

# Research into the Private Rented Sector in East Lothian

## Final Report

### November 2022

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## 1 Introduction and Project Methodology

In April 2022, East Lothian Council commissioned Arneil Johnston to carry out research into the operation of the Private Rented Sector (PRS).

This research study provides an evidence base offering the latest insight on the dynamics of the Private Rented Sector in East Lothian including its scale, role and function. It explores key characteristics such as PRS concentration and supply pressures, rental values and inflation, PRS affordability, PRS quality and security of tenure, housing suitability for PRS tenants, landlord intentions and the operation of the short-term lettings sector. Research outcomes provide clear evidence of the role of the PRS in meeting housing need and the extent to which the sector delivers effective housing outcomes, particularly in relation to tenants on low to middle incomes.

The context for the research is an ambitious national policy agenda for the PRS aligned to the Scottish Government's Housing to 2040 strategy. The Scottish Government have carried out a national consultation exercise on a 'New Deal for Tenants' which introduces a series of PRS reforms aimed at improving housing quality, energy efficiency, housing management, security of tenure and housing affordability. Key proposals for the PRS include:

- delivering a new deal for private rented sector tenants that puts them on a more equal footing with social rented tenants, through the introduction of a new Housing Bill
- establishing a regulator for the private rented sector that will enforce standards
- implementing a national system of rent controls for the private rented sector
- creating a new Housing Standard setting a consistent standard for housing condition and quality across all tenures (including the PRS) aligned to energy efficiency and net zero targets set out in the Heat in Buildings Strategy.

Furthermore, during the execution of the research programme and as informed by the Programme for Government 2022/23, the Scottish Government passed emergency legislation (The Cost of Living (Tenant Protection) (Scotland) Act) to give Ministers temporary powers to cap rent increases for private tenants, until at least 31st March 2023, effectively freezing rents for most tenants during this period. The legislation also prevents the enforcement of eviction actions resulting from the current cost of living crisis and includes a reform of the law on damages for unlawful evictions.

In addition, a new licensing scheme for the Short-term Letting Sector was implemented on 1st October 2022 and the Scottish Government also recently accepted Mid-Market Rent (MMR) as an affordable housing option, with RSLs and local authorities now able to claim subsidy for development of this intermediate market tenure. As well as significant changes to the policy context for private renting in Scotland, the research also coincides with a shift in housing system operation nationally, where global economic impacts have stimulated inflationary and interest rate pressures which may impact on the ongoing growth of the PRS in Scotland, a consistent trend in recent years.

As East Lothian Council, prepare the development of a new Local Housing Strategy (LHS), it is essential that credible insight and evidence on the role and operation of the PRS informs strategy interventions to support the development and improvement of the sector and its interaction with other housing tenures. This evidence will inform policy direction within the new

LHS and assist with the Council's approach to managing short term lets, homelessness prevention and targeted interventions which seek to improve housing system balance and PRS operation.

A key aspect of this study has involved evidencing and better understanding the operation of the East Lothian PRS by commissioning primary research to seek the views of both landlords and tenants. Primary research outcomes are also instrumental in building a more comprehensive profile of PRS properties in terms of size, type, condition and management arrangements.

The study has also provided an opportunity for qualitative engagement with landlords, letting agents and housing information and advocacy providers to build contextual analysis of PRS dynamics, its effectiveness in meeting housing need and prospects for future development and improvement.

## **1.1 Project Methodology**

The project methodology has been designed to deliver robust and credible housing market evidence on:

- the profile of PRS properties, landlords and tenants across East Lothian
- an overview of PRS rental values, inflationary trends and housing affordability pressures, particularly for tenants on low to middle incomes
- analysis of the impact of short-term lets on the operation of the PRS
- assessment of the key issues facing the sector which may underpin future LHS options and interventions to enable the sector to change, improve and grow
- PRS market prospects including PRS landlord intentions, tenant aspirations and the potential impact of proposed legislative change on the operation of the sector.

To achieve this, the research programme was executed around the following five stage methodology:

- desk based analysis of secondary data sources including: the Private Landlord Register (PLR), housing waiting list data, homelessness datasets and statistics, energy and housing repair grant funding awards, welfare benefit data and rent deposit guarantee scheme data
- analytical modelling of housing affordability in the PRS across East Lothian relative to local incomes and alternative housing tenures
- analysis of the concentration, scale and impact of the Short-term Letting Sector on the operation of the PRS in East Lothian
- primary research including comprehensive private landlord and tenant surveys
- interactive workshops with private landlords, letting agents and housing advice and advocacy agencies.

This research report details each aspect of the research, synthesising conclusions and raising key questions for LHS development to improve the operation of the private rented sector in East Lothian.

## 2 Desk Based Analysis: 2022 East Lothian Private Rented Sector Profile

An important initial aspect of the research study was to assemble a profile of the private rented sector across East Lothian, maximising all available secondary datasets to provide insight on the role and function of the sector. There has been extensive analysis of secondary data to assemble and understand the profile of the PRS across East Lothian, including:

- landlord registration data and statistics
- Scottish Household Survey and Scottish Neighbourhood Statistics
- Annual Return on HMOs (Houses of Multiple Occupation)
- ELC Rent Deposit Guarantee Scheme data
- Scottish Government Private Rented Statistics
- East Lothian HL1 Annual Returns
- East Lothian Common Housing Register data
- Local Housing Allowance Rates ELC.

A statistical data-book and summary slide-pack detailing this analysis can be accessed by clicking on the following links:

- Appendix A: 2022 ELC PRS Statistical Data-book
- Appendix B: 2022 PRS Secondary Data Profile.

By analysing the full range of available secondary data and statistics, an extensive evidence base has been assembled which highlights the extent, nature and operation of the PRS in East Lothian and the extent to which housing need is and can be met. Chapter 2 details the key findings on the current profile of the PRS across East Lothian.

### 2.1 The PRS as a Housing Tenure in East Lothian

The PRS is a diverse sector with a broad customer base, meeting a wide range of housing need and demands both in East Lothian and in Scotland. It is recognised as providing a good housing option for those requiring flexibility in terms of employment and for those setting up home for the first time. However, in recent years, the sector has also become a housing option for those seeking longer-term accommodation as well as for those unable to access social housing. Demand for PRS housing is strong in East Lothian and it is important the PRS is enabled to meet the needs of a broad range of tenants seeking accommodation including temporary workers, students, households not eligible for social housing and those who seek to move to the East Lothian area.

It is evident that the role of the PRS has changed in recent years and that a variety of wider circumstances have led to a shift in its operation and purpose. Limited access to social housing and owner occupation has characterised the operation of the East Lothian housing system for several decades.

Analysis of the extent and nature of the PRS across East Lothian and the role it plays in meeting housing need have been assembled from:

- East Lothian Private Landlord Register

- Scottish Household Survey
- Scottish Government, Private Rented Statistics 2010-20
- Scottish Household Survey 2019.

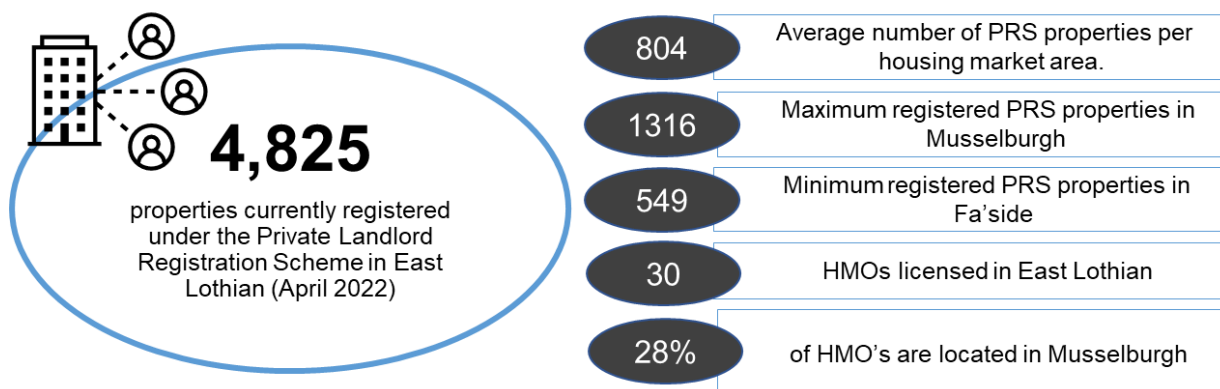
Taken together, these data sources indicate that there are just under 5,000 dwellings (including HMOs) in the PRS across East Lothian. Table 2.1 below shows the number of PRS properties (4,825) by locality taken from a snapshot of the Private Landlord Register (PLR) in April 2022.

Private Landlord Registrations	No of Registered Properties	% of Registered Properties	No. of Dwellings	% of PRS as all Dwellings
Dunbar and East Linton	789	16%	7,055	11%
Fa'side	549	11%	8,954	6%
Haddington and Lammermuir	763	16%	6,674	11%
Musselburgh	1,361	28%	12,434	11%
North Berwick Coastal	781	16%	7,417	11%
Preston Seton Gosford	582	12%	8,084	7%
<b>Total</b>	<b>4,825</b>	<b>100%</b>	<b>50,618</b>	<b>10%</b>
Average	804	17%		

**Table 2.1: Number and % of PLR properties by Locality (April 2022)**

The greatest proportion of registered PRS properties in East Lothian are located in Musselburgh (28%) indicating a high degree of sector concentration in this locality. Outside Musselburgh, concentrations of PRS properties are relatively even, with three localities each with a 16% share of the sector (Dunbar and East Linton, North Berwick and Haddington and Lammermuir). Fa'side and Preston Seton Gosford have comparatively fewer PRS properties at 11% and 12% respectively. On average there are just over 800 PRS properties in each locality. Table 2.1 shows that overall, the PRS in East Lothian accounts for 10% of all dwellings and with the exception of Fa'side and Preston Seton Gosford, accounts for 11% of all dwellings in each locality.

Across East Lothian there are 30 Houses of Multiple Occupation (HMO) with the majority (28%) located in Musselburgh.

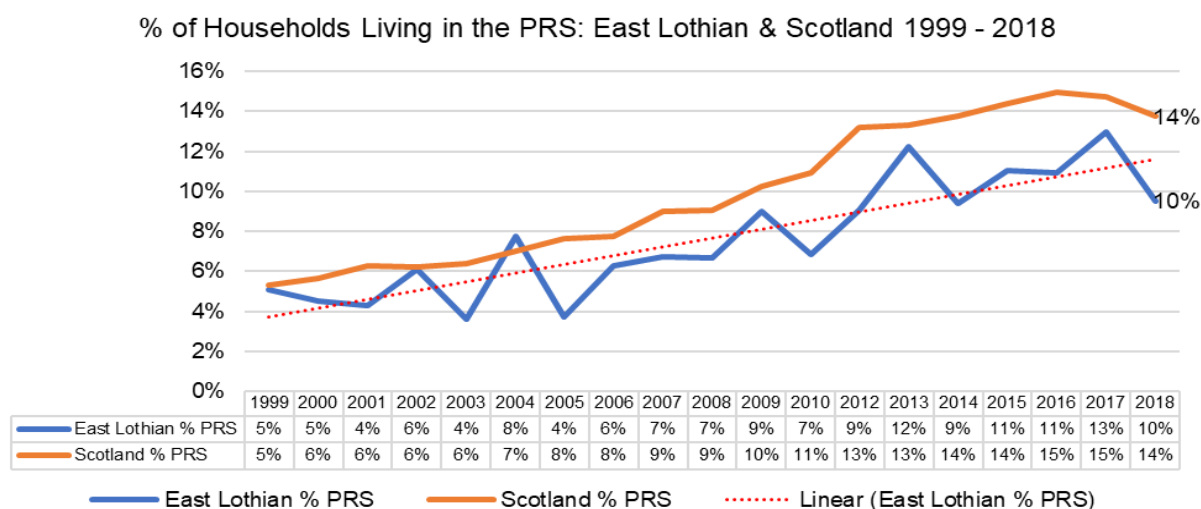


East Lothian Council commission Landlord Accreditation Scotland to deliver 3 Core Standard training courses for registered landlords operating in the area. Over and above this, 21 landlords (with a total portfolio of 65 homes) have also attained accredited landlord status since 2011. There are 28 Letting Agents in East Lothian who have also attained accreditation status since 2011. These letting agencies manage a total portfolio of 550 properties or 11% of all PRS tenancies in East Lothian.

Approximately 10% of the overall housing stock in East Lothian is located in the PRS according to the Scottish Household Survey, which means one in ten households currently live in the sector compared with 14% for the whole of Scotland. Following sustained growth from 5% in 1999 to 9% in 2009, the size of the PRS in East Lothian has fluctuated over this period, peaking at 13% in 2017<sup>1</sup>.

At a national level, the proportion of households in the private rented sector in Scotland has grown steadily from 5% in 1999 (120,000 households) to 15% in 2016 (370,000 households), an increase of a quarter of a million households. According to the Scottish Household Survey, the proportion has since dropped slightly to 14% in recent years (2018) to stand at 340,000 households.

Graph 2.1 below demonstrates the tenure share held by the PRS in East Lothian between 1999-2018.



**Graph 2.1: Housing Tenure Split - East Lothian and Scotland 1999-2018 (Source: Scottish Household Survey)**

## 2.2 PRS Property Profile in East Lothian

According to data from Home Analytics, the majority of PRS properties in East Lothian (38%) were built pre 1919 with 23% built 1950-1983. Having just over a third of PRS properties in this age range suggests there may be maintenance challenges in keeping homes modernised and warm. Table 2.2 shows a comparison of properties by age and housing tenure. It is notable

<sup>1</sup> It should be noted that small sample size for East Lothian may be an influencing factor in this national research



that only 3% of social rented homes and 17% of owner-occupied homes are within this older age band.

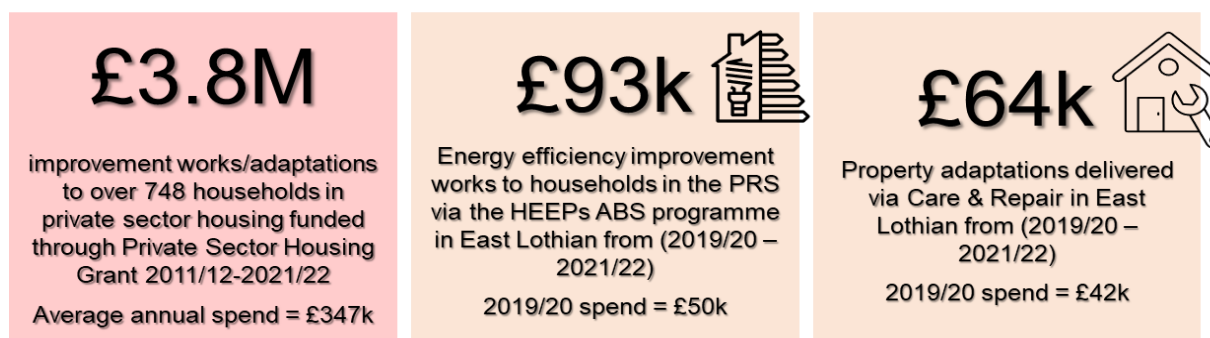
Tenure	Pre-1919	1919-1949	1950-1983	1984-1991	1992-2002	Post-2002
Owner Occupied	17%	11%	33%	9%	10%	21%
Social Rented Sector	3%	19%	46%	5%	5%	23%
Private Rented Sector	36%	9%	23%	6%	8%	18%

**Table 2.2: PRS Dwelling Profile in East Lothian by Age Band and Tenure (Home Analytics)**

Older properties tend to have higher rates of disrepair and less able to achieve energy efficiency standards than more recently built homes. Equally they are also more challenging to adapt or make accessible through the installation of aids and adaptations. A higher concentration of older properties in the PRS in East Lothian means that tenants in the PRS may be more likely to experience fuel poverty and live in homes that require repair, maintenance and improvement to tackle disrepair.

As the East Lothian sample of the Scottish House Condition Survey is not sufficient to allow any meaningful reporting on the PRS, it is not possible to offer a property size, type or condition profile for the PRS using secondary data alone. This crucial gap in the evidence base will be addressed in the primary research element of the study.

There is evidence of grant funded investment in the repair and improvement of PRS homes in East Lothian. Over the last 10 years, households in private sector housing (both owner occupation and the PRS) have benefited from on average £347k per annum in repair and improvement grants. Over the last 3 years, on average the PRS has benefited from £64k of this funding, roughly 18% of the annual total. Over and above this, average investment in energy improvement works in the PRS has totalled £93k per annum.



### 2.3 Homelessness and the PRS

Analysis of homelessness statistics in East Lothian's for 2020/21, shows that the number of homeless applicants who originate from PRS tenancies is decreasing annually, from 18% in 2018/19 to 10% 2020/21. Overall, 63 households from the PRS in East Lothian made a homeless application in 2020/21.

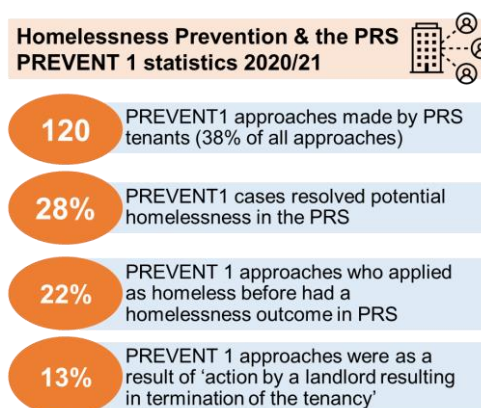
Year	Total HL1 applications	Applicants from PRS	% Applicants from PRS	Resolved homelessness in PRS	% Resolved in PRS
2018/19	795	143	18%	29	4%
2019/20	728	118	16%	37	5%
2020/21	627	63	10%	18	3%
Total	2,150	342	15%	84	4%

**Table 2.3: Analysis of HL1 statistics (East Lothian Council HL1 Data, 2018-2021)**

The Private Housing (Tenancies) (Scotland) Act 2017 restricts the circumstances under which the First Tier Tribunal<sup>2</sup> may grant an order for eviction from a private residential tenancy. This means a private landlord can no longer ask a tenant to leave simply because the fixed-term of their tenancy has ended. This could be an influencing factor in the reducing number of homeless presentations from PRS tenants.

