Canny Investors? A mixed methods investigation into the investment behaviours of Scottish private rented sector landlords

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ABSTRACT

From a low base, the Scottish Private Rented Sector (SPRS) has grown rapidly over the last 25 years and now plays an important role in Scotland's housing provision and wider economy. The re-growth, which mirrors changes in the rest of the UK, has been enabled by deregulation (amongst other drivers) and driven by a large group of heterogenous private investors, who tend to own a small number of properties each. Whilst much has been written about the characteristics and motivations of these 'landlords', the Scottish data is now aged and little is known about landlord investment behaviours in the context of normative and descriptive theories of investment. This is concerning given that these characteristics, motivations and behaviours account for the landlord's selection of the SPRS as a welfare strategy and govern their management of and future exit from the investment. They are also more broadly responsible for shaping the SPRS and the experience of the tenants who reside there. As such, the data shortfall has far-reaching implications, which are particularly stark for policymakers seeking to further regulate the sector whilst minimising unintended outcomes.

To address these shortcomings, this thesis first refreshes the extant literature pertaining to landlord characteristics and motivations, and thereafter, addresses the gaps in the literature relating to landlord investment behaviours. The latter is achieved through the development of a theoretical framework and conceptual framework suitable for the study of landlord investment behaviour and its application, via a synthesised normative investment process, to the SPRS to better understand investment practices. Specifically, the framework is used to identify the extent to which the investment behaviours of Scottish landlords deviate from established normative theories of investment behaviour and subsequently, the extent to which these deviations mirror established descriptive theories of investment behaviour.

Grounded in the research philosophy of pragmatism, the research adopts an explanatory sequential mixed methods design. In the first stage, primary quantitative data relating to landlord characteristics, motivations and investment behaviours is obtained via an online survey of Scottish landlords. In the second stage, more in-depth primary qualitative data focused on understanding landlord investment behaviours, is obtained via semi-structured interviews carried out with a sample of Scottish landlords and SPRS professionals.

With regards the characteristics and motivations of landlords, the research finds some change in the composition of the SPRS, such as an increased incidence in the number of female landlords. And whilst the sector continues to be dominated by small-scale private landlords, an increasing number of landlords view their SPRS holding as some form of investment. With regards to the investment behaviours of landlords, the research finds that landlords often deviate from normative expectations and more specially the normative investment process. In essence, these deviations suggest that investment assets worth in excess of £30bn[1] are not being effectively managed, with far-reaching implications for the Scottish economy. More specifically, the findings highlight a clear risk to the efficacy of landlord SPRS investments. A number of failings, such as the lack of budgeting for key investment risks, also have broader implications for tenants and policymakers alike.

In place of a normative approach, the investment behaviours and decision-making processes of landlords often more closely reflect descriptive theories of investment behaviour as evidenced by landlord's susceptibility to behavioural biases and heuristics.

This thesis concludes that the interests of landlords, tenants and policymakers would be better served by landlords adopting investment behaviours, which are more closely aligned

[1] An indicative value calculated by multiplying the mean capital value of the most recent SPRS property acquired by survey participants by the number of SPRS landlords registered in Scotland (250,000).

with the normative investment process. To this end, a number of recommendations have been included, based upon the process's key stages. In addition, to allow policymakers to more readily account for the investment behaviours of landlords in the policy creation process, a new landlord typology is proffered. While focused on the SPRS, these findings are likely to have much wider relevance, certainly to the wider UK PRS, but also in other geographies accustomed to neo-liberal housing policy and dualist rental systems.

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AUTHOR'S DECLARATION

I declare that, except where explicit reference is made to the contribution of others, that this thesis is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.

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ABBREVIATIONS

BE	**Behavioural economics**
BPT	**Behavioural portfolio theory**
BTL	**Buy-to-let**
CPT	**Cumulative prospect theory**
EUT	**Expected utility theory**
EPC	**Energy performance certificate**
LPSS	**Letting Protection Service Scotland**
MDS	**mydeposits Scotland**
MPT	**Modern portfolio theory**
NE	**Neoclassical economics**
OEUT	**Objective expected utility theory**
PRS	**Private rented sector**
PT	**Prospect theory**
RQ	**Research question**
SDS	**SafeDeposits Scotland**
SEUT	**Subjective expected utility theory**
SPRS	**Scottish private rented sector**
TF	**Traditional finance**

1 CHAPTER 1- INTRODUCTION

1.1 Background

Mirroring changes in the rest of the UK (Bailey, 2020), the SPRS has re-grown significantly over the last 25 years and now accounts for 14% of all residential property in Scotland (Scottish Government, 2019a). Though other motivations exist, SPRS properties are primarily acquired (or retained) as long-term investments focused on income, capital growth, or both as part of a landlord's investment strategy. Around 84% of all registered SPRS properties are owned by private individuals and 95% of these own between one and five properties (Scottish Government, 2013). This suggests that the SPRS is dominated by small-scale investors. These investors, who tend to view the SPRS as a welfare strategy, are often referred to as 'amateurs', in reference to the part-time nature of their investment activity and the secondary income it often provides. However, given the 'professional' status commonly assigned to build-to-rent sector (BTR) landlords (Homes for Scotland, n.d.; Scanlon et al., 2013; Scottish Government, 2017), the term can also be framed as a question of expertise, experience and competence.

The investment decisions of these 'amateur' private landlords play a critical role in shaping the SPRS. Critically, whilst the SPRS can offer landlords a greater degree of capital protection in comparison to some alternatives such as stocks and shares, it remains an inherently risky investment in which returns are subject to a broad range of systematic and unsystematic risks. The manner in which landlords manage their investments and in particular the extent to which they understand, manage, and are impacted by these risks, has obvious implications for the performance of the investment. Importantly, it also has implications for the stability of investment patterns and the conditions faced by tenants who live in the sector.

The SPRS, along with the private rented sectors (PRS) of England, Northern Ireland and Wales, provides easily accessible accommodation for young, mobile, transient populations. However, the sector is increasingly being used by to provide long-term accommodation for vulnerable groups including families with young children, who in earlier times might have been able to access local authority or housing association accommodation (Bailey, 2020). Throughout the UK, there are many questions around the suitability of the PRS for these groups (Coulter, 2016; Ronald & Kadi, 2017) given landlord-tenant power imbalances (Marsh & Gibb, 2019), the sector's potential contribution to social and wealth inequalities (Coulter, 2016), problems with poor conditions in some parts of the sector (Lister, 2006), and the existence of rogue and criminal landlords (Spencer et al., 2020). Despite these concerns, average conditions and tenant satisfaction levels in the SPRS do not vary significantly in comparison to the social housing sector (Scottish Government, 2018b, 2018c), which is remarkable given that the SPRS lacks the economies of scale, preferential funding regimes, rigorous regulation and professional status enjoyed by local authority and housing association providers. Regardless, it is apparent that the SPRS is inadequate in some respects for some households.

In response to the SPRS's re-growth and the challenges this has posed, the Scottish Government has sought to introduce balanced policy and legislation that '*safeguards*' tenants (Scottish Government, 2007, p. 30) but does '*not constrain growth*' (Scottish Government, 2013, p. 1). Despite this, policy and legislation has mainly focused on improving conditions, affordability and security of tenure for tenants (Marsh & Gibb, 2019). Although this approach has potentially led to improvements within the sector, there are longstanding concerns surrounding the efficacy of much of the legislation, landlord knowledge of it, and its enforcement (Gibb, 1994; Kemp & Rhodes, 1997; Scottish

Government, 2009). These are concerns mirrored in the English PRS and beyond (Mellish & Rhoden, 2009; Partington et al., 2006; Rugg & Rhodes, 2018; Spencer et al., 2020).

There is however, emerging evidence that this tenant-centric approach has caused a range of unintended outcomes and most notably, a reduction in the supply of SPRS properties as landlords exit the market or postpone entry (Watson & Bailey, 2021). The immediate impact of constrained supply is increasing rents but there are broader economic ramifications such as reduced workforce mobility. Whilst political rhetoric has clearly played a role in shaping Scottish policy direction, the suggestion that there is '*little or no data about landlords and the role they play in the sector*' (Livingston et al., 2018, p. 38) would appear to represent an unnecessary and sizable policy design constraint. The researcher's MSc dissertation and subsequent paper (Watson, 2018, 2022) confirmed this data shortfall with respect to landlord risk management behaviour. Thereafter, personal and professional curiosity (Philliber et al., 1980) fuelled by the researcher's experience as a landlord, letting agent and tenant within the SPRS, led to a high-level review of the literature. The findings of this review tentatively suggested that the topic of landlord investment behaviour played a negligible role in the extant literature. This gap in the literature has clear implications for landlords investing in the PRS as a welfare strategy, for policymakers endeavouring to make sustainable policy decisions based upon incomplete landlord typologies, and for tenants who live with the consequences of landlord's investment decisions.

Although this thesis is focused on the SPRS, many of the sector's characteristics and challenges reflect those found in England, Wales, and Northern Ireland. They are also shared to some extent in other geographies which are accustomed to neo-liberal housing policy and dualist rental systems (Kemeny, 2006) such as Australia (Hulse, 2014; Hulse et al., 2012; Morris et al., 2021), Belgium, Canada, New Zealand, Spain, Germany, Ireland (Martin et al. (2018), and the US (Malpezzi, 2011).

1.2 Aims and Objectives

The overall aim of this research is to develop a theoretical framework and conceptual framework suitable for the study of landlord investment behaviour and to apply it, via a synthesised normative investment process, to the SPRS in order to better understand investment practices.

The specific objectives which underpin this research are:

1. To develop a theoretical framework and conceptual framework to explore landlord investment behaviour, drawing on wider theories from other sectors.
2. To understand the current structure of the SPRS.
3. To identify and understand the investment behaviours of landlords.
4. To create guidance to support shortfalls in both landlord investment behaviours and existing landlord typologies.

The research questions (RQs) designed to deliver upon the research aims and objectives are as follows:

1. Who are landlords and what are the characteristics of their SPRS investments?
2. What are the investment behaviours of landlords in relation to the normative investment process and where/why do deviations occur?
3. To what extent are landlord investment behaviours subject to biases and heuristics?
4. How can landlord typologies and landlord investment behaviours be improved for the betterment of the sector?

The research process adopted to tackle these objectives follows three phases (research exploration, research design and research execution) as proffered by Bhattacherjee (2012).

1.3 Methodology & Methods

This research is underpinned by the philosophy of pragmatism. It adopts an '*explanatory sequential*' mixed method design consisting of a quantitative stage (online survey) followed by a qualitative stage (semi-structured interview). The online survey was issued to landlords via Scotland's three tenancy deposit protection scheme providers and received 1,033 valid responses. Semi-structured interviews were undertaken with 20 landlords drawn from the online survey sample and 13 PRS professionals drawn from the researcher's professional network.

1.4 Research Contribution

The research makes a number of contributions including the refresh of the aged knowledge pertaining to landlord characteristics and motivations. However, it is the development of a theoretical framework and conceptual framework to undergird and guide the analysis of landlord investment behaviours via a synthesised normative investment process, that can be viewed as a principal contribution. The subsequent application of the framework to the SPRS has yielded primary data and recommendations that will be of interest to policymakers, academics and landlords in Scotland and beyond.

1.5 The Structure of the Thesis

Phase 1 of the research process (research exploration) is delivered over three chapters. The first (Chapter 2) reviews the extant PRS literature focusing on the re-growth of the sector, and the problems associated with this re-growth. It then examines the empirical data pertaining to landlord characteristics and motivations. Chapter 3 begins by introducing a theoretical framework which addresses theoretical gaps in the extant PRS literature and is used to guide the literature review and undergird the thesis. The chapter goes on to explore the economic decision-making literature with a focus on comparing and contrasting neoclassical economics (NE) and behavioural economics (BE) approaches. Chapter 4 focuses upon the traditional finance (TF) and behavioural finance (BF) literature, which relate these economic approaches to the field of investment decision-making and investment behaviour. The chapter ends with the presentation of the conceptual framework, which informs the remainder of the thesis.

Phase 2 of the research process (research design) is detailed in Chapter 5, which sets out the research preliminaries, research aims and objectives and RQs. The chapter also describes and justifies the research methods selected and details how each of the RQs were operationalised. The chapter closes with the exploration of research methodology leading to the selection of pragmatism as an appropriate research paradigm.

Phase 3 of the research process (research execution) initially seeks to answer the RQs over three chapters. Drawing from the findings of the online survey, the first (Chapter 6) analyses the characteristics of landlords and their investments and compares the findings to the extant literature. The second (Chapter 7), third (Chapter 8) and fourth (Chapter 9) draw on the findings of the online survey to review the extent to which landlord investment behaviours deviate from the normative investment process. Data is also drawn from the semi-structured interviews to explore these deviations in more detail and to identify the reasons for their occurrence. Chapter 10 draws upon the online survey data to identify the extent to which landlord investment behaviours are subject to the biases and heuristics commonly identified in other investment domains and the qualitative interview data is used to supplement these observations. The findings of these Phase 3 chapters are discussed in Chapter 11, which seeks to answer the research questions. The research process ends with Chapter 12, which presents the research conclusions.

2 CHAPTER 2- THE SPRS AND ITS LANDLORDS

This chapter examines the SPRS and its re-growth (2.1), and the role of policy in shaping and responding to this re-growth (2.2). It explores key academic debates and principal directions of PRS research with an overview of what is currently known about landlords (2.3) and ends with a summary discussion (2.4). Given the paucity of Scottish data in some instances, the literature is drawn not only from studies of the SPRS, but also from UK wide studies and studies in constituent parts of the UK. As there are some differences in the makeup of the UK's individual PRS's particularly with regards scale and policy (see Section 2.2), applying these and other findings to Scotland has clear limitations. However, each PRS has regrown as a cottage industry in response to shared contexts, drivers and broadly similar socio-economic challenges. It can therefore be reasoned that the data has some comparative value in a Scottish context and vice versa. Regardless and where necessary, the geographical coverage of studies is referenced along with an evaluation of their fit with the SPRS.

