

# **Mid-Market Rent**

## **Who is it for?**



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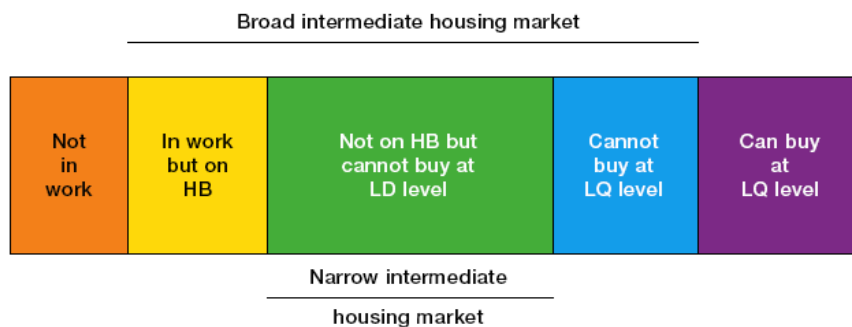
## Mid-Market Rent

### Is it meeting housing demand or housing need, and does it matter?

*Anna Evans explores the demand and need for mid-market rent, referring to recent research on demand for Mid-Market rent undertaken in Glasgow and Edinburgh.*

Many housing markets in Scotland are demonstrating strong drivers for rented housing and Scottish Government is promoting the role of mid-market renting (MMR) as a means of meeting the housing needs of the 'in-betweeners' – those that have insufficient priority of social housing but cannot access home ownership.

The recent Glasgow and Edinburgh studies have assessed the scale of the MMR market using the Wilcox definition of the **narrow** intermediate housing market – those not on Housing Benefit, but not able to afford lowest market prices.



Source: Wilcox, Steve (2007) *Can't Buy: Can Rent*

### The scale of the MMR market

The Glasgow study found there is a market for MMR in Glasgow at around 10% of the current household population – equivalent to between 24,000 and 28,000 households – based on an affordability assessment assuming 33% of income spent on housing costs, average private rents of £600 per month and Local Housing Allowance rent level of £495pm. Market pressure in Edinburgh means the scale of the MMR market here is larger, despite a smaller population.

### MMR market segments

The research suggested targeting MMR in Glasgow to those with a household income of between **£15,000 and £28,000**, although there are **market segments**; there is a considerable sized sub-market of households for whom lack of savings is a major impediment to access ownership but who may be able to afford owning in future. For this group **mortgage-guarantee or deposit savings-orientated solutions** would be appropriate – this market in Glasgow is estimated at another 23,500 households based on lowest decile house prices.

Scottish MMR developers/RSLs have so far been very **slow to develop intermediate rent to mortgage products specifically designed** with deposit savings schemes to assist tenants to save and at the same time help build the resident's credit rating. Only one example has been found in Scotland, but several useful case study examples of schemes developed south of the border are included in the Glasgow and Edinburgh research studies. There is a key market opportunity here for RSLs wishing to meet to demand of those currently unable to access the mainstream mortgage market.

### **What is the geographic spread and impact of MMR?**

Targeting of MMR at sub-market level is possible through consideration of a range market indicators and use of prevalence rates, based on a method developed by Ipsos Mori. To find out where, and to whom MMR should be targeted we have to drill down further on the profile of MMR tenants

- the majority are currently living in the private rented sector
- most are paying considerably more than 33% of their income on their housing costs
- but, many also suggest they are managing financially.

This means that MMR development programmes are likely to be shifting households from the current private rented sector and there **is a risk that if there is inadequate targeting, MMR will meet demand rather than need**, with people upgrading their area or quality choices rather than alleviating affordability issues or other housing needs. This may bring negative impacts on the existing private rented sector, particularly at the lower end.

### **Who should you target, and why?**

“Inbetweeners” in the Glasgow market are likely to be those with household incomes of between £15,000 and £28,000 – other markets may be slightly more or less – much more and you are likely to be shifting demand from the private rented sector.

Those responsible for MMR strategy and development should be clear on how MMR is to be targeted and its role in local markets. There are likely to be two or three key roles for MMR to address market failure –

- 1) MMR in perpetuity to tackle affordability/housing pressure issues
- 2) MMR with an option of ownership to create mixed communities in regeneration areas, and possibly
- 3) to influence the existing market where there is a concentration of very poor quality private rented /owner occupied housing.

However, the suggestion that MMR may be used in a less targeted way to generally increase supply and influence quality and price in the market is much more tenuous, and if pursued at scale will result in reduction in quality at the lower end of the existing private rented sector, and in the longer term may reduce supply in the PRS.

## **What do consumers want?**

According to 64 consumers in Glasgow, the key elements of MMR should be:

- New build - people said they would not pay a higher rent for refurbished social housing.
- Furniture – unfurnished but provided with white goods, carpets and curtains.
- Tenancy arrangements – Consumers are concerned about security, reflecting poor experiences with private landlords. They want MMR to be more secure than short assured tenancies, but at the same time, many people promoted the idea of vetting prospective tenants and probationary tenancies.
- Management arrangements – housing associations were the preferred management agent for MMR from the consumers – they talked about the advantage of regulation and accountability that HAs have over the private sector.
- Options for ownership - Opinions were split 50/50 for and against the option to buy.
- Flexibility of pricing – consumers want a rent with a financial safety net (i.e. within LHA), but also want rents to reflect the fairness of market pricing by location. Developers want MMR to be affordable, but also feasible in higher priced areas.
- Overall opinion of MMR - People thought there would be considerable demand for MMR, but some people thought MMR signified the 'start of the end' of social renting.

*Recent Glasgow and Edinburgh MMR demand assessments were led by Anna Evans Housing Consultancy in association with Mandy Littlewood Social Research and Consulting.*

***Demand assessments can be undertaken at strategic market level, or at lower geographic levels for new housing development feasibility purposes.***

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