Given that the sector accounts for approximately 10% of all homes in East Lothian, the statistics would suggest a lower proportion of housing outcomes are delivered by the PRS than other tenures. In 2020/21, just 4% (18) of all HL1 applicants (627) resolved their homelessness in the PRS. The number of homeless applicants accessing the PRS as a housing outcome has remained fairly static at between 3-5% 2018-2021. Given the scale of the PRS in East Lothian there is perhaps more potential for the sector to be maximised as a settled housing option.

Over the past three years, whilst 15% of homeless applications have come from PRS households, a higher proportion approach the service for advice on the prevention of homelessness. According to Prevent 1 statistics, 38% of all households who approached the service for preventative support came from the PRS in East Lothian. However, in 2020/21, 28% of households facing homelessness were successful in resolving housing crisis in the PRS.



There is also evidence of tenancy sustainability issues in the PRS, with 22% of approaches for prevention advice coming from households who previously accessed the PRS as an outcome of a homeless application. Furthermore, 13% of Prevent 1 cases were as a result of 'action by landlord resulting in the termination of tenancy'.

## 2.4 Housing Waiting Lists and the PRS

Almost a quarter (24%) of waiting list applicants for social housing in East Lothian are made by households currently living in the PRS. This is more than double the proportion of households

<sup>2</sup> The First-tier Tribunal for Scotland (Housing and Property Chamber) was formed to deal with determinations of rent or repair issues in private sector housing and in exercising a landlord's right of entry. Since 2017, the Chamber has played a key role in determining private rented cases, following a shift from the Sheriff Court system.

who live in the sector (10%) and would suggest a strong unmet demand for social housing from PRS tenants.

Applicants by Tenure	Total Applications	% Applications by tenure
Social Housing	452	12%
Private Rental Sector	922	24%
Owner Occupier	507	13%
Tied Housing	27	1%
Homeless	62	2%
Ex-Armed Forces	2	0%
Other	1798	48%
<b>Total</b>	<b>3770</b>	<b>100%</b>

**Table 2.4: Housing Waiting List Application by Housing Tenure (ELC Waiting List Data, 2022)**

PRS tenants seeking social rented housing in East Lothian are concentrated in North Berwick Coastal (36%), Haddington and Lammermuir (31%) and Dunbar and East Linton (27%).

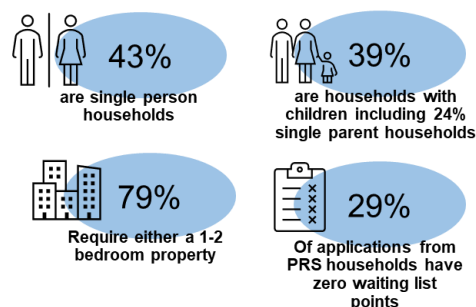
Locality	PRS (Waiting List)	% of applicants from PRS
Dunbar & East Linton	106	27%
Fa'side	138	23%
Haddington & Lammermuir	126	31%
Musselburgh	255	25%
North Berwick Coastal	75	36%
Preston Seton Gosford	109	20%
Elsewhere	113	19%
<b>Total</b>	<b>922</b>	<b>100%</b>

**Table 2.5: Housing Waiting List Application by PRS Tenants by Locality (ELC Waiting List Data, 2022)**

The majority of PRS waiting list applicants are single people (33%) and single parents (24%). A significant proportion of PRS applicants seeking social housing require either a one or two bedroom property (79%).

There is evidence of a significant proportion of PRS tenants who have no eligibility for social housing despite their preference to live in the sector. Overall, 29% of all PRS waiting list applicants have zero waiting list points. This suggests for up to 1 in 3 households, private renting is a secondary option and that households may be experiencing housing affordability pressures that could be eased by social housing.

**Analysis of Waiting list applications from PRS households reveals**



The Scottish Households Survey 2019 indicates that the majority of households living in the PRS are single adults (35%) with a further 30% being in the small adult households category.

Single person households are most susceptible to experiencing housing affordability issues, as this group fails to benefit from dual incomes or welfare benefits associated with having children. 17% of dwellings in the PRS have a 'Most Deprived Score of 1 according to SIMD 2020' records with the majority being in large urban or other urban areas (78%).

## 2.5 Alternatives to PRS: Mid- Market Rent in East Lothian

Mid-market rent (MMR) is an affordable alternative to the PRS, with rent levels generally lower than market levels but higher than social housing rents. Properties are aimed at households on moderate incomes who have difficulty accessing the social rented sector but who would also struggle to purchase their own home or afford private rents. Rental charges for MMR are typically set in threshold of 20% above social rent levels or 80%-100% of Local Housing Allowance (LHA) levels. As an intermediate housing tenure, MMR rents cannot exceed the LHA and can be an important tenure for households on low to moderate household incomes with no eligibility for social housing.

Across East Lothian there have been 115 MMR Affordable Housing Supply Programme (AHSP) completions between 2016-2021, accounting for 10% of all completions funded under the affordable housing supply programme.

The 2021-2026 Strategic Housing Investment Plan (SHIP) projects a further 191 MMR units will be developed over this five year period and will make up 12% of the programme. Table 2.6 below provides a comparison of AHSP units across all HMAs:

SHIP 2021/22 New Supply	Social Rent	Mid-Market Rent	% MMR Homes
Dunbar and East Linton	143		0%
Fa'side	443	75	17%
Haddington and Lammermuir	295		0%
Musselburgh	498	66	35%
North Berwick Coastal	63	20	32%
Preston Seton Gosford	79	30	38%
Unknown	50		0%
<b>Total</b>	<b>1,571</b>	<b>191</b>	<b>12%</b>

**Table 2.6: SHIP 2021/22 – 2025/26 Affordable Housing Supply Programme Social Rent and MMR Units**

The majority of this programme will be delivered in Fa'side (75 units) with Musselburgh (66 units), Preston Seton Gosford (30 units) and North Berwick Coastal (20 units) making up the rest of the properties being developed. Preston Seton Gosford has the highest density of MMR units alongside social rent (38%) in comparison to the other areas.

## 2.6 The Rent Deposit Guarantee Scheme

Rent Deposit Guarantee Schemes (RDGS) makes an important contribution to supporting households to access the PRS by providing landlords with a guarantee that a deposit will be paid in the event of loss or damage to the property. This means that a tenancy can begin without the need for a financial deposit.

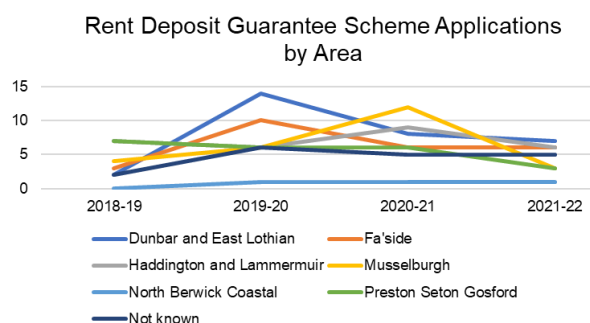
There have been 152 RDGS allocation since 2018-19, with the total number of applicants reducing year on year since 2019-20, culminating in 34% fewer applications were processed by the scheme in 2020-21. It should be noted that this reduction could be associated with limited lettings activity during the Covid-19 pandemic.

Rent Deposit Guarantee Scheme	2018-19	2019-20	2020-21	2021-22	Total	%
Dunbar & East Linton	2	14	8	7	31	20%
Fa'side	3	10	6	6	25	16%
Haddington & Lammermuir	7	6	9	6	28	18%
Musselburgh	4	6	12	3	25	16%
North Berwick Coastal	0	1	1	1	3	2%
Preston Seton Gosford	7	6	6	3	22	14%
Not known	2	6	5	5	18	12%
<b>Total</b>	<b>25</b>	<b>49</b>	<b>47</b>	<b>31</b>	<b>152</b>	<b>100%</b>

**Table 2.7: Rent Deposit Applicants in East Lothian 2018/18-2021/22 (Source ELC RDGS dataset)**

Graph 2.2 illustrates East Lothian's RDGS applications by area and clearly demonstrates a decline in activity over the past three years. Most rent deposits have been created in Dunbar & East Linton (20%), Haddington & Lammermuir (18%) and Musselburgh (16%).

Although a substantial number of property sizes were not recorded or unknown, it is unsurprising that 41% of applications in 2021-22 were for one-bedroom properties, followed by 31% for 2 bedroom and 24% for three bedroom. Applications for 4 bedroom or above were minimal.



**Graph 2.2: RDGS Applications by Locality**

## 2.7 Key Findings: Statistical Profile of the PRS

Comprehensive analysis of all known statistical data sources for the PRS in East Lothian provides an insightful baseline understanding of the scale, concentration and operation of the sector. Against a backdrop of limited access to social housing and owner occupation in East Lothian, the PRS plays an important role in meeting housing need. Demand for PRS housing outstrips supply in East Lothian and it is important the PRS is enabled to meet the needs of a broad range of tenants seeking accommodation.

There are 4,825 properties in the PRS in East Lothian, with the majority concentrated in the Musselburgh area (28%). Elsewhere, there is a relatively equal concentration of PRS homes in each locality (circa 800) with the exception of Fa'side and Preston Seton Gosford.

The majority of PRS properties in East Lothian (38%) were built pre-1919 with 23% being built 1950-1983. A higher concentration of older properties in the PRS in East Lothian means that tenants in the PRS may be more likely to experience fuel poverty and live in homes that require repair, maintenance or housing adaptations.

Over the last 3 years, roughly 15% of all homeless applications in East Lothian are made by households leaving the PRS. Furthermore, almost 40% of households seeking advice and support on homelessness prevention originate from the PRS, which could be an indicator of tenancy sustainment issues in the sector.

Almost a quarter (24%) of waiting list applicants for social housing in East Lothian are made by households currently living in the PRS. This is more than double the proportion of households who live in the sector (10%) and would suggest a strong unmet demand for social housing from PRS tenants. There is evidence of a significant proportion of PRS tenants (29%) who have no eligibility for social housing despite their preference to live in the sector. For up to 1 in 3 households, private renting is a perhaps secondary option, which creates housing affordability pressures for those on modest incomes. The delivery of over 190 mid-market housing options (MMR) through the affordable housing programme in East Lothian could offer much needed alternatives to the PRS for housing seeking social housing.

### 3 The Impact of Short-term Lets on the PRS in East Lothian

A key question which underpins this research study relates to the extent to which the PRS in East Lothian has been affected by the growth of short term lets (STLs). Building on research into the ‘Impact of short term lets on communities across Scotland’ (Scottish Government 2019), analysis has been undertaken to assess the extent to which there is local evidence of private landlords ‘flipping’ residential tenancies into short term lets in East Lothian.

To achieve this, a dataset of advertised vacancies for short-term lets in East Lothian area was created using holiday, letting sites and other local tourism websites. This snapshot was assembled by address, property type, property size and rental value over a 4-week period, offering a weekly dataset of vacancies to provide a relatively robust sample of short-term lets across East Lothian.

In addition, East Lothian Council provided data on known short-term lets and self-catering accommodation from an external contractor. This was combined with the STL market snapshot assembled by Arneil Johnston. Using this data, analysis was carried out to ascertain the degree of overlap between the STL and PRS markets and determine whether rental prices in settlements with higher levels of STLs had notably higher PRS rents as a result. The data was analysed based on properties that could only have been used as a permanent residential home.

In total, 387 short term lettings vacancies were identified and analysed, with a focus on properties which could only be residential dwellings. The highest proportion of STL snapshot vacancies were in North Berwick Coastal (58%) followed by 19% in Dunbar & East Linton. Musselburgh had the lowest proportion of STLs (2%) along with Fa’side and Preston Seton Gosford (3.4%). It should be noted however, that high proportions of STL’s may be a function of the sample, rather than an indicative distribution of rental properties in the area.

Locality	Number of STLs	% of STLs
Dunbar & East Linton	76	20%
Fa’side	13	3%
Haddington & Lammermuir	32	8%
Musselburgh	25	7%
North Berwick Coastal	225	58%
Preston Seton Gosford	13	3%
<b>ELC Total</b>	<b>387</b>	<b>100%</b>

**Table 3.1: Short Term Lets (STLs) by Locality Area**

The snapshot suggests that North Berwick Coastal has been impacted the most in terms of properties being taken out of the residential market, with 22% of the properties that could be rental homes in this area functioning as STLs. Whilst PRS vacancies dominate STLs across every locality in East Lothian, the turnover rates of STL properties will be accelerated in comparison to the PRS.

Table 3.2 below shows the breakdown of STLs by locality area. In most localities, with the exception of North Berwick Coastal (22%) and Dunbar & East Linton (9%), STLs account for less than 5% of rental properties available. In the areas where there are significantly higher

proportions of STLs, it could be concluded that short term letting may be restricting the PRS residential market. The impact of this aligned to limited social housing supply, means reduced housing options in these localities.

Locality	PRS Homes	STLs Snapshot	Total Potential Rental Properties	STL% of Total Lettings
Dunbar & East Linton	789	76	865	8.8%
Fa'side	549	13	562	2.3%
Haddington & Lammermuir	763	32	795	4.0%
Musselburgh	1,361	28	1,389	2.0%
North Berwick Coastal	781	225	1,006	22.4%
Preston Seton Gosford	582	13	595	2.2%
<b>ELC Total</b>	<b>4825</b>	<b>387</b>	<b>5,212</b>	<b>7.4%</b>

**Table 3.2: Short Term Lets as a % of all Residential Lets by Locality**

However, there is no evidence to suggest that a reduced residential letting sector as a result of short term lets is driving demand for social housing. Table 3.3 shows the % of Residential Lets and % of Housing List Applications. It shows that in areas of STL concentration (North Berwick and Dunbar & East Linton), social housing applications are below average.

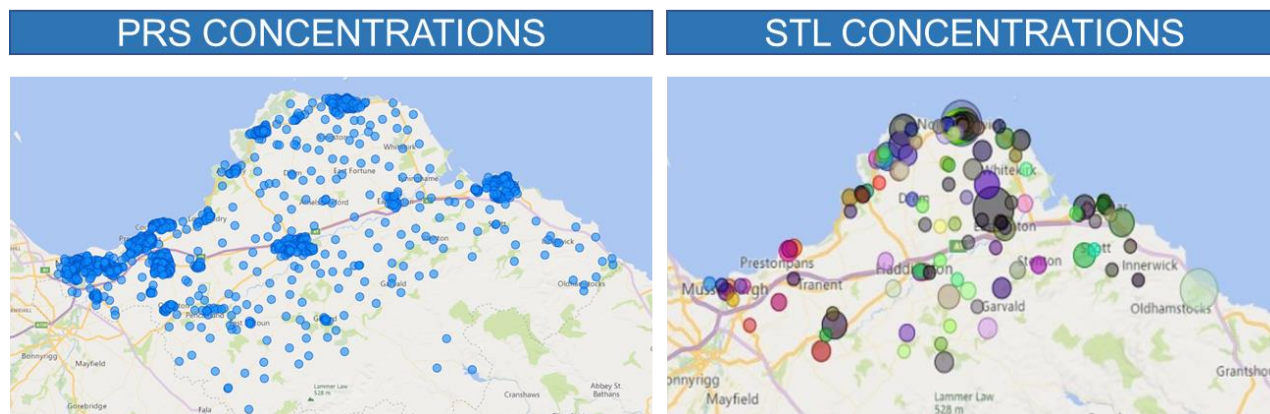
Locality	Total Housing List Applications	% Housing List Applications	STL% of Total Lettings
Dunbar & East Linton	394	12%	9%
Fa'side	611	19%	2%
Haddington & Lammermuir	401	13%	4%
Musselburgh	1004	32%	2%
North Berwick Coastal	211	7%	22%
Preston Seton Gosford	554	17%	2%
<b>ELC Total</b>	<b>3175</b>	<b>100%</b>	<b>7%</b>

**Table 3.3: Short Term Lets as a % of all Residential Lets and % of Housing List Applications**

The snapshot of STL dwellings has been mapped to provide a visual aid detailing the concentration of short term lets across East Lothian. Given the limited availability of postcode data for advertised vacancies, Map 3.1 does not reflect the concentration of STLs for the full snapshot sample but offers a good indicative profile.

Map 3.1 show that in some areas there is a relationship between the concentration of short-term and PRS rental properties, although not consistently so.





**Map 3.1: Distribution of PRS tenancies and STL concentration across East Lothian**

### 3.1 Does the Market for Short Term Lets influence PRS Rental Values?

Average monthly costs for short term lets are found to range from £2,968 to £12,824, with an average STL rent per calendar month achieving £4,093 compared to the average monthly rental yield in the PRS of £1,041. From the snapshot analysis available there is an average difference of £3,052 per calendar month in terms of income that can be generated for properties that are STL and those that are PRS properties.

The property size profile of the short-term lettings sector may be a factor in the analysis, with a significantly higher number large properties available to accommodate group holidays and events in some localities e.g. in Haddington & Lammermuir where the margin between STL and PRS rental income is as high as £4,000 per month. Table 3.4 below demonstrates the disparity in rents per calendar month for STLs and PRS vacancies by HMA.