2.1 The SPRS and Its Re-Growth

The Scottish rental system can be categorised as a dualist rental system under Kemeny's (1995) theory of housing regimes[2]. A dualist rental system is one which consists of a *'private, profit-oriented rental housing sector'* (i.e., the SPRS) and a *'cost-rental social housing sector targeted to low-income households'* (i.e., local authority and housing association housing) (Ruonavaara, 2020). The steady increase of markets rents in the private sector and restricted access to the social sector drives the desire for owner occupation causing the residualisation of the rental sectors. This differs from a

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[2] The classification is widely used, but the theory is not without criticism. See for example Stephens (2020).

unitary/integrated rental system in which *'non-profit renting is accessible to the general public'* and not *'confined to the poor'* (Kemeny, 2006, p. 2). The interplay between the sectors mediates rents, whilst normalising conditions and security of tenure. These factors encourage renting at the expense of home ownership.

Landlords within a dualist rental system benefit from operating in a largely deregulated space in which they are able to set rents at market rates. This is one of the factors that makes the SPRS attractive to investors. However, whilst this classification is helpful at the macro level, it should be noted that as a result of market interventions by the Scottish Government (e.g., rent caps) and means tested housing benefit in the form of Local Housing Allowance, the SPRS is now a hybrid destination for renters with differing levels of household income. This has clear implications for the risk profile of SPRS investments.

The SPRS has grown significantly over the last 25 years, displacing rates of home ownership and social renting as it has done so and now accounts for 14% of all residential property in Scotland (Scottish Government, 2019a). This pattern of re-growth is also evident in the English, Northern Irish, and Welsh PRS and in many other geographies which are accustomed to neo-liberal housing policy and dualist rental systems (Kemeny, 2006).

From the outset of this re-growth and from a UK perspective, the PRS has emerged as a provider of transitional housing for new and young households, young professionals, those requiring job market flexibility, students, those seeking accessible and low cost moves, and those temporarily leaving or priced out of the owner occupation market amongst others (Ball, 2010; Bovaird et al., 2009, p. 2; Coulter, 2016; Crook et al., 2009; Kemp, 2015; Rugg et al., 2010). In short, in a UK context, the PRS is recognised as being '*best placed to provide access to meet short-term housing needs*' (Bailey, 2020, p. 2). However, for many of these groups, the time spent in the PRS is elongating (Marsh & Gibb, 2019). For some, this is a legitimate choice resulting from changing housing pathways and life courses with more time being spent in education and job-shopping, delayed family formation, and the trend towards later life marriage and cohabitation (Clapham et al., 2014; Coulter, 2016; Kemp, 2015). For others the elongation is due to specific challenges such as problematic employment (Clapham et al., 2014), the need for large deposits for owner occupation, tightening lending criteria, reduced borrowing ratios, student debts and rising house prices (Kemp, 2015; Moore, 2017).

In addition to serving these transient groups, the PRS has long played a role in the provision of longer-term accommodation (Clapham et al., 2014; Rugg & Rhodes, 2018) and in particular has been a residual provider for those who cannot access owner occupation or social housing (Bovaird et al., 2009; Gray & McAnulty, 2008). However, a shortage of local authority and housing association supply has led to the PRS increasingly representing '*the only option for vulnerable and low income households who would have previously been housed in the SRS*' (Powell, 2015, p. 332). This leads Kemp (2011, p. 1019) to conclude that the role of the PRS is no longer residual and that '*the PRS plays a disproportionately important role in accommodating households living in poverty*' including an increasing number of young families and young people who are said to be '*disproportionately channelled*' into the PRS (Coulter, 2016, p. 297). As a result, the PRS is unsurprisingly a topic of significant interest for policymakers, the media, and a variety of stakeholder groups across the UK. Though most of the contextual observations in this and the preceding paragraph are largely derived from English studies, they are broadly applicable within the Scottish context.

2.2 The Role of Policy in Shaping and Responding to the Re-growth

The policy environment in which the SPRS re-growth has occurred, has been influenced by both the Scottish and UK Governments. It should be noted that despite shared challenges, Scotland's approach to policy in general (Cairney et al., 2016) and housing policy in particular said to be distinct or different (Gibb, 2012, 2015; Kintrea, 2007; Mullins et al., 2006; Murie, 2004) from the rest of the UK. Scotland's distinctiveness is said to be due to its differing legal, administrative, historical, economic, geographic and political dimensions (Murie, 2004). In practice, the administration of housing policy has been devolved for over a century (Sim, 2004; Wilcox et al., 2010), resulting in the adoption of UK-based housing polices with a Scottish '*nuance*' (Gibb, 2012, p. 21).

However, it is the devolution of housing policy in 1999 that created a new epoch in which to study policy divergence and/or convergence in a UK context. However, whilst Sim (2004) suggests that the Scottish Parliament's initial impact on housing policy was limited, Kintrea (2007) details a raft of actions that suggest that the pace of change was in fact relatively brisk by policy standards and appears to have continued unabated ever since. In relation to England, Gibb (2012, p. 21) reports post-devolution examples of both policy divergence and convergence in equal measure, suggesting only some elements of distinctness. Harris et al. (2020, p. 39) also identify areas of convergence and divergence, and note that devolved governments '*have selected different options from a relatively narrowly conceived range and have approached the issues in different ways*'. Despite this, Bailey and Hastings (2004) identify elements of policy in the devolved nations that are indistinguishable from that in England. In contrast, Moore (2017) points to policy convergence between Scotland, Wales and Northern Ireland and divergence in relation to England. Whilst shared housing and economic challenges make some similarity inevitable, it is apparent that Scotland's housing policy (and to some extent, those in Wales and

Norther Ireland) is more fixated on '*social* outcomes' (Maclennan & O'Sullivan, 2008, p. 5) and tenants with low incomes (McKee et al., 2016) than in England.

In Scotland, the seeds of the re-growth were sewn in the Housing (Scotland) Act 1988 via the introduction of the assured and short assured tenancy regime which essentially deregulated the market (Gibb, 1994). However, it is the liberalisation of the UK mortgage market (Leyshon and French, 2009) and in particular the launch of 'buy-to-let' (BTL) mortgage products, which is widely cited to explain the resurgence of the PRS within the UK more generally (Scanlon and Whitehead, 2005; Ball, 2010; Scanlon *et al.* 2015). BTL mortgages were devised by the Association of Residential Letting Agents (ARLA) and a panel of mortgage lenders. They became popular as they offered terms and conditions which were more favourable than equivalent commercial loans and because interest payments could be offset against personal taxation (Gibb & Nygaard, 2007). However, other factors played a role. For example, UK Government changes to occupational and state pension schemes and low returns from alternative investments (Gibb & Nygaard, 2007; Kemp, 2015) encouraged individuals to consider becoming landlords. Demand side factors, including the dwindling supply of social housing, socio-demographic trends including a growth in young adults and economic migrants (Kemp, 2015), an increase in the number of young people attending college and university (Rugg et al., 2010), difficulties in accessing mortgage finance following the Global Financial Crisis of 2008/9 and a growing preference for private renting (Gibb et al., 2019) also contributed to the sector's re-growth.

However, despite firing the starting gun, the policy responses of the UK and Scottish Governments have had to evolve quickly to keep pace with the sector's growth suggesting that in Scotland at least, policy lags the market (Gibb et al., 2019). Despite seeking to deliver balanced policy and legislation that protects tenants whilst not constraining growth

(Scottish Government, 2007, 2013), the Scottish Government has heavily relied upon the '*incremental use of regulation*' and '*re-regulation*' (Gibb et al., 2019, p. 4 & 13) to respond to the sector's re-growth (Marsh & Gibb, 2019). This includes legislation relating to the introduction of landlord registration, the repairing standard, tenancy deposit schemes, the housing tribunal, and the private residential tenancy amongst others. In fact, Watson (2022) notes that the '*Scottish Government's policy approach towards the PRS over the last decade has been almost entirely focused on tightening regulation through legislation*'. This differs somehat from the approach adopted in other parts of the UK and in particular England, where there are concerns that insufficient policy adjustments are being made to account for the changing demographics of the PRS (Coulter, 2016; Kemp, 2015). A cursory review of Scottish Government publications (Scottish Government, 2007, 2011, 2013, 2021a), including the most recent '*Housing to 2040*' strategy document, confirms that policy debates in Scotland are being driven by the 'socialisation' of the SPRS regardless of the broader role played by the SPRS in Scotland's housing mix. In addition, the recently passed Coronavirus (Recovery and Reform) (Scotland) Bill (Scottish Parliamentary Corporate Body, 2022) and the 'New Deal for Tenants' consultation (Scottish Government, 2021b), which includes proposals for rent controls, new housing standards and more besides, demonstrates that policymakers are firmly focused on further regulating the SPRS. Whilst this will appease some campaigners, there is longstanding concern surrounding the efficacy of much of the Scotland's existing legislation and landlords' knowledge of it, not to mention low levels of enforcement, poor impact monitoring and unintended policy outcomes (Gibb, 1994; Kemp & Rhodes, 1997; Livingston et al., 2018; Scottish Government, 2009; Watson & Bailey, 2021). Similar concerns abound across the UK (Harris et al., 2020; Mellish & Rhoden, 2009; Moore, 2017; Partington et al., 2006; Rugg & Rhodes, 2018; Spencer et al., 2020).

The perception of overregulation has been prevalent amongst Scottish landlords for some time (Crook et al., 2009; Evans et al., 2022) and despite having a lower regulatory burden, Rugg and Rhodes (2008, p. 2) observed that in England:

> '*… the industry is now of the view that the vast majority of 'good' landlords are over-regulated in the attempt to contain the activity of the few 'bad' landlords.*'

In Scotland, there is emerging evidence that the ever-changing legislative burden and the investment uncertainty this causes has resulted in landlords re-evaluating their PRS investments and, in some cases, choosing to leave the sector (Evans et al., 2022; Scottish Association of Landlords, 2021; Watson & Bailey, 2021).

2.3 The Extant PRS Literature

In tandem with the re-growth of the PRS, there has been a re-growth of academic interest in the sector. Though diverse, the literature can be broadly categorised into two key tranches; 'problems with the PRS' and 'landlord characteristics and motivations'. The sections below are concerned with exploring these dimensions in greater detail in order to understand the status quo, identify gaps and further develop the RQs.

2.3.1 Problems with the PRS

By far and away the bulk of the PRS literature is focused on the identification and exploration of problems associated with the sector, of which there appear to be many. These problems broadly fall within four distinct but interrelated concerns. The first is with the physical condition of PRS housing which is often described in both Scotland and England as poor or inadequate (Crook et al., 2012; Crook et al., 2009, p. 18; Ecotec, 2008; Kemp, 2011; Lister, 2006; Marsh & Gibb, 2019; McKee et al., 2019; Reeve et al., 2016; Rugg & Rhodes, 2008; Soaita et al., 2020). There are legitimate concerns in this area. The latest Scottish Government (2018b) House Condition Survey[3] identifies several categories in which PRS properties are in a worse state of disrepair than those within other tenures. Overall, however, the condition of PRS properties broadly mirrors and in two categories betters that of local authorities (Table 2.1). This is remarkable given that the PRS lacks the economies of scale, preferential funding regimes, rigorous regulation and professional status enjoyed by local authority providers.

Table 2.1. Property disrepair by tenure 2019

Disrepair category	Owner occupied	Housing associations	Local authority/ Other public	PRS
Dwellings with any disrepair to critical elements	47%	48%	66%	65%
Dwellings with any disrepair to critical elements and any urgent disrepair	21%	14%	31%	36%
Dwellings with any disrepair to critical elements, any urgent any extensive disrepair	3%	1%	4%	4%
Dwellings with urgent disrepair to one or more critical elements	16%	12%	25%	30%
Dwellings with extensive disrepair to one or more critical elements	1%	2%	2%	1%

Source: Adapted from Scottish Government (2019b. Table 52)

The second concern pertains to landlords themselves, and builds on the pervasive view, particularly in Scotland, that landlords are unscrupulous profit chasers and therefore in some way unsuitable providers of housing. As Kemp and Rhodes (1997, p. 118) note:

> '*Private landlords are commonly portrayed as generally rather seedy characters, who exploit their tenants by charging exorbitant rents for poor-quality accommodation and whose only aim is to make the maximum profit.*'

However, whilst media headlines suggest this may be true of a minority, evidence collected during the pandemic suggests that a large proportion of landlords deviate from

[3] Whilst the 2020 survey results were available at the time of writing, the 2019 results were selected for analysis due to material changes in the 2020 survey methodology resulting from the COVID-19 pandemic.

these stereotypical behaviours. For example, during the height of the pandemic, Watson and Bailey (2021) found that 46% of SPRS landlords had offered tenants either a rent holiday (a reduction in rent or waiver of rent for a period), a repayment plan (deferral of rent) or both. In addition, 68% of landlords whose tenants had rent arrears did not intend to evict them once restrictions were lifted and 44% intended to write off or partially write off arrears for continuing tenancies. Whilst some of these behaviours could be explained by pragmatism, the authors concluded that they were '*motivated to a greater or lesser extent by altruism*' (p. 35).

