



Understanding the housing crisis: A new perspective

Creating a more sustainable
and responsible rental market



Foreword



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This report brings a new perspective to the UK's housing debate, to help drive policy change and institutional investment into the private rental sector (PRS). Our aim: to create a more sustainable and responsible rental market. In almost all instances, the understanding of the housing issues the UK faces and the solutions for fixing them are supply-side focused, with the emphasis largely on the need to build more homes.

This narrow focus on building homes has little appreciation of the complexity and depth of the issues driving the nation's housing problems, or the long-term future of the UK's existing housing infrastructure.

Safe, secure homes should be the standard in any developed nation, and particularly so for those average to low-income households who are reliant on the rental market. We should see our housing as critical social infrastructure which requires considered, long-term, and responsible asset management to ensure a sustainable future.

In contrast, over the last forty years, governments of all colours have implemented a series of demand-led policies which have encouraged residential property ownership to be seen as an investment. This demand has driven above inflation house price growth, and created a situation where the long-term asset management of millions of rental homes are left almost entirely to private individuals operating within a largely unregulated market.

It would be unthinkable to have any other core infrastructure so fragmented, unregulated, and reliant on the personal and financial circumstances of private individuals.

The structure of the UK's housing market is the root cause of many of the issues we see today, rather than simply a lack of supply. The PRS and its lack of regulation has led to high levels of poor quality, energy inefficient rental homes and an unacceptably high level of demand for temporary accommodation – all leading to spiralling costs (economic and social) for both renters and the taxpayer.

Simply building more homes will not address the causes of these problems. As we look to the future, the country must focus on ensuring that the housing stock we have is fit for purpose, as well as owned and managed for the long term.

With a deeper understanding of the housing market, we can drive more impactful policy change. This will not only help align regulation across the rental sectors, but will also encourage the critical investment needed to improve renting standards and service levels, as well as ensure better outcomes for those most in need.

We hope this report goes some way to contributing towards the conversation around these issues, to help the country create a more sustainable and responsible rental market.

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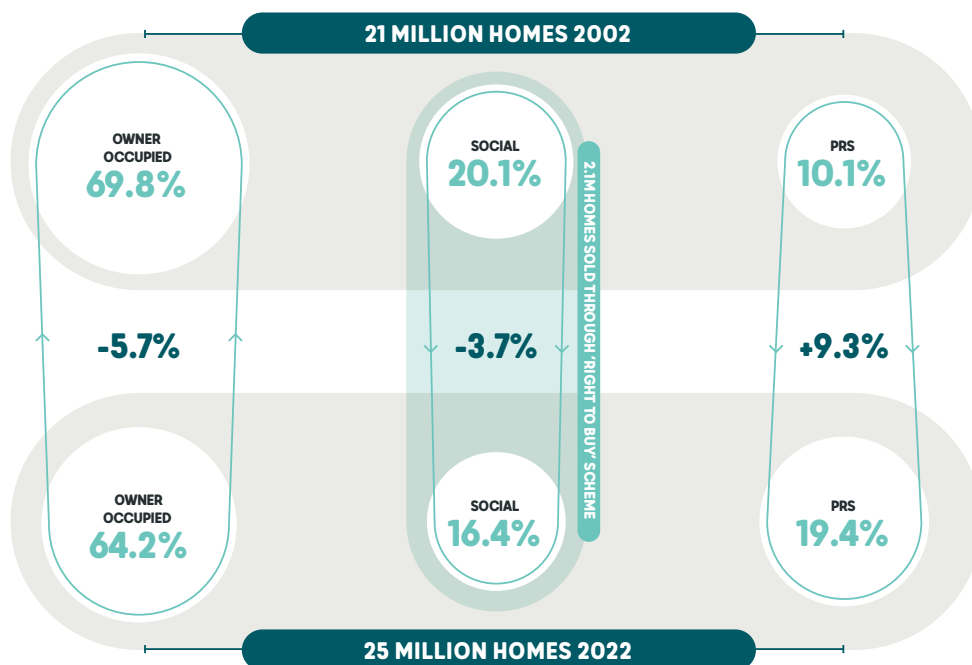
Market structure

To understand the problems facing the UK's housing market today we must examine the changes to the structure of homeownership over the last few decades and what has driven these trends.