	PRS PCM	STL PCM	Difference
Dunbar & East Linton	£803	£4,136	£3,333
Fa'side	£956		
Haddington & Lammermuir	£1,044	£5,225	£4,181
Musselburgh	£1,052	£2,968	£1,916
North Berwick Coastal	£1,162	£3,353	£2,191
Preston Seton Gosford	£869	£4,001	£3,132
East Lothian	£1,041	£4,033	£2,992

**Table 3.4: Comparison of Average PRS and STL Rents by Locality**

There appears to be no real correlation between value of STL rents and PRS rents in most locality areas. The evidence suggests there is no consistent relationship between the market for short-term lets and PRS rental inflation as higher PRS rent levels are more prevalent in areas where there are fewer STLs. It is more likely to be the case that a lower number of PRS properties relative to local demand is a clearer driver of PRS rental inflation, rather than STLs driving PRS inflation.

### **3.2 Key Findings: The impact of Short Term Lets on East Lothian Housing Market**

Greater insight on the true extent and nature of the short-term lettings sector in East Lothian will become available as the new STL licensing scheme, introduced on 1<sup>st</sup> October 2022, is in full operation in 2023. At this stage, the research analysis provides a helpful indicative profile of the operation of the short-term letting sector in East Lothian and its impact on the PRS.

The snapshot sample of short term lets in East Lothian suggests there were up to 400 STLs available to let, with almost 60% located in the North Berwick Coastal area. Whilst there are significantly more PRS properties registered (4,825) than STL dwellings in the snapshot (387), it is estimated that short-term lets account for 7% of the lettings market in East Lothian.

Most notably, short-term letting account for 22% of the lettings sector in North Berwick, suggesting that properties suitable as residential homes may have been taken out of the PRS to become STLs. In localities where there is already a limited supply of residential rental properties, even a small number of dwellings converting to STLs could have a disproportionate impact on meeting housing need. Having said this, there is no evidence to suggest that a reduced residential letting sector as a result of short term lets is driving demand for social housing.

The rental costs of STLs vary considerably across localities averaging at £4,033 per month. There would appear to be no real correlation between value of STL rents and PRS rents in most locality areas. The evidence suggests there is no consistent relationship between the market for short-term lets and PRS rental inflation, with higher PRS rent levels are more prevalent in areas where there are fewer STLs. Again, the exception to this pattern is the North Berwick Coast locality.

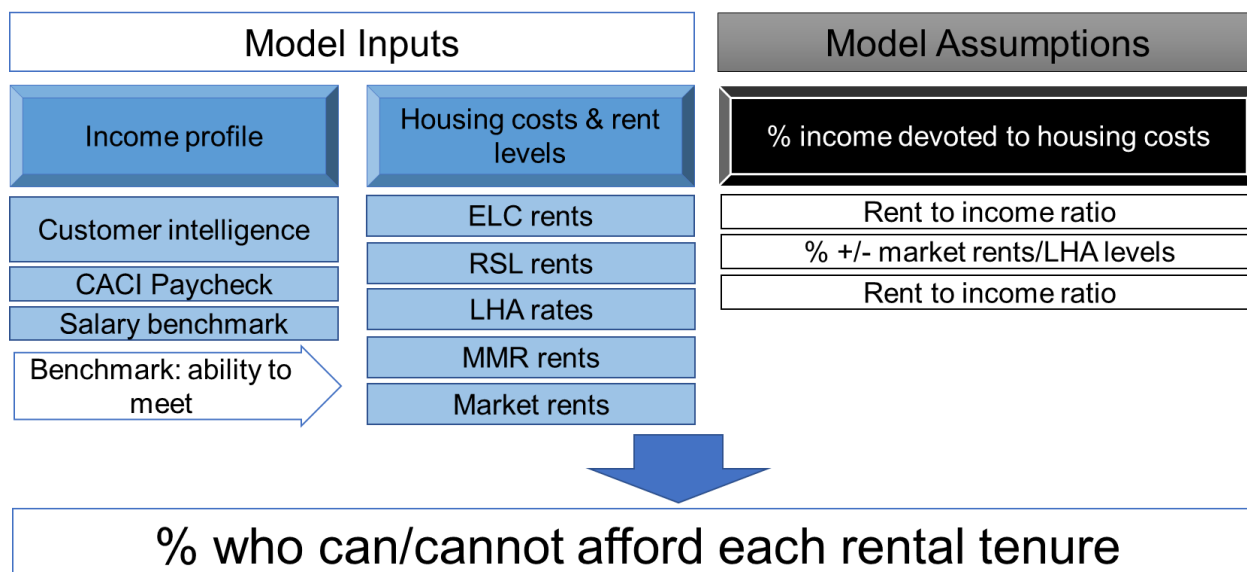
## 4 PRS Affordability Analysis

Housing affordability analysis provides important insight into the role and effectiveness of the PRS in meeting housing need across a range of income groups. In particular this analysis will offer insight into the extent to which the PRS is affordable to tenants on low to middle incomes and the extent to which affordability pressures may be evident for private tenants who need but cannot access affordable housing locally. Chapter 4 details the findings associated with PRS affordability pressures in East Lothian.

A statistical data-book and summary slide-pack detailing this analysis can be accessed by clicking on the following links:

- Appendix C: 2022 ELC PRS Affordability Model
- Appendix D: 2022 PRS Affordability Slidepack.

As part of the research methodology, Arneil Johnston developed a modelling tool to comprehensively assess housing affordability by benchmarking the profile of local incomes to housing costs across rental tenures and by locality area. The housing affordability model works by benchmarking the value of local incomes to housing costs across the rental housing market in East Lothian. This analysis is disaggregated by the model so that housing affordability can be tested by locality and property size. The following diagram illustrates how the model works in practice:



The model is populated with data inputs and insights on the costs associated with various rental tenure options including:

- rent levels for East Lothian Council
- rent levels for locally operating RSLs
- mid-market rent levels set at benchmarks including 90-95% of the Local Housing Allowance

- local housing allowance levels (the threshold at which welfare benefits are set to support PRS tenants with meeting housing costs)
- PRS market rents.

Housing affordability is assessed by testing a range of income to rent ratios (the proportion of household income to be devoted to housing costs) to assess the risks associated with housing induced poverty in each tenure. The model also tests the housing affordability of low income households such as those earning the Scottish Living Wage or national minimum wage. Furthermore, using a banded income profile from CACI PayCheck, the model can calculate the proportion of households who can/cannot afford housing costs across a range of rental tenures and localities.

#### **4.1 Rental Cost Analysis**

To assess the affordability of the PRS in East Lothian, analysis of current rent values were assembled from a range of sources including Rent Service Scotland data which provided 418 records, Hometrack data which monitors PRS rental values (245 records), and data generated via an internal analysis of online private rental vacancies (146 records).

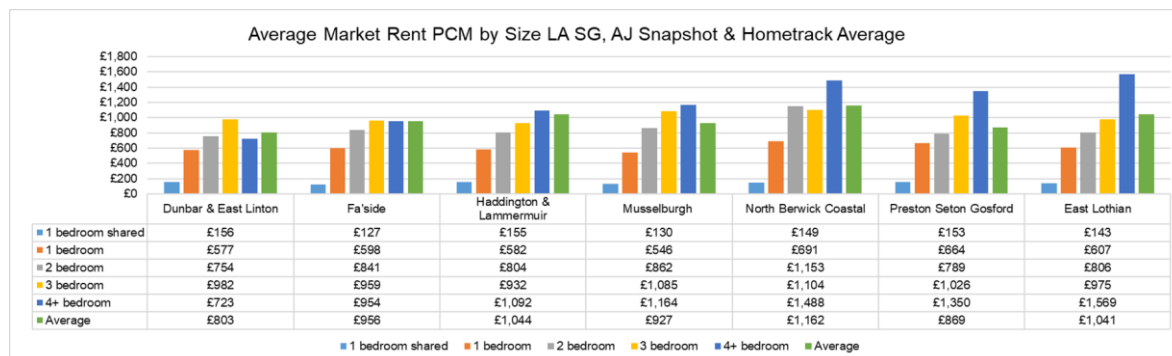
To provide a current snapshot of PRS rental values, rental values were assembled for the PRS by tracking market vacancies. This analysis generated a profile of average PRS rental costs by property size and locality. To assemble this data, analysis of private rented sector vacancies using online letting platforms (such as S1 Homes, Right Move, Zoopla, Prime Location, Gumtree and Nestoria) was carried out. Vacancies were captured at separate intervals including the 17th May 2022, 23rd May 2022, 25th May 2022, 6th July 2022, 13<sup>th</sup> July 2022 and 20<sup>th</sup> July 2022.

These data sources were used to assemble a combined sample with Scottish PRS rent statistics for 2021 used to triangulate findings and validate the overall East Lothian profile.

##### **4.1.1 Market Rent Comparison**

In 2021, the average market rent in East Lothian was £1,040.79 per month. This reflects the value of the wider Lothian rental market, where rents are 26% above the national average. Furthermore, rental inflation in the Lothian PRS over the last 10 years is 42%, 16% higher than Scotland.

Monthly rents vary significantly across property size from an average of £606.77 for a 1-bedroom property to an average of £1,568.68 for a 4-bedroom property. There is a high degree of variation in average rental market prices across localities in East Lothian. North Berwick Coastal is the locality with the highest average rental value at £1,162.16. In contrast, Dunbar and East Linton has the lowest average market rental value at £803.42.



**Graph 4.1: Average PRS rental values by HMA and property size**

It is notable that North Berwick Coastal has the highest average rents across all property size categories relative to other housing market areas in East Lothian. In particular, average rents on 4-bedroom properties in this area are more than double those found in Dunbar and East Linton. When North Berwick Coastal is set aside, there is much less variation in average rents across the remaining localities. The greatest variations can be found in 3-bedroom and 4-bedroom properties.

To assess the affordability of the private rented sector for tenants who may be reliant on welfare benefits to meet housing costs, the Local Housing Allowance (LHA) is compared with average PRS rents. Overall, market rents in East Lothian are 3% lower than Local Housing Allowance levels, with Table 4.1 indicating that the LHA exceeds average market rents for all property sizes across East Lothian. Local Housing Allowance rates exceed average PRS rents by a notable margin in 1-bedroom properties (by 13%) and in 3-bedroom properties (by 12%).

Property Size	East Lothian	LHA	Difference	% Difference
1 Bedroom	£606.77	£688.09	−£81.32	−13%
2 Bedroom	£806.39	£822.73	−£16.34	−2%
3 Bedroom	£975.17	£1,096.98	−£121.81	−12%
4 Bedroom	£1,568.68	£1,690.35	−£121.67	−8%
<b>Average</b>	<b>£1,040.79</b>	<b>£1,074.54</b>	<b>−£33.75</b>	<b>−3%</b>

**Table 4.1: Comparison between PRS rent levels and Local Housing Allowance rates by HMA and property size**

Within East Lothian localities, the LHA exceeds average rents across property sizes in Dunbar & East Linton, Haddington & Lammermuir and Preston Seton Gosford. North Berwick Coastal proves an exception, with all but 4-bedroom property average market rents exceeding the LHA. In this case, 2-bedroom PRS rents exceed the LHA by 29%. This is more in line with other local authority areas in Scotland where market rents can be as much as 20% higher than LHA subsidy levels. Therefore, in most areas across East Lothian, the LHA rate makes private renting generally affordable for those reliant on welfare benefits to meet housing costs.

Shortfall of Surplus of LHA in Meeting PRS rent by Property Size and Locality				
LHA Rate (Monthly)	£ 688.09	£ 822.73	£ 1,096.98	£ 1,690.35
	1-bedroom	2-bedroom	3-bedroom	4-bedroom
East Lothian	£ 81.32	£ 16.34	£ 121.81	£ 121.66
Dunbar & East Linton	£ 111.03	£ 68.49	£ 115.12	£ 967.01
Fa'side	£ 90.44	-£ 17.80	£ 138.45	£ 736.68
Haddington & Lammernmuir	£ 106.48	£ 18.25	£ 164.65	£ 598.68
Musselburgh	£ 142.16	-£ 38.95	£ 11.79	£ 525.87
North Berwick Coastal	-£ 3.08	-£ 329.86	-£ 7.10	£ 202.14
Preston Seton Gosford	£ 24.42	£ 33.80	£ 71.32	£ 340.35

**Table 4.2: Comparison between PRS rent levels and Local Housing Allowance rates by HMA and property size**

#### 4.1.2 Social Rent Comparison

The average market rents in East Lothian have also been compared to rent levels in the social housing sector. Social housing rent levels are calculated using data submitted by Registered Social Landlords (RSLs) to the Scottish Housing Regulator (SHR) in 2020/21 as part of the Annual Return on the Charter (ARC dataset). Table 4.3 details social housing rents within East Lothian by property size:

Property Size	RSLs	Market Rents	Difference	% difference
1 bedroom	419.55	606.77	-187.22	-31%
2 bedroom	455.06	806.39	-351.33	-44%
3 bedroom	477.54	975.17	-497.64	-51%
4 bedroom	538.37	1568.68	-1030.31	-66%
<b>Average</b>	445.71	1040.79	-595.08	-57%

**Table 4.3: Comparison between PRS rents and social housing rents by HMA and property size**

Table 4.3 shows that market rents in East Lothian are significantly higher than social rents, ranging from 31% higher for 1 bedroom properties up to 66% higher for 4 bedroom properties. On average, market rents exceed social rents by 57%. Table 4.3 also shows that there is a significant differential in rental values for larger properties as social rents in East Lothian have a much flatter rental structure. As a result, the larger property size, the greater the differential between market rents and the average social rent levels.

#### 4.1.3 Mid-Market Rent Comparison

In addition to benchmarking to social rents, PRS rent levels are also assessed against the affordability of rents in intermediate housing tenures. Table 4.4 below shows the differential between market rents in East Lothian where Mid-Market Rent levels (MMR) are set at 85%, 95% and 100% of the Local Housing Allowance rate.

As LHA rates sit close to PRS market rent levels at an East Lothian area level, Table 4.4 shows that in order for MMR to make a meaningful contribution to housing affordability, MMR rents will potentially require to be set under the LHA threshold and potentially in the region of 85-90%.

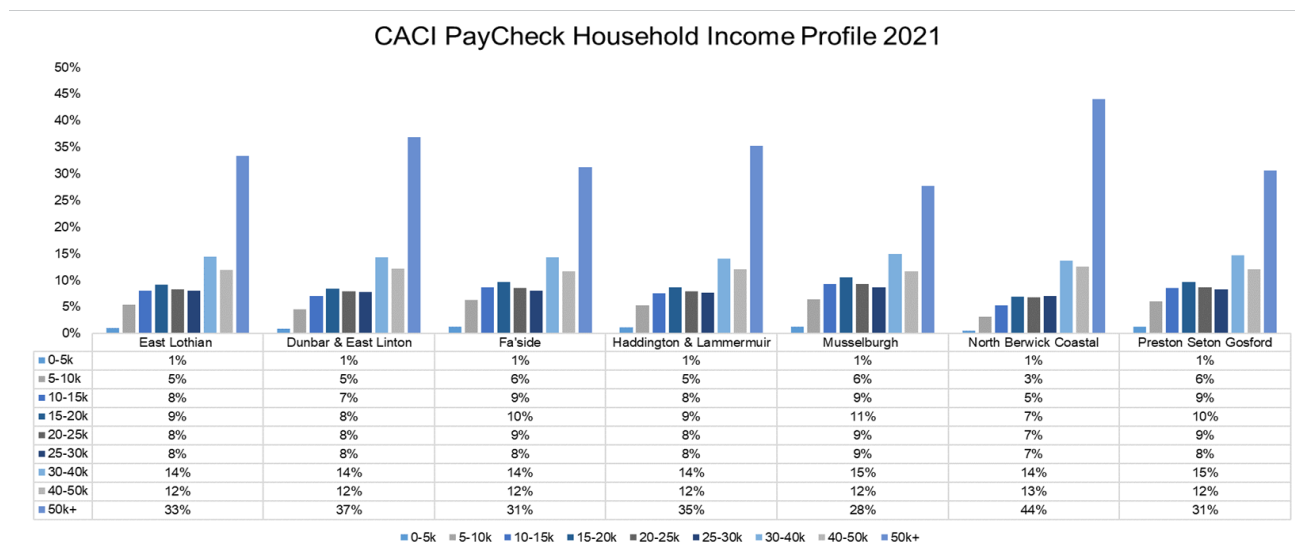
Property Size	Market Rents	MMR 100%	Difference	100% Difference	95% Difference	85% Difference
1 bedroom	£606.77	£688.09	−£81.32	−13%	−8%	4%
2 bedroom	£806.39	£822.73	−£16.34	−2%	3%	13%
3 bedroom	£975.17	£1,096.98	−£121.81	−12%	−7%	4%
4 bedroom	£1,568.68	£1,690.35	−£121.66	−8%	−2%	8%
<b>Average</b>	<b>£1,040.79</b>	<b>£1,074.54</b>	<b>−£33.75</b>	<b>−3%</b>	<b>2%</b>	<b>12%</b>

**Table 4.4: Comparison between PRS rents and MMR rent scenarios by property size**

## 4.2 Income Profile: CACI Paycheck Data

Establishing the income profile of local households is an important element of assessing the affordability of each housing tenure at a housing market area level. To achieve this, analysis of CACI Paycheck data was performed to profile the value and distribution of local incomes by standard income bandings.