The third and by far the largest concern, measured by literature volume, pertains to the suitability of the PRS as a tenure for some of the categories of tenants discussed earlier and who are increasingly housed in the PRS. This is a particularly strong theme in English literature where for example; Bailey (2020, p. 2) questions the suitability of the sector for low income households in light of '*its obvious shortcomings*'; Coulter (2016, p. 297) is concerned with the growth of young disadvantaged families within the PRS; and Powell (2015, p. 330) worries about the dilution of tenant power for those receiving housing benefit within the PRS. Given the increase in the number of vulnerable tenants living within the SPRS, these concerns are likely to have salience in a Scottish context.

The fourth and final concern is paradoxical in that the PRS is viewed as being unaffordable for the very groups that it has been accused of being unsuitable to house. Whilst affordability is a genuine concern in the SPRS, it should be recognised that between 2010 and 2021, only four areas in Scotland (Lothian, Greater Glasgow, Fife and Forth Valley) saw overall rent increases above the level of CPI whereas 14 did not (Scottish Government, 2021d). The fact that average rents in Aberdeen and Aberdeenshire are '*just 1% higher in 2021 compared to 2010*' (Scottish Government, 2021d para. 8), whereas rents in Glasgow have increased substantially, points to the market working, that is, rents are being dictated by supply and demand.

The four concerns identified support the view that vulnerable groups are being '*channelled into relatively costly, insecure and lower quality accommodation in the PRS*' thereby '*deepening housing inequality*' and more broadly '*social inequality*' (Coulter, 2016, pp. 297-299). Whilst not seeking to undermine the very real and legitimate challenges posed by the re-growth of the PRS across the UK, it is clear from the evidence above that there is a strong focus upon and a '*general cultural willingness to believe the worst of the sector*' (Rugg & Rhodes, 2008, p. 2) and it could be ventured that in some cases, '*that some data are, on analysis, rather more ambiguous than might be thought*' (Rhodes & Rugg, 2018, p. xi).

2.3.2 Landlord Characteristics and Motivations

A second tranche in the literature focuses on identifying what landlords and their investments look like, describing the nature of their activities and understanding the motivations behind those investments. The following section explores this literature focusing on how these characteristics and motivations have changed throughout the sector's re-growth.

2.3.2.1 Scottish landlords in 1994

From a Scottish perspective, Kemp and Rhodes (1994) were early writers in this area, although it is from their later publication (Kemp & Rhodes, 1997) that this section will initially draw. Reporting on the first national survey of Scottish landlords, they found that almost half of all SPRS properties (47%) were owned by private individuals or couples ('private landlords'), and that 39% were owned by companies or partnerships ('corporate landlords'). Almost all private landlords were white (98%), middle aged or older, and viewed landlordism as a '*sideline*' activity with the majority being in employment or retired and most (86%) deriving less than a quarter of their income from the SPRS. With respect to corporate landlords, '*just under two-fifths described themselves as property companies*' (Kemp & Rhodes, 1997, p. 121), with many providing accommodation for employees. Even for those corporate landlords self-identifying as 'property companies', landlordism continued to be a 'sideline' activity with less than 40% deriving up to a quarter of their income from the SPRS.

In total, 34% of all landlords surveyed let housing on a nominal rent or rent-free basis. Private landlords were found to have very small portfolios, with 33% owning one property and 69% owning less than 10 properties whereas corporate landlords tended to have larger portfolios with 86% having more than ten properties. In terms of acquisition pathways, 40% of properties were inherited (47% for private landlords) and 51% had been directly purchased or built. Of the latter, only seven out of ten had been originally acquired to let. In total, only 11% of all properties were purchased with a loan or mortgage. Regardless of the original acquisition strategy, only 43% viewed ownership as either an investment for rental income, capital growth or both, and just 60% in the case of landlords charging rent at the time of survey. Of those charging rent, aspirations for returns were extremely low, with the majority focusing on covering base costs and an astoundingly low 25% expecting the rent to provide a positive '*return on the open-market vacant-possession value of the property*' (Kemp & Rhodes, 1997, p. 126). Worryingly, 43% did not appear to have a strong grasp of the extent to which PRS legislation had changed since 1988.

The findings from this early study had a number of positive impacts in shaping views of landlords. For example, the stereotypical notions of landlords as greedy 'Rachman' types was largely debunked, although the tone and rhetoric associated with today's debates and media reports suggest that the impact was short-lived. On the other hand, the description of landlords as '*amateur property managers, with no professional qualification or expertise*' (Kemp & Rhodes, 1997, p. 130) introduced a new stereotype, which also emerged as a theme in the English PRS literature (Leyshon & French, 2009; Partington et al., 2006). While the study undoubtably provided novel and valuable insights into the characteristics and motivations of landlords, there are omissions. For example, no attempt was made to understand landlord investment behaviours or to identify investment outcomes, and the topic of investment risk was barely mentioned.

2.3.2.2 Scottish landlords in 2009

Over a decade later, the topic was revisited by Crook et al. (2009) on behalf of the Scottish Government. Whilst the adoption of different methodologies and survey design makes direct comparison challenging, the data reveals a clear shift in the size and direction of the PRS. The PRS had grown in size and private individuals now accounted for 84% of the SPRS stock (as opposed to 47% previously) with corporate landlords holding just 14%. Landlords were also younger than before, with 35% under the age of forty-five, although overall, landlords still tended to be old, white and male. The PRS remained a 'sideline' activity with just 8% of all landlords being full-time but a moderately lower 70% (as opposed to 86%) of private landlords deriving less than 25% of their income from their portfolio. A lesser, but still significant 27% received no income on their rental. Portfolio sizes remained small, with the majority (80%) of private landlords (and 73% of landlords overall) owning between 1 and 4 properties. Acquisition pathways had evolved with fewer acquisitions resulting from inheritance or gifts (14% as opposed to 40%) with the majority (80%) now being directly purchased. In total, 61% of all properties were purchased with a loan or mortgage representing a significant increase since the 1997 study when it was 11%, underlining the importance of mortgage deregulation and the introduction of the buy-to-let mortgage in the sectors re-growth.

Unsurprisingly, with financial imperatives now underpinning the growth of the sector, more landlords viewed their holding as an investment (72% as opposed to 43%). However, between 20% and 23% of landlords who viewed the PRS as an investment, were still not *'looking for returns*' (Crook et al., 2009, p. 67). Returns appeared to have improved as around 52% reported that the rent charged is '*sufficient to cover all necessary costs and give a reasonable return*' (Crook et al., 2009, p. 67) whereas in the previous study, only 25% of landlords expected the rent to provide a positive return (Kemp & Rhodes, 1997). Although the question is formatted differently, it is clear that landlords still struggled with legislation with 33% believing it is '*difficult to find out how the law affects them*' (Crook et al., 2009, p. 60).

This survey covered more ground in more detail than the previous survey. However, many of the additions are of limited value. For example, the attempt to quantify gross rental yields was interesting, but the returns were reported in relation to landlord perceptions of the sufficiency of returns, thereby missing an opportunity to understand investment returns in relation to landlord characteristics and motivations. Similarly, while Kemp and Rhodes (1997) barely mention risk, Crook et al. (2009) introduce the concept of market and business risk. However, there is no exhaustive list of the risks faced by landlords or any quantification of the impact of risks on returns. The primary insight- that landlords can manage market and business risks by knowing '*the submarket market where the property is acquired*' (p. 74)- receives further treatment in a subsequent journal article (Crook et al., 2012) although the stated shortcomings remain.

2.3.2.3 Scottish landlords in 2021

Although there has not been a recent Scottish study focused specifically on landlord characteristics and motivations, Watson and Bailey's (2021) study into PRS arrears during the pandemic suggests that some trends have continued. For example, they found that 90% of landlords surveyed were private individuals (84% in Crook et al. (2009) and 47% in Kemp and Rhodes (1997) respectively), 83% of landlords owned between 1 and 4 properties (73% in (Crook et al., 2009) and 38% in Kemp and Rhodes (1997)), and 56% had acquired their most recent PRS property with a loan or mortgage (61% in (Crook et al., 2009) and 11% in Kemp and Rhodes (1997)). Finally, they identified that 69% viewed their most recent PRS acquisition as a form of investment, which compares with 72% in Crook et al. (2009) and just 43% in (Kemp & Rhodes, 1997). Overall, the data suggests that the sector has become more business-like over the last 25 years.

2.3.2.4 English and UK landlords

The approach to the study of landlords in England is similar to that in Scotland (Crook & Kemp, 1996; Ecotec, 2008; Mellish & Rhoden, 2009; Rugg & Rhodes, 2008, 2018; Scanlon & Whitehead, 2016). The most recent English Private Landlord Survey (Ministry of Housing Communities and Local Government, 2019) is a particularly interesting example. Although the findings are not directly comparable, they bear remarkable similarities to the Scottish data giving some credence to earlier assertions that UK data has some comparative value. For example, the survey reports that the majority of landlords (83%) are private landlords, that landlords are predominately white and middle aged or older (59% are over 55), landlordism remains a ‘sideline’ business with around 26% deriving up to a quarter of their income from the PRS. Again, a large proportion of properties (27%) were let rent free. As in the earlier Scottish studies, portfolios continue to be small with 45% of landlords owning just one property and 83% own between one and four properties. Around 80% directly acquired and just 14% acquired through inheritance or gift. The survey includes some novel insights including observations on landlord gross income levels (39% of landlords had a gross income of less than £20,000 before rental income) but again the data tells us very little about landlord's investment behaviours and investment outcomes.

UK-wide studies are rare though research by Scanlon and Whitehead (2016) reveals similarities with the Scottish and English findings. This research also has a more specific investment focus; for example, one question seeks to identify the '*overall net rental yield*' (p. 68) obtained by landlords. However, the yield data is not analysed in relation to any of the landlord characteristics or financial attributes identified.

The research discussed so far in this section has been based on primary data collection but Lord et al. (2013) utilised secondary data from the Wealth and Assets Survey (WAS) in an attempt to better understand landlords. This enables them to report on the characteristics of landlords in comparison to non-landlord homeowners and to all adults aged 16 or more. It also adds some interesting insights with regards the financial position and financial behaviours of landlords. However, there are a few challenges with the data, not least of which is the fact that the survey was not designed to specifically provide insights into landlords or their behaviours. As a result, the definition of PRS landlords includes those who obtain rental income from second homes let as holiday accommodation. Many of the insights provided are interesting but as in the research already discussed, many of the findings are underdeveloped. For example, although the total financial wealth of landlords is identified, there is no analysis to identify how wealth varies by landlord characteristics, investment characteristics or any of the other financial insights provided. In addition, insights into landlords' financial behaviour pertain to factors such as saving behaviours as opposed to investment behaviours.

Overall, it is clear that there are broad similarities between Scottish and English landlord characteristics and motivations. This is hardly surprising considering earlier discussion regarding housing policy convergence not to mention the common tax and lending regimes across the UK. Despite clear gaps, the literature does at least allow for the conclusion that landlords are a heterogenous group with differing definitions of their investment and different expectations for investment returns.

2.3.2.5 Landlord typologies

The extant SPRS and more broadly, the PRS literature focuses on classifying landlords by their individual characteristics and/or motivations. In some cases, authors have combined these observations to produce landlord typologies such as those listed in Table 2.2. For example, Leyshon and French (2009) focus on landlord knowledge and geography, Crook et al. (2012) focus on landlord investment orientation, and Rugg and Rhodes (2018) focus on a biography approach.

Whilst these typologies are interesting, they tend to be narrowly framed and are of limited use to policymakers.

Table 2.2. Existing landlord typologies

Shiffer–Sebba (2021, p. 1011)	Leyshon and French (2009, p. 455)	Crook et al. (2012, p. 3354)	Rugg and Rhodes (2018, p. 32)
Circumstantial landlords	Local, knowledgeable (e.g., professional - investor landlords)	Business landlords	Episodic landlords
Deliberate landlords	At a distance, knowledgeable (e.g., professional -investor landlords)	Sideline investor landlords	Pension-plan landlords
-	Local, non-knowledgeable (e.g., accidental landlords)	Sideline non-investor landlords	Portfolio-building landlords
-	At a distance non-knowledgeable (e.g., members of property investor clubs)	Organisational landlords	Divesting landlords

2.4 Summary

Prior to deregulation, very little was known about landlords and '*policy making risked being based as much on myth as on detailed understanding*' (Crook et al., 2009). Given that the extant knowledge pertaining to landlords' investment behaviours is superficial at best, with significant gaps in the understanding of landlord investment and risk management behaviours and clear limits on the usefulness of existing landlord typologies, it is not clear that this has substantially changed.

Furthermore, this section has had to draw heavily from research based in England due to the paucity of data from a Scottish perspective. This is despite a positive start with early works by Gibb (1994), Kemp and Rhodes (1997) and others. However, these works are now aged, and the focus of these pioneering academics is now more broadly elsewhere. Today, early career researchers are largely focused on qualitatively studying the 'problems with the PRS' from a tenant perspective with landlord studies generally receiving short shrift. As a result, there is a considerable gap in the literature with little sign of future resolution despite the urgent need for data to assist both landlords and policymakers. The purpose of this research is to address this need. However, the absence of a theoretical base from which to launch the study is problematic. In order to address this, it is therefore necessary to draw upon Kemeny (1992) and obtain a back to basics theoretical understanding of appropriate parent disciplines and adopt and integrate key theory's and debates from social sciences, which can aid the research. While Clapham (2018) suggests that housing is too complex to allow for the simple draw down of existing theory and King (2009, p. 45) suggests that the '*ready-made*' approach is limiting, it is believed to be a suitable approach in the absence of an established body of PRS investment literature and this is the focus of the next chapter.

