.

As well as evident challenges, this may also present an opportunity to create a more sustainable housing market. The pre-credit-crunch period saw rapid growth as part of a burgeoning and volatile housing market, where returns on investment were seen primarily through the lens of capital accumulation from the sale of property. The new housing market context may provide a more solid foundation to build on, with less volatility, where returns for landlords and other investors are realised through steady rental income.

Private Rented Sector Profile

Over the last 12 years, the private rented sector has grown both proportionately and in absolute numbers. Up to 2007, when the social housing sector was reducing, both the private rented sector and the owner occupied sector increased. Since 2007, the private rented sector has continued to grow, while the owner occupied sector has begun to decline. Overall, the private rented sector has more than doubled, from 115,000 dwellings (5% of all homes) in 1999, to 267,000 (11% of all homes) in 2011 (see Table 1).

Table 1: Percentage tenure breakdown of Scottish housing stock

	1999	2001	2003	2005	2007	2009	2010	2011
Owner Occupied	61	64	65	66	66	66	65	64
Social Rented	32	28	26	25	23	22	23	23
Private Rented	5	6	6	8	9	10	11	11
Other	2	2	2	2	2	2	2	2
Total	100	100	100	100	100	100	100	100

Column percentages. Source: Scottish Household Survey

Many of these new PRS properties will have come from transfer of existing stock from other tenures. One of the key challenges for the future is to create a sector where PRS growth will be accelerated by the supply of new housing. Chapter 5 will look in further detail at growth of the PRS.

Tenant Profile

The PRS is a diverse sector with a broad customer base, highlighting its role in meeting a wide range of housing need and demand. It is recognised as providing a good housing option for those requiring flexibility in terms of employment, for students and for those setting up homes for the first time⁹. However, in recent years, the sector has also become a housing option for those seeking longer-term accommodation.

Core demand for private rented housing comes from households requiring transitional accommodation¹⁰ and living in the PRS is recognised as a life-cycle stage for many tenants¹¹.

⁹ Crook T, Kemp P and Ferrari E (2009) Views and experiences of landlords in the private rented sector. Review of the private rented sector volume 3. Scottish Government

¹⁰ Strachan V and Donohoe T (2009) Views and experiences of tenants in the private rented sector in Scotland. Review of the private rented sector volume 2. Scottish Government.

¹¹ Ball M (2010) The UK private rented sector as a source of affordable accommodation. Joseph Rowntree Foundation Housing Market Taskforce. www.jrf.org.uk

Students form a significant proportion of the tenants in the PRS at 14%¹² in Scotland¹³. This group accounts for the vast majority of those living in Houses in Multiple Occupation (HMOs). There has been an increase in the number of students attending further and higher education establishments in recent years, which has increased demand for private renting in particular areas.

The PRS has also been recognised as attracting a 'young professional' sub-market as younger, relatively affluent, households choose to rent privately rather than buy¹⁴.

Many newly formed households, including those following relationship breakdown, also tend to start in the PRS¹⁵.

Immigration has also contributed to increased demand for private renting, particularly because immigrant households tend to be in the younger age ranges, and are more likely to rent¹⁶.

In the post-credit-crunch era, the PRS is likely to continue to provide homes for young people in the longer term. The proportion of the 16-34 age group within the PRS in Scotland has expanded rapidly – from 13% in 1999 to 34% in 2011 – while owner occupation for this age group has decreased from 53% to 40% over the same period.

Assuming that current market conditions persist, the PRS is likely to become the main tenure for this age group. This has led many commentators to coin the phrase '*Generation Rent*', young people trying to save for a deposit in difficult economic times to get on the property-owning housing ladder. This is likely to have a significant social impact for this generation.

Part of the challenge set out in this Strategy is to ensure that the sector meets the growing demand for private rented housing from a range of different household types, including providing a suitable housing option for those with children. The PRS now provides a home for 13% of all households with children in Scotland. The proportion of PRS households with children has risen from 20% in 1999 to 27% in 2011, with an estimated 72,000 households in the sector now with children¹⁷.

Landlord and Letting Agent Profile

The majority of landlords in the private rented sector in Scotland own a small number of properties. In 2009, just over 4 in 5 (84%) of PRS dwellings were owned by 'individuals, a couple or a family', while 14% were 'owned by a company, partnership or property trust', and 2% owned by an institution¹⁸.

In terms of the number of properties, around 7 in 10 (70%) of landlords own one property, and the vast majority (95%) between one and five properties. However, the 5% of landlords that own more than five properties own a larger share of the sector, around two-fifths (40%).

It is important to recognise the pattern of relatively small-scale ownership, as this has implications for engaging with the landlord community.

¹² Evidence Review of the Private Rented Sector in Scotland 2012

¹³ Of those in Further or Higher Education, 68% live in the PRS

¹⁴ See reference 10

¹⁵ See reference 10

¹⁶ See reference 11

¹⁷ Scottish Household Survey (2011)

¹⁸ Scottish Government Review of the Private Rented Sector (2009)

Many landlords, in particular those entering the sector in recent years, might be letting a property they have inherited or been unable to sell. There also remain a significant number of 'Buy-to-Let' landlords in the sector, who invested during the housing boom years and were a significant driver in the sector's expansion.

Evidence from the *2009 Review of the Private Rented Sector* suggested that rental income does not necessarily provide landlords with an adequate rate of return, with many expecting a capital gain when they sell a property.

Landlords seeking return on investment from rising house prices, rather than income from rent, are likely to face a significant adjustment in today's market.

In order to achieve the vision and aims that we have for the sector, we recognise the challenges that many landlords are facing and the benefit of supporting and encouraging landlords to invest in their properties to improve overall standards.

Letting Agent Profile

The scale of the letting agent industry in Scotland has grown in recent years and provides a range of property management services to landlords in the sector. The letting agent sector is a varied one comprising solicitors, estate agents and accommodation agencies.

It is estimated that there are around 500 letting agents businesses in Scotland, accounting for around 50% of all annual lettings¹⁹. These businesses are involved in around 150,000 private lettings in Scotland per year²⁰.