KEY TAKEAWAY

There is a need to increase larger, institutional landlords within the rental market and rely less on private individual owners.

Shifting market make-up: The change in UK housing stock from 2002 to 2022



The unintended consequences of policy choices: Rise of the landlord

In 1979, Margaret Thatcher declared she would build a nation of homeowners. Since then, successive governments have overseen a series of policies designed to this effect, such as Right to Buy, Help to Buy, and credit market deregulation.

The demand-side impact of these policies was further compounded by the boom in the Buy to Let market, which in 2014 saw one in every three pounds lent being for the purpose of a Buy to Let mortgage.

In England there are now 25 million homes, with a net increase of just over 4 million in the last 20 years.

Over that same period, whilst the number of owner-occupied homes has increased by 1.4 million, the social rental sector has seen its stock decrease. This is due to the Right to Buy policy, which has seen the social sector sell over 2.1 million of its homes since the policy's inception.

In contrast, the PRS has expanded in the last 20 years by nearly 2.8 million, equivalent to growth of 129 per cent.

The data shows that demand-led policies intended to drive home ownership have instead led to a relative decrease in home ownership. As a proportion of total homes, the number of owner-occupied homes has reduced by 5.7 per cent since 2002. Far from creating a nation of homeowners, the UK has in fact become a nation of landlords.

Instead of increasing home ownership, we have created a nation of landlords

The PRS today: The importance of institutional ownership

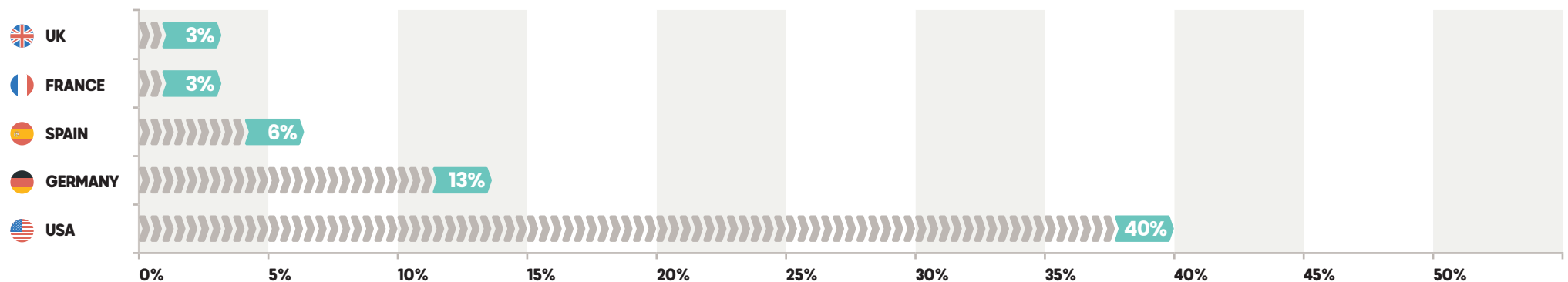
Today the PRS in England comprises 4.9 million homes, representing around £1.2 trillion in value. The sector is almost entirely made up of private individuals. Over 60 per cent of the stock is owned by landlords with fewer than five homes. The institutional representation in the PRS market is just three per cent, significantly less than every other major economy.

Increasing institutional presence in the UK's PRS is pivotal to improving outcomes across the market. Institutions are increasingly aware of their social impact and are driven by strong governance and risk management. Large landlords are also easier to regulate and monitor as custodians of housing infrastructure and can provide the long-term investment horizons suited to housing.

While size is no indicator of intent, it is challenging for small private individual landlords to have very long-term investment perspectives. Equally, they are rarely able to provide the same level of professional asset management capability or expertise.

An important differentiation between institutional and private ownership is the ability of institutions to manage investment liquidity through innovative funding structures. Compare this to the inevitable need of an individual Buy to Let landlord to crystallise their investment through a sale of the property. The result is relatively short-term investment planning and a high level of tenure insecurity for the tenant.

Institutional ownership in other comparable countries



62% of the market is made up of landlords owning less than 5 properties



Market definitions

Over recent decades there has been a dramatic shift in asset ownership in the UK from social to private landlords resulting in a significant tenure blur between the social rented sector and the PRS.