3 CHAPTER 3- ECONOMIC DECISION-MAKING

3.1 Framing the Debate

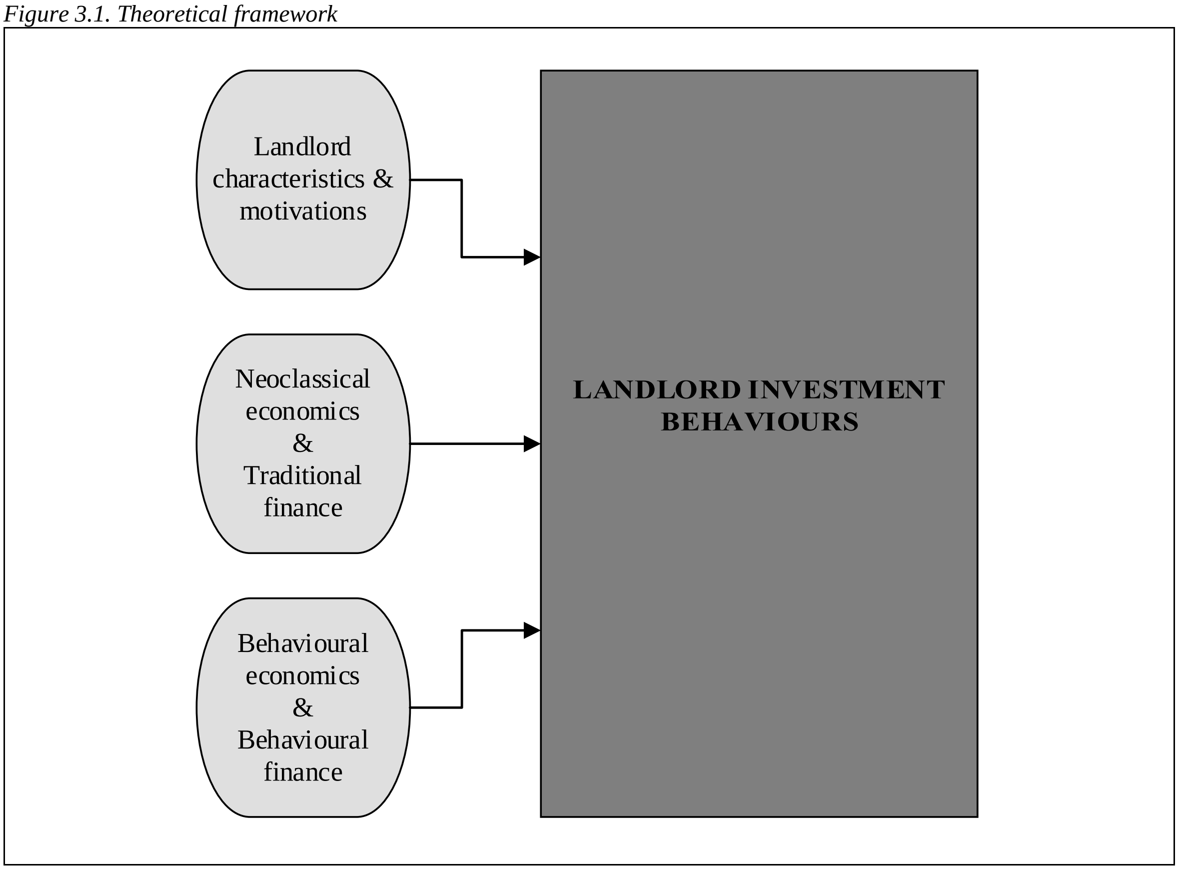
The previous chapter identified a clear shortfall in the PRS literature regarding the investment behaviours of landlords. However, this shortfall is not only empirical, but also theoretical. In the mid-1980s, Kemeny (1992) raised concerns regarding the institutionalisation of the traditional policy focused approach to housing research, which he felt was myopic with only basic theoretical development. He posited housing research as an '*intellectual backwater*' (p. 13) due to the lack of integration with key social science debates and an atheoretical approach caused by a failure to align with the fundamentals of the individual disciplines constituting housing's multi-disciplinary approach. Ball (2007) also expressed concerns, noting that housing research was trapped in a theoretical dead end partially due to a focus on the study of housing policy. There are some concerns as to the validity of these claims especially given evidence of theoretically engaged works permeating the literature. For example, the seminal work by Rex and Moore (1967) pertaining to landlord and tenant power imbalances continues to resonate and be developed today (McKee & Harris, 2023). Whilst there is agreement regarding the need for theoretical improvement, Lawson (2018, p. 236) points out that researchers often '*draw on a range of concepts and theories across the sciences to inform how they conduct their concrete research*'. Furthermore, Clapham (2018), whilst acknowledging the need for a greater theoretical focus, argues that the 'traditional' approach to housing research is inherently theoretically grounded. There are some concerns however that these theoretical underpinnings are not always made explicit (Clapham, 2018; Lawson, 2018; Somerville & Bengtsson, 2002).

Many of the works discussed in the previous section pertaining to landlord characteristics and motivations fall within this purview i.e., they are not theoretically explicit. In addition, many are focused on developing knowledge for use in a policy context. One example is Crook et al. (2009), although given that the research was funded by the Scottish Government, this is hardly surprising. The works are also largely exploratory or descriptive in nature with little in the way of explanation. It could be reasonably argued that this approach was entirely appropriate in 1997 when very little was known about the characteristics and motivations of landlords, and Kemp and Rhodes (1997) were making their first major foray into the subject area. However, it has become the de facto approach to landlord research and as a result, there has been only incremental improvements in the range of data collected and little innovation in providing new and meaningful insights into landlordism in Scotland and beyond.

In order to address this shortfall, it is first necessary to identify an appropriate parent discipline in which the research can be theoretically located to allow for the adoption and integration of key theories and debates therein (Kemeny, 1992). Given that economics is concerned with '*any aspect of human behaviour that involves the allocation of scarce resources*' (Wilkinson & Klaes, 2012, p. 2), it has been selected for this purpose. This choice is further justified on the basis that '*economics has, does and can continue to provide contributions that add to our understanding of housing*' more generally (Gibb, 2009).

The 'key theories' within economics that can be used to shed light on the investment behaviours of landlords pertain to decision-making in an economic context. The key debates therein relate to the juxtaposition of normative theories and models of decision-making underpinned by NE and TF and descriptive theories and models of decision-making underpinned by BE and BF. This conclusion allows for the creation of a theoretical framework to guide the research (Figure 3.1). The framework also recognises the importance of landlord characteristics and motivations discussed in the preceding chapter.

Figure 3.1. Theoretical framework



However, the framework resembles a partial black box as it is not clear to what extent these fields relate to landlord investment behaviours. To progress, it is necessary to better understand the literature within each field in order to identify the models and frameworks that can be used to clarify the theoretical framework and allow for the production of a conceptual framework to guide the remainder of the research. To tackle the vast quantum of literature available, it was necessary to create a road map to guide subsequent chapters of the literature review. The road map was created following a high-level review of the literature which identified the key facets of decision-making within NE-based decision-making and BE-based decision-making. These are summarised in Table 3.1 and explored in the sections that follow.

Table 3.1. Economics literature review roadmap

Descriptor	Economics	Economics/Psychology
Meta theory	Neoclassical economics	Neoclassical economics
Theory	Mainstream economics	Behavioural economics

Theoretical approaches to rationality	Rationality (rational person)	Bounded rationality (bounded rational person)
Condition	Risk & uncertainty	Risk & uncertainty
Decision-making model	Expected utility theory	Prospect theory
Basis of decision-making	Mathematics (probability)	Biases and heuristics
Approach to investment	Investment theory	Behavioural finance
Investment frameworks	Modern portfolio theory	Behavioural portfolio theory

3.2 The Nature of Decision-making

Prior to exploring the literature pertaining to NE and BE, it is necessary to provide some commentary regarding the nature of decision-making within a PRS context. Generally speaking, decision-making theories are defined according to whether the decision is made under conditions of certainty, risk or uncertainty. Conditions of certainty are related to '*easy*' choices (Erikson, 2013), such as whether to buy a purple ball or a yellow ball at a cost of fifty pence each. They are certain because their choice outcomes are known. This contrasts with conditions of risk in which choice outcomes are unknown but probabilities are known. Building on the simple example above, if an individual has to choose a ball from a concealed box of balls containing one purple, one yellow, one blue and one brown, it is uncertain that the individual will receive, for example, a yellow ball. However, it is known that there is a one in four chance of selecting it. In conditions of uncertainty, the decision maker does not know the state of the world they face as both choice outcomes and probabilities are unknown at the point at which a decision is made (Arrow, 1971). The absence of knowledge is so complete that Sakai (2016) likens conditions of uncertainty to walking around in the dark.

These distinctions appear clear but it is not unusual for the terms to be used interchangeably or for authors to conflate conditions of risk with conditions of uncertainty (Alghalith, 2007; Charles-Cadogan, 2018). Knight felt strongly about the need for a clear division between these conditions, and in his seminal work[4], *Risk Uncertainty and Profit* (Knight, 1921) pressed that uncertainty should be considered wholly different from risk[5]. This is because in contrast to conditions of risk, there is '*no scientific basis on which to form any calculable probability whatever*' (Keynes, 1937, p. 214) and the outcome of choices are subject to factors outwith the control of the decision maker (Deaton & Muellbauer, 1980). Unmeasurable uncertainty therefor differs from measurable uncertainty which can be defined as '*risk proper*' (Knight, 1921, p. 20). However, as will be seen in subsequent discussions, it is suggested that uncertain choices can be changed to risky choices through the application of subjective probabilities (Mazzoli & Marinelli, 2011).

It can be argued that PRS investment decision-making is more complex and onerous than traditional investments such as equities due to the requirement for the investor to operationally manage aspects of the risk associated with the investment. As a result, PRS investment involves a range of decisions under certainty, risk and uncertainty so broad that mapping them would require a decision forest as opposed to a decision tree. Regardless, fundamental PRS investment decisions are made under conditions of risk and uncertainty and, as such, this is the focus of this thesis.

3.3 Neoclassical Economics vs Behavioural Economics

This section is concerned with economic decision-making. It begins with a high-level comparison of the fundamentals of NE and BE. This is followed by a comparison of their differing approaches to rationality and subsequently, the key models which underpin their approaches to decision-making.

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[4] It is interesting to note that Keynes produced work on the same topic in the same epoch, but which was overshadowed by the power of his later works. See Sakai (2016) for an interesting comparison of both works.
[5] See Langlois and Cosgel (1993) for an interpretation of Knight's (1921) work that differs slightly from the mainstream.

3.3.1 NE & BE Overview

The genesis of NE is attributed to Alfred Marshall (1842-1924) who synthesised emerging proto-neoclassical positions (Ekelund & Hébert, 2002) with his own concepts including marginalism. This marked a fundamental shift from the cost theories of value held by classical economists to the theory of utility-derived value. NE sought to prioritise a scientific approach and the use of mathematical modelling which necessitated the de-emphasis (Davis, 2008) or ridding (Angner, 2016) of individual psychological characteristics from economics in order to facilitate the drawing of generalities and the testing of assumptions. It should be noted that this process was based on the fact that at the turn of the century, psychology was a relatively new discipline and not viewed as a robust foundation for economics (Camerer & Loewenstein, 2004).

In a fairly short space of time, the influence of NE has led to it being recognised as orthodox (Tsoulfidis, 2010), mainstream (Zalega, 2014) or standard economics (Angner, 2016). The lack of pluralism (Arnsperger & Varoufakis, 2006) suggested by these definitions is contested by some who point to the continuous evolution of NE exemplified by fields such as game theory and neuroeconomics, amongst others (Colander et al., 2004; Davis, 2006).

Although criticism of the orthodox position was once frowned upon (Hodgson, 2012), it has become de rigueur, with clear evidence that NE is routinely, and often scathingly critiqued in the literature. For example, Arnsperger and Varoufakis (2006, p. 6 & 17) suggest that NE is '*no more than a religion with equations*' and Orrell (2010, p. 90) asserts that it is equivalent to '*an air bag that works all of the time, except when you have a car accident*'. Despite these critiques, the weight of the literature positions NE as a meta theory and more generally as a foil against which all other economic theories must be judged.

One such theory is BE which somewhat ironically seeks to enrich NE with insights from psychology (Thaler, 2016) to improve realism (Rabin, 2002) . In this regard BE can be viewed as a '*return to the roots of neoclassical economics after a century long detour*' (Camerer & Loewenstein, 2004, p. 5). In fact, the work of Adam Smith (1723-1790) and in particular Smith (1759) had psychological underpinnings which presaged BE. So too did the work of Jeremy Bentham (1748-1832), Francis Edgeworth (1845-1926), Vilfredo Pareto (1848-1923) and Irving Fisher (1867-1947), to name but a few (Lanteri & Carabelli, 2007). However, the pivotal moment (Laibson & List, 2015) for 'new' BE is cited as the publication of 'Prospect theory: An analysis of decisions under risk' by Kahneman and Tversky (1979), but more on this in Section 3.3.3.2. BE can be viewed as an extension of NE, (Angner, 2016) and a response to a growth in experimental evidence that suggests that individual decision-making does not adhere to probability theory (Aerts & Sozzo, 2016). Fundamentally, it seeks to provide NE with improved methods (Lanteri & Carabelli, 2007) founded upon psychological principles (Camerer & Loewenstein, 2004).

Although there is considerable hype surrounding the field of BE, it is not without criticism. For example, Taleb (2019) describes it as '*dangerous verbalism*', Posner (1997, p. 1552) describes it as '*antitheoretical*' and Gigerenzer (2018, p. 303) suggests that it has a '*bias bias*', in that identifies biases where none exist. There is also much ethical concern about the use, by governments and corporations, of the knowledge garnered by behavioural economists to nudge changes in the behaviours of citizens and consumers (Lin et al., 2017; Thaler & Cass, 2009), as well as growing evidence that casts doubts on the efficacy of such interventions (DellaVigna & Linos, 2022). A much larger and more tangible problem however, is the difficulty academics have experienced in replicating the laboratory findings of key studies in BE (Hreha, 2022). Examples include Sedlmeier et al. (1995), Harinck et al. (2007) and Yechiam (2019), with the latter suggesting that to much has been read into the findings of Kahneman and Tversky (1979), thus raising concerns over the real world applicability of some of the canonical assumptions of BE. These and other concerns have led to Hreha (2022, p. title) pronouncing, perhaps prematurely, ‘*the death of behavioural economics*’.