In a sector with such a large number of small-scale landlords, the letting agent industry already plays an important role in providing a wide range of services and assisting the delivery of high quality services to tenants and prospective tenants. Such services can help ensure that a landlord meets their regulatory responsibilities and also enable effective management and maintenance of privately rented properties.

¹⁹ CityLets Data Source (www.citylets.co.uk)

²⁰ Ball M (2010) The UK private rented sector as a source of affordable accommodation. Joseph Rowntree Foundation Housing Market Taskforce. www.jrf.org.uk

CHAPTER 3
IMPROVING QUALITY



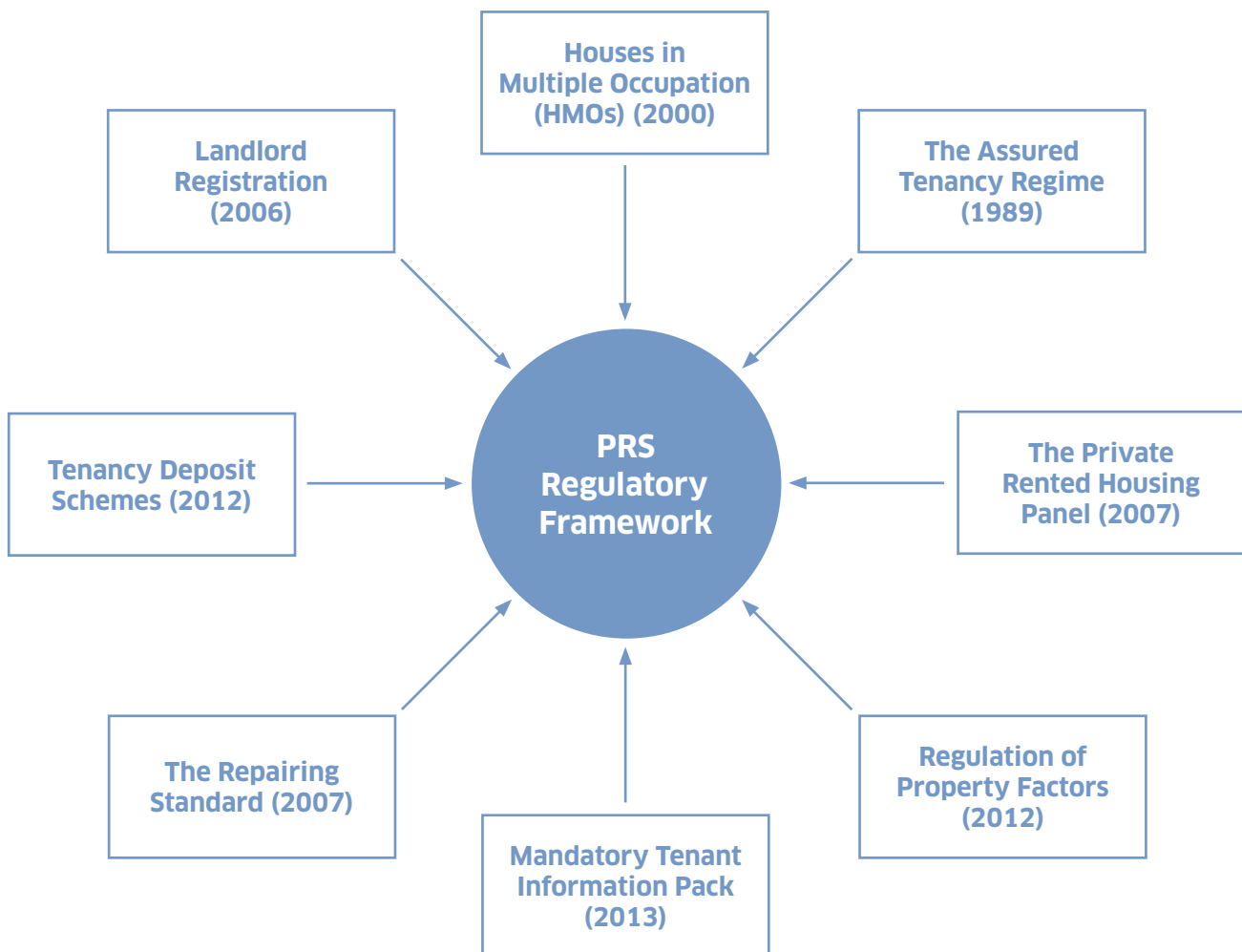
IMPROVING QUALITY

This chapter examines how the Scottish Government, working with its partners, can help improve standards of service provision and the experience of renting in the sector.

The Current Regulatory Framework

The diagram below highlights the main provisions governing regulation of the private rented sector in Scotland, and when they were introduced.

Figure 2: The PRS Regulatory Framework



Different opinions are held on the adequacy or impact of the range of measures that regulate Scotland's PRS. Regulation plays an important role in the effective functioning of the sector. The Scottish Government wants to ensure that the regulatory regime in place is effective and feedback from the consultation on a draft Strategy has been considered carefully.

The Scottish Private Rented Sector Strategy Group

As part of its work in developing a consultative Strategy, the Scottish Private Rented Sector Strategy Group helped identify a number of key issues for landlords, tenants and local authorities in relation to the private rented sector regulatory framework:

Table 2: PRS Strategy Group Key Issues on the Regulation of the Sector

Tenants	<ul style="list-style-type: none"> ■ access to more effective redress or dispute resolution when disagreements arise between landlord and tenant about quality of management or property condition; ■ the current tenancy regime not providing adequate security for some; and ■ poor quality of service and illegal fee charging by some letting agencies.
Landlords	<ul style="list-style-type: none"> ■ many feel the current regulatory format to be unfairly balanced towards placing the burden on landlords; ■ swifter access to legal redress when issues arise (i.e. evictions, antisocial behaviour etc); ■ improved arrangements for recovery of possession; and ■ tackling the small minority of landlords who operate illegally and may be linked to wider criminal activity.
Local Authorities	<ul style="list-style-type: none"> ■ resources to effectively enforce the law to tackle poor landlords; ■ length of time for cases to be dealt with by the court and difficulties in retaining witnesses to provide evidence; and ■ lack of priority given within the criminal justice system to housing related cases.