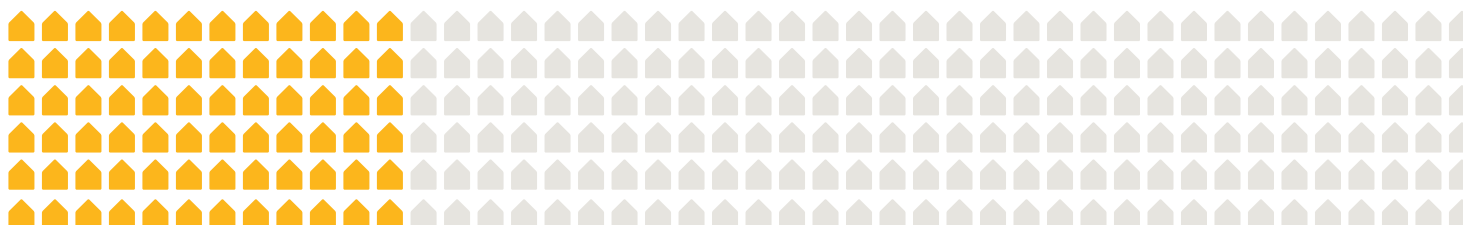
KEY TAKEAWAY

Average and low-income households living in the PRS, need a stable and index-linked rental support framework.

Because of tenure blur, we see the market not as 'social and private' but as 'unregulated and regulated'

700,000 households receive housing benefit but are unable to access social housing

2.8 MILLION HOUSEHOLDS RECEIVE HOUSING BENEFIT, OF WHICH 700,000 LIVE IN THE PRS



 LIVING IN A PRS HOME

 LIVING IN A COUNCIL OR HOUSING ASSOCIATION HOME

A flawed market definition: **Vulnerable renters in the PRS**

Within England, there are 22.8 million individuals receiving some form of welfare support, including 2.8 million households receiving housing benefit.

Of those households receiving housing benefit, around 700,000 who would once have lived in social housing now live in privately rented accommodation. Alongside them in the private sector are many more average and low-income households on other forms of welfare.

The large number of renters receiving welfare assistance while living in the private sector exposes a fallacy in the way we categorise our housing market. Households within the PRS who receive benefits face the most risk.

When these households rent in the private sector, their tenure security and standard of living is inextricably linked to the personal and financial circumstances of their individual landlord, which is a fundamental structural problem.

Rather than a private and social sector, what the UK now has is an institutionally-owned regulated sector and largely individually-owned unregulated sector, with low and average households living across both markets.

The loss of stock to Right to Buy, plus the inability of councils and housing associations to build enough homes, has left more than 700,000 social households exposed to the PRS.

The impact of welfare policy: Increasing affordability issues

Households that live in private rental homes and receive welfare support suffer greatest from changing attitudes towards welfare and welfare reform.

While rents in the private market can be volatile, particularly in prime locations, data shows that over time, rents typically rise in line with inflation and are closely linked with wage growth.

However, the Local Housing Allowance (LHA), the local level of housing support provided to tenants on benefits in the PRS, is not index linked and has not kept pace with inflation. This has created a significant affordability gap for those renters, which is then compounded by other cost of living issues.