3.3.2 Differing Approaches to Rationality

The contrasting approaches of NE and BE stem in part from differing assumptions regarding the rationality of decision makers. In orthodox NE, rationality is the central behavioural assumption (de Bruin & Flint-Hartle, 2003) with archetypal rationality being represented by a proxy individual known as homo economicus or in short hand, an ‘econ’ (Thaler, 2015, p. 4). To paraphrase Vriend (1996, p. 263), an econ is someone with given preferences, pursuing their own self-interest and seeking to do the best they can given their opportunities. To do so, they are assumed to be calculating and egotistical utility-hunting creatures devoid of emotion, with stable preferences, full knowledge of their environment and analytical skills that allow them to efficiently compute available choices unbiasedly to realise utility maximising decisions (Byrne & Brooks, 2008; Ermakoff, 2017; Mullainathan & Thaler, 2000; Simon, 1955; Thaler, 2016).

However, these assumptions are widely critiqued in the literature with Jacoby (2000, p. 5) suggesting that homo economicus is an ‘*easily torched*’ straw figure, and Sen (1977, p. 336) describing the proxy as both a ‘*social moron*’ and ‘*rational fool*’. In short, individuals have limited time, limited funds, limited access to data, limited cognitive abilities and shifting preferences meaning that they are unable to make consistent optimal maximising decisions even where they intend to do so (Becker, 1962; de Bruin & Flint-Hartle, 2003; Lanteri & Carabelli, 2007; Mullainathan & Thaler, 2000). Common sense would dictate that these limits are as relevant to landlords as they are to any other group.

Behavioural economists recognise the cognitive limitations of decision makers and instead posit that decision makers are subject to '*bounded rationality*' (Simon (1999, p. 25) in circumstances in which rationality is less than all-knowing (Simon, 1979). Bounded rationality[6] is the rationality individuals adopt when their cognitive abilities do not match the complexity of the decision faced (Dequech, 2016). Bounded rational decision makers do not make optimal decisions which maximise utility and instead settle for an acceptable option out of all possible alternatives (Jacoby, 2000). As Simon (1979, p. 350) notes, decision makers can '*satisfice either by finding optimum solutions for a simplified world, or by finding satisfactory solutions for a more realistic world*'. In other words, decision makers do not select the best option but one that is perceived to be good enough (Schwartz et al., 2002). Satisficing is a heuristic-based behaviour (Mousavi et al., 2017) based upon the procedural rationality of psychology (Simon, 1986). Heuristics will be discussed in more detail in Section 3.3.3.2.

Whilst enthusiastically adopted by many, the concept of bounded rationality is not without critique. There is little agreement on its definition, an absence of a unified theory and no commonly held understanding of its implications (Bendor et al., 2009; Foss, 2001; Grüne-Yanoff, 2007). It is also said to be couched in realism at the expense of methodological concerns (Lindenberg, 1990, p. 728) and to have '*adopted an extremely strong conception of rationality*' as a result of the misapplication of NE (Langlois, 1990, p. 691). Importantly, Wheeler and Janis (1980) suggest that the mechanism of selecting the first alternate which meets a minimum standard is unlikely to be appropriate for major decisions and as such is unlikely to be entirely appropriate for those making PRS investment decisions.

[6] In addition to bounded rationality, Mullainathan and Thaler (2000) also point to decision makers having bounded willpower and bounded self-interest.

3.3.3 Differing Theoretical Approaches to Decision-making

Inevitably, these differing approaches to rationality feed into differing approaches to decision-making under risk and uncertainty. Neoclassical economists are adherents of normative expected utility theory (EUT) and behavioural economists advocate descriptive prospect theory (PT). Both of these theories are discussed in more details in the sections that follow.

3.3.3.1 Expected utility theory

EUT is a landmark paradigm in decision-making (Schoemaker, 1982) and is one of the most important social sciences theories of the twentieth-century (Einhorn & Hogart, 1986). It is touted as a normative, prescriptive (Just & Peterson, 2010; Mongin, 1998), predictive (Cave, 2005) and even descriptive theory (Charles-Cadogan, 2016) of behaviour, It is a '*special instance of the theory of choice*' under risk (Schilirò, 2017, p. 78), the benchmark or the standard (Charles-Cadogan, 2016; Just & Peterson, 2010; Lindsay, 2013; Starmer, 2000) which dominates the study of decision-making (Robert, 2018) and rational choice (Rabin & Thaler, 2001) under conditions of risk (Schoemaker, 1982) and uncertainty (Mongin, 1998; Schilirò, 2017; Wakker, 2010).

The theory emerged from Bernoulli's (1954) response to the St Petersburg Paradox which was a puzzle pertaining to the appropriate price to enter a gamble (Starmer, 2000). Rather than being driven by the expected monetary value of the gamble, Bernoulli (1954, p. 24) introduced the concept of diminishing marginal utility as the solution:

> *'…the determination of the value of an item must not be based on its price, but rather on the utility it yields. The price of the item is dependent only on the thing itself and is equal for everyone; the utility, however, is dependent on the particular circumstances of the person making the estimate. Thus there is no doubt that a gain*

of one thousand ducats is more significant to a pauper than to a rich man though both gain the same amount.'

The theory, which focuses on measuring the utility of wealth rather than wealth per se (Erikson, 2013; Just and Peterson, 2010), requires that a rational individual faced with a risky decision, will select the prospect with the highest expected utility, which can be in terms of the highest gains or the lowest losses (Schilirò, 2017). The process requires that following a complete evaluation of alternatives (Schoemaker, 1982), the expected utilities are calculated by identifying the sum of the utility value of each possible outcome multiplied by the outcome's known probability (Moscati, 2016). It is telling that Aerts and Sozzo (2016, p. 118) refer to EUT as '*objective expected utility theory*' (OEUT) as probabilities are objectively derived. Assuming a Knightian classification, as discussed earlier, EUT is suitable for decisions under conditions of risk only. That is where choice outcomes are unknown whilst probabilities are known. The expected utility of an option therefore is a probability-weighted average of each of its possible utilities (Robert, 2018).

Despite the theory's early history, it is the work of von Neumann and Morgenstern (1944) on game theory and subsequent work by Marschak (1950) and others that resulted in the formalisation of EUT, when they established '*numerical utility as being the thing for which a calculus of expectations is legitimate*' (von Neumann & Morgenstern, 1944, p. 28) and presented its first axiomatic treatment[7] (Schilirò, 2017). Hausman (2011 p.7) notes that EUT simply:

[7] See Mongin (1998) for an overview of the development of the axioms as recognised today.

'…beefs up their theory of choice with additional axioms that permit economists to define expected utility utilities, which permit interval measures of preference intensity.'

Under the theory of choice (rational choice theory) a decision maker is rational if their preferences are complete and transitive *(Moscati & Tubaro, 2011)*, the 'beefing up' requires the addition of the 'continuity' and 'independence' axioms.

The completeness and transitivity axioms result in a preference ranking, ordering or pre-ordering (Mongin, 1998). The completeness axiom requires that an individual can rank their preferences, that is they can be compared and judged, so houses can be preferred to flats, or flats to houses, or both can be viewed as equally good thereby being indifferent between them. This can be stated in mathematical form:

'*For given A,B, ϵ X, either A≥B or B≥A or both, i.e. A~B*' (Charles-Cadogan, 2018, p. 165)

The simplistic idea represented by this mathematical statement, is not without controversy, Aumann (1962, p. 446) views it as the '*most questionable*' of the axioms and raises concerns regarding both its normative and descriptive potential. In practice, preferences are often incomplete, due for example to individual indecisiveness or the requirement for a group decision (Dubra et al., 2004). Even von Neumann and Morgenstern (1944) concede that it is doubtful that an individual can always decide which alternatives they prefer.

The transitivity axiom is central to the theory of choice (Deaton & Muellbauer, 1980) and simply put, requires that if an individual prefers houses to bungalows and bungalows to flats, that the individual will also prefer houses to flats or is indifferent between them. In reality, generating such preference rankings are cognitively challenging (Hausman, 2011). Furthermore, the underlying assumptions of internal consistency inherent to preference theory are undermined by examples of intransitive preferences (Kapeller et al., 2013; Tversky, 1969), though the validity of these asperations is robustly challenged by others (Birnbaum & Gutierrez, 2007; Regenwetter et al., 2011).

The continuity (or Archimedean) axiom is relatively straight forward, suggesting that if an individual prefers A over A1, a prospect close to A, will still be preferred over A1. Levin (2006) finds this to be a reasonable assumption but goes on to suggest that there are situations where is it unlikely to be true. The independence (or substitution) axiom is viewed as the most essential by Dubra et al. (2004). However, it should be noted that von Neumann and Morgenstern (1944), did not make the independence axiom explicit (Mongin, 1998; Moscati, 2016), this was left to others including Marschak (1950)[8]. The axiom places strong restrictions on the form of preferences and is responsible for the majority of EUT's empirical content (Starmer, 2000). Simply put, it states that if an individual prefers A to A1, then in the presence of A2, the individual will still prefer A to A1, that is, the preference is not context dependent. However, the axiom is regularly criticised (Fishburn & Wakker, 1995).

Adherence to these axioms[9] results in the maximisation of expected utility and allows for the creation of an expectational utility function (Cave, 2005). The curvature of this function defines risk preferences offering a clear demonstration of risk aversion (Rabin & Thaler, 2001) in which a concave utility function models (Lindsay, 2013) or corresponds to risk aversion (Alghalith, 2007). However, Stefánsson and Bradley (2019) argue that this approach is inadequate and Just and Peterson (2010) assert that the diminishing marginal utility of wealth can be explained by other non-risk factors. There are also concerns that

[8] See Fishburn and Wakker (1995); Moscati (2016); Schoemaker (1982) for varied histories.
[9] Note that additional axioms are sometimes stipulated (Cave, 2005)

applying the theory to a small stakes gamble in which the individual is risk averse, leads to predictions of '*manifestly unrealistic*' and '*implausible degrees of risk aversion*' (Rabin, 2000, p. 1281 & 1282) over large stakes which do not reflect real world risk behaviours (Just & Peterson, 2010).

Despite the popularity of EUT and assertions by some that it is an effective normative and prescriptive framework that is particularly useful in social aggregation (Just & Peterson, 2010; Schoemaker, 1982), the theory has been criticised as lacking descriptive power for some time (Blavatskyy, 2007). As well as sharing much of the criticism levied at rational choice theory, there is extensive evidence to support this (Harrison & Rutström, 2009). The most fundamental of these is that people don't always rationally follow the axioms (Frey & Meier, 2002), with repeated systematic violations being common place[10] (Blavatskyy, 2007), which clearly limits the theory's ability to describe actual economic behaviour (Schilirò, 2017). For example, the Allais Paradox reveals behaviour which violates the independence axiom (Allais, 1979), and others find that individuals reverse their preferences (preference reversals), which is at complete odds with the consistent deterministic behaviour assumed by the theory (Blavatskyy, 2007). Furthermore, Jones (1999) reports repeated failures from the laboratory with Charles-Cadogan (2018) pointing to experimental studies that violate at least one axiom. However, it could be argued that experimental studies tend to perform poorly against the theory due in part to the artificial nature of the tasks, laboratory based tests are rarely comprehensive and realistic (Harrison & Rutström, 2009). There is however growing non-experimental evidence of violations (Green & Osband, 1991) although many of the violations are refuted and can be explained away by modifications of the models assumptions. As Pástor (2002, p. 63) notes:

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[10] See Starmer (2000) for a summary.

> '… *every model is 'wrong', almost by definition, because it makes simplifying assumptions about our complex world. But even a model that is not exact can be useful*'.

Thaler and Rabin (2001) however, appear to disagree:

> '*In terms of its mathematical elegance, tractability, and normative appeal, the expected utility model clearly has "beautiful plumage." But when the model is plainly wrong and frequently misleading, at some point economists must conclude that the plumage doesn't enter into it. Even the obstinate shopkeeper finally admitted the parrot was dead and conceded: "…I had better replace it, then.*"'
> (Rabin & Thaler, 2001)

The discussion so far has centred on decision-making in conditions of risk where probabilities are derived objectively. To account for decision-making in conditions of uncertainty, Savage (1954) introduced subjective expected utility theory (SEUT), a model which posits that rational individuals should maximise expected utility in relation to a subjective probability (Alon & Schmeidler, 2014). Widely accepted as being central to rational decision-making in conditions of uncertainty (Liu, 2017), the theory builds upon the axiomatic approach of von Neumann and Morgenstern (1944) and early insights from Ramsey (1926) and De Finetti (1937) that under uncertain conditions, subjective probabilities could be inferred from behaviour. In short, Savage's seven axioms '*derive a representation of a decision makers choice behaviours in which uncertainty is resented by a probabilistic belief about unknown states*' and the degree of the belief is expressed by the decision makers choice (Al-Najjar & De Castro, 2011, p. 5 & 9).