CACI Paycheck data also provides the lower quartile income levels for localities across East Lothian. Analysis of Paycheck data reveals that the median income in East Lothian is £36,782, which is higher than the median income for Scotland at £29,876. The lower quartile income for households living in East Lothian is £20,713, which again is higher than is the case for Scotland (at £16,497). Graph 4.2 below details the profile of incomes across East Lothian by HMA and banded increments.



**Graph 4.2: Banded income profile by East Lothian HMA (CACI Paycheck Data 2021)**

In East Lothian, 32% of households earn less than <£25K per annum. There is clear evidence of income inequality locally with almost the same proportion of households (33%) earning £50k+ annually. Most localities have the same proportion of middle earners (43%), with more variation between localities on the proportion of high and low earners. In North Berwick Coastal, only 23% earn less than £25k, whilst Dunbar & East Linton has 29% of households within this income threshold. Other areas such as Musselburgh have 37% of households in this category.

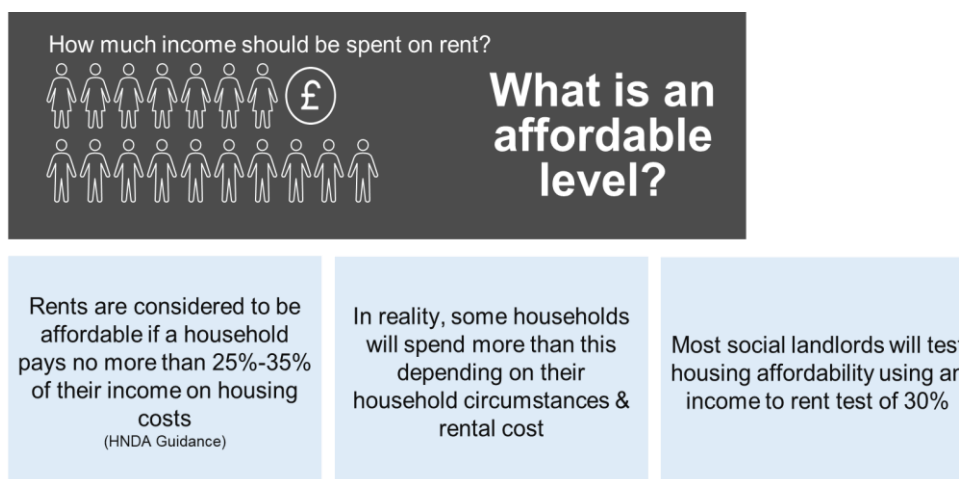
North Berwick Coastal also has a notably greater proportion of high-income households (with 34% earning more than £50k per annum) than other localities which have on average 24% of earners in this category. In contrast, whilst Musselburgh has the greatest proportion of households earning between £0-£15K per annum at 17%, with North Berwick Coastal the lowest at 9%.

### 4.3 Model Assumptions: Income to Rent Ratios

A key model assumption relates to the proportion of household income that an individual must devote to meeting housing costs. Housing affordability analysis measures a person’s ability to pay for housing. It is a complex issue influenced by local housing and labour markets as well as wider economic, environmental and social factors.

The housing affordability model tests the interaction between housing costs, household incomes and the proportion of income that households are typically willing or able to devote to rental payments. When households struggle to meet the costs of housing because they are devoting unsustainable levels of income to meet the costs, they are typically described as experiencing housing induced poverty.

Measures of housing affordability are a topic of debate. UK social policy since the 1980s has typically used a percentage of income spent on housing costs to estimate the number of households experiencing difficulties.



Generally, those who require to spend more than 30-35% of their household income on housing costs are regarded as experiencing affordability difficulties; although in highly pressured housing markets, housing consumers may opt to spend well in excess this benchmark in order to meet housing needs. A key aspect of model development has been to scenario test the proportion of household income required to meet PRS costs at a 30% and 35% income to housing cost ratio.

### 4.4 How Affordable are East Lothian PRS Rents when using a 30% to 35% Income to Rent Ratio?

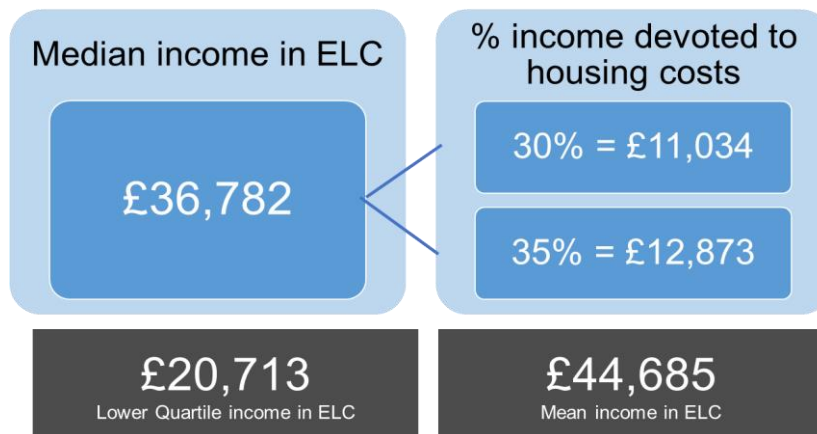
Whilst East Lothian PRS rents generally sit below Local Housing Allowance rates for the area; this in itself doesn’t prove rents to be affordable relative to local incomes. In order to assess affordability, analysis is performed which benchmarks PRS rents to local income levels and assesses whether those earning minimum income thresholds (without reliance on housing subsidies) could afford market rents and other rental tenures. To test this, analysis was carried



out to measure how much a household in East Lothian would have to earn to be able to afford PRS rents if 30% or 35% of their income is devoted to meeting housing costs.

Based on the median income, at a 30% income to rent ratio, annual average market rents in East Lothian would require to be no more than £11,034 per annum to be considered affordable.

Calculated from the average monthly rent for East Lothian at £1,041, the average annual PRS rent equals £12,492.

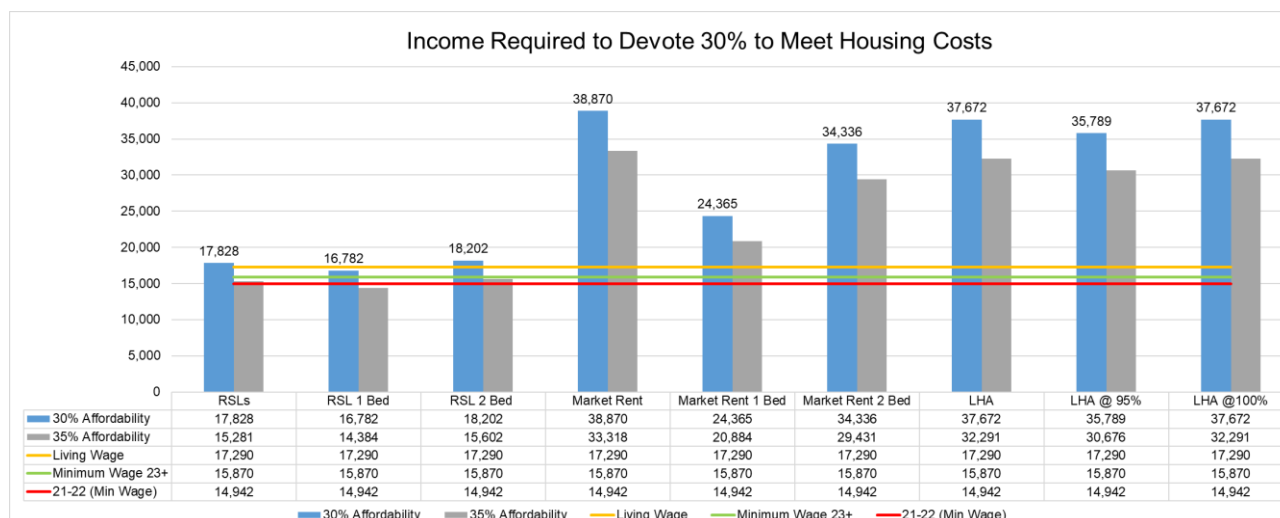


It could therefore be concluded that households earning the East Lothian median income could comfortably afford the cost of market rents when devoting 30% of their household income to housing costs.

However, based on the lower quartile income benchmark in East Lothian (£20,713), at a 30% income to rent ratio, annual average market rents in East Lothian would require to be set at no more than £6,213 per annum. As the average annual PRS rent in East Lothian is more than double that amount at £12,492, the evidence suggests that PRS rents are simply not affordable to households on lower quartile incomes.

To assess the affordability of PRS rents to households on minimum income thresholds, the income required to devote no more than 30-35% of earnings for each tenure has been benchmarked to annual earnings under minimum wage (£15,870 for 25+) and living wage (£17,290).

**Graph 4.3 illustrates that based on both a 30% and 35% income to rent ratio, average PRS rents in East Lothian are clearly unaffordable to those earning minimum and living wage benchmarks.**



**Graph 4.3: Minimum Income Affordability by Rental Tenures in East Lothian 2022**

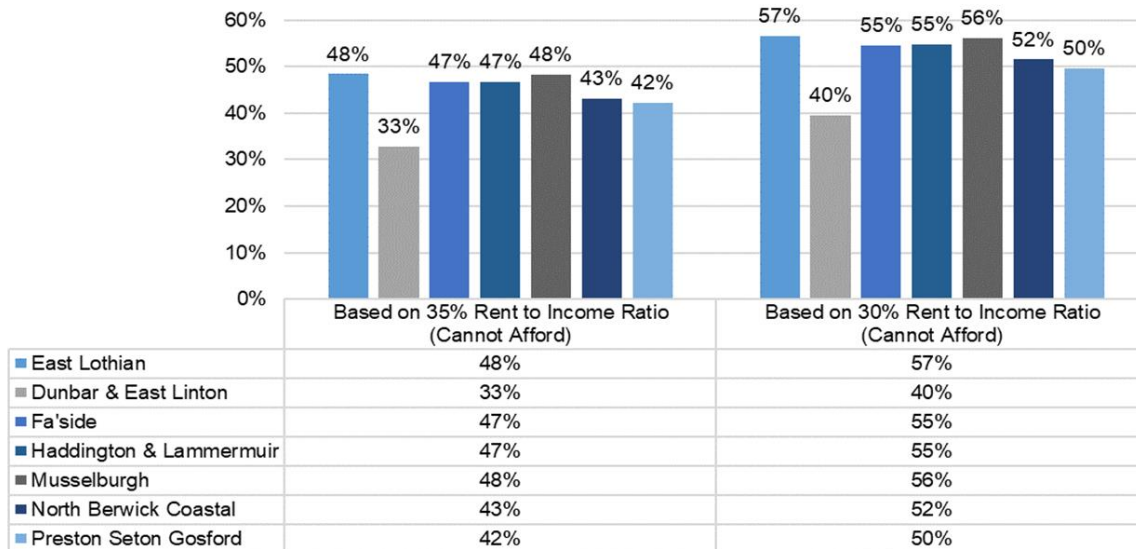
Graph 4.3 shows that a single household earning around £24,500k would be able to afford the average East Lothian 1-bedroom market rent if they were devoting 30% of their income to housing costs. This is significantly above the annual earnings of a single person reliant on Minimum Wage (£15,870) or Living Wage (£17,290).

Even when a 35% income to rent measure is used, the costs of PRS rents still exceed minimum income benchmarks. At 35%, a household in East Lothian would require to earn £20.8k to afford the costs of a 1-bedroom PRS property, with single earnings on Minimum Wage (£15,870) or Living Wage (£17,290) significantly below this benchmark. This analysis provides clear evidence suggests that households relying on minimum income measures will struggle to meet the costs of PRS rents, without devoting unsustainable proportions of household income.

Furthermore, analysis was performed using the CACI 2021 Paycheck data at locality level to assess the proportion of households across each locality who can/cannot afford average PRS rents in East Lothian based on a 30% and 35% income to rent ratio.

Graph 4.4 below illustrates the proportion of households who cannot afford the average market rents per locality using these rent to income ratios. This shows that on average 57% of households cannot afford the PRS rents when devoting 30% of their income to housing costs. At a 35% income to rent ratio, on average 48% of households in East Lothian cannot afford PRS rents.

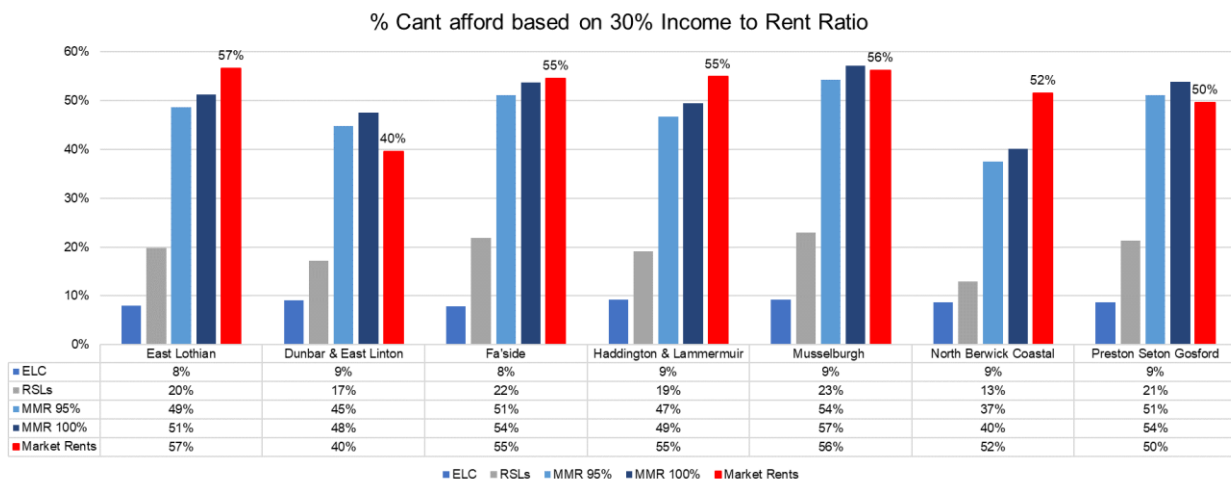
### % Households who Can't Afford PRS Rents by Area



**Graph 4.4: % Households who CANNOT afford the average market rent per sub HMA**

Housing affordability in the PRS is worst in Musselburgh where 56% of households cannot afford a PRS rent based on a 30% rent to income ratio, followed by Fa'side and Haddington & Lammermuir (at 55% respectively). In these localities, this outcome is likely to be driven by the high proportion of households who are earning less than £15k per annum at 16%.

The analysis in Graph 4.4 is further developed by using the CACI Paycheck income profile in each area to assess the affordability of a range of housing tenures across each sub-area, including East Lothian Council rents, RSL rents and MMR (set at 95% and 100% of the LHA).



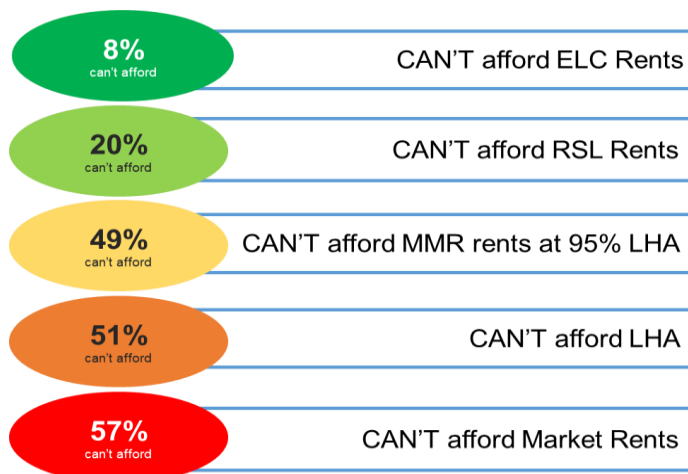
**Graph 4.5: % households who cannot afford housing tenures when devoting 30% of income to rent by HMA by Locality**

Graph 4.5 details the proportion of households per housing market area who cannot afford each rental when devoting 30% of their income to benchmark costs. Council rents are affordable to 9/10 households across East Lothian, with just 8% unable to rental costs without subsidy support. The analysis shows that on average, 20% of households are unable to afford

RSL rents (without subsidy) in comparison to 57% of households who cannot afford market rents.

The analysis of Mid-Market rental values is interesting, as in some areas, this tenure clearly improves PRS affordability outcomes. Whilst 57% of households can't afford PRS rents across East Lothian, this drops to 51% if MMR rents are set using the Local Housing Allowance, an improvement in affordability for 6% of households. Furthermore, if MMR rents are set at 95% of the LHA rate, 49% of households cannot afford housing costs, an improvement in affordability for 8% who cannot afford the costs of PRS rents. Whilst this pattern is not consistent across localities, MMR would appear to improve affordability outcomes for households in Haddington & Lammermuir (by 6%) and North Berwick Coastal (by 12%) at 100% of the LHA; and by 8% and 15% at 95% of the LHA.

In summary, the outcomes of housing affordability modelling across East Lothian show that:



### East Lothian Private Rented Sector Affordability

- The average PRS rent is £1,041 per month
- The Local Housing Allowance (LHA) for East Lothian is above market rent levels for most property sizes, avoiding a major shortfall for those relying on subsidy to help meet their housing costs
- A household requires to earn up to £39k to be able to afford the average PRS rent if they devote 30% of their income to housing costs. This is significantly beyond lower quartile incomes in East Lothian (£20k) rendering PRS rents out of reach for low income households

## 4.5 Key Findings: East Lothian Housing Affordability Analysis

The average market rent in East Lothian in 2022 is £1,040.79 per month. Unlike other local authorities in Scotland, the Local Housing Allowance rate in East Lothian exceeds the value of average market rents by 3%. In 50% of localities including Dunbar & East Linton, Haddington & Lammermuir and Preston Seton Gosford, the LHA more than covers rental costs for all property sizes. North Berwick Coastal is an exception with all but 4-bedroom property rents exceeding the LHA rate.