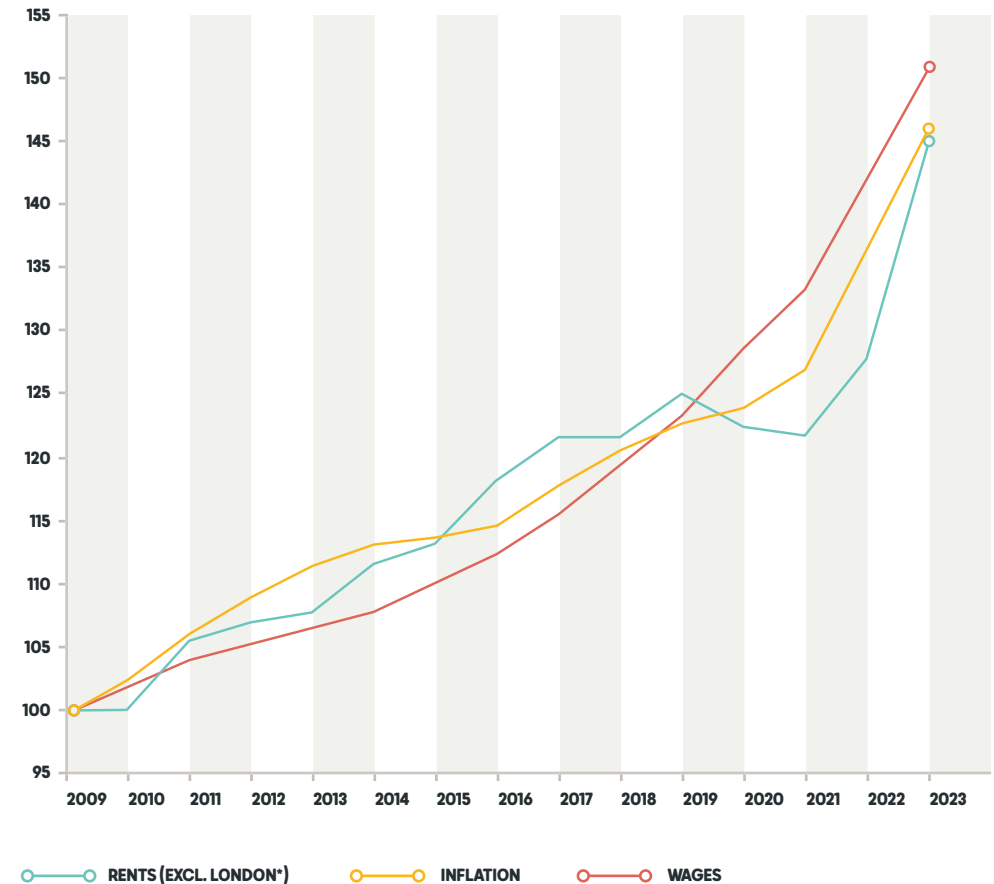
According to Savills, between 2020 and 2023 (a period of significant inflation), market rents grew by 21.5 per cent. Over the same period, the LHA was frozen. In theory, the LHA is intended to make the bottom 30 per cent of rented homes affordable to renters on housing benefit. Yet research shows that as a result of the LHA not keeping pace with inflation, only three per cent of new listings in 2022/23 were affordable to lower income renters.

In the social housing sector, the impact of a real terms fall in rental support translates into reduced cash surpluses for registered providers, such as housing associations. This impacts registered providers' ability to invest in new and existing housing.

However, a squeeze on the LHA for low-income households living in the PRS creates rental pressure and affordability issues. These tenants then need to supplement their income by other means, or relocate to a cheaper rental often inappropriately downsizing or moving location.

Over time, rents typically rise in line with inflation, outpacing frozen housing allowances

Indexed rent Vs CPI Vs wage: Rents typically rise with inflation and wage growth



*London's rental market is distinctive to the rest of the UK. It has been excluded to provide a more accurate picture of the national rental market.

The impact of regulation

All key indicators show that the social sector outperforms the private rental market. This is in part because of the ownership structures of social and private rental homes but also is a reflection of the key regulatory differences.

Decent Homes Standard: Poor standards of housing

According to the 2023 English Housing Survey the PRS has a significantly higher percentage of homes that would fail the Decent Homes Standard regulation that is applied to the social sector.