Consultation feedback

A key message from the consultation was that regulation, in order to be fully effective, requires robust enforcement.

Local authority responses focused on the role of landlord registration, with many suggesting that it had to be used more effectively and no longer in a 'light touch' way. Lack of resources in enforcing landlord registration was commonly cited as a key reason for a lack of success in tackling the worst landlords.

More targeted enforcement was also highlighted, in particular to tackle worst practices in the sector by a minority of landlords. Many respondents stated that for the worst landlords, non-legislative action would not be effective at tackling their poor and often illegal practices.

Landlord representative bodies suggested that 'better' regulation did not necessarily mean 'more' and that the focus should be on effective enforcement of existing regulation.

Recent Legislative Action

Recent legislative action taken by the Scottish Government has put in place firm foundations to build on in delivering the vision set out in this Strategy.

The Private Rented Housing (Scotland) Act 2011

The 2011 Act contained a number of provisions for improving the sector, including strengthening the Houses in Multiple Occupation (HMO) and Landlord Registration regimes; taking action on the charging of illegal premiums; and introducing a Tenant Information Pack.

Recent Legislative Action: The Private Rented Housing Act (2011)

■ Houses in Multiple Occupation:

- Increasing the maximum penalty for a criminal conviction for non-compliance with HMO Licensing to £50,000;
- Discretionary power for local authorities to refuse an HMO application on the grounds of a breach of planning control;
- Discretionary power for local authorities to refuse to grant an HMO Licence if it considers that there is overprovision in the locality where the accommodation is situated.

■ Landlord Registration: A number of provisions to strengthen the landlord registration regime, including:

- Disqualification Orders for unregistered landlords, where a court may disqualify a person convicted of not registering as a landlord from being registered for up to five years;
- Increase the maximum penalty for a criminal conviction for acting as an unregistered landlord to £50,000;
- Duty on landlords to include landlord registration number in advertisements;
- Further consideration to the 'fit and proper' test for firearms and sexual offences;
- Further power for a local authority to obtain information in relation to landlord registration.

■ Clarifying the law on the charging of Premiums: Clarifying that only rent and a refundable deposit can be charged to a tenant in connection with the granting, renewal and continuance of a private rented sector tenancy.

■ Tenant Information Pack: From 1 May 2013, landlords have a duty to provide new tenants with a pack containing standardised key information on renting in the private rented sector. This includes information on the tenancy; about the property and landlord; responsibilities of tenants and landlords; and where to go for further information and advice.

Tenancy Deposit Schemes

Three Tenancy Deposit Schemes approved by the Scottish Government opened in July 2012. Introduction of the schemes will protect tenant deposits, providing a fairer and more transparent approach to managing tenant deposit payments. This measure addresses the significant problem caused by a minority of landlords who have unfairly withheld tenant deposits.

The schemes in Scotland are provided without the need for public funding, and are free for tenants and landlords to use. Services provided by each scheme includes a free, independent dispute resolution process, to be accessed when disputes arise over the return of deposits.

Improving the Impact of Regulation and Enforcement

The Scottish Government acknowledges that whilst the majority of landlords are law abiding, there remains a small group of exploitative landlords who bring the reputation of the private rented sector into disrepute. The Scottish Government is committed to ensuring that local authorities have the powers they need to tackle this problem.

This Strategy aims to enable a more targeted regulatory system for the private rented sector in future, focusing tougher enforcement action on those landlords who cause safety and management concerns; tarnish the image of the sector; and destabilise fragile communities.

The Role of Landlord Registration

Landlord Registration has been in force since 2006. The original purpose of the scheme was to provide local authorities and members of the public with a list of private landlords in their area, and for local authorities to ensure that they were fit and proper to let property.

The 2011 Independent Review of Landlord Registration noted that overall, the creation of the landlord register has brought about a more systematic approach to the administration of the private rented sector and has provided useful data on the scale of the sector. The research also suggested that:

- the legislative framework was broadly accepted. However, some confusion remained as to the overall purpose of landlord registration, given its genesis in antisocial behaviour legislation;
- on the whole, local authorities reported that the fees associated with landlord registration do not cover actual local authority costs; and
- the current legislative framework for landlord registration should be tested further before any legislative change is undertaken.

Scottish Ministers established a Working Group in 2012 to identify actions to address recommendations from the independent review. This work includes a detailed scrutiny of the adequacy of the current fee structure and how it is applied by local authorities, and how landlord registration can be run more effectively.

Feedback from the consultation

More effective enforcement of landlord registration was a key theme in consultation responses. Both local authorities and housing associations proposed that increased resources would result in more effective enforcement.

Further key points raised included providing local authorities with wider powers to inspect properties, ensuring effective evidence gathering and better sharing of information, for example between Landlord Registration teams and other council departments, as well as other partners.

The purpose of Landlord Registration

A key action recommendation from the review was for the Scottish Government to re-state the purpose of Landlord Registration.

This Strategy recognises that where local authorities operate a joined-up approach, both internally and with their Community Planning Partners, Landlord Registration can play a crucial role in helping to inform intelligence-led, targeted enforcement action on PRS issues.

Having noted findings from the independent review and the consultative PRS Strategy, the Scottish Government would describe the Purpose of Landlord Registration as:

- providing a register of all private landlords for public inspection, with the added assurance that the local authority has conducted a fit and proper test;
- providing a regularly updated register that can be used to assist dialogue between local authorities and landlords, and to disseminate best practice information; and
- ensuring that landlord registration enforcement action is targeted on tackling the worst landlords in the sector, whether that involves dealing with concentrations of such landlords in vulnerable urban communities, or challenging the practices of individual landlords in more rural or sparsely populated areas.

Tackling Bad Landlords – Local Authority Led Partnership Working

Existing legislative powers, bolstered by recent legislative action, will assist local authorities and their partners addressing the impact of bad landlords on tenants and communities. However, a deeper-rooted problem exists in relation to those landlords who may be engaging in wider criminal activity.

A key theme across the majority of responses to the consultative Strategy was the need for more collaborative and cross-agency partnership approaches. Effective partnership working between a range of public services such as housing, social work, education and police has to be established in order to identify and prosecute landlords who continue to ignore the law and provide inappropriate and sub-standard housing. Such partnership working also enables services to identify and assist vulnerable adults and children living within privately rented properties.