In East Lothian, average market rents are more than double (57%) RSL rents. This demonstrates the important role for affordable housing in meeting the housing needs of those on low to moderate incomes.

The average income in East Lothian is £36,782 which is higher than average income levels Scotland (£20,713). The lower quartile income in East Lothian is £20,713 which is also higher than lower quartile incomes in Scotland (£16,497). Musselburgh has the greatest proportion of households earning between £0-£15K per annum at 17%, with North Berwick Coastal the lowest at 9%. North Berwick Coastal is an outlier relative to other localities, with higher average rents than other localities and a greater proportion of high income (£60K+) individuals residing in the area than elsewhere in East Lothian.

To afford average market rents in East Lothian, a household would need to earn £38,870. Less than half of households in East Lothian earn this value (46%) and findings suggest that 57% of East Lothian households are unable to afford the average market rents at a 30% income to rent ratio.

Whilst 57% of households can't afford PRS rents across East Lothian, this drops to 51% if MMR rents are set using the Local Housing Allowance, an improvement in affordability for 6% of households. Furthermore, if MMR rents are set at 95% of the LHA rate, 49% of households cannot afford housing costs, an improvement in affordability for those cannot afford the cost of the PRS by 8%.

## 5 Profiling the PRS in East Lothian: Primary Research Outcomes

A priority for East Lothian Council in producing credible research on the operation of the private rented sector was to commission primary research to provide current and reliable intelligence on scale, nature and profile of homes and tenancies in the sector. Whilst secondary data can provide meaningful insights on the concentration and affordability of the sector, the Council identified limitations in relying solely on secondary data for research purposes, namely:

- no data on the property profile of PRS homes in relation to house type, size or property condition as the Private Landlord Register is limited to collecting address details only
- no credible information on the profile of landlords operating in the sector including portfolio sizes, tenancy management practice, return on investment or future intentions
- no credible, recent information on PRS tenant circumstances, housing intentions or aspirations including housing suitability, affordability, access and mobility, fuel poverty and housing status.

A key aspect of the research study was therefore to commission a large-scale survey of landlords operating in the East Lothian area and of PRS tenants on low to moderate incomes. To achieve this, Arneil Johnston commissioned Research Resource (a professional market research consultancy) to deliver PRS Landlord and Tenant research surveys, with fieldwork taking place between July and September 2022.

A full technical report detailing the survey methodology, questionnaire design and data accuracy is available in Appendix E: East Lothian PRS Research Survey Technical Report.

A statistical data-book and summary slide-pack detailing survey outcomes can be accessed by clicking on the following links:

- Appendix F: 2022 East Lothian PRS Survey Results Databook
- Appendix G: 2022 East Lothian PRS Survey Results Slidepack.

### 5.1 PRS Landlord Survey

A hybrid research methodology was used for the landlord survey comprising an online questionnaire with a telephone survey option for landlords who specified this as their preference. To administer the survey, East Lothian Council contacted all landlords on the Landlord Registration database, inviting them to participate in the survey and asking them to provide active consent to participate. Landlords were able to respond by clicking on a link by email, taking them directly to the online survey tool.

The landlord survey was designed to be short and simple, capturing quantitative responses in a manner that was quick and easy to complete to encourage as high as possible a response rate. The survey was set up in online SNAP survey software which allows the development of attractive and easy to complete questionnaires.

In total, 353 landlords participated in the survey exercise, with 316 responses to the online questionnaire and 37 field-worker led telephone interviews carried out.

The landlord questionnaire was designed to address gaps in secondary data analysis and allow for landlords to offer meaningful feedback on their experiences, motivations and future intentions. The questionnaire included questions on:

- property portfolio and profile
- approach to tenancy management
- approach to rent setting
- property condition and maintenance
- future intentions.

The research outcomes arising from the 2022 East Lothian PRS Landlord survey provide invaluable insight into the extent and nature of homes in the sector, the economics of renting property in East Lothian and the nature of tenant/landlord relationships.

Key research headlines are detailed below:



There are a number of characteristics that define the landlord population operating in East Lothian. One of the most significant headlines is that the majority of landlords (42%) operating in East Lothian have been doing so for more than ten years.

Furthermore, the majority (50%) describe themselves as 'accidental' landlords who are letting out their former home or a property they inherited. The next most common motivation was property investment to build a portfolio of rental homes (17%) followed by 12% who

indicated that this was a single property investment to supplement their income. Only 5% of private landlords who participated in the survey identified as being professional landlords with a portfolio of assets as a full-time business. These findings suggest that private rented properties in East Lothian are predominantly provided by individuals rather than commercial businesses.

The most common property size within landlord portfolios is two-bedroom properties (49%). Two-bedroom properties account for almost half of the PRS portfolio in the research sample. Three bed-room properties account for just over a quarter of PRS homes (26%), with 1 bedroom (17%). There are very limited numbers of landlords who offer larger properties within their portfolio. The property size profile of the East Lothian PRS and dominance of 2 bedroom properties could cause some challenges for those seeking housing, particularly single people under the age of 35 who are limited by Local Housing Allowance rate for sharing. Equally those seeking larger homes may struggle to meet their needs in the market.

The majority of landlords indicated that their properties are flatted (40%) or 47% if four in a block properties are included in this category. If all 'houses' (detached, semi-detached, terraced and bungalow) are grouped together then low-rise properties make up almost half (48%) of all PRS homes; suggesting an even split between 'houses' and flatted accommodation across East Lothian.

Over a quarter of PRS homes were built pre-1919 (26%), with a third built before 1945; a lower proportion than suggested by the Scottish Household Survey. This aligns with the overall stock profile across East Lothian.

The vast majority of landlords said that their properties used mains gas (71%) as a main source of heating; followed by electric (18%) as the next most common option. A proportion of landlords (40%) did not know the current energy rating of their property (EPC) whilst almost a third (31%) achieved an energy rating of C. Just 6% of landlords offered properties that had an energy rating of Band B or above. This is a key survey finding in the context of the Scottish Government target for all PRS homes to achieve an energy rating of Band B in the next 10 years.

There appears to be a positive position in relation to tenancy sustainment in the East Lothian PRS. Of the 353 landlords surveyed 48% indicated their current tenant had lived in the property for more than 3 years. At the other end of the scale, 25% of tenancies were less than year old.

One in four landlords (24%) indicated their property would be suitable for a wheelchair user to visit the property, with 70% stating this would not be possible. The vast majority of landlords (84%) stated that there had been no special forms of adaptations installed in their property. Of the minority who had installed property adaptation, the most common adaptation was handrails (7%) followed by door entry systems (6%).



Of the landlords who participated in the survey there is a relatively even split in terms of how they manage properties, with half using an agent to provide tenancy management services and 48% indicating that they manage PRS tenancies themselves. Most landlords said they advertise properties through a letting or estate agent (63%), however, property listing sites on the internet (14%) and social media (13%) were also methods adopted. A relatively high proportion, around 1 in 5 (21%) said that they identified potential tenants through word of mouth and 10% said that tenants were found via friends and family.

Almost all landlords (96%) said that they have no difficulty finding tenants for their properties. Landlords were asked if they placed any restrictions on the type of tenants, they were willing to accommodate, with 40% indicating they would not accept a tenant if the number of people in the household meant the property would be overcrowded. Other common reasons for restrictions include poor credit reference (34%), tenants who can't provide a reference from previous landlord (32%) and tenants who have been evicted from a previous tenancy (31%).

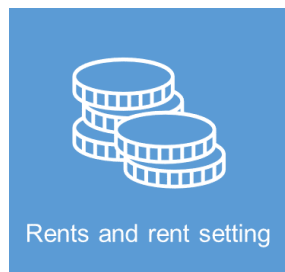
The vast majority of landlords offer long term lets (88%) under a Private Residential Tenancy with a further 12% offering short-term lets of up to 6 months. A very small proportion of landlords (6%) offer seasonal lets, temporary accommodation, tied tenancies or short assured contracts.

Most landlords indicated that they had not experienced any difficulties in ending a tenancy in the last five years (89%). Those who did experience difficulties (11%) advised that the biggest reasons for difficulties were tenants stopping to pay rent (69%), tenants causing significant damage to the property (42%) or tenants not leaving at a due date after notice to quit had been issued (39%).

The most common reason landlords stated for tenant contact was to report a repair (93%) followed by a request for home improvement or modernisation works (22%) then permission for a pet (20%). Only a small proportion (4%) were contacted most often in relation to tenants



looking to discuss help with paying rent or applying for housing benefit, with an even smaller number about aids or adaptations being installed (2%).



Over half (59%) of landlords said that they were advised by a letting agent or solicitor when it came to setting rents for their property. 30% indicated that they considered other rents in the area and used this as a benchmark, whilst 14% set their rents at a level to cover their own costs. Most landlords (71%) felt that the rent they collected covered the costs they had in letting their property and gave them a reasonable return. 13% said that their rent levels were not sufficient, whilst 7% said they weren't looking for a return.

With regards to tenants who may be experiencing difficulty in paying their rent, just below half of landlords (46%) said that they would know where to direct their tenant for advice and assistance. However, a significant proportion (38%) indicated that they would not know how to signpost for support and a further 16% felt it wasn't their business and wouldn't get involved. For those who said they would be able to signpost their tenants, the majority (67%) would direct tenants to Citizens Advice, whilst 30% would direct them to the local authority/housing service.



Just under half of the landlords (45%) said that property repairs were organised through their managing agent, who sourced tradespeople and managed the process. Half said they sourced tradespeople themselves, however, this would depend on the repair needed. Around a fifth of landlords indicated that where possible they would carry out the repair themselves, with 14% stating they had a repairs and maintenance contract in place which covered things like home maintenance and boiler repairs.

Where unexpected or emergency repairs arise, landlords indicated that they either had the means to cover these costs (59%), had a contingency fund in place to cover costs (35%) or had a maintenance contract in place (13%). A small proportion of landlords (3%) indicated that they did not have the means or resources to cover emergency repairs should they arise.

Most landlords (87%) said there were no current outstanding repairs in their portfolio. For landlords who indicated that there were outstanding repairs, the most common reason for work not being done was inability to find a reliable builder or contractor (6%). Other reasons for work not being progressed related to communal repairs. In some instances (3%) there was no factor or owner association to organise the works and a further 3% said they couldn't get agreement with other property owners to get the work done. Together this accounts for 6% of outstanding repair jobs.

The majority (57%) of landlords either carry out annual property inspections or at the end of a tenancy, to prepare a maintenance and improvement plan. Around a quarter carry out modernisation or improvement works if they are requested by a tenant. Just over 10% of landlords have a longer-term plan and prepare an improvement plan every five years to commission a property condition survey. This indicates that most landlords are taking a reactive approach to property improvement and modernisation works rather than considering a longer term planned maintenance approach.

50% of landlords stated they have already installed energy saving measures to their properties with further 15% who would like to do it but can't at the moment. The most common upgrade is double glazing (45%), with 8% having installed solar panels and a further 7% heat pumps. Most landlords have made energy improvements to support tenants to achieve lower fuel bills (51%) whilst a quarter felt improvements attracted tenants, with a further 25% concerned about the environment and carbon emissions. The least common reason was due to tenant complaints (4%). For those landlords who would like to install energy saving measures but can't, the main reason was property type/building fabric unable to support the improvements (59%), with a quarter (27%) unsure how to go about it and a further 24% unable to afford the improvements.

Landlords were then asked how the Heat in Buildings Targets would affect them as a landlord. A significant proportion (41%) hadn't heard about the targets. For those who had heard about them, 18% said their property would meet the standards, 18% said they would need funding/grant to carry out improvement works and 14% indicated they would do the work themselves. There was a small proportion of landlords (3%) who said that they would sell their property as a result of the standards. 51% of landlords said they would like more information on the Heat in Building Strategy and how it may affect them as a private landlord.



A large proportion (45%) did not feel that they would benefit from any of the support options provided to improve their practice as a landlord. For landlords who did feel that they would benefit from improving practice, most interest was around information on the availability of grants to improve the energy rating of properties or to install adaptations (42%) followed by advice on how to improve the energy efficiency of their property (22%). 15% of landlords said they would be interested in training or information in relation to tenancy law and landlord obligations, with a further 13% who would like regular updates

on sector issues through the local landlord forum.

However, whilst many landlords did not feel the need to engage with training and support to improve their practice, there is evidence that some landlords would benefit from this. In a series of true or false questions, the survey tested knowledge of landlords responsibilities. Whilst the majority of questions were answered accurately by landlords, a number of key gaps in understanding were evident, as follows:

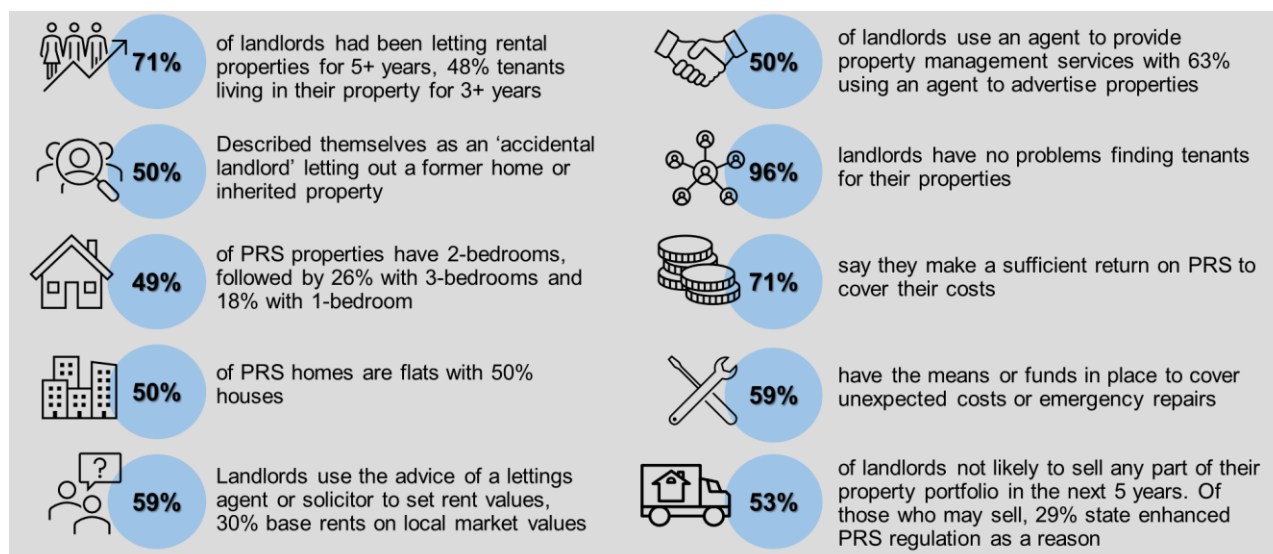
- 36% did not know they must give the tenant details of their name & address
- 27% did not know if a deposit is required, it must be no more than the equivalent of two months' rent
- 88% did not know that a tenant has a right to adapt their home to make it suitable for a disabled person who lives there
- 80% did not know that a tenant has a right to adapt their home to take advantage of a government scheme to install central heating or energy efficiency measures.



Landlords were asked how likely they would be to sell any or part of their portfolio over the next five years. There was a considerable range of responses with over half saying they are not very likely (27%) or not at all likely (26%) to sell. However, 16% said it was very likely they would sell and a further 15% said it was fairly likely. This would mean a number of PRS properties potentially leaving the sector. A further 16% of landlords didn't know at this time what their future position would be. From those who said they were very or fairly likely to sell, the most common reason provided was 'other' which provides limited insight into the reasons for their decision (42%). 29% indicated that they would sell due to increasing regulation in the PRS, with a further 12% doing it to pay off their mortgage on their own home. 9% of landlords were confident they would get a good price for their property given the current market conditions.

The 2022 East Lothian PRS landlord survey has succeeded in delivering credible insight into the extent and nature of landlord property portfolios, tenancy management arrangements and property maintenance practice. Furthermore, the survey intelligence provides crucial contextual evidence of what motivates investment in the PRS, the economics of private renting and landlord intentions to remain in the sector.

Headline findings from 2022 East Lothian PRS Landlord Survey can be summarised as follows:



## 5.2 2022 East Lothian Tenant Survey

The intention of the East Lothian PRS tenant survey was to explore the extent to which the sector is effective in meeting housing need, particularly for households on low to moderate incomes. In the absence of a representative dataset of PRS tenants to participate in the research, Arneil Johnston worked with a network of trusted agencies and advocates who engage with tenants living in the PRS to seek their consent to participate in the survey. Working with CHR and Housing Options services as well as housing advice agencies, a sample frame of willing participants was developed for the purposes of the tenant survey.

Furthermore, the tenant survey was widely through marketed using East Lothian Council's social media channels, encouraging any private tenant to opt into the research.

A hybrid research methodology was used for the tenant survey comprising an online questionnaire with a telephone survey option for tenants who specified this as their preference. The tenant survey was designed to be short and simple, capturing quantitative responses in a manner that was quick and easy to complete to encourage as high as possible a response rate. The survey was set up in online SNAP survey software which allows the development of attractive and easy to complete questionnaires.

In total, against a target of 100 tenant interviews, 158 tenants participated in the survey exercise, with 58 responses to the online questionnaire and 100 telephone interviews carried out.

The tenant questionnaire was designed to address gaps in secondary data analysis and allow meaningful feedback on tenant circumstances, needs and aspirations. The questionnaire included questions on:

- profiling the tenant population
- suitability of current home including property condition and repairs
- housing choice options and access
- current housing status and future intentions
- tenancy management experiences
- housing costs and affordability.