The axiomatic approach was discussed earlier and Savage's seven axioms are discussed in detail elsewhere (Karni, 2014; Machina & Siniscalchi, 2014). However, as postulates P2 (the sure-thing principle) and P4 (weak comparative probability) are central to SEUT, these are now discussed briefly. The sure-thing principle is the most controversial axiom (Fishburn & Wakker, 1995), which is not surprising as it is the equivalent of the independence axiom implicit in the von Neumann Morgenstern's formulation. The principle essentially states that if a decision makers prefers '*one act over another assuming either certain event or its compliment occurs, then her preference over the two acts shall remain unchanged*' (Liu, 2017, p. 221). In essence, this suggests that there is no need to consider uncertainty in a decision situation where it would not in any event impact the decision being made. However, (Allais, 1953), (Ellsberg, 1961) and (Blyth, 1972) are amongst those providing examples of behaviours which violate the principle. Similarly, postulate 4 which states that '*the decision maker has a well-defined comparative likelihood ranking over events*'(Machina & Siniscalchi, 2014, p. 741), yet decision makers may not possess explicit subjective probabilities (Machina, 2008).

As with EUT/OEUT, SEUT axioms are regularly violated (Hechter & Kanazawa, 1997) with the overall conclusion that the theory is inadequate as a descriptive model (Kahneman & Tversky, 1979). Various attempts have been made to update the theory including those by Anscombe and Aumann (1963), Schmeidleir (1989), Quiggin (1993) and Izhakian (2017), although each approach invariably has its own strengths and weaknesses. A variety of non-expected utility theories such as those by Machina (1982), Hong (1983) and others have also gained traction, although the most popular by volume of literature is PT by Kahneman and Tversky (1979). The theory, which can be viewed as the behavioural economist's equivalent to OEUT/SEUT, is discussed in the section that follows.

3.3.3.2 Prospect theory, biases and heuristics

PT is claimed to be '*the most prominent decision theory in economics*' (Fiedler & von Sydow, 2015, p. 149) although this is clearly at odds with the similar claims made for both OEUT and SEUT.

PT differs from EUT in that it can be viewed as a procedural theory which models the processes that produce decisions (Starmer, 2000). It was introduced following observations that decision makers 'r*ely on a limited number of heuristic principles which reduce the complex tasks of assessing probabilities and predicting values to simpler judgmental operations*' (Tversky & Kahneman, 1974, p. 1124). The term heuristic is used to describe intuitive responses (Heukelom, 2014), mental shortcuts or rules of thumb (Albar & Jetter, 2009) which use past-experience to reduce cognitive effort (Fiedler & von Sydow, 2015) and make expedient decisions. However, these heuristics can lead to biases and subsequently systematic errors in decision-making (Tversky & Kahneman, 1974) which are said to be at the root of the violations of EUT mentioned earlier (Kahneman & Tversky, 1979). These deviations from normative reasoning can lead to suboptimal outcomes.

PT rests on the assumption that decision makers follow a two-stage decision-making model beginning with an editing phase and concluding with an evaluation phase (Kahneman & Tversky, 1979). Whereas in EUT decisions are made based upon '*final wealth and probabilities*' (Edwards, 1996, p. 20), in PT it is based on gains and losses and decision weights (Kahneman & Tversky, 1979). As opposed to deriving a utility function, PT derives a value function, which is convex for gains and convex for losses. Critically the value function commences from a reference point and its curvature is steeper for losses than gains (Kahneman & Tversky, 1979). This has a number of implications but importantly, it suggests that decision makers exhibit risk-seeking behaviour when faced with losses and risk-averse behaviour when faced with gains' (Byrne & Brooks, 2008) or to put it more simply '*losses loom larger than gains*' (Tversky & Kahneman, 1992, p. 298).

Despite its popularity, PT is criticised for being '*nonoriginal, unproven, and most of all for lacking application to complex real-world decisions*' (Bernheim & Sprenger, 2020, p. 1364). It also generates violations of first-order stochastic dominance (Bernheim & Sprenger, 2020), although this issue was rectified by the adoption of Quiggin's (1982) 'rank-dependent' model in the updated version named cumulative PT (CPT). Furthermore, Newman's (1980) observation that PT was not viable for decisions under uncertainty was again addressed by CPT but this time by the adoption of Schmeidleir (1989) rank dependence. However, these amendments are themselves subject to critique (Bernheim & Sprenger, 2020).

Despite these concerns, there is empirical evidence in support of the theory with some noting that PT could predict decisions under ambiguity more accurately than alternative theories (Edwards, 1996; Kothiyal et al., 2014). However, as with the violations observed within EUT, there is concern that much of the evidence is based on experiments that require advanced mathematical skills and which are undertaken by university students (Rossiter, 2019) in laboratory type environments (Baláž et al., 2013). As such they bear little relation to real life decision-making. There is however, some evidence of real world tests yielding positive results (Barberis et al., 2016; Zhang & Semmler, 2009).

In addition, there are a broad range of critiques of the biases and heuristics which underpin PT and the wider behaviour economics movement. Though heuristics have proved to be useful cognitive problem solving tools, which can provide close to optimal solutions

(Thuraisingham & Lehmacher, 2013), their use as a foil against EUT has resulted in them being viewed by many as '*inferior decision-making techniques that result in irrational behaviour*' (Albar & Jetter, 2009, p. 578 & 579), when in fact they can be helpful in many decision-making contexts. However, the rapid growth in the identification of biases and heuristics risks undermining their coherence and usefulness. To illustrate, the introduction of representativeness heuristic (Kahneman & Tversky, 1972) was followed by the availability heuristic (Tversky & Kahneman, 1973), then the anchoring and adjustment heuristic (Tversky & Kahneman, 1974) and so and so forth leading to an entire program, which was expanded upon in works by Fischhoff (1975), Thaler (2008) and others. The growth has been so prolific that The Decision Lab (2020) list no fewer than 87 on their website including the 'Google effect' and the 'Ikea effect'. It is little wonder that (Gigerenzer, 1996, p. 592) opines:

> *'The problem with heuristics is that they at once explain too little and too much. Too little, because we do not know when these heuristics work and how; too much, because, post hoc, one of them can be fitted to almost any experimental result.'*

Gigerenzer (1991) offers a range of criticisms covering both general theory and methodological approaches although he is more generally concerned with a lack of precise models and a failure to define the cognitive processes at the heart of heuristics.

3.4 Summary

The ongoing debate between neoclassical and behavioural economists is at times humorous, contradictory, circular and frustrating. Having reviewed the literature, it can be concluded that the approach to rationality and the models of decision-making found within NE offer a robust (though flawed) normative/standard framework against which the behaviours of landlords can be compared. As the behavioural literature finds that the actual behaviour of individuals deviates from neoclassical norms, a key role for this thesis is to identify if these deviations are replicated in the investment behaviours of landlords, and if so, the extent to which they can be explained by concepts rooted in BE. By doing so it may be possible to identify how these behaviours might be improved (Baron, 2000, p. 49). However, in order to progress, it is necessary to identify how these theories and concepts are translated into the world of investment and this is the focus of the next chapter.

4 CHAPTER 4- TRADITIONAL AND BEHAVIOURAL FINANCE

4.1 Introduction

The previous chapter explored the theories, frameworks and models that undergird economics-based decision theory and highlighted the juxtaposition between normative and descriptive theories of decision-making. This chapter seeks to build on these findings by reviewing the traditional finance (TF) and behavioural finance (BF) literatures which respectively relate each of these approaches to the field of investment decision-making and behaviour. The goal is to identify specific theories and frameworks against which the investment decisions and behaviours of private landlords might be framed and better understood. To provide context, the chapter begins with a definition of investment and investment risk.

4.1.1 A Definition of Investment in the Context of the PRS

This thesis is concerned with PRS investment from a financial perspective. In this context investment can be defined as the '*sacrifice*' of '*money and other resources today for (hopefully) more money (or wealth) tomorrow*' (Laopodis, 2013, p. 4). Given that the majority of landlords view their PRS holding as some form of investment that produces a *'real after-tax return on their money, whether in the form of income or capital gain or a mixture of the two*' (Darlow, 1983, p. 21), this would appear to be an appropriate definition for the purpose of this thesis. There are, however, landlords who do not view their PRS holding as a financial investment or who intentionally charge below-market rents. However, given the creation of a landlord-tenant relationship, these landlords still clearly have a desire to protect the capital allocated to the property and maintain the assets value in real terms. These cases perhaps warrant a softer definition of investment as the ‘*commitment of funds to one or more assets that will be held over some future time period*’ (Jones, 2013, p. 3).

4.1.2 A Definition of Investment Risk in the Context of the PRS

Investment risk can be considered as ‘*the variability of possible returns around the expected return of an investment*’ (Moses & Cheney, 1989, p. 10). From a PRS perspective, Watson (2022, p. 3) defines investment risk as:

> ‘*The variability of possible returns resulting from events which can alter expected rental values, capital values and/or operating cost values.*’

Investment risk is commonly split into two groupings (Levy & Post, 2005; Mazzoli & Marinelli, 2011; Radcliffe, 1997). The first is systematic or ‘market-wide’ risk, which is caused by macroeconomic events that affect the overall market and as such is non-diversifiable. The second is non-systematic risk or ‘firm-specific’ risk which relates to specific companies or market sectors and is diversifiable (Damodaran, 2002). Within these headings, there are several perceived sources of risk including liquidity, default, financial, business (Moses & Cheney, 1989), interest rate, foreign exchange, inflation, country (Laopodis, 2013), equity, interest rate, commodity, currency, operational, political, reputational, (Ray, 2010), credit, and operational risk amongst others (Mazzoli & Marinelli, 2011). Watson (2002) provides a helpful list tailored to PRS investment. The point here however is that investments are subject to a broad range of risk.

Investors can be risk averse, risk neutral or risk seeking (or anywhere in between), and this is informed by a broad range of factors. For example, some argue that gender differences play a role and suggest that women prefer investments that they perceive to be low risk (Graham et al., 2002) such as housing (Embrey & Fox, 1997). However, this is contested by others (Capelle-Blancard et al., 2021) and may instead reflect differing levels of resources or wealth available to men and women. Although it is not clear from the literature how risk averse PRS investors tend to be or the level of risk they ascribe to the PRS, it was identified in the previous chapter that normative theory assumes that investors are risk averse.

The risk-return trade-off is said to be the '*most fundamental principle of investments*' (Levy & Post, 2005, p. 12). Simplistically, it is based upon the accepted relationship between expected investment returns and investment risk, which suggest a '*positive correlation between the size of the rate of return expected and the level of uncertainty surrounding the expected return*' (Bauman, 1979, p. 161). As riskier investments command a risk premium, it can be assumed that risk aversion is common amongst investors (Bodie et al., 2011).

4.2 Traditional Finance

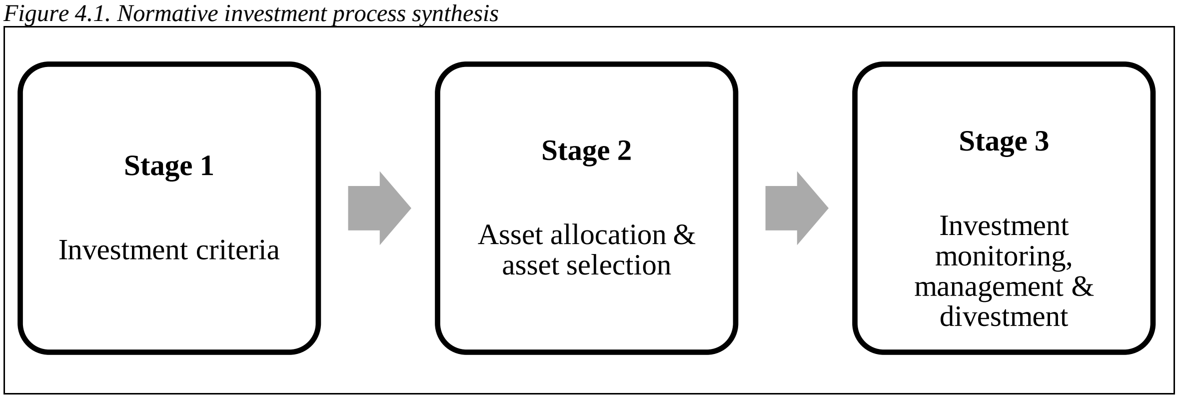
TF is the discipline that seeks to relate concepts from neoclassical economics to the world of finance and investment. The crux of the TF approach is that investors seek to meet their investment objectives by choosing the combination of assets that maximise utility '*subject to the constraint of risk*' (Laopodis, 2013, p. 190), thereby positioning the investor as a rational economic agent. To do so, investors should follow the normative investment process. While the PRS literature is silent on this matter, the investment literature offers a variety of interpretations of the investment process and a few of these are illustrated in Table 4.1.

Table 4.1. Investment process stages

Levy and Post (2005, p. 7)	Laopodis (2013)	Radcliffe (1997, p. 743)	Alexander et al. (2001, p. 11)
Investor characteristics	Establish an investment policy –Objectives -Constraints -Investment horizon -Risk tolerance	Planning -Investor conditions -Market conditions -Investment/speculative polices -Statement of investment policy -Strategic asset allocation	Set investment policy
Investment vehicles	Construct a portfolio (Asset allocation and security selection)	Implementation -Internal-external management -Security-manager selection -Tactical asset allocation	Perform security analysis
Strategy development	Evaluate portfolio performance	Monitoring -Evaluate statement of investment policy -Evaluate investment performance	Construct a portfolio
Strategy implementation	-	-	Revise the portfolio
Strategy monitoring	-	-	Evaluate the performance of the portfolio

From these examples it is possible to synthesise a simplified normative investment process (see Figure 4.1) for use in this research, comprising three stages.

Figure 4.1. Normative investment process synthesis



4.2.1 Stage 1

The overriding purpose of Stage 1 of the normative investment process is for an investor to create investment objectives subject to their investment constraints (Levy & Post, 2005). The latter include the investor's risk tolerance levels (Klement, 2015), investment time horizon, liquidity needs, financial situation (Radcliffe, 1997), age and tax situation amongst others (Laopodis, 2013). Although it is largely overlooked in the literature, this framework implies that investors should also '*begin with the end in mind*' (Covey, 2004, p. 2) by pre-planning a divestment strategy where this is required to fulfil their investment objective.