Work being taken forward by Glasgow City Council, supported by the Scottish Government, to conduct targeted Landlord Registration enforcement activity in the Govanhill area of the city is an example of how such partnership working can begin to tackle the problems created by bad landlords. Based on the experience in Govanhill, the Scottish Government has asked Glasgow City Council to share learning on the success of this focused approach, to help local authorities to take forward similar targeted interventions.

Case Study: Partnership Working – Learning from Govanhill

Govanhill is a traditional tenemental area in the south side of Glasgow which faces a complex set of challenges including: a significant problem with 'bad' landlords, major overcrowding, a large proportion of private rented housing in a poor state of repair, problems with factoring, persistent problems of crime, antisocial behaviour, fly tipping and other environmental hazards.

The area has historically long been home to migrants, and is currently home to a new group of migrants, mostly from eastern Europe. Many of the private rented tenants living within this area suffer from a range of financial, health and social issues – an already complex range of issues further compounded by language barriers.

In 2011, the Govanhill 'Hub' was established, bringing together a multi-disciplinary team comprising police, council, housing association officials and other services in order to tackle unregistered landlords and enforce environmental health laws.

The Hub is starting to have a positive impact and this has resulted in an increased number of landlords registering with the local authority, increased engagement with vulnerable tenants (including those who do not have English as a first language) and improvements in environmental health. Whilst the work of the Hub is still at a relatively early stage, and the practices of a number of local landlords still need to be the subject of strong enforcement action, these results are encouraging.

This is a co-ordinated approach undertaken by Glasgow City Council and its partners to address some of the severe and complex issues within the Govanhill area. It demonstrates how a targeted, multi-agency approach can begin to tackle some of the worst landlords operating within the private rented sector, whilst also helping to improve property conditions and build community relationships.

ACTION 1: Work with COSLA, individual local authorities, and landlords to refine the landlord registration regime to identify new means of targeting tougher enforcement action on the worst landlords in the sector. Specifically by:

- using learning from the work of the Govanhill Hub, and other good practice across Scotland, to influence formation of local partnerships to assist vulnerable communities and individuals experiencing problems with bad landlord practice; and
- examining how the powers available to local authorities might be enhanced, enabling them to take stronger, targeted enforcement action in the most vulnerable communities.

The Role of Letting Agents

Professional organisations such as the Association of Residential Letting Agents (ARLA) and the Royal Institution of Chartered Surveyors provide members with a Code of Practice and Rules of Conduct to adhere to, encouraging responsible business practice and providing a route of redress for landlords and tenants should any disputes or grievances arise.

Many letting agents in Scotland operate in a professional manner, complying with voluntary Codes of Practice and ensuring high quality levels of service for the tenants and landlords they assist. Such good practice is not shared by all however, and further consideration on the regulation of letting agents was included in the consultative Strategy.

Among the main risks arising from bad letting agent practice are:

- agents going out of business and losing all monies held on behalf of landlords and/or tenants; and
- not following correctly the regulations set for the sector – examples are not drafting legally accurate tenancy agreements and charging illegal premiums.

Recent action taken by the Scottish Government to clarify the law on the charging of premiums and introduction of Tenancy Deposit Schemes will help address poor practice. However, there remains the need to examine the requirement for further regulation of the letting agent industry.

The consultative Strategy considered three potential options for this. These were:

- expansion of landlord registration to include all agents;
- a separate system for agents similar to that now in place for property factors; and/or
- a legal obligation that all agents must be a member of a recognised professional body.

Further regulation of the letting agent industry received broad support from across the sector and the Scottish Government will now work with all partners to identify the most effective form that this may take.

ACTION 2: Work with all partners and stakeholders to identify the most effective form for further regulation of the letting agent industry in Scotland, considering legislative change where required.

Better Access to Justice

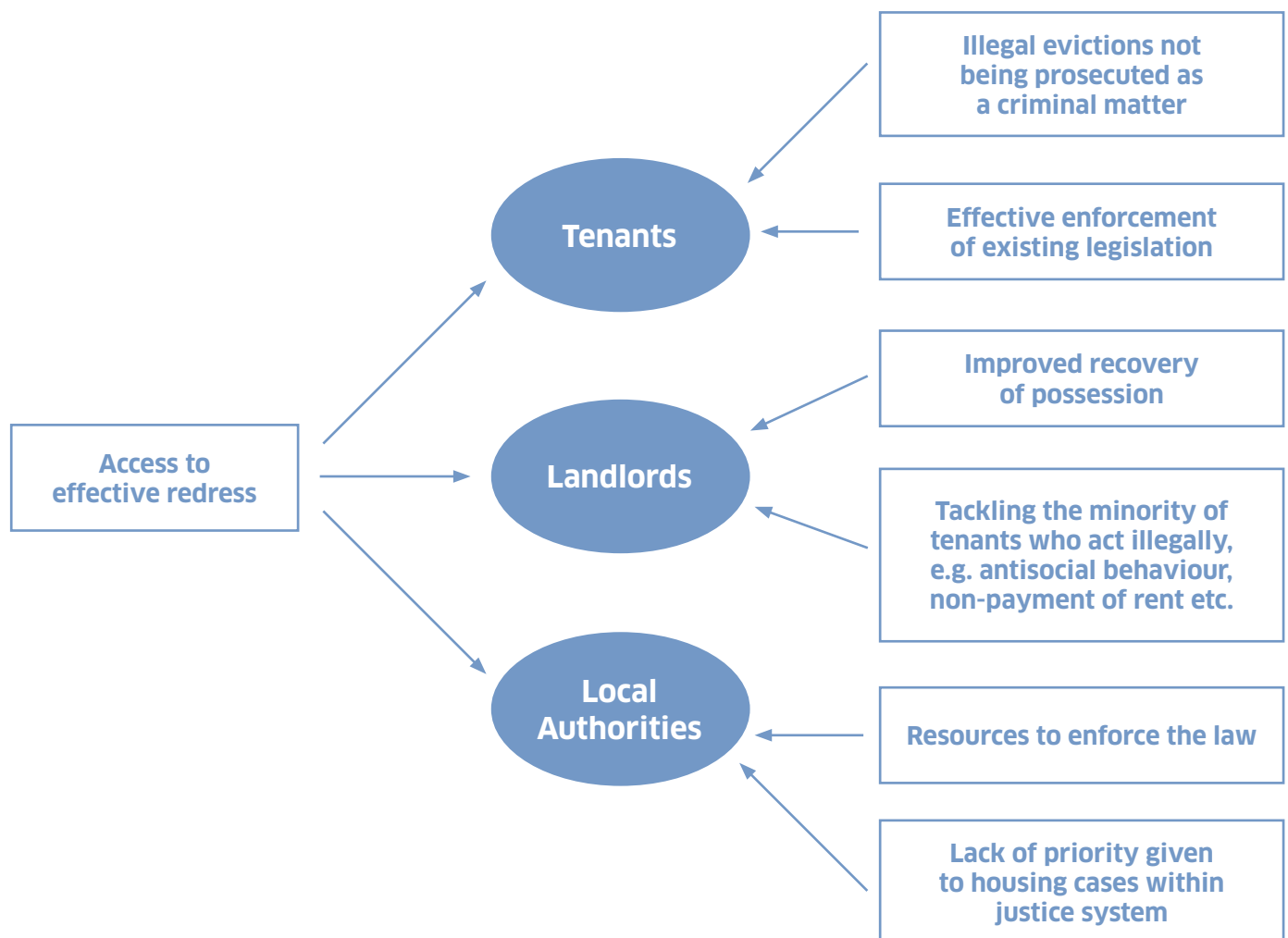
To provide effective legal redress, the current private rented sector regulatory framework relies largely on cases being raised in the sheriff court by local authorities, tenants or landlords.