It should be noted given the scope of the research and the nature of the sample, the research focuses on PRS tenants on low to middle incomes and those who may have housing support requirements. Whilst the outcomes, offer useful insight into the role of the PRS in meeting housing need, it should be borne in mind that survey results do not provide a fully representative response of the full tenant population living in the PRS.

The research outcomes arising from the 2022 East Lothian PRS tenant survey provide invaluable insight into the tenant population and their experiences of living in the PRS. Key headlines are detailed below:



Nationally, the PRS is dominated by single and two person households. The PRS tenant survey shows a similar pattern in East Lothian with adult only households accounting for 55% of survey respondents, with 24% single person households, 26% 2-adult households and 5% 3+adult households. There are smaller proportions of families living in the PRS, with 16% of tenants single parents and 17% 2-parent families.

There could potentially be a future shift in the household profile of PRS tenants if more people choose to cohabitate in the sector to share housing costs or as a result of limited housing options locally.

Most PRS tenants who participated in the survey were female (67%) and the most common age group to engage was those 35-44 years old (29%). A smaller proportion of households over 65 took part in the survey (10%).

Most PRS tenants were renting unfurnished property from a private landlord (65%) followed by 15% renting a furnished property, with other variations including rented from family (5%), shared tenancy (7%). Most tenants had a long term let (72%), 12% were in temporary accommodation and 6% had a short term let of up to 6-months. There were similar numbers of tenants living in flatted accommodation (45% including four in a block), with (48%) living in houses including detached, semi-detached, terraced and bungalow. Most PRS tenants (83%) were not sharing any rooms with another household, and for those who were (17%), the majority were sharing a kitchen (96%).

50% of PRS tenants were living in 2-bedroom properties, with a fifth in 1-bedroom and another fifth in 3-bedroom homes. The majority of PRS tenants (59%) said they have the right number of bedrooms to meet the needs of their household, with 32% saying that they had fewer bedrooms than needed. This suggests up to a third of PRS tenants may be overcrowded in their current property.

There were equal proportions of tenants who were satisfied or dissatisfied with their current home. 42% tenants said they were either very or fairly satisfied with their home whilst 41% indicated they were either very or fairly dissatisfied, with 15% being neither satisfied nor dissatisfied.



To gauge what might be driving housing satisfaction levels, tenants were asked if they were affected by a range of situations in their current home. The biggest factor affecting PRS tenants is that heating costs are not affordable. 49% said this was a serious problem with a further 29% indicating that rent costs were also a serious problem. Most tenants have gas heating (74%) with 13% having electric heating.

Accessibility along with property size and type were also viewed as serious problems for some households. 19% of tenants said they felt isolated and lonely at home with a further 18% indicating that the health of a household member suffered due to the property being the wrong size or type. The findings of the PRS tenants survey indicate that health and wellbeing are important to tenants and that the current housing circumstances of some households in the sector are causing a serious problem.

Given that the biggest factor affecting PRS tenants is the ability to heat their home, it is not surprising that 54% of those surveyed said they were spending more than 10% of their income on heating bills. A quarter of households surveyed didn't know if they spent 10% of income heating their home, with a further 23% who said they found it neither easy nor difficult to afford the costs of heating their home.



Just under half (48%) of tenants said their property did not have any outstanding maintenance or repairs work required, however, 41% indicated that there were outstanding works. Most outstanding repairs relate to minor repairs or improvements (42%). The second most common problem is condensation (20%) followed by significant dampness (14%). In terms of property improvements, 7% of tenants stated they needed a new heating system, 10% need a new boiler, 22% insulation measures and 9% better lighting and ventilation.

Most tenants (52%) said they would be able to have the repairs or maintenance needed carried out, however, 25% said they would not and a further 23% who didn't know. For those

who were unable to have repairs or maintenance delivered, the most common reason was that their landlord was refusing to carry them out. 15% said their landlord wouldn't give them permission to carry out repairs or improvements and 9% said they didn't know who to ask to get help.



Most PRS tenants indicated that they found it very difficult to find suitable housing in their area of choice (59%), with a further 25% of tenants describing it as difficult. Only 4% of PRS tenants described the search for a home as easy.

The majority (68%) said that renting from East Lothian Council would have been their first preference, with 22% indicating a local housing association would have been their first choice. Just 19% said private renting was a first choice option. This clearly shows that renting from a social housing provider is the most preferred choice of housing option for this cohort.

More than half of PRS tenants (53%) said that 'after looking at all my housing options, private renting was the only available option for me in the area I was looking for', with a further 47% saying that 'private renting was a secondary option after it became clear I would not be able to access social housing. 14% said that private renting was either their preferred choice due to location or cost. 57% of tenants said that they felt private renting was the only option as they were unlikely to either own their own home or ever have a social tenancy.

A large proportion (39%) felt that private renting was a short-term solution until they would get an offer of social housing whilst (10%) viewed the PRS as a short-term solution until they could afford their own home. This highlights the wide range of attitudes towards PRS, and the variety of reasons households turn to the PRS for a housing solution.



The vast majority (77%) of PRS tenants surveyed said they would either like to move or need to move in the next two years, with 16% stating they didn't want or need to move and 6% who didn't know. For those who would like or need to move, main reasons include being unable to afford their rent (39%) and unable to afford heating bills (30%). These push factors indicate the serious affordability challenges within the sector for low to moderate incomes. Second to affordability, PRS tenants want to move because they need a bigger home (27%). Further reasons

broaden out to wider health and well-being motives such as feeling isolated (21%), being closer to family and friends (20%) and looking to have access to a garden or outdoor space (19%).

For those households who felt that they would move, just under half (46%) thought they'd be most likely to move to a housing association property, whilst 17% thought they'd rent from another local authority. Only 6% thought they'd be likely to rent from East Lothian Council. Interestingly, 16% felt that they would be most likely to move to another private let whilst 13% thought they would buy their home with a mortgage. There is a clear aspiration from the majority of respondents, with social housing clearly a housing option of choice.

The most common reason for not being likely or actively trying to move is the lack of available of homes in the area (52%). Other reasons include not having enough priority needs to be allocated social housing (46%) and a lack of affordable properties in areas where people want to live (42%). Only 1% of those who participated in the survey indicated that they required

specialist accommodation or support that is not available. There were a considerable proportion of households who indicated across a range of indicators that suitable accommodation and ability to finance home ownership were the reasons for not being able to move. The analysis suggests that lack of housing choice in areas, compounded by barriers to accessing both social housing and home ownership.



Survey respondents were asked a series of question in relation to housing costs and affordability. Just under half (49%) indicated that they had to pay one month's rent deposit when they first moved into their home. 20% paid no deposit and 15% had to pay two months' rent. A very small proportion (1%) had to pay a deposit of three months. The ability to pay one or two months deposit can impact on a household being able to afford the PRS as a housing choice.

Participants were provided with a range of example scenarios that would cause a household to have difficulty paying their rent. The main scenarios that impact on difficulties with paying rent include the rising cost of living (55%) and rising energy and fuel costs (54%). This means that more than 50% of PRS tenants on low to moderate incomes are experiencing difficulties in keeping up with rent payments. 33% said they were not having any difficulties in meeting rent payments.

For tenants who indicated that they were struggling to pay their rent, the survey asked if they would know where to go for information or advice. The majority (52%) said they would not know where to go, 33% said they would go to Citizens Advice Bureau and 13% said they would access the Council's Financial Inclusion Service.

Whilst most tenants are in employment (39% are in full-time work, with a further 23% in part-time work) the affordability challenges experienced by PRS tenants appear to be considerable. Fewer numbers had a long-term sickness or disability (11%), 5% were unemployed and seeking work, with 10% being retired. This demonstrates the wide range of economic circumstances of PRS tenants.

The majority of PRS tenants (51%) said that they were spending more than 30% of their income on housing costs, with 49% spending less than 30%. This offers clear evidence of the scale of housing affordability pressures in the East Lothian PRS.



Almost two thirds of PRS tenants are satisfied with the way their landlord manages their tenancy (64%), with 18% neither satisfied nor dissatisfied, and 18% dissatisfied. Of those who are dissatisfied, key reasons relate to landlord reluctance to carry out repairs (59%), to carry out modernisation works (39%) or difficulties with making contact (35%).

Whilst most tenants generally understand the tenancy rights available to them, there are some areas of confusion:

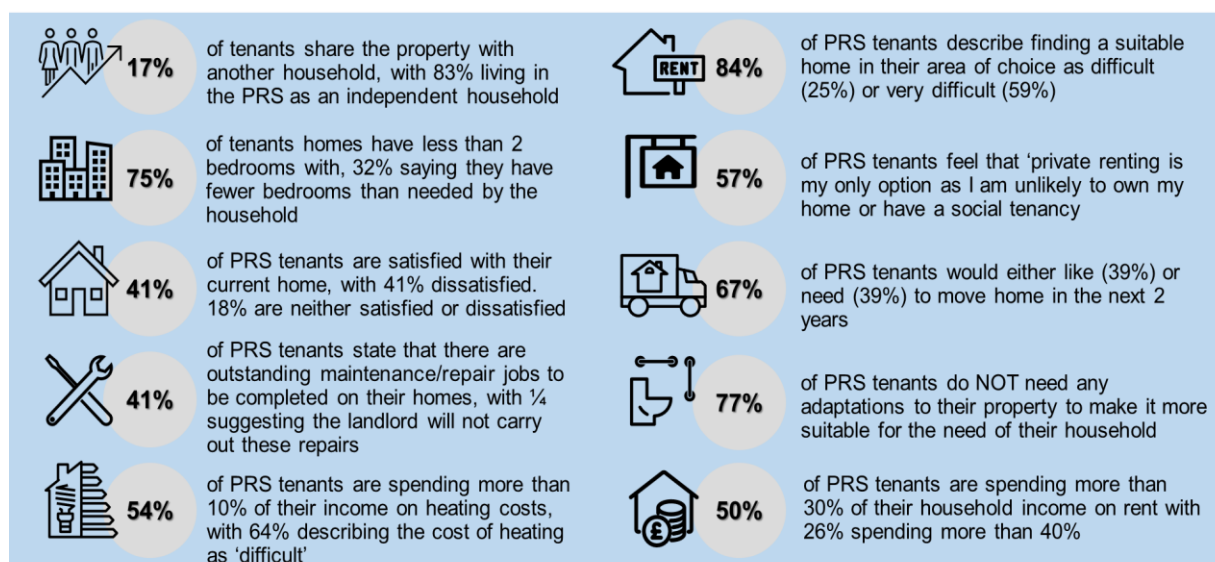
- 35% did not know they could present to the First Tier Tribunal to request an order requiring landlords to carry out repairs
- 68% did not know that a tenancy deposit could be no more than 2 months' rent

- 86% did not know that a tenant has a right to adapt their home to take advantage of a government scheme to install central heating or energy efficiency measures
- 88% did not know that a tenant has a right to adapt their home to make it suitable for a disabled person who lives there.

The latter point is of particular concern given that 47% of PRS tenants who have a household member with a long term illness or disability (53%), state that their current home does not meet the health and disability needs of the household. Furthermore, 13% require aids and adaptations to the property, the most common being level access showers (9%).

The 2022 East Lothian PRS tenant survey has succeeded in delivering credible insight into the population who make the PRS their home, housing suitability, housing choice and access and housing affordability pressures. Furthermore, the survey intelligence provides crucial contextual evidence of tenant attitudes towards the PRS and future housing aspirations.

Headline findings from 2022 East Lothian PRS Landlord Survey can be summarised as follows:





## 6 PRS Stakeholder Engagement Sessions

A key aspect of the research programme involved engagement with landlords, letting agents and other stakeholders to gather evidence of lived experience on the operation of the PRS in East Lothian and to test prospects for its continued growth and improvement. To achieve this, PRS landlords, letting agents and advice and advocacy agencies were invited to a programme of stakeholder engagement workshops in September 2022.

The aim of each engagement workshop was to present emerging research findings on PRS operation, gather lived experience of living, working, managing or providing PRS accommodation locally; and to consider future prospects and potential interventions to support PRS growth and improvement.

Each workshop was structured around interactive activities to enable stakeholders to firstly consider the operation and characteristics of the East Lothian PRS and then assess areas for development. Up to 20 partners and stakeholders attended the workshop programme, including 5 PRS landlords, 9 letting agents and 6 housing advice and advocacy agencies.

Chapter 6 details the key consultation outcomes achieved by engagement with landlords, letting agents and housing advocates. A full briefing paper detailing the outcomes of each workshop activity is available in Appendix H.

### 6.1 Engagement with Landlords and Letting Agents

The first two workshops were designed to build insight on the operation of and prospects for the PRS from locally operating landlords and letting agents. Local landlords were recruited on an 'opt-in' basis by expressing interest to participate in further research as part of the PRS landlord survey. In total, 5 landlords participated in the engagement research. Local letting agents were recruited via the Scottish Association of Landlords, with 9 locally operating agents participating in the research.

The workshop programme was designed to allow landlords and letting agents to offer insight on the operation of the PRS, drivers and barriers to future growth and support for landlords to develop and improve the sector.

#### 6.1.1 Activity 1: How does the Private Rented Sector in East Lothian Operate?

Activity 1 was intended to enable landlords and letting agents to reflect on and define the characteristics and dynamics that drive the operation of the PRS in East Lothian. This short interactive exercise was used to develop a sense of the housing market, regulatory and economic factors that drive PRS operation, as well as strengths and weaknesses of the sector. Using an interactive whiteboard, participants were asked to consider a range of PRS characteristics, assessing the extent and nature of their impact on the operation of the sector in East Lothian.

There was a consensus view across both landlords and letting agents on some of the positive characteristics of the PRS in East Lothian including:

- the quality of property management.
- the condition and quality of PRS homes in East Lothian.

- strong demand for available PRS properties.
- competitive market for landlords to operate in.

Both sets of stakeholders noted extremely positive demand for available PRS tenancies, acknowledging that surplus demand undoubtedly fuels rent inflation in the local area. All other things remaining equal, the extent of demand in the East Lothian PRS market should be enabling investor confidence to grow but proposed legislative reforms to the sector is currently restricting investor appetite. It was acknowledged that the demand for PRS accommodation is also changing locally, with the Edinburgh student market shifting into East Lothian, and new households migrating from other areas in Scotland and the UK to access such a high-quality local environment.

*“Demand is incredibly positive. I can post a new listing on a Friday and receive over 15 enquiries in the first weekend alone”*

*“Households relocating to East Lothian like the flexibility that the PRS can offer. It gives them time to test living in the area and to purchase a property. We are definitely seeing more of that”*

Whilst security of tenure was seen as a positive by letting agents, they did acknowledge that limited flexibility to move around the PRS is driven by high costs of moving (both deposit values and rent in advance) and the limited availability of PRS homes in key locations. As a result, local households who have managed to access the sector tend to stay put. Whilst landlords also acknowledged that security of tenure is positive in East Lothian, with households remaining in tenancies for extended periods, it was suggested that Scottish Government restrictions on recovery of possession tip the balance of fairness too far in respect of tenant rights, creating major risks to landlords.

*“Landlords feel that they are under attack – why would you take the risks of investing in an asset only to be told that you cannot access this investment when you need to. It’s a huge risk...”*

Landlords and letting agents both agreed that the rent affordability is limited for tenants and particularly so for those in local employment or on low-to-moderate incomes – a poor characteristic of the East Lothian PRS. Landlords suggested, however, that rent affordability pressures do not influence the operation of the local market, as surplus demand continues to fuel rental prices. This is exacerbated by the limited availability of homes in areas where local people want to live, or which are well connected to transport links. Whitecraigs and Gullane were both provided as good examples.

Letting agents acknowledged that the best way to control rent inflation would be to grow the supply of properties through continued landlord and investor appetite. However, both landlords and letting agents acknowledged that prospects for the growth and improvement of the PRS in East Lothian are extremely low despite very positive market demand. Both groups of stakeholders cited the increasing costs of investment as a barrier to growth. However, proposed Scottish Government reforms are having a major impact on landlord and investor risk appetite.

*“Rent freezes and restrictions on recovery of possession are a major risk to landlords. Add to that the cost of new improvement standards and PRS investment is not the good prospect it once was. To put it simply, there are easier and safer ways to invest than the PRS”*

*“There is evidence that lenders are pricing risk into the rates of Buy to Let mortgages in Scotland given the perceived risks associated with recovery of possession and rents. In fact,*

*some lenders are leaving the Scottish market. So, investment costs are high, risks are high, and you can't access finance – landlords simply won't invest or will leave the market"*

It was agreed that a decreasing PRS in East Lothian could have devastating consequences for the local economy and attracting and retaining key workers; as well as local residents and communities who will face even more limited housing options in areas of pressure or the end of their PRS tenancy.

Key findings from Activity 1 can be summarised as follows:



**The Operation of the PRS in East Lothian: Positive characteristics**

- Good quality property management
- Quality and condition of PRS properties on offer
- Strong market demand for PRS properties
- Competitive market for landlords and investors



**The Operation of the PRS in East Lothian: Negative characteristics**

- Rent affordability (for tenants in local employment or low to moderate incomes)
- Limited availability of PRS properties in areas where people most want to live
- Prospects for PRS growth – landlord, investor and lender investor appetite
- Rising costs of investment and landlord liabilities
- Rising regulation, enforcement and investment risk associated with proposed SG reform

### 6.1.2 Activity 2: What are the Main Drivers of Future PRS Growth and Improvement?

Activity 2 was designed to enable landlords and lettings agents to assess the strengths and weaknesses of the private rented sector in East Lothian and the extent to which these forces could be a driver or barrier to growth.