The literature frames Stage 1 as critical as it provides the context in which investment decisions are made (Alexander et al., 2001). It is therefore somewhat surprising that most textbooks appear to pay this area rather short shrift, especially as other fields (e.g., management studies) pay significant attention to objective setting. Worryingly, it is also claimed this stage generally receives the least attention from private investors (Laopodis, 2013).

4.2.2 Stage 2

In order to meet the investment objectives identified at Stage 1, Stage 2 commences with an asset allocation process, which is followed by an asset selection process. The asset allocation process is said to be a '*major determinant of the risk and future returns of diversifiable portfolios*' (Radcliffe, 1997, p. 51) and is considered by some to be more important than the asset selection process (Brinson et al., 1986; Ibbotson & Kaplan, 2019). During the asset allocation process, investors allocate their investment capital among the asset classes available (Laopodis, 2013). These generally include tangible assets (real assets) such as gold and property (real estate) and intangible assets (financial assets) such as equities and bonds. Each asset class has differing characteristics and differing risk-return trade-offs which are summarised in detail elsewhere (Fraser, 1993; Hoesli & MacGregor, 2013; Ison & Wall, 2007; Korteweg & Sorensen, 2010; Moses & Cheney, 1989). A key goal of asset allocation is to obtain a grouping of assets that collectively bear less risk than the individual assets themselves (Omisore, 2012). This portfolio approach, allows investors to diversify non-systematic risk and maximise the return expected for an acceptable level of risk (Radcliffe, 1997).

In normative theory, the asset allocation process is driven by modern portfolio theory (MPT) alternatively known as mean variance analysis, or by one of its extensions or alternatives[11]. As MPT is reported to be the most popular framework in investment decision-making, it is the focus of this section (Levy & Post, 2005). The theory was introduced by Markowitz (1952) as a normative model of optimal investor behaviour (Markowitz, 1991). The theory states that when creating an investment portfolio, investors should adopt a strategy of diversification, whereby they combine assets with prices that have low or negative correlations in order to lower portfolio risk without impacting returns (Fabozzi & Grant, 1999). The resultant reduction of firm specific risk results in the creation of portfolios which '*maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return*' (Omisore, 2012, p. 20). The overall approach could be viewed as the mathematisation of the proverb 'don't put all of your eggs into one basket'.

To paraphrase Francis and Dongcheol (2013), the theory has a number of behavioural assumptions. Simplistically, investors make investment decisions on the basis of expected return (mean) and risk (variance) as risk averse optimisers. The process of mean variance

[11] For example, the capital asset pricing model (Sharpe, 1964) or arbitrage pricing theory (Ross, 1976).

analysis begins with the identification of the expected rate of return and standard deviation for each asset. This is followed by the calculation of the covariance and correlation coefficients which are used to identify a series of feasible investment portfolios. For each risk level, those which give '*the highest expected return of all feasible portfolios with the same risk*' (Fabozzi & Grant, 1999, p. 22) are defined as Markowitz efficient portfolios. When these are graphically represented with standard deviation on the x-axis and expected return on the y-axis, they form the 'Markowitz efficient frontier'. This frontier represents the '*set of asset portfolios for which a higher expected return cannot be achieved at a given volatility, or for which risk cannot be reduced to earn the same expected return*' (Culp, 2002, p. 219). The final stage in the process is for the investor to determine the best portfolio from the efficiency frontier in accordance with their appetite for risk (Ray, 2010).

Though MPT has undoubtably been impactful in the world of finance, it is thoroughly critiqued in the literature[12]. Much of the criticism revolves around the observation that the process discussed above does not appear to be couched in realism (Francis & Dongcheol, 2013). Furthermore, core tenets of the theory and particularly the assumption that markets are efficient, have come under significant scrutiny. In normative theory, the efficient market hypothesis (EMH) states that stock market prices reflect all known public information. Markets are said to be efficient as they quickly adjust to new information (Fama et al., 1979). This is, of course, predicated on the assumption that such information is readily available to all, with the implication that no investor should be able to consistently beat the market. EMH has three forms (Fama, 1970), the weak form suggests that prices reflect all historic publicly available information, the semi-strong form also assumes that prices change to reflect new information, and the strong form assumes that

[12] See Alexander et al. (2001), Culp (2002), DeMiguel et al. (2009) and Ray (2010) for examples.

prices also reflect privately held information, meaning that investors cannot outwit the market (Omisore, 2012). Though EMH is said to represent the foundation of modern financial theory (Ray, 2010) the empirical evidence is mixed, although many suggest that overall, the stock market has semi-strong efficiency (Pike et al., 2015). As will be seen in Section 4.3.2, the debate is far from settled.

It is suggested that MPT offers investors comprehensive investment decision-making and portfolio structing guidance (Fischer & Gerhardt, 2007, p. 3), but despite this, there are concerns around the practicality and real world application of MPT. It is maintained, for example, that many investors fail at the first hurdle as they do not forecast asset investment prices or rates of return (Francis & Dongcheol, 2013) because it is difficult to do so (Pástor, 2002). More broadly, utilising MPT for portfolio creation is described as a costly task (Edelen, 2002) that is difficult to implement in practice (Radcliffe, 1997). This is because the process necessitates a large number of calculations which are computationally expensive to undertake (Fabozzi & Grant, 1999; Ray, 2010). Whilst this is less problematic for large organisations with the necessary resources (Markowitz, 1991), it is unlikely to be appropriate for small-scale retail investors including landlords and thus raises fundamental questions as to the frameworks applicability in these cases.

A further significant challenge faced by PRS investors in applying MPT is that traditionally, much of the literature and guidance is focused on the allocation of traditional asset classes such as equities, bonds and cash to a portfolio. A lack of historic focus on real estate is in part due to '*problems with real estate data, the characteristics of the return distribution, and the contention that MPT abstractions ignore important features of the market and decision-making process*' (Viezer, 2010, p. 734), as well as doubts as to whether neoclassical measures of risk effectively capture property investment risks (Lausberg et al., 2019). Though real estate allocations are now commonly discussed in the wider literature and indeed in real estate focused textbooks such as Hoesli and MacGregor (2013) and Fraser (1993), the focus tends to lean towards commercial property investment. Where residential property is discussed, it tends to be from either an institutional or household perspective (Montezuma, 2004a). It can be argued that the former has little relevance to the vast majority of existing PRS investors in terms of scale, investment capability and resources and the latter, exemplified by works such as Goetzmann (1993), Kullmann and Siegel (2003), Yen Keng and Kien Hwa (2004), Chetty et al. (2017) and Zhao and Li (2017), is more concerned with the impact of homeownership on portfolio choices, as opposed to the allocation of residential investment properties to mean variance portfolios. However, given that the majority of landlords are homeowners (Lord et al., 2013), these studies do provide some insights that are potentially relevant to this thesis. Firstly, a

> '*household's demand for housing, which could be optimal from the point of view of the consumption of housing services, may differ from the optimal level of housing allocation in a purely portfolio investment context*' (Montezuma, 2004b, p. 274).

Secondly,

> '*the consumption demand for housing together with the market imperfections places a constraint on the household's portfolio problem*' (Montezuma, 2004b, p. 274).

Thirdly, though the empirical evidence is mixed, some suggest that optimum diversification benefits are realised when the residential property allocation to a portfolio ranges between 15% and 50% (Roon et al., 2002). Although it remains to be seen, it is entirely plausible that when home ownership is taken into account, many PRS investors will have portfolios in which this optimal allocation to residential property is exceeded.

Despite the guidance and data available to them, it is reported that small-scale private investors tend not to diversify effectively (Kumar & Goetzmann, 2003; Levy & Post, 2005). The reasons for this are multifaceted but personal characteristics play a clear role. For example, investors who are young, poor and uneducated are less diversified than their counterparts (Goetzmann & Kumar, 2008). Other factors such as home ownership status (Kullmann & Siegel, 2003; Zhao & Li, 2017), household bargaining (Viezer, 2010), experience of investment success, personal experience (Andersen et al., 2019), parental influence (Zhao, 2021), exposure to macroeconomic shocks (Malmendier & Nagel, 2011) genetics (Barnea et al., 2010), susceptibility to media reporting, home location (Barber & Odean, 2013), allegiances to employers (Benartzi, 2001) and even the weather (Hirshleifer & Shumway, 2003) have been shown to impact portfolio choices by individual investors.

Given these many influences and challenges, many small-scale private investors eschew a top-down approach to asset allocation in preference of a bottom-up approach in which '*a portfolio is constructed from the securities that are attractively priced without as much concern for the resultant asset allocation*' (Bodie et al., 2011, p. 37) and those who are concerned with asset allocation, prefer to adopt naïve diversification strategies (Brown et al., 2013) over MPT, thereby relying on common sense rather than mathematics to create portfolios. One such naïve strategy is the 1/N strategy, whereby a fraction of the investor's total wealth is equally distributed between a number of assets. Benartzi and Thaler (2001) note that is an extreme approach but one which can deliver acceptable portfolios. The empirical evidence is mixed with some reporting that the strategy outperforms efficient diversification (DeMiguel et al., 2009) and others reporting the opposite (Kirby & Ostdiek, 2012).

Whilst it is known that landlords tend to own assets in more than one class (Lord et al., 2013), it is not clear at this stage whether they conceptualise their various holdings as a portfolio and pursue efficient diversification either at the portfolio level or within their allocation to residential housing in terms of markets served, house types or geographical locations. It is suspected, however, that like other small-scale private investors, they will adopt a naïve approach to asset allocation and diversification.

Once asset allocation decisions have been made, investors adopting a top-down approach next choose individual assets via the security selection process. Security selection is claimed to be the simplest task within stage 2 of the investment process (Radcliffe, 1997). This may (or may not) be the case for those selecting equities for example, who can adopt well established passive or active asset selection strategies supported by either technical or fundamental analysis. However, for those selecting from amongst PRS assets, the literature is less developed. It is known that landlords select properties close to their main residence and the methods of property valuation that they can draw from are relatively well developed. See for example Mooya (2016) and Baum et al. (2021). However, beyond this, there is little normative guidance setting out how landlords should go about the asset selection process nor descriptive insights highlighting what they actually do in practice. This breach is filled to an extent by ‘self-help’ style books available to landlords, including those by Dix (2016), Zutshi (2018) and others, although the advice they offer is generally limited.

4.2.3 Stage 3

Stage 3 of the normative investment process is concerned with investment monitoring, investment management and divestment, which will now be discussed in turn.

4.2.3.1 Investment monitoring

During investment monitoring, investors measure and evaluate the performance of their investments against their objectives and in comparison to the returns of alternative investments and appropriate benchmarks (Fabozzi & Markowitz, 2011). The require to do so because the investors' objectives, investment constraints, and the investment environment are subject to change (Levy & Post, 2005). Investment performance measurement can be understood as a '*mathematical means of assessing the effectiveness of an investment decision*' (Darlow, 1983, p. 321). Investment textbooks (Alexander et al., 2001; Fabozzi & Markowitz, 2011; Laopodis, 2013; Levy & Post, 2005) proffer a wide variety of performance measures designed for analysing both the performance of individual investments (predominantly shares) and the performance of mean variance portfolios. Despite their apparent simplicity, some of the approaches are relatively challenging in practice (Moses & Cheney, 1989) and require prior experience and research abilities (Laopodis, 2013) not possessed by all small-scale individual investors. As this is also likely to be true of some landlords, it is fortunate that Darlow (1983) proffers the use of rudimentary measures such as income yields, the time weighted total return and the internal rate of return (or money-weighted rate of return) in a property/real estate context. Despite this, the academic and industry related PRS literature, tends to focus almost exclusively on 'net yield'. Therefore, it is not clear if landlords utilise alternative performance measures.

Once an investor has measured the performance of individual investments and the portfolio overall, it should be a fairly straightforward exercise to compare the findings against investment objectives, alternatives and established benchmarks where such data exists. However, at the PRS level, there is a shortage of comparative data in the academic literature and what does exist, is now aged e.g., Scanlon and Whitehead (2016). There is however, a range of industry bodies and service providers that provide property indices and benchmarks against which investment performance can be evaluated. The data is typically either created by third party specialist providers such as Property Data (2022), Realyse

(2022) or BVA BDRC (2022), or is created in-house by service providers such as mortgage brokers and inventory clerks. The problem with third party data is that it is costly to access and the research methodologies utilised are often opaque. The problem with in-house data is that it tends to offer limited market coverage as the sample frame is restricted to the provider's customer base. For example, large corporate real estate organisations such as CBRE (2020) and Knight Frank (2020, p. 1) focus on residential assets in global centres '*in respect of institutional quality, stabilised assets*' and, as such, the data does not present an appropriate benchmark for the majority of PRS investments. Similarly, MSCI (2019), a respected provider of investment indices, compile a residential property index, but it consists of institutionally held residential property with an average value £22.1 million, which is not representative of average UK property values. Data from mortgage providers including The Mortgage Works (2021) appears to be considerably more robust, although the sample clearly omits landlords investing without the aid of a mortgage. Similarly the data from letting agents provided through Arla Propertymark (2020) omits landlords who self-manage and do not incur letting agent fees. Regardless of the source, PRS data tends to be reported by home nation, region or city. For example, Da Silva (2019) utilises data from the rental platform bunk, to report an average net yield of 5.8% in Scotland and 3.8% in Wales. Total Money (2020) utilises data from the residential property data platform Realyse (2022) to report an 8.71% net yield in the G52 Glasgow postcode area and 3.08% in the TD15 postcode area of Galashiels. However, due to sporadic reporting, landlords do not have ready access to accurate and up to date yield data, with which to benchmark the performance of their investments. This raises the question - do landlords compare the performance of their SPRS investments with other property investments and if so, how do they do it?