KEY TAKEAWAY

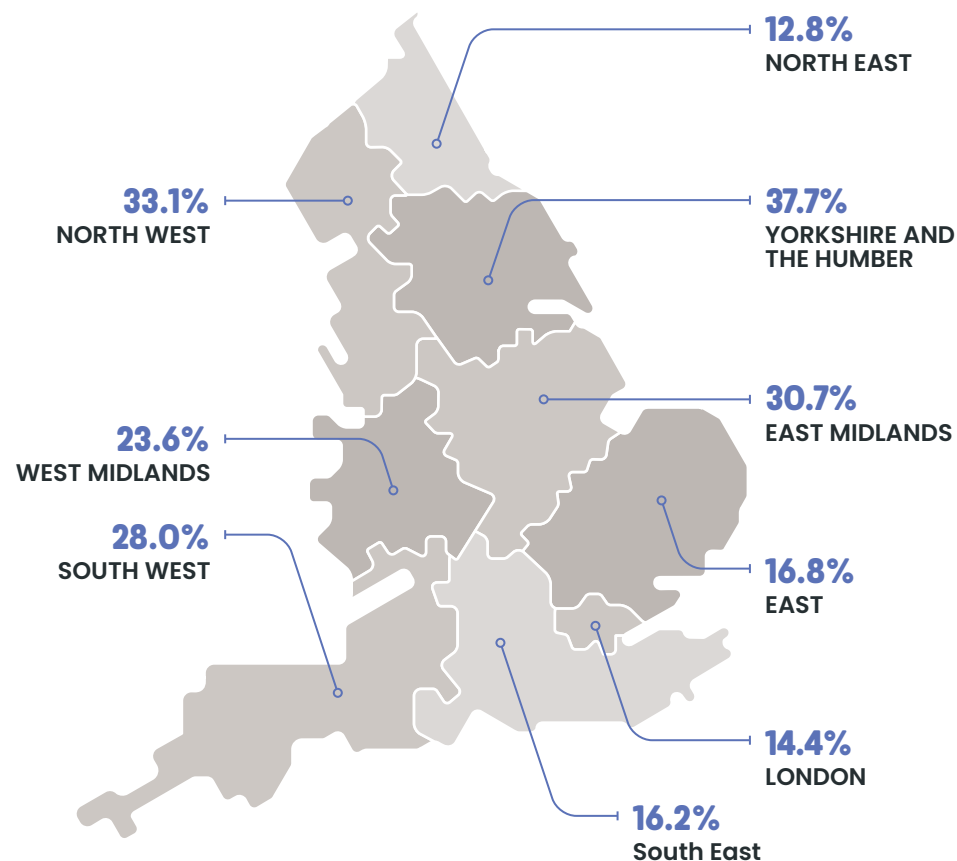
There needs to be greater regulatory alignment across all rental homes.

The PRS Decent Homes Standard failure rate is 23 per cent, compared to 10 per cent in the social sector. There is particularly high failure among privately rented homes in Yorkshire, the North West and the East Midlands, which are all in excess of 30 per cent.

The private market has no consistent, measurable framework to define a Decent Homes Standard. Attempts to do this at a local level, such as selective licencing, are inconsistent across the country and extremely difficult and expensive for local authorities to enforce.

At the time of writing, the intended Renters Reform Bill attempts to bridge this governance gap, but there are still noticeable differences which will fail to raise standards in the private sector.

Regional PRS homes failing Decent Homes Standard (DHS)



Homes failing DHS



PRS = 23%*



SOCIAL = 10%*

*Average across England

Energy efficiency: Energy inefficient homes

With 20 per cent of British emissions coming from residential property, the UK is never going to achieve net zero without retrofitting its existing housing stock. Standards of energy efficiency in social housing stock are progressing rapidly, supported by regulation and backed by government initiatives, such as the Social Housing Decarbonisation Fund.

KEY TAKEAWAY

A simplified energy upgrade funding framework is critical to improving rental home energy performance.

In contrast, the PRS lags well behind the social sector. Sixty one per cent of the private rental stock has an EPC below C, compared to forty per cent in the social sector.

Energy inefficiency is a key driver of fuel poverty within the PRS, with vulnerable households significantly disadvantaged when compared to those households within the social sector, whose homes are being upgraded at a larger scale.

While the government has taken some steps towards making funding available for privately rented homes through schemes including the Homes Upgrade Grant and the Energy Company Obligation scheme, they are often complicated with large portions of housing ineligible.

Retrofit costs are also proportionally much higher in the North given lower asset values.

Together, the need for such investment combined with a lack of private landlord knowledge and skills creates a significant hurdle to improving the energy performance of the private rental market.

By simplifying the funding framework for energy improvements, the sector can attract the expertise and investment needed to take on the retrofit challenge in PRS housing.

EPC ratings by sector: The PRS has the most energy inefficient rental housing

SOCIAL



PRS



EPC RATINGS



SOCIAL BELOW EPC C = 40.1%

PRS BELOW EPC C = 61.0%

61 per cent of private rental stock has an EPC below C, compared to 40 per cent in the social sector

Section 21: Lack of tenure security

In terms of tenure security, the stark difference between the private and social market rests in the ability of the private sector to issue Section 21 notices, otherwise known as 'no fault evictions'. Section 21 enables private landlords to remove a tenant with just two-months' notice, often without cause. Section 21 notices are often used by landlords who wish to move back into their property or sell it to release the value held within it.