Stakeholder feedback on the consultative Strategy highlighted a range of issues regarding difficulties in accessing effective redress through the justice system. Issues highlighted included:

- a view that some sheriffs have limited knowledge of housing issues;
- difficulty for local authorities in pursuing landlords through the courts, with particular issues in relation to time and financial resources; and
- difficulty for landlords in gaining possession of their property by taking court action to evict tenants, in particular time and cost associated with this.

The diagram below highlights some of the issues that stakeholders have highlighted in relation to accessing effective legal redress.

Figure 3: Issues with Legal Redress



Scottish Ministers held a consultation between January and April 2013 on options for improving the system for resolving rented housing disputes. Options included:

- more preventative action: building on existing work to prevent housing problems escalating into housing disputes;
- mediation: seeking to increase the use of mediation to resolve housing disputes before they reach court; and

- creating a new national housing panel to adjudicate on disputes arising between landlord and tenant.

Problems in resolving disputes before they reach court can arise from lack of awareness of respective rights and responsibilities. The Scottish Government's mandatory Tenant Information Pack and other information raising activities across the sector will help to address this knowledge gap.

A new housing panel could provide an alternative forum to the courts for resolving some housing disputes. It could also operate as a problem-solving forum which could make binding interim orders before a case reached court.

Court Reform

Scottish Ministers have also consulted on reforms to the civil court system which will implement recommendations of the 2009 report of the *Scottish Civil Courts Review*. The recommendations include creating a new third tier of judiciary, to be called summary sheriffs. The new summary sheriffs would be recruited from legally qualified practitioners who have experience and expertise in the kinds of casework which might fall within the competence of the summary sheriff, including housing cases.

It is proposed that the summary sheriffs will operate a new simple procedure which will use clear and straightforward rules written in plain English and under which summary sheriffs will adopt a problem solving approach.

ACTION 3: Use findings from Scottish Government consultations on (i) options for improving dispute resolution in rented housing, including the potential creation of a new Housing Panel, and (ii) proposals for reforms in the sheriff court, to inform action aimed at improving redress for consumers, including legislative change as required.

The Private Rented Housing Panel

The Private Rented Housing Panel is responsible for determining referrals from tenants concerning the landlord's duty to comply with the Repairing Standard under the Housing (Scotland) Act 2006. The Panel is also responsible for making rent assessments related to certain types of regulated or protected tenancies and deciding other tenancy matters in the private rented sector.

The Repairing Standard states that a privately rented property:

- must be wind and watertight and reasonably fit for tenants to live in;
- structure and exterior must be in a reasonable condition;
- water, gas, electricity, heating and hot water installations must be in good working order (these include external features such as drains);
- fixtures, fittings or appliances provided by the landlord must be in good working order and safe to use;
- furnishings provided by the landlord must be suitable to use; and
- must have suitable smoke detectors.

Implementation of the Property Factors (Scotland) Act 2011 on 1 October 2012 created the Homeowners Housing Panel (HOHP) which operates alongside the PRHP. The HOHP is responsible for resolving disputes between homeowners and property factors relating to property factoring and land management issues.

Responses to the consultative Strategy demonstrated support for broadening access to the PRHP by enabling third party reporting to the Panel. It was suggested that some tenants may be reticent to submit a case to the PRHP due to concerns about being served a notice for eviction or intimidating behaviour. Broadening access would therefore provide a means for the PRHP to continue its work on improving standards of condition, by opening it to Repairing Standard cases that hitherto it has not been able to get involved in.

Enabling Local Authority third party reporting could provide further additional powers to Local Authorities with regards to improving property condition in the private rented sector.

ACTION 4: Broaden access to the Private Rented Housing Panel to drive greater compliance with the Repairing Standard by seeking to enable new third party reporting rights for local authorities and other relevant bodies.

Improving Property Condition and Energy Efficiency

Improving PRS property condition and energy efficiency are key challenges. The private rented sector has historically had higher levels of disrepair and poorer National Home Energy Ratings than owner-occupied or housing association homes.

There are many reasons for this, including the nature of the private rented sector housing stock (with a larger proportion of older stock than other tenures) and historic under-investment in properties by some landlords.

Landlords, as owners of properties, are responsible for maintaining the physical condition of their properties to reasonable standards, including the Repairing Standard²¹. However, we recognise that there may be situations where landlords need assistance to enable them to invest in their properties, to ensure long term sustainability and higher standards of service for consumers.