On balance, both landlords and letting agents were able to define fewer drivers for growth and improvement in the East Lothian PRS than barriers to restrict growth and improvement. Letting agents identified the condition of PRS homes and the security of tenure offered by the local sector as drivers of growth. It was noted that a quality asset base and offers that are effective in meeting need provides a strong foundation for future growth and improvement. There were conflicting views around increasing regulation and enforcement with letting agents seeing this as 'incidental to the vast majority of good landlords' and landlords seeing increasing red tape and cost as a barrier to improvement.

There was clear consensus from landlords and letting agents that the barriers to growth and improvement in the PRS are significant and likely to be highly impactful. The first group of resisting forces relate to economic barriers to growth including:

- the fluctuating housing market
- the taxation system for private renting
- increasing interest rates and rising cost of borrowing.

It was acknowledged that whilst the property market is currently buoyant in Scotland, a fluctuating housing market as a result of economic uncertainty could see property values decline in the short term whilst interest rates increase. Rising interest rates will also have a

major impact on both existing landlords and prospective investors and could restrict investment in PRS growth. It was also acknowledged that value of market properties in East Lothian as well as the costs of purchase (both deposit values and the Additional Dwelling Supplement of 4%) create further barriers to investment. Other economic barriers included the taxation system for private renting in the UK, which has reduced the margins of private landlords and could influence investor appetite.

*“The tax implication for private landlords is a big issue – no other type of investor is facing the same pressure. It makes you question whether you would be better off switching investments?”*

The second group of resisting forces relate to operating factors including the Private Residential Tenancy regime and restrictions on recovery of possession, with the latter identified as the *“the single greatest risk to private landlords operating in Scotland”*. Both landlords and letting agents were quick to point out that the risk of investment is prohibitive if landlords cannot access their assets or realise their value should they need to do so. Again, it was pointed out that no other type of investor would face such barriers to accessing their capital and that this is increasingly recognised by lenders as a risk who are more cautious about operating in the Scottish market.

The third group of resisting forces relate to property investment barriers including the costs of new property standards, the age and energy rating of PRS homes in East Lothian and the prospect of rent freezes then rent controls. Both landlords and letting agents were quick to acknowledge that investment in property standards would be extremely challenging should rental income stagnate or reduce in the future as a result of proposed reforms. The age of PRS homes in East Lothian would make meeting proposed energy efficiency standards more challenging and expensive than in other areas. These factors may lead to landlords reconsidering their future motivations to continue to operate in the PRS.

Finally, the fourth group of resisting forces relate to viability barriers including declining rental yields/rates of return and a shift in landlord risk appetite. Both landlords and letting agents expressed major concerns regarding the proposed Scottish Government reforms of the PRS and their impact of the financial model associated with private renting.

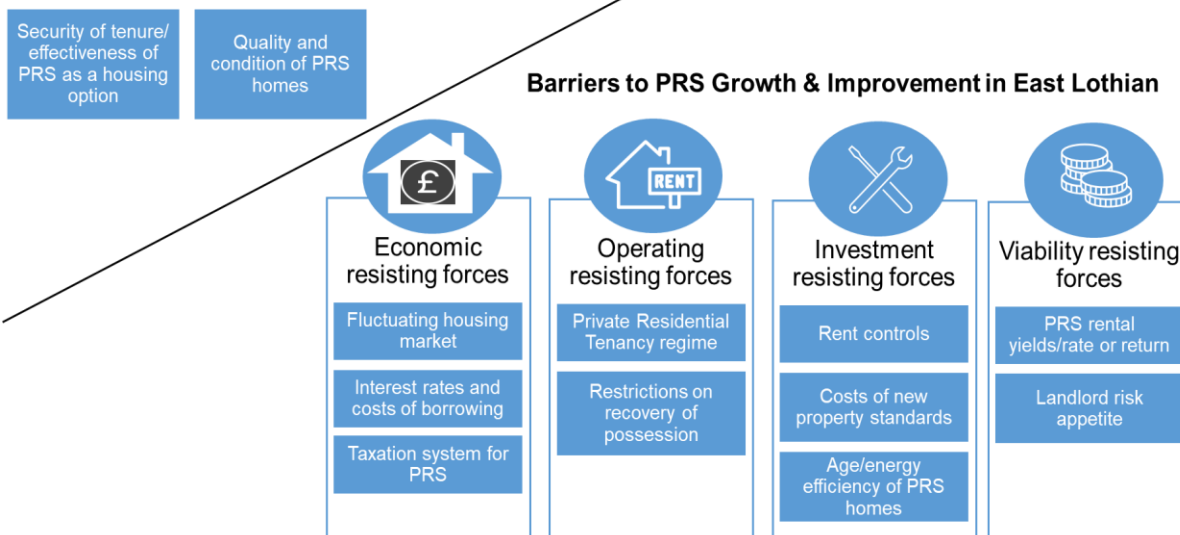
*“If landlords lose rental income and at the same time are hit by new investment standards, we won’t be able to continue to operate. Add to that not being able to access your properties and it’s a perfect storm”*

Overall, letting agents were extremely pessimistic about the growth and improvement of the PRS in East Lothian, unanimously concluding: *“in 2 years’ time the sector will be smaller in East Lothian”*. Landlords echoed this view and questioned whether the long term economic impact of a shrinking PRS had been considered or measured at a national level:

*“if the private rented sector in East Lothian contracts as a result of Scottish Government reforms, it will take decades to recover. This will have a devastating impact on the economy in East Lothian”*

Key findings from Activity 2 can be summarised as follows:

**Prospects for PRS Growth & Improvement in East Lothian**



**6.1.3 Activity 3: What Support do Landlords Need to Grow and Improve the PRS in East Lothian?**

Building on the outcomes of Activity 2, the final activity encouraged landlords and letting agents to assess the extent and nature of policy and support options that could enable investment, growth and improved standards in the private rented sector. Landlords and letting agents considered a range of policy and improvement options, building a spectrum of priorities to support landlords to grow and improve the sector. Key areas of consensus include:

- reviewing grounds for recovery of possession, creating a fair system for landlords and tenants
- changes to the taxation regime for private landlords
- grants/low cost loans to encourage landlords to invest in property maintenance and improvement
- grants/low cost loans to encourage landlords to invest in energy efficiency measures.

Whilst acknowledging it was not in the control of East Lothian Council, both landlords and letting agents agreed that reviewing grounds for recovery of possession to create a fair system for both landlords and tenants, would be the single greatest factor in encouraging landlords to remain in the sector.

Letting agents were also keen that the control of the short term lettings sector be considered to support landlords to engage in residential letting. There is some anecdotal evidence that increasing energy costs and rising regulation is encouraging landlords in the short term lettings sector to return to the PRS. Given the current risks facing the PRS, any opportunity to return high quality accommodation to residential letting should be considered.

Letting agents were also keen to see more targeted enforcement activity to address poor practice in the local PRS using the powers already available to East Lothian Council. This was

seen as a priority over the creation of a new regulator. It was also noted that sufficient resources should be dedicated to this task to enable a proactive, investigative approach.

Whilst landlords were keen to see improvement to the flexibility of the Private Residential Tenancy regime, letting agents suggested that harmonising tenancy rights across the private and social housing sectors was a poor proxy for increasing the supply of affordable homes, which should be the main priority of local and national government.

Landlords added their own suggestions to the list of support options that should be made available including mechanisms to balance the risks for landlords associated with proposed PRS reforms, or ideally... *“Scrapping proposed PRS reforms excluding the new standards in relation to housing quality and energy efficiency”*.

Both landlords and letting agents were keen to see better collaboration between local and national government, letting agents and landlords to develop proposals to improve the private rented sector, as well as ongoing and meaningful consultation which informs public policy. Landlords suggested a need for this to take place at a local level through:

*“Ongoing and meaningful engagement with landlords to evidence and understand the economics of the sector – the survey intelligence gathered is simply a snapshot in time. This needs to continue”*.

Whilst landlords and letting agents acknowledged that many of the most influential options to support landlords did not fall within the powers available to East Lothian Council, the following options should be considered to improve the operation and growth of the sector in the new LHS:

- grants/low cost loans to encourage landlords to invest in property maintenance and improvement
- grants/low cost loans to encourage landlords to invest in energy efficiency measures
- targeted and intelligent enforcement activity by investing in dedicated resources which can take a proactive approach
- present a positive business case on the role of the PRS on the East Lothian economy and local communities
- ongoing and meaningful engagement with private landlords
- maximise investment in affordable housing across East Lothian
- assess impact of controls to the short term lettings sector to support landlords to engage in residential letting.

## 6.2 Engaging with Housing Advice and Advocacy Providers

The third workshop was designed to build insight on the operation of the PRS from locally operating housing advice and advocacy providers who support PRS tenants in East Lothian. This workshop was designed to explore the effectiveness of the PRS in meeting the needs of low to middle earners who may be engaging with local providers for advice and assistance, as well as private tenants with housing support needs.

Local advice and advocacy agencies were invited to participate in the workshop using a contact list provided by East Lothian Council. Representative from six agencies participated in

the session, providing qualitative views on current PRS effectiveness in meeting the housing needs of local households on low incomes or with support needs.

### 6.2.1 Activity 1: How does the Private Rented Sector in East Lothian Operate?

Activity 1 was designed to enable advice and advocacy agencies to reflect on and define the characteristics and dynamics that drive the operation of the PRS in East Lothian.

Housing advice and advocacy providers could identify some positive characteristics of the East Lothian PRS including its ability to relieve housing pressures in key areas as a flexible housing option. It was also acknowledged that whilst the majority of homes in the East Lothian PRS are very likely to offer security of tenure, positive tenancy management and good housing condition, households with low incomes or support needs do not perceive this to be the case, as they are rarely empowered to exercise the rights available to them.

*“There is a definite perception that the PRS is NOT secure or that the power balance in the landlord/tenant relationship is not in their favour. This may not be the case, but this is what many of clients feel. It stops them asking landlords for help or improvements”*

Providers agreed that there is limited understanding across this client group of the rights and protections offered by the Private Residential tenancy regime and feel powerless to address tenancy or rent affordability pressures.

On balance, housing advice and advocacy providers characterised the operation of the PRS in negative terms when considering the needs of households with low incomes or housing support needs. Fundamentally, a lack of alternative affordable housing options for this client group generates the wrong type of demand for private renting, ultimately creating tenancies that are not affordable or sustainable. More specifically, limited access to social housing often means that the PRS is the only housing option available. This is particularly the case for younger households on low incomes.

*“The PRS works for households with moderate to median incomes and no to low support needs. But it creates risks for low incomes households or those with support needs - more affordable housing options are desperately needed to meet the need of this client group”*

*“An acute lack of affordable housing options is driving households into a sector which is not meeting their needs or set up to meet their needs. We need a better range of options in every tenure in East Lothian”*

Providers also recognised that poor local housing options and choice was driving demand for available PRS tenancies, creating competition which excludes low income or vulnerable households from accessing the sector. This competition has led to practices in the sector including payment of 6 months in advance or restrictions on certain types of tenant that further disadvantage households with low income or support needs: *“Competition for PRS lets is fierce and credit checks are often part of the process. It’s not a level playing field for households on low incomes.”*

It was acknowledged that whilst access to the PRS is extremely limited to low incomes households, for those in the sector, it rarely offers a sustainable housing solution from either an affordability or a housing support perspective. Providers also acknowledged affordability issues were often exacerbated by fuel poverty with older, electric heating systems being particularly expensive to run. It was also noted that there are no services available to assist

low income households to save or improve energy usage. Overall, the poor affordability of PRS rents was a major characteristic of the East Lothian PRS with anecdotal evidence of households with low incomes increasingly struggling to make ends meet: *“I have some clients living in the PRS who are working 3-4 jobs just to cover basic living costs.”*

Key findings from Activity 1 can be summarised as follows:



**The Operation of the PRS in East Lothian: Positive characteristics**

- Flexibility of the PRS as a housing options
- Security of tenure
- Quality of tenancy management
- Condition and quality of PRS homes



**The Operation of the PRS in East Lothian: Negative characteristics**

- Rent affordability (for tenants with low to moderate incomes or support needs)
- Competition/demand for PRS properties
- Limited range of available properties by area, size, type fuelling demand
- Sustainability and accessibility of PRS homes for households with support needs

## 6.2.2 Activity 2: How effective is the PRS in meeting the housing needs of tenants?

Activity 2 was designed to understand the effectiveness of the PRS in East Lothian in meeting housing need in East Lothian, with a focus on tenants with low incomes or support requirements. Advice and advocacy agencies were asked to examine and identify what they perceive to be the strengths and weaknesses of the sector in offering secure, suitable, well maintained, warm and affordable accommodation.

Advice and advocacy agencies could recognise positive forces that succeed in enabling the PRS to be effective in meeting the needs of local households including the quality of PRS homes and the freedom from repair and maintenance liabilities which is particularly beneficial to households on low incomes or those with support needs. It was also acknowledged that the PRS can enable social mobility and is an important initial tenure in longer term housing journeys.

Providers also acknowledged the PRS offers good potential to meet housing needs effectively with good security of tenure and tenancy management services delivered in the main by locally operating reputable providers. This includes landlord responsibilities to carry out repairs, adaptations and property improvements. It was acknowledged however, that households with support needs or low incomes are often not empowered to access these rights and benefits as they do not understand the tenancy protections in place or have confidence to engage with landlords.

*“Many of our clients definitely perceive security of tenure to be low. They don’t understand the legal or tenancy protection in place. We need to address that and support tenants to feel empowered.”*

In contrast, advice and advocacy agencies identified a number of resisting forces that hold the PRS back in meeting housing needs effectively.



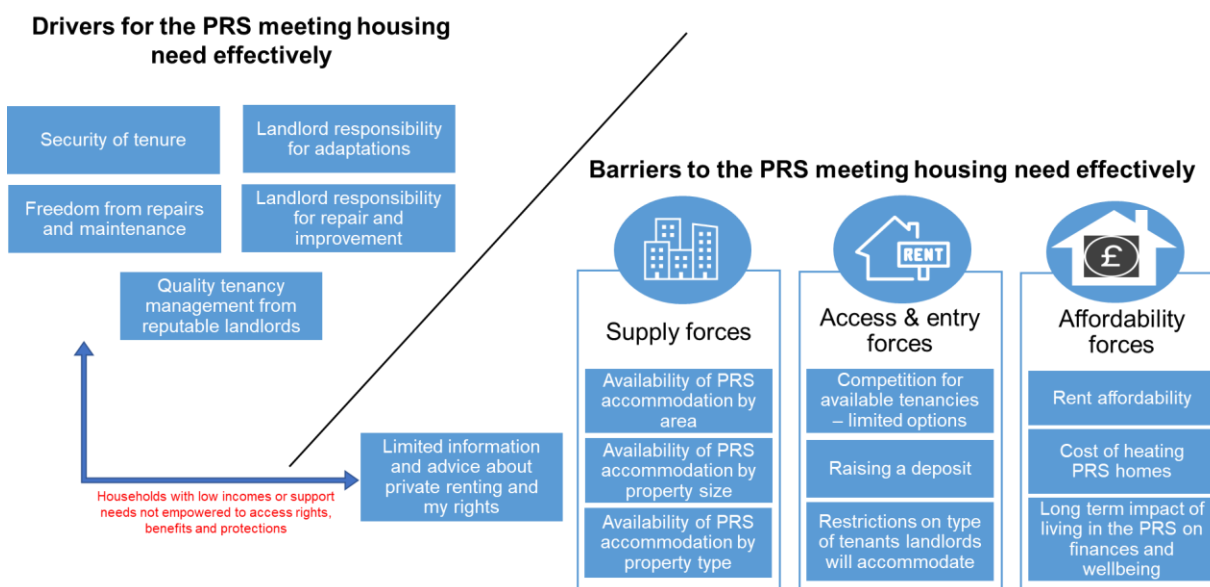
A major resisting force relates to shortages of accommodation in specific localities that local households want to live or in the right size or type of properties to meet housing need. In particular, a shortage of 1-bedroom and 4-bedroom homes were identified as key gaps. This mismatch between households and homes can often lead to households living in unsuitable accommodation or younger households failing to form new households.

Limited housing options and choice in the PRS is further exacerbated by the type of restrictions landlords place on the type of tenants they will accept including those with poor credit histories or reliance on housing benefits. These forces were identified as major factors in the PRS not meeting housing need effectively.

The major weakness of the PRS was identified as the affordability of PRS rents and the costs of accessing the sector. The long term impact of devoting substantial proportions of household incomes to meet PRS rents is often extremely damaging from a both a financial and wellbeing perspective.

*“We’re encouraging vulnerable and low income households to access a sector that is not equipped to meet their needs. Households then become trapped and fall through the cracks. We need a better range of affordable rental options with support. Ideally, we need more access to social housing”*

Key findings from Activity 2 can be summarised as follows:



### 6.2.3 Activity 3: Tenant priorities for private rented sector change and improvement

Building on the outcomes of Activity 2, Activity 3 was designed to enable housing advice and advocacy providers to assess a range of policy and improvement options that would enable better operation of the PRS in East Lothian for tenants with low incomes or housing support needs. Participants considered a range of policy and improvement options, building a spectrum of priorities that would enable better operation of the PRS in East Lothian. The outcomes of Activity 3 are detailed below:

Housing advice and advocacy providers recognised that the key to improving the operation of the PRS for households with low incomes or support needs would be options to improve the affordability of rents and to increase the supply of private rented accommodation. On this basis, the LHS should consider if rent controls could improve PRS rental affordability in areas of pressure. Furthermore, short term let control areas should be explored where there is evidence that this market is reducing the supply of residential housing for local households. In both instances, consultation with landlords is essential to avoid them leaving the sector and reducing the overall supply of rented accommodation options.