KEY TAKEAWAY

Removing exemptions to Section 21 reform will materially impact homelessness across the UK.

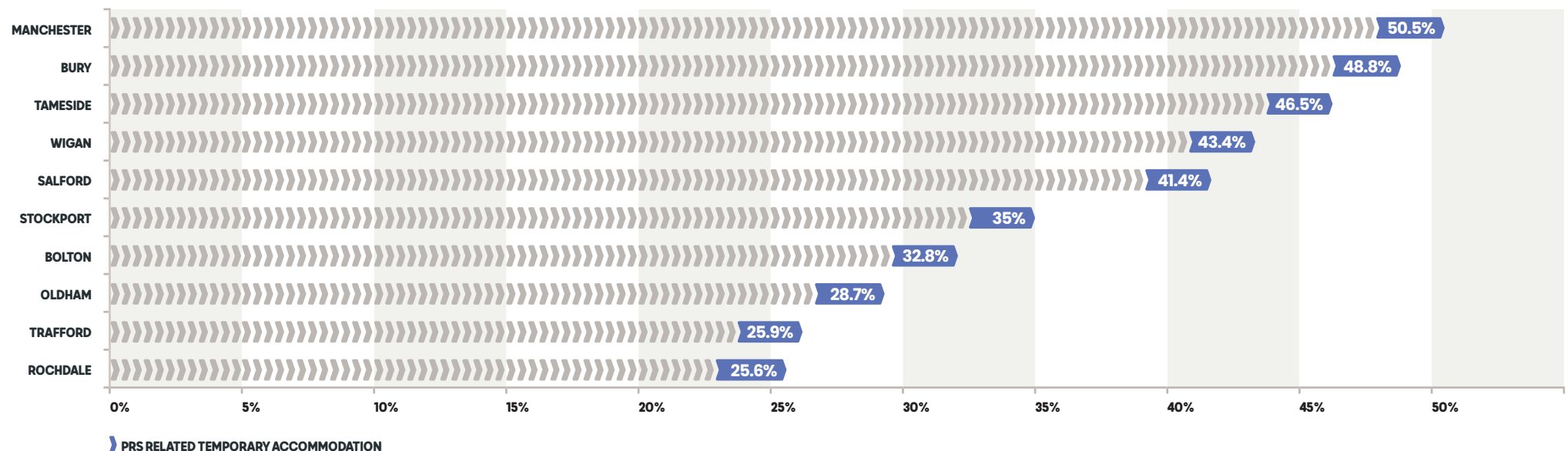
While there are many causes of the need for temporary accommodation, the PRS is by far the largest contributor to this form of homelessness. Nearly 40 per cent of all temporary accommodation demand seen by local authorities in England is the result of private rental tenants being issued with a Section 21 notice. In these instances, a lack of a home is not the cause of homelessness, it is the inability of the tenant to stay in their home that is the problem.

Under the current proposed Renters Reform Bill, Section 21s are to be abolished, although there are critical exemptions where they can continue to be enforced. Such exemptions include when the landlord wishes to sell the property or move into the home for themselves, which would effectively render any such legislation meaningless.

There is no doubt that a full-scale ban of Section 21 notices would require a comprehensive plan for roll out, to avoid a wholesale departure of private landlords from the sector. However, once it is achieved, it will encourage a market that fosters long-term, sustainable tenancies and will create a private rental market that matches the needs of its renters.

The largest single cause of homelessness is not a lack of homes; it is the inability to stay in a home

Impact of Section 21 notices: The north west of England, taken as an example



Investment considerations

Recent ONS population growth predictions for the 25 years to 2045 show annual population growth slowing to 6.7 per cent per annum (against 16.4 per cent in the 25 years to 2020). Given this, the OBR states that by the 2070s the UK could actually have a smaller population than it does today. The vast majority of our future homes already exist, filled by families leading productive lives within thriving communities.

KEY TAKEAWAY

There should be greater incentivisation to invest into the housing stock that already exists.