There is a range of national and local government powers, initiatives and funding schemes currently available to help tackle this issue within the private rented sector. A number of Scottish Government schemes offer support to landlords to invest in their properties, particularly in relation to improving the energy efficiency of them, including the Landlord Green Appliance Scheme, Green Homes Cashback Voucher Scheme, Small Business Loan Scheme and the National Retrofit Programme which will leverage funds from energy companies under the UK Government's Energy Companies Obligation and from the private sector through Green Deal.

The Scottish Government has also called on the UK Government to introduce a targeted VAT reduction on building maintenance and repair. This would benefit the construction industry and also make it easier for people and businesses to improve the energy efficiency of their properties. This would complement existing tax relief through the Landlord Energy Saving Allowance scheme.

In summer 2012, the Scottish Government consulted on '*Homes that don't cost the Earth*', a draft sustainable housing Strategy, which sought views on proposed actions to support an improvement in housing condition and energy efficiency across all sectors, within the context of targets set by the Scottish Government and Scottish Parliament. This recognised the importance of condition to overall sustainability and the need for change across all tenures in Scotland, including the private rented sector.

²¹ Housing (Scotland) Act 2006

The final *Sustainable Housing Strategy* is due to be published in 2013, and will set out a vision for warm, high quality, affordable, low carbon homes and a housing sector that helps to establish a successful low carbon economy across Scotland.

As part of this, the Scottish Government will work with stakeholders to develop proposals for possible future regulation of energy efficiency in private sector housing. The working group will consider a range of issues, including how any future regulation would fit with incentives available to the private sector (including PRS landlords), such as the National Retrofit Programme and the Green Deal; what standards would apply; and when they would apply from. This will inform draft regulations for public consultation, feedback from which will be considered by Scottish Ministers in determining the introduction of any mandatory energy efficiency standards.

ACTION 5: Publish a Sustainable Housing Strategy in 2013, bringing together policies on climate change, energy efficiency, fuel poverty, planning and the built environment. In addition, work with stakeholders to develop options for setting minimum energy efficiency standards in private sector housing, ahead of public consultation on draft regulations.

CHAPTER 4
DELIVERING FOR TENANTS AND LANDLORDS



DELIVERING FOR TENANTS AND LANDLORDS

The Scottish Government wants to help create a sector that meets the needs of tenants and rewards high quality landlords. A key component of a quality private rented sector is a tenancy regime that is fit for purpose. In addition, tenants and landlords must have access to information and advice to improve consumer awareness and ensure vulnerable tenants are supported.

Tenancy Options

Effectiveness of the Tenancy Regime

The tenancy regime is central to the efficient functioning of the sector, as it establishes the legal agreement between tenant and landlord.

A key challenge for this Strategy is to address the growing demand for private rented housing from a range of different household types. This includes those that will continue to look for flexibility from the PRS and those that are now looking to settle in the sector longer term.

The current tenancy regime in Scotland originates from the 1988 Housing (Scotland) Act which was introduced for all new private rented tenants from 2 January 1989. The 'Short Assured' Tenancy (SAT), which runs for a minimum of six months, is by far the most common.

The efficacy of the current tenancy regime was a key issue discussed by the Private Rented Sector Strategy Group. The group identified two key issues in relation to what the tenancy regime may offer tenants and landlords:

- **Security of tenure:** a tenant's right to remain in a property and the circumstances in which the landlord may seek to regain possession of their property, subject to the terms of the tenancy agreement; and
- **The length of tenancy:** how long the tenancy agreement is for.

The Group held a range of views on the suitability of the current tenancy regime with some members proposing that the time was right for reform, while others proposing that the current regime had the ability to meet the new requirements being placed on the sector.

The consultative Strategy therefore posed two questions on tenancy:

- What more can be done to meet the demand for longer tenancies and greater security of tenure through the existing Short Assured Tenancy?
- Should the Scottish Government consider alternatives to the Short Assured Tenancy in order to enable greater tenancy security?

Consultation responses to these questions show a variety of views on whether the longer and more secure tenancies could be achieved through the existing regime, or whether an alternative tenancy regime is now required, with a key consideration being the impact any tenancy reform could have on potential future investment within the sector.

Alternatives to the Short Assured Tenancy Regime

Responses to this question were mixed, with some calling for reform of the Assured Tenancy Regime to improve security of tenure, and others stating that the current Short Assured Tenancy (SAT) works effectively for the majority of tenants.

Some stakeholders proposed that greater security of tenure is required for tenants that are looking to stay in the sector in the longer term. In particular, those with families looking to settle down.

Responses suggested that it would be important for any new tenancy regime to have clear procedures for recovery of possession for a landlord and clear notice grounds and periods for ending a tenancy, and that reform of the current SAT would also need to retain the flexibility that many of those living in the sector still require.

The impact of reform of the tenancy regime would need to be carefully considered on this Strategy's aims for growth and investment. Lenders can insist on the SAT for 'Buy-to-Let' lending purposes, and some respondents to the consultative Strategy suggest that the current SAT is likely to be more attractive to institutional investors.

Working within the existing Short Assured Tenancy Regime

Some stakeholders pointed out that the current tenancy regime already has the ability to offer longer tenancies to those that want this, and thought that there was little evidence to suggest reform was needed. Enabling access to redress was raised however, as a key theme to making the current SAT work more effectively.

It was proposed that landlords could be encouraged to offer longer tenancies within the current SAT in circumstances where this was mutually beneficial. For landlords, this can offer greater security of rental income and less 'transaction costs' associated with finding new tenants, whilst benefiting the tenant who wants the property as their longer-term home.

Review of the Tenancy Regime

Recognising the importance of the tenancy regime and the range of stakeholder opinion with regards to the case for tenancy reform, the Scottish Government will initiate a review of the suitability of the private rented tenancy regime.

This review will report to Ministers with recommendations on actions that can be taken to ensure that the tenancy regime will meet the needs of all of those in the sector in future.

ACTION 6: Consult with all stakeholders to examine the suitability and effectiveness of the current private rented sector tenancy regime, considering legislative change where required.