Secondly, options which offer support and advice to empower tenants to exercise their rights and seek the protections of the private residential tenancy should be prioritised. This includes

- support to identify reputable landlords and letting agents
- support to secure property adaptations
- advice and advocacy services to enable tenants to engage positively with landlords
- mediation services to support tenants in dispute with landlords
- better knowledge and understanding of security of tenure.

As well as options to support tenants, providers also acknowledged that landlords should be supported to invest in repair, maintenance and energy improvements through the provision of grants and low cost loans.

There was also scepticism about the creation of a new regulator or new enforcement powers to deal with landlords who do not meet minimum standards. Instead, advice and advocacy providers were keen to see existing powers used more effectively with a more proactive approach to enforcement adapted by East Lothian Council. This included improving tenant knowledge of how to engage with enforcement services and report poor practice.

### **6.3 Key Findings: Stakeholder Engagement Sessions**

Engagement with landlords, letting agents and housing advice agencies offered an important opportunity to assemble lived experience evidence from those supporting and managing the operating of the sector.

Landlords and letting agents characterise the East Lothian PRS as offering high quality homes and security of tenure. It was acknowledged that surplus demand fuels rental inflation in the area and creates housing affordability pressures and poor mobility across the PRS. Prospects for the future growth and development of the sector were extremely low fuelled by rising interest rates and proposed reforms to the sector which will fundamentally change the PRS financial model and load risk towards PRS investors. Current restrictions on recovery of possession were seen as the single greatest factor in holding back PRS growth and improvement and central to diminishing investor appetite.

Overall, the prediction of both landlords and letting agents is that the PRS in East Lothian is highly likely to shrink in the next 3-5 years, as landlords leave the sector. This will have a devastating impact on the East Lothian housing system and local economy. Creative options to support landlord retention include lobbying the Scottish Government on a more balanced approach to recovery of possession, more targeted enforcement activity using existing powers. and landlord grant assistance to support property maintenance and energy saving measures.

Housing advice and advocacy agencies characterise the PRS as offering an option to local households who often have little or no housing choice. As a consequence, many PRS tenancies are neither affordable nor sustainable to those on moderate to low incomes. The accessibility of the PRS is a huge challenge for low to middle earners with surplus demand fuelling questionable lettings practice, with competition for available properties described as 'fierce'.

It was suggested that whilst the East Lothian PRS offers good security of tenure and tenancy management, households with support needs or low incomes are often not empowered to access these rights and benefits as they do not understand the tenancy protections in place or have the confidence to engage with landlords. However, the main weakness of the PRS is the affordability of PRS rents and the costs of accessing the sector. The long term impact of devoting substantial proportions of household income to meet the cost of PRS rents is often extremely damaging from a both a financial and wellbeing perspective.

Housing advice and advocacy providers recognise that the key to improving the operation of the PRS for households with low incomes or support needs would be options to improve the affordability of rents and to increase the supply of private rented accommodation. Whilst targeted rent controls and restrictions on short-term lets are potential options to explore, landlords must be engaged in assessing these options to avoid a shrinking of the sector.

## 7 Key Research Findings and Conclusions

The operation of the private rented sector in East Lothian is complex with a range of factors influencing its current effectiveness in meeting housing need as well as its future potential. The research and evidence base that has been developed provides an improved understanding in relation to PRS concentration, supply pressures, property profile, sector role, management profile, quality, security of tenure and the impact of the short-term lettings sector.

Chapter 7 synthesizes key findings from each element of the research study to answer the key questions posed by the research.

### 7.1 East Lothian PRS Property and Market Profile

Whilst the PRS in East Lothian has witnessed an overall growth trajectory over the last two decades, it would appear the sector's tenure share has plateaued in recent years. Roughly 1 in 10 households in East Lothian live in the PRS, a slightly smaller proportion than is the case in Scotland (14%). There are 4,825 properties in the PRS in East Lothian, with the majority concentrated in the Musselburgh area (28%). Elsewhere, there is a relatively equal concentration of PRS homes in each locality (circa 800 properties) with the exception of Fa'side and Preston Seton Gosford which have a lower market share.

The property profile of the PRS is a 50:50 split of houses and flats, with a dominance for 2-bedroom homes (49%). There are limited options for larger households in the PRS and too few one bedroom homes for the proportion of single people seeking housing.

A third of all PRS properties in East Lothian (36%) were built before 1945 with a quartile built before 1919. This high concentration of older properties in the PRS will undoubtedly impact on both property performance and tenant experience, with older homes more difficult to repair, maintain, adapt or meet energy efficiency standards.

The vast majority of PRS properties rely on mains gas as heating source, with very limited understanding of the energy performance of homes in sector (42% of landlords have no knowledge of the energy performance of their properties). Just 6% of landlords offer homes which have an energy rating of Band B or above. This potentially leaves a significant challenge for the sector meeting the targets set in the national Heat in Buildings Strategy. In fact, 1 in 4 landlords have never heard of the Heat in Buildings Strategy or national energy efficiency targets.

On balance, the condition of PRS properties would appear to be positive in East Lothian, 8 out of 10 homes requiring no repairs (43%) or minor repairs or improvements (42%). However, 1 in 5 tenants suggest that poor property condition is a serious problem (17%). Despite this, the majority of landlords (87%) report no outstanding repairs in their portfolios. This is in contrast to 50% of tenants who report outstanding repairs and maintenance works needed in their homes, with the majority (42%) relating to minor repairs and improvements. Where unexpected or emergency repairs arise, the vast majority of landlords indicate they have the means to cover these costs or contingency plans in place.

The issue of repairs and improvement works is a key factor in the quality of landlord and tenant relationships, with up to 59% of tenants who are dissatisfied with their landlord frustrated with landlord reluctance to carry out repair or improvement works. Overall, two thirds of tenants are satisfied with the way their landlord manages their tenancy.

## 7.2 East Lothian PRS Landlord and Tenant Profile

The PRS landlord survey reveals an experienced landlord population, most of whom have been letting property for over 5 years. The vast majority of private landlords (75%) have just 1 property for rent, with half of PRS landlords describing themselves as 'accidental' landlords renting out a former home or inherited property. Just 5% describe themselves as professional landlords with a portfolio of assets as a full-time business.

50% of landlords rely on a letting agent to provide tenancy management services. Whilst many landlords did not feel the need to engage with training and support to improve tenancy management practice, there is evidence that some landlords would benefit from this, with gaps in understanding in relation to some tenant rights, including right to adapt or seek energy improvements.

The operation of the PRS in East Lothian would appear to offer incentives that have to this point in time, balanced the business risk of investors. Landlords reveal positive security of tenure in the East Lothian PRS (48% of current tenants have been living in the property for more than 3 years). Furthermore, landlords almost unanimously said that they have no difficulty finding tenants for their properties, and in some cases apply restrictions to the type of tenants they will accept.

Crucially, most landlords (71%) felt that the rent they collect covers the costs of letting their property and gave them a reasonable return. Perhaps aligned to this, over half of landlords, state they are unlikely to sell any part of their property portfolio in the near future. It should be noted that the research was carried out before Bank of England increases to interest rates which could impact on the viability of the PRS business model, plus the Cost of Living (Tenant Protection) (Scotland) Act, which has effectively imposed a rent freeze on the sector.

Nationally, the PRS is dominated by single and two person households, with the East Lothian tenant population offering a similar pattern. 55% of housing living in the sector are all adult households, including 24% single person households, 31% 3+ adult households. There are smaller proportions of families living in the PRS, with 16% single parents and 17% 2-parent families.

There are a wide range of economic circumstances across the PRS population in East Lothian. Most tenants are in employment (39% are in full-time work, with a further 23% in part-time work). Just over a third of PRS tenants in East Lothian are economically inactive, including those with long-term sickness or disability (11%), retired (10%) or unemployed and seeking work (5%).

Most PRS tenants rent unfurnished properties from private landlords (65%) followed by 15% renting a furnished property. Most tenants also describe their tenancy as a long term let (72%), with 18% in temporary accommodation or shorter term lets.

Generally, PRS do not share any rooms with another household (83%), with the remaining sharing kitchen facilities. The majority of PRS tenants (59%) said they has the right number of bedrooms to meet the needs of their household, with 32% saying that they had fewer bedrooms than needed. This suggests up to a third of PRS tenants may be subject to overcrowding in their current property.

Over half of PRS tenants have a household member with a long term illness or disability (53%), with 47% of this group stating their current home does not meet the health and disability needs of the household. Furthermore, 1 in 10 PRS tenants require aids and adaptations to the property, the most common being level access showers (9%).

The biggest single issue affecting tenants in the East Lothian PRS is the affordability of heating their home with half of all tenants suggesting this was a serious problem. A further 29% of tenants also suggested that the affordability of rental costs was a serious problem. It is not surprising that 54% of PTS tenants describe themselves as being in fuel poverty, spending more than 10% of their income on heating bills.

### **7.3 Effectiveness of the PRS in Meeting Housing Need**

Landlords and letting agents characterise the East Lothian PRS as offering high quality homes and security of tenure. Furthermore, demand for private rented accommodation is extremely high with evidence that surplus demand fuels rental inflation. As a consequence, high rental values create housing affordability pressures and poor mobility across the PRS.

Housing advice and advocacy agencies characterise the PRS as offering an 'option to local households who often have little or no housing choice'. As a consequence, many PRS tenancies are neither affordable nor sustainable to those on moderate to low incomes. Accessibility into the sector is often a significant challenge for low to middle earners, with competition for available properties described as 'fierce'.

Echoing these views, the vast majority of PRS tenants (84%) describe finding their current home as difficult amid a shortage of available properties locally. Just 1 in 5 tenants living in the sector said private renting was a first choice option, with more than half describing the PRS as the 'only option available to me'. There are clear preferences for and aspirations to access social housing expressed by most PRS tenants, reflects the nature of the sample and focus on households with low to moderate incomes.

Almost a quarter of waiting list applicants for social housing in East Lothian are made by households currently living in the PRS. This is more than double the proportion of households who live in the sector (10%) and would further evidence a strong unmet demand for social housing from PRS tenants. However, a significant proportion of PRS tenants (29%) have no eligibility for social housing despite their preference to live in the sector. The delivery of over 190 mid-market housing options (MMR) in East Lothian in the next 5 years could offer much needed alternatives to the PRS, expanding the range of affordable social housing options locally.

Over the last 3 years, roughly 15% of all homeless applications in East Lothian have been made by households leaving the PRS. Furthermore, almost 40% of households seeking advice and support on homelessness prevention originate from the PRS, which could be clear indicators of tenancy sustainment issues in the sector.

Housing advice and advocacy agencies suggest that whilst the East Lothian PRS generally offers good security of tenure and tenancy management, households with support needs or low incomes are often not empowered to access these rights, do not understand the tenancy protections in place or have the confidence to engage with landlords. Improving tenant access to information, advice and advocacy could be an important aspects of improving the effectiveness of the sector in meeting housing need.

Stakeholders agreed that the main weakness of the PRS is the affordability of PRS rents and the costs of accessing the sector for those seeking housing. The long term impact of devoting substantial proportions of household income to meet the cost of PRS rents is likely to be extremely damaging from a both a financial and wellbeing perspective.

#### **7.4 The Impact of Short-term Lets on the PRS**

Greater insight on the true extent and nature of the short-term lettings sector in East Lothian will become available as the new STL licensing scheme, introduced on 1st October 2022, is in full operation in 2023. At this stage, research analysis provides a helpful indicative profile of the operation of the short-term letting sector in East Lothian and its impact on the PRS.

A snapshot sample of short term lets in East Lothian identified up to 400 STLs available for letting, with just under 60% located in the North Berwick Coastal area. It is estimated that short-term lets account for 7% of the total lettings market in East Lothian, with the exception of North Berwick where short-term letting accounts for over 20% of the lettings sector. This could perhaps indicate a movement of residential rental homes from the PRS to become short term lets in the North Berwick area. That said, there is no evidence to suggest that short terms lets are driving demand for affordable housing, even in the North Berwick area.

Furthermore, there is no clear correlation between value of STL rents and PRS rents in most East Lothian localities, with higher PRS rent levels more likely to be prevalent in areas where there are fewer STLs. Again, the exception to this pattern is the North Berwick Coast locality.

#### **7.5 Rents and Affordability in the East Lothian PRS**

The average market rent in East Lothian in 2022 is £1,040.79 per month. This reflects the value of the wider Lothian rental market, where rents are 26% above the national average. Furthermore, rental inflation in the Lothian PRS over the last 10 years is 42%, 16% higher than Scotland.

As a function of operating in the Lothian market, the Local Housing Allowance rate in East Lothian exceeds the value of average market rents by 3%. In 50% of localities including Dunbar & East Linton, Haddington & Lammermuir and Preston Seton Gosford, the LHA more than covers rental costs for all property sizes. North Berwick Coastal is an exception with all but 4-bedroom property rents exceeding the LHA rate.

In East Lothian, average market rents are more than double (57%) RSL rents. This demonstrates the impact of affordable housing in meeting the housing needs of those on low to moderate incomes.

The average income in East Lothian is £36,782 which is higher than average income levels Scotland (£20,713). The lower quartile income in East Lothian is £20,713 which is also higher than lower quartile incomes in Scotland (£16,497). Musselburgh has highest concentration of households earning below lower quartile incomes (17%), with North Berwick Coastal the lowest at 9%. North Berwick Coastal is an outlier relative to other localities, with higher average rents and a greater proportion of high income (£60K+) individuals residing in the area than elsewhere in East Lothian.

To afford average market rents in East Lothian, a household would need to earn £38,870. Less than half of households in East Lothian earn this level of income (46%). Affordability

analysis suggests that 57% of East Lothian households are unable to afford the average market rents at a typical 30% income to rent ratio. Furthermore, PRS rental costs are not affordable to households on minimum earnings including Living Wage and Minimum Wage levels.

Whilst 57% of households can't afford PRS rents across East Lothian, there is some evidence that mid-market options could help to improve affordability pressures in some localities. The proportion of households who cannot afford PRS rents drops to 51% if MMR rents are set using the Local Housing Allowance, an improvement in affordability for 6% of households. Furthermore, if MMR rents are set at 95% of the LHA rate, an improvement in affordability for those cannot afford the cost of the PRS of 8% is achieved.

## **7.6 PRS Tenant Perspectives, Aspirations and Expectations**

There are equal proportions of tenants who are satisfied or dissatisfied with their current home with 42% tenants satisfied and 41% dissatisfied. Dissatisfaction factors focus on rent and energy cost affordability, with 1 in 5 tenants experiencing isolation at home or accessibility problems for households with health conditions and disabilities. Whilst most tenants describe their current home as offering the right number of bedrooms for their households up to a third may be overcrowded in their current property.

Three quarters of PRS tenants surveyed said they would either like to move or need to move in the next two years with main reasons focusing on affordability problems with rent and heating costs. The majority of PRS tenants (51%) are currently spending more than 30% of their income on housing costs, echoing the outcomes of the housing affordability modelling.

Whilst these push factors indicate the serious affordability challenges within the sector for tenants on low to moderate incomes, there are low tenant expectations of finding alternative housing options in East Lothian and some evidence that local households in the area are seeking accommodation elsewhere. The most common reason for not being likely or actively trying to move is the lack of available of homes in the area (52%) or not having enough allocation points to access social housing (46%).

## **7.7 Future Prospects for the PRS in East Lothian**

Stakeholders confirmed that prospects for the future growth and development of the PRS in East Lothian are extremely low fuelled by rising interest rates and proposed reforms to the sector, which will fundamentally change the PRS financial model and load risk towards PRS investors. Current restrictions on recovery of possession are seen as the single greatest factor in restricting PRS growth and central to diminishing investor appetite.

Overall, the prediction of both landlords and letting agents is that the PRS in East Lothian will shrink in the next 3-5 years, as landlords leave the sector. This is likely to have a devastating impact on the East Lothian housing system and local economy. Creative options to support landlord retention include lobbying the Scottish Government on a more balanced approach to recovery of possession, more targeted enforcement activity using existing powers. and landlord grant assistance to support property maintenance and energy saving measures.

Stakeholders acknowledge that the key to improving the operation of the PRS for households with low incomes or support needs lies in improving the affordability of rents and increasing the supply of private rented accommodation. Whilst targeted rent controls and restrictions on



short-term lets are potential options to explore, landlords must be engaged in assessing these options to avoid a shrinking of the sector.

## 7.8 Policy Implications

The East Lothian PRS research study offers invaluable evidence on the operation of the section, the landlord population who serve it and the tenant population who call it their home. Aligned to the research evidence, key questions and policy implications which should be explored in the development of the new Local Housing Strategy include:

- options to target support with meeting the rising costs of home energy to households living in the PRS
- options to target support with improving the energy efficiency of homes to PRS landlords
- proactive and person-centred housing options advice to PRS tenants considering leaving the PRS as a result of rent affordability pressures
- targeted support and dedicated resources to maximise the incomes of PRS tenants struggling with rent and energy affordability pressures
- consideration of a short term let control area in the North Berwick Coast locality (following the full implementation of the STL licencing scheme across East Lothian)
- extend the range of affordable housing tenures including mid-market rent, using affordability analysis to target investment in localities
- targeted enforcement activity to address questionable letting activities associated with surplus demand
- well publicised, accessible information, advice and advocacy options to empower private tenants to exercise tenancy rights
- well publicised, accessible training and development materials for private landlords on tenancy legislation and compliance
- develop a business case highlighting the role played by the PRS in supporting the East Lothian economy
- ongoing and meaningful engagement with private landlords on current and proposed reforms to the sector to identify through partnership, how landlords can be supported to remain in the sector.