The investment challenge: The need for patient responsible capital

Bringing private investment capital to the existing PRS is not without its challenges. Over several decades the UK's PRS has grown into a vast, highly fragmented market. The consolidation and investment into that market requires combining equity investment for the aggregation of large volumes of individual homes and small landlord portfolios, with long-term sustainable capital which matches the rental market need and investment profile.

We know that much of the stock in the private sector will need to be significantly upgraded and investment made in energy performance improvements. To do this requires expertise and a skill-set that understands the different property types across the UK, as well as experience in coordinating national retrofit programmes at scale.

Central to the success of bringing capital to the private market is ensuring that all rental homes are owned and managed in a sustainable and responsible manner, regardless of the means of the resident. Having socially responsible landlords for residents of all types is a fundamental prerequisite of a successful rental market.

Four out of five homes occupied in 2050 exist today: the future homes are already here

POPULATION GROWTH IS SLOWING

1995 - 2020

16.6%



POPULATION GROWTH (FORECAST)

2020 - 2045

6.7%

THE MAJORITY OF THE UK'S HOUSING STOCK IS ALREADY BUILT

YEAR 2024

25.1M



NEW BUILD (NET INCREASE)

YEAR 2045

1.5M

Strategies and objectives: **Aligning investment aims with market needs**

The size and structure of the private rental market requires investment strategies with different priorities and risk profiles.

Investment aims can range from increasing rental supply by investing in vacant homes to environmental and social impact investing designed to reduce carbon emissions and alleviate fuel poverty.

It is critical to ensure that any investment attracts an appropriate level of risk adjusted return, achieved in conjunction with a clear understanding of what the investment objectives are, above and beyond a purely financial measure.

Market drivers: **Urgent consolidation required**

With increasing regulation, tax burden, and the need to retrofit, as well as a high base rate environment, the Buy to Let (BTL) community is starting to vacate the private sector.

The number of BTL property purchases in the UK has fallen 25 per cent, from 240,800 in 2022/23 to 192,100 in the year ended March 2024. Those previously rented homes are starting to transition back into owner-occupied tenure, as residents are evicted, and properties are sold on the open market.

While a contraction of the PRS sector in favour of owner-occupation might seem like a desirable conclusion, the impact on vulnerable households who rely on renting is stark. As homes are being withdrawn from the rental supply, the choice of affordable renting is becoming increasingly restricted.

Equally alarming is the need for registered providers within the social sector to liquidate parts of their property stock to raise the capital needed to invest into their homes. Often sold in small lots, these formerly socially rented homes drift into the private sector only to perpetuate the wider structural problems within the market.

The rapid growth of the PRS over the last 20 years is drawing to a close. A period of consolidation is now needed alongside innovative investment solutions and patient private capital to ensure the UK rental market is safeguarded and fit for the future.

A photograph of a young boy with curly hair, wearing a grey school sweater over a red shirt and tie, and carrying a backpack. He is looking up and smiling at a woman standing next to him. The woman has her hair in braids and is wearing a bright yellow sweater with white horizontal stripes. They are indoors, with a large window in the background showing greenery outside.

Having socially responsible landlords for residents of all tenures is a fundamental prerequisite of a successful rental market

Key takeaways

The UK's PRS is a vast market and has been shaped over many decades. By introducing a robust regulatory framework, simplifying energy upgrade funding and incentivising long-term institutional investment into the sector, the UK can start the transition to a more sustainable and responsible rental market.

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About G2M

Established in 2012, G2M Group is a specialist residential investment manager. Our deep knowledge paired with institutional investment is delivering a more sustainable and responsible rental market in the UK.

With a clear vision of how private capital can play a significant role in helping achieve this objective, we have ambitious plans to bring large scale institutional funding to the private rental market.

G2M brings together decades of operational expertise and experience in capital markets and corporate finance, to deliver impactful investment into the UK's existing housing infrastructure.

Using a collaborative approach, G2M creates investment structures to channel direct investment into the residential market.

Central to the success of G2M is its proprietary management platform, Habodel (ha-bode-le). This unique, entirely integrated turnkey solution controls the entire business environment from sourcing and acquisition underwriting, through to property and investment management.

Unique to Habodel is its resident-centric Sustainable Tenancies Strategy, which focuses on delivering measurable social and environmental outcomes, while providing a comprehensive and robust risk management framework.





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