Greater Consumer Awareness

As well as having an effective regulatory regime, consumers can help drive improvement through the choices they make and identification of bad or illegal landlord practice.

A drive to improve consumer awareness was broadly supported by stakeholder feedback on the Consultative Strategy. A common theme across the majority of responses was the role of information and advice in helping to empower consumers.

For those landlords providing a high quality of service, greater consumer awareness can only benefit their business as consumers will feel more confident moving into the sector aware of both their rights and responsibilities.

Moreover, an informed consumer may be more inclined to engage with their landlord or their letting agent to challenge poor service or property condition.

Improved Consumer Information and Advice

Work has already begun to improve consumer awareness in the private rented sector with the new mandatory Tenant Information Pack coming into effect from May 2013.

This pack forms part of the Scottish Government's offer to support tenants and landlords to understand their respective rights and responsibilities, in order to enable a better functioning and more consumer-focused sector.

We know from previous research that landlords generally do provide relevant information about private renting but it is important to promote greater understanding amongst tenants and landlords about all of their rights and responsibilities²².

An online Hub or portal dedicated to providing a wide range of information and advice for tenants living in the PRS received strong support in the consultative Strategy. The Scottish Government is working with PRS stakeholders to develop such a Hub for the sector, to be implemented alongside the Tenant Information Pack.

Local authorities also have a crucial role to play in providing information and advice to landlords, agents, tenants and their neighbours in order to improve compliance with relevant property and management standards.

Charities such as Shelter Scotland, Citizens Advice Scotland and many community organisations also have an important role to play in providing independent housing advice to private rented tenants.

Advice for Landlords

More information and advice for landlords was suggested in response to the consultative Strategy, as a means to improving the functioning of the sector.

The re-stated purpose of Landlord Registration in Chapter 3 proposes that Local Authorities continue to use the register as a means to engage with landlords to improve practice and disseminate information about managing property in the sector.

Landlord Accreditation Scotland (LAS)²³ is a voluntary scheme that provides support to landlords and letting agents by providing training and access to advice and information, as well as standards for Accredited Landlords set out in a voluntary code of practice.

Landlords and letting agents can join and access services provided by membership organisations such as the Scottish Association of Landlords, Scottish Land and Estates or the Association of Residential Letting Agents to obtain information on their rights and responsibilities.

ACTION 7: Work with stakeholders to develop an online information hub aimed at tenants and landlords in the private rented sector. This will provide a 'one-stop shop' for accessible information and advice on the private rented sector.

²² Scottish Government Review of the Private Rented Sector (2009)

²³ <http://www.landlordaccreditationscotland.com/>

Supporting Vulnerable Tenants

The private rented sector caters for a diverse range of people and households and that diversity is set to expand. Looking to the next decade, we recognise that this Strategy will need to help raise standards for all those housed within the sector, including more vulnerable tenants such as:

- individuals or families at risk of homelessness;
- migrant workers entering the country for the first time who may experience problems with language and have little knowledge of private renting in Scotland;
- low-income households who cannot access social housing and therefore privately rent but often encounter affordability issues; and
- households that contain older members or disabled people.

The Scottish Government published a *National Strategy for Housing Older People* in December 2011, which includes older people living in the PRS²⁴.

Respondents to the consultative Strategy highlighted that vulnerable tenants in the PRS may not always be easy to reach by conventional information channels, and that a problem area often lies in enforcing rights which already exist.

The Scottish Government will continue to work with a wide range of stakeholders to ensure that vulnerable tenants continue to be supported through the delivery of this Strategy. This will be particularly important as the impact of UK Government's changes to the welfare system unfold.

UK Government Welfare Reform

The private rented sector has a key role to play in providing housing for lower income households, including those in receipt of housing benefit or local housing allowance²⁵. One-fifth (20%) of all households in receipt of housing benefit in Scotland live in the PRS²⁶.

The UK Government's Welfare Reform changes are intended to simplify the benefits system, remove disincentives to work and control public expenditure. This includes the introduction of Universal Credit from October 2013, which will bring together six benefits including Housing Benefit.

Overall reduction in the amount of Housing Benefit available, and the increase in the age threshold for the Shared Accommodation Rate from 25 to 35, will mean that there will be less support for these tenants in particular, and may change the pattern of demand from people reliant on benefits, particularly younger people.

ACTION 8: Monitor the impact of UK Government Welfare Reforms on the sector as it progresses and continue to work with COSLA and other stakeholders to support the sector to respond.

²⁴ <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/access/ROOPH/OPHSS>

²⁵ Local Housing Allowance (LHA) is the housing benefit paid to tenants who rent privately from a landlord and claimed housing benefit after 7 April 2008. There are however some tenants living within the PRS who are still in receipt of housing benefit under the Rent (Scotland) Act 1998 due to their circumstances remaining unchanged. The level of housing benefit for these tenants is determined by the Rent Service Scotland.

²⁶ Evidence Review of the Private Rented Sector (Scottish Government, 2012)

CHAPTER 5
ENABLING GROWTH AND INVESTMENT



ENABLING GROWTH AND INVESTMENT

It is clear that Scotland needs more homes. Our population is growing; the average household size continues to fall; and there will be some existing housing that needs to be demolished and replaced. This chapter sets out how new supply in the PRS might be encouraged and how further investment might be secured for the existing sector.

New Supply in the PRS

Re-adjustment of the housing market has continued since 2008, and has led many to view the current market as the new norm. In this market context, demand to buy is constrained while demand to rent has increased significantly over recent years. This has placed additional pressure on all rented housing.

Demand for home ownership continues to run ahead of mortgage availability. Access to mortgage finance and availability of investment for the construction sector have reduced, and this has led to a lower rate of building new homes for sale.

Although the overall backdrop of the new market norm presents a series of challenges, growth in demand for rented property offers an opportunity for the private rented sector to adapt, developing new business models for the future based on a steady income stream from rents and more gradual capital appreciation over time.

The Montague Report: Enabling Institutional Investment

The UK Government commissioned Sir Adrian Montague to undertake a *review of the barriers to institutional investment in private rented homes*²⁷. This examined how best to encourage greater investment in rental properties and explored how institutions might be encouraged to invest in new homes for private rent.

