

The Private Rented Sector



► Inside

PRS – what is it?

Then and now

Government support

Who is involved?

Key characteristics of PRS schemes

PRS and the planning system

What's happening in other countries?

PRS - what is it?

At its widest, the private rented sector in the UK comprises any property that is privately owned and which is rented to individuals as their principal home. However the term PRS (who doesn't need another acronym?!) is now associated with a more concerted drive towards volume delivery of purpose built housing schemes for rent and it is generally in this context which we refer to PRS below.

Then and now

The 1950s and early 1960s saw Peter Rachman (a landlord in the Notting Hill area of London) become notorious for the exploitation of tenants. Rachman's regime threw into the limelight the need for regulation of privately rented homes, both as regards stock condition and rent control.

We are now seeing housing - both market and affordable, home ownership and rented - becoming increasingly inaccessible to individuals and families across large and varied parts of society. It is well documented that the wider private rented sector is now the fastest growing element in the UK residential property arena. Delivery of bespoke PRS stock is seen as one of the solutions to meeting the UK's housing supply shortage.

In a link to the past, discussion on regulation (largely aimed at shaking up poor living conditions in the wider private rented sector) continues. For PRS, it has been argued that sector-wide regulation represents a challenge, given the inevitable increased levels of costs and administration, loss of flexibility, and negative impacts on investors which it might entail.

Government support

The government continues to acknowledge PRS, evidenced by various government and Mayoral/GLA initiatives including the Build to Rent funding providing equity finance to house builders and developers for new purpose-built PRS homes. As a result of this support, there has been a steady increase in private investment in developments which primarily comprise of PRS units.

Who is involved?

As one might expect, Registered Providers, Local Authorities and private developers are all in the PRS mix. Of late, there has been a noticeable increase in the number of RPs and Local Authorities pursuing PRS developments on their own land, either in joint ventures with other developers, funders or by going it alone. By supplying new market rent homes, some RPs are able to reinvest the income generated back into their housing stock, thereby strengthening their core social objectives. Others have set up distinct entities, providing a bespoke PRS product with associated branding.

Key characteristics of PRS schemes

When seeking to develop purpose built PRS units, parties are careful to select and acquire sites which offer the greatest convenience to potential renters, both in terms of transport links and proximity to shops and other amenities. PRS development models also take a leaf out of the service orientated hotel industry. As such, new PRS schemes might include a concierge, gym, meeting rooms, restaurants and other recreational space. In providing their PRS brand, landlords seek to marry such accommodation and amenity with a consistently good level of management service.

PRS and the planning system

Appraising viability of PRS is different to building for market sale - PRS is a longer term game, and usually offers a lower yield. Aside from market forces, high levels of land acquisition cost, construction standards and property management will all inevitably put the squeeze on rent levels.

The planning system can play its part here, although currently PRS is treated no differently in planning terms to the 'market' element of a residential housing scheme of development. Accordingly, government, local planning authorities and relevant stakeholders continue to look at ways of reducing the financial tariff imposed on new PRS schemes by way of section 106 (planning agreement) arrangements and/or charges by way of the Community Infrastructure Levy. Conversely, s106 obligations can be used to secure the on-going use and management of a scheme on PRS terms and thereby facilitate the grant of a satisfactory planning consent.

What's happening in other countries?

It is widely acknowledged that Europe and America have greater incentives for tenants to choose private renting as a long-term option, and tax treatments seek to encourage greater levels of investment. It has been suggested that the UK should pay close attention to these more 'successful' private rented sector markets in order to develop and improve upon its current private rented sector offering.

However, it is questionable the extent to which the models encountered in those other countries are directly transplantable, given the particular nuances of the UK residential property market. Ultimately, the current government, whilst supporting PRS, is clear in its rhetoric regarding the desirability of owner occupation which for the time being remains the majority tenure choice.

If you only remember five things, remember these five things:

1. The private rented sector is still the fastest growing tenure in the country
2. The sector's growth is linked to the continued issue of housing supply
3. RPs, Councils and private developers are all involved in the development of purpose built private rented sector units, often delivered through joint venture arrangements
4. PRS developments can result in longer fixed-term tenancies
5. To facilitate delivery of PRS, further clarity in the planning system would be welcomed

Irrelevant fact:

The acronym PRS is also used in the shoe industry - to denote pairs. In the currency world it refers to the Pakistani Rupee and in Pennsylvania you'd be referring to the Paranormal Research Society – spooky!

...little bits of law

This is one in a series of leaflets published by Lewis Silkin LLP, providing information on a range of legal issues that face our developer clients. Other topics discussed range from boundaries to wildlife.

Professional advice should be obtained before applying the information in this client guide to particular circumstances.

For a full list of available leaflets please visit our website or contact patrick.brown@lewisilkin.com.

For more information please contact:

Patrick Brown at
patrick.brown@lewisilkin.com or

Clare Reddy at
clare.reddy@lewisilkin.com



Patrick Brown
patrick.brown@lewisilkin.com



Clare Reddy
clare.reddy@lewisilkin.com



Two Shoes
two.shoes@lewisilkin.com