4.2.3.2 Investment management

The investment management component of stage 3, is broadly concerned with risk, return, cost and regulatory management (Collins & Fabozzi, 2002). More specifically, it is concerned with the tasks necessitated by variations to investor objectives/constraints and variations in investment performance. In a portfolio context, these actions can include the sale (divestment) or acquisition of assets to ensure that risk-return characteristics are maintained (Litterman, 2003).

While PRS assets can also be acquired and divested of as part of the investment management process, property characteristics including illiquidity and high transaction costs (Hoesli & MacGregor, 2013) make frequent trading of PRS rental properties uneconomical. However, in a major divergence from equity investment, PRS investors have an ability to directly affect the performance of their investments. This arises from the requirement to manage[13] the underlying asset and its financial, business, operational and property-based risks.

The risks to be managed in a PRS context are summarised in Table 4.2. These were identified via the synthesis of common investment risks discussed in the wider investment literature (Watson, 2022). The effective management of these risks allows landlords to maintain the planned risk-return characteristics of their investment and is therefore a key requirement of PRS investment management.

[13] Some requirements can be outsourced; however, legal and decision-making responsibilities are generally retained by the landlord.

Table 4.2. PRS based risks

Liquidity risk	Building/structural risk
Depreciation & obsolescence risk	Capital risk
Location risk	Market risk
Default risk	Sector/concentration risk
Arrears risk	Reinvestment risk
Void risk	Scale Risk
Damage risk	Management risk
Funding risk	Financial risk
Legislation & compliance risk	Inflation risk
Planning risk	Horizon risk
Experience risk	Taxation risk
Inflation risk	Legal risk
Housing allowance risk	Political risk
Anti-social behaviour risk	Reputational risk

Source: Adapted from Watson 2022

However, this task, requires a fairly sophisticated grasp of risk and risk management which Watson (2022) finds lacking in some landlords. Although the PRS literature reports on some of the risk management activities undertaken by landlords, neither this literature nor the investment literature offers guidance to help landlords manage these risks. Landlords could, however, draw upon the risk management models and tools contained within the management studies and real estate management literature. Johnson et al. (2005) and Hooley et al. (2004) offer examples of the former and Edwards and Ellison (2004), Haynes and Nunnington (2014) and Joroff et al. (1993) offer examples of the latter. However, many of the concepts are cumbersome, time intensive and seem unlikely to appeal to part-time PRS landlords, although this remains to be seen.

4.2.3.3 Divestment

Divestment relates to the sale or disposal of investment assets. Investors may be required to divest investments for a number of reasons including; to raise funds to meet an unexpected cost; to remove morally contentious investments from portfolios (Evans, 2015; Trinks et al., 2018); to respond to regulatory changes; and as noted above, to ensure that portfolio risk-return characteristics are maintained (Litterman, 2003). However, at this stage in the normative process, divestment is concerned with the requirement (if any) to realise capital in order to fulfil an investment objective at the end of the chosen investment horizon. Whilst the PRS literature reports how many landlords intend to sell properties over a given time frame and the reasons for the sale (MHCLG, 2019; Scanlon & Whitehead, 2016), the focus is extremely broad. In addition, there is very little literature on the subject of divestment. In fact several mainstream investment textbooks including Gitman and Joehnk (2008) and Jensen and Jones (2020) completely fail to mention it. Furthermore, although there is a smattering of literature focused upon divestment in real estate and pension investments, there is little in the way of normative guidance with relevance to PRS investors. It is not therefore clear whether PRS investors '*begin with the end in mind*' (Covey, 2004, p. 2) and make commonsensical divestment plans that take cognizance of factors such as the business and property cycles or taxation.

4.3 Behavioural Finance

Moving on from the normative approach of TF, it is now time to review the BF literature. BF is the discipline that seeks to relate concepts from BE to the world of finance and investment. Broadly speaking, it:

> '*seeks to combine behavioural and cognitive psychological theory with conventional economic and finance to provide explanations for why people make irrational financial decisions*' (Chaudhary, 2013, p. 86).

In doing so, it has reportedly transformed how investments are thought about (Byrne & Brooks, 2008).

Bondt et al. (2008, p. 10) posit that BF comprises three components, *'namely sentiment, behavioural preferences, and limits to arbitrage*'. Similarly Shefrin (2002, pp. 4-5) reports three themes; firstly, he suggests that investors commit errors due to biases and heuristics;

secondly, investor decision-making is described as being frame dependent; and thirdly, these factors lead to inefficient markets. In each case, the first two building blocks/themes can be described as ‘*behavioural finance micro*’ as they relate to the behaviours of individual investors, whereas the latter building block/theme relate to markets and so can be described as ‘*behavioural finance macro*’ (Pompian, 2012, p. 11). Each is now explored in turn.

4.3.1 Behavioural Finance Micro

In BF it is said that there are two types of investors, the majority, who are categorised as being part of an ‘*emotional crowd*’ and the minority, who are categorised as ‘*behavioural data investors (BDIs) or rational investors*’ (Akkaya, 2021, p. 43). It is not clear where PRS investors fit into this mix. However, in support of this weighting, there is a growing range of empirical evidence which suggests that the behaviour of private investors often goes against conventional wisdom. For example, it has been found that investors trade frequently thereby incurring high transaction costs, sell winning investments whilst holding onto losing investments thereby generating tax liabilities (Barber & Odean, 2013) and fail to effectively diversify. They are therefor subject to unnecessary levels of unsystematic risk. Overall, the empirical evidence suggests that individual investors underperform the market (Barber & Odean, 2013).

These errors and performance outcomes arise because investor decision-making is informed by the biases and heuristics introduced earlier. For example the tendency to sell winners and keep losers is a bias that has been dubbed the disposition effect by Shefrin and Statman (1985). While the earlier discussion and critique of biases and heuristics applies here, there is a little more to say on the subject from an investment perspective. For instance, there is some common agreement regarding the biases and heuristics that apply to investment decision-making. This is evident from the overlap visible (denoted by coloured fonts) in the biases and heuristics listed in a sample of the BF literature (Table 4.3).

Table 4.3. Biases and heuristics common in investment

Chaudhary (2013)	Shukla et al. (2020)	Nair and Antony (2013)	Bondt et al. (2008)
Anchoring	Overconfidence	Representativeness	Anchoring
Overconfidence	Herding	Anchoring and adjustment	Representativeness
Herd behaviour	Disposition effect	Availability	Availability bias
Over and under reaction	Anchoring	Mental accounting	Overconfidence
Loss aversion	Loss aversion	Overconfidence	Loss aversion
-	Mental accounting	Status quo bias	Mental accounting
-	Representativeness	Regret aversion	Myopic loss aversion
-	-	-	Self-control
-	-	-	Regret aversion

However, whilst there is no shortage of literature seeking to describe each of these biases and heuristics, the practical guidance on how to deal with them is limited. For example Chaudhary (2013) suggests that by understating BF, investors will be able to make better investment decisions. He goes to recommend that investors adopt a '*disciplined trading strategy*' to allow them to '*control mental error and psychological roadblocks*' (p. 90). However, the prescribed methodology for doing so bears an uncanny resemblance to the key stages of the normative investment process. A wider review of the literature reveals that credit for these insights should in fact be attributed to Ricciardi and Simon (2000) who also advocate that investors create an investment record, which can be used to evaluate investment decisions over time. Pompian (2012) is far more detailed providing a 'general' and 'technical description' for a range of biases and heuristics but also an example of a 'practical application', a summary of the 'implications for investors', a 'research review', a set of questions to be used for 'diagnostic testing', and a short section headed 'advice' for each. Whilst such a detailed approach is both rare and valuable, it also draws attention to some of the problems inherent to BF. In the first instance, the question sets used for diagnosis testing can be criticised for requiring a high degree of mathematical confidence and for including questions which could be viewed as leading, nonsensical or seemingly irrelevant. For example:

> '*Give high and low estimates for the average weight of an adult sperm whale (the largest of the toothed whales) in tons. Choose numbers far enough apart to be 90 percent certain that the true answer lies somewhere in between.*' (Pompian, 2012, p. 203)

Furthermore, given the abundance of biases and heuristics there is also the rather obvious problem of diagnosing which bias or heuristic or which combination thereof is actually ailing an investor. For example, investors who display overconfidence are claimed to '*trade excessively*' (Pompian, 2012, p. 202). However, those suffering from base rate neglect, illusion of control bias, framing bias, availability bias, and self-attribution bias have also been observed to 'trade excessively'. It can therefore be suggested that the attribution of biases and heuristics to investor behaviours is a largely subjective practice.

Although Pompian's (2012) guidance may be highly practical, it is written specifically for financial advisers as is a less detailed offering by Olson and Riepe (2010). As a result, neither offers direct support for private investors. Finally, whilst novel, it is not clear that the tolerances, which Pompian (2012) advocates to account for the impact of cognitive and emotional biases upon a mean-variance portfolio, are either realistic or appropriate.

4.3.2 Behavioural Finance Macro

Behavioural finance macro refocuses the debate on market efficiency, as introduced earlier. Authors such as Shiller (2003) have long argued that efficient market models have normative value but lack the ability to describe real markets. Pompian (2012, p. 14) along with others point to evidence of fundamental, technical and calendar-based anomalies in markets which contradict the EMH. However, the claim that uninformed investors might cause market inefficiency (Bondt et al., 2008) and thereby give rise to opportunities to exploit these inefficiencies is somewhat contentious (Frankfurter & McGoun, 2002). The assertion also represents an explicit rejection of the efficient market hypothesis and is the epicentre of the conflict between traditional and BF (Statman, 1999). Whilst there is some empirical evidence to support the behaviouralist position (Kumar & Goetzmann, 2003), Rubinstein (2001, p. 26) posits that the market (the equity market) has '*many special features that protect it from aggregating the irrationalities of individuals into prices*' and also suggests that '*anomalies that appear puzzling today will either be shown to be empirical illusions or be explained by further model generalization in the context of rationality' (p. 16)*. Though the debate is interesting, the bulk of the academic literature is focused on equity markets which operate differently from commercial real estate markets which in turn operate differently from the residential property market.

Furthermore, although the Royal Institution of Chartered Surveyors recommends the use of the income method for valuing BTL properties, the values of PRS investment properties are more generally predicated on valuations derived in the dominant owner occupation market. This is potentially problematic for investors. Not only is residential property not traded on a central exchange resulting in information flows that are far from perfect (Salzman & Zwinkels, 2017) but there are also concerns regarding valuer bias (Diaz III & Hansz, 2010) and criticisms of the methods used to value residential properties (Baum et al., 2021), which Millington (2003, p. 97) equates to '*opinions of value rather than scientifically precise facts*'. Furthermore, when bidding on residential property, the market structure dictates that PRS investors are not only competing with other investors but also those seeking a home. These participants may not possess real estate investment knowledge and their bids may be motivated by emotional drivers (Salzman & Zwinkels, 2017).

In general, the residential property market is understood to be imperfect (Mackmin, 1994; Salzman & Zwinkels, 2017), subject as it is to a variety of market imperfections (Guntermann & Smith, 1987; Rayburn et al., 1987; Sunjo & Yilmaz, 2017). The empirical evidence that exists finds evidence of both weak form efficiency (Guntermann & Smith, 1987) and inefficiency (Sunjo & Yilmaz, 2017). However, Keogh and D'Arcy (1999, p. 2401) reported some time ago that the '*concept of property market efficiency remains poorly developed and inadequately theorised*' and it would appear that little has changed in the interim period.

4.3.3 Behavioural Finance Investment Process

Given its embryonic and descriptive nature, it is not surprising that BF does not yet offer an investment process which is comparable with tradition finance. It does however offer behavioural portfolio theory (BPT) as an alternative to MPT. BPT combines elements of PT and SP/A theory (security-potential/aspiration theory) (Rengifo et al., 2014) to create a descriptive and prescriptive model of portfolio choice.

Like MPT, BPT generates an efficient frontier, however investors do not choose portfolios on the basis of expected return (mean) and risk (variance), but on the basis of '*expected wealth, desire for security and potential, aspiration levels, and probabilities of achieving aspiration levels*' (Shefrin & Statman, 2000, p. 128). In theory this would mean that BPT portfolios would be unlikely to rest on the Markowitz frontier although Mittal et al. (2021) finds that they generally do. Two versions of BT are proffered, BPT-SA (single account) in which investors view their portfolios as a single mental account which takes covariance into account and BPT-MA (multiple account), where investors view their portfolios as separate mental accounts and do not account for the covariance between them (Shefrin & Statman, 2000). BPT-MA portfolios can be visualised as layered pyramids in which each layer equates to a mental account of aligned to an individual's aspirations (Shefrin & Statman, 2000). As De Brouwer (2009) notes, the concept bears a remarkable resemblance to Maslow's (1943) hierarchy of needs. Each layer of the pyramid may contain a range of different assets (a sub portfolio) which contribute to realising the aspiration at that level (Oehler & Horn, 2021). It is important to note that investors may be perceived as risk-averse in one account and risk-seeking in another (Statman, 2014). The optimal BPT portfolio is the aggregate of the sub portfolios (Jiang et al., 2012). The key differences are summarised in the table below.

Table 4.4. A comparison of MPT and BPT

Mean-variance portfolio theory (MVPT)	Behavioural portfolio theory (BPT)
1. Efficient portfolios are on the mean-variance frontier.	1. Efficient portfolios are on the behavioural-wants frontier.
2. Portfolios on the mean-variance frontier satisfy wants for utilitarian benefits (high expected returns and low risk