Key actions recommended in the report included: local authorities using flexibility in the planning system to plan for and enable private rental housing development where this meets local need; that a task force be set up to encourage and support build-to-let investment from the private sector; to develop voluntary standards that future landlords would meet and tenants could expect; and that the UK Government provide a number of targeted incentives to encourage the development of build-to-let investment models.

Creating Opportunities for Growth and Investment in Scotland

A role for local authorities

Scottish local authorities have a key role to play if the need for an expanded private rented sector and access to long-term institutional and pension fund investment are to be realised.

Local Authorities are responsible for assessing housing need and demand in their areas through the local housing Strategy process. This includes the level and type of housing required for all tenures to meet local housing need.

Local Housing Strategies are usually undertaken every five years and are aligned to the timescales of Development Plans, which identify a land supply for meeting the housing requirement. The majority of local authorities will have recently developed their local housing Strategy or have proposals in place to do so in 2013.

²⁷ Review of Barriers to Institutional Investment in Private Rented Homes (Department for Communities and Local Government, 2012)

Feedback on the private rented sector consultative Strategy suggested that some local authorities may benefit from further integrating the role of the private rented sector within their Housing Strategies and related plans for strategic investment.

ACTION 9: Consider, with local authorities, how a better understanding of the need for private rented housing, and its role within overall housing supply, can be developed and integrated into Local Housing Strategies, informing and influencing future investment decisions by pension funds and institutional investors.

Review of the National Planning Framework and Scottish Planning Policy

The Scottish planning system should enable the development of well-designed, energy efficient, good quality housing in sustainable locations and allocate a generous supply of land to meet identified housing requirements across all tenures.

Work is underway to review the *National Planning Framework and Scottish Planning Policy*, providing more focus on sustainable economic growth and location. Both documents will be consulted upon in 2013.

A role for the construction sector and developers

Many developers continue to face significant challenges in building the new houses that Scotland needs on the basis of the traditional build-to-sell market. The Scottish Government has taken steps to assist our vital construction sector in a number of ways, through support for access to home ownership, to unlocking stalled development sites through the first use in the UK of Government guarantees for housing through the National Housing Trust (NHT).

It has been estimated that NHT guarantees totalling around £2 million generates around £100 million of investment and supports around 1,000 jobs for every 600 homes built. Homes for Scotland estimate the MI New Home scheme could generate house sales of up to £1 billion over three years and, depending on demand, could create or safeguard around 23,000 new construction jobs and over 650 apprenticeships.

The construction sector itself is actively considering alternatives to the traditional business model. Ideas and proposals have started to come forward from individuals, firms and from representative membership bodies such as Homes for Scotland and the Scottish Property Federation. The build-to-let investment model, or variants of it, appears to have the best prospect for assisting with growth and investment into the private rented sector.

Models like this can combine existing construction expertise with long-term institutional or pension fund investment and have potential to secure the provision of quality housing management services to ensure that tenants get the best possible deal.

A role for investors

Opportunities for institutional investment in rented housing are beginning to emerge. Discussions between the Scottish Government and a range of funds, prospective investors, and their advisers reveal an appetite for investment in the rented housing sector, with certain essential characteristics common to investors' requirements:

- A clear pipeline of projects for future investment, at scale, in order to reach a minimum size of around 1,000 new units;
- Control of the assets either directly, or through a vehicle they have influence over, such as a Real Estate Investment Trust;
- Input to the specification of the homes to be provided to ensure quality of the housing assets;
- Long-term partnering arrangement with a reputable management organisation who can manage the homes on the funds' behalf;
- A predictable and secure level of return on the funds' investment; and
- The need for regulation to protect and ensure the interests of tenants, balanced against the costs involved.

An opportunity for Registered Social Landlords

As anticipated in Homes Fit for the 21st Century, an opportunity also exists for Registered Social Landlords, or their subsidiaries, to position themselves as developers of market rent housing, or provider of housing management services for institutional investor owned housing developments. Funds and institutional investors tend not to want to manage rented housing directly, so there is an opportunity for local authority landlords and housing associations to provide these services.

Support for investment in the private rented sector

Growth and investment within the private rented sector is not just about large-scale, strategic investment in new supply. Existing landlords have investment needs and ideas as well. Work to improve existing private rented property, or enable empty homes to be made available for rent, would benefit tenants. It would also enhance the reputation of the sector and stimulate the economy in local areas.

Bringing Empty Homes Back into Use

It is estimated that there are around 25,000 long-term empty homes in Scotland. This presents a potential source for new private rented housing supply, along with the prospect for increased council tax revenue for local authorities.

The Scottish Government is funding a partnership with Shelter Scotland to help local authorities to work with empty home owners to bring their properties back into use. So far this has involved the use of legislation, for example to allow councils to remove the council tax discount on certain types of property, as well as funding to help renovate and refurbish properties. Other possible actions are being kept under review.

Encouraging investment by existing private rented sector landlords

As property owners, landlords of private rented housing have responsibilities to maintain the physical condition of their properties to reasonable standards, including the Repairing Standard. Additional investment is likely to be required by landlords in order to improve energy efficiency and reduce carbon emissions, and ensure that families and households in the private rented sector receive the best deal possible.

To encourage more landlords to invest in their properties, the private rented sector consultative Strategy identified that more financial incentives could help. This should complement powers to take action when landlords consistently fail to maintain the quality of the houses they let. The incentives suggested included tax incentives, such as reductions in VAT on repairs to property.

This is a power currently reserved to Westminster, but the Scottish Government will continue dialogue with the UK Government on reserved matters where we believe a change in policy is required for the benefit of landlords and tenants in the Scottish PRS.

ACTION 10: Continue to drive actions set out in Homes fit for the 21st Century to encourage growth and investment in the PRS by:

- engaging with landlord representative bodies, prospective institutional investors, pension funds, the construction sector and registered social landlords to identify suitable business and investment models enabling opportunities for investment in new private homes for rent in Scotland; and
- continuing dialogue with the UK Government on reserved matters where a change in the taxation system will stimulate investment in new or existing PRS housing.



**The Scottish
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Riaghaltas na h-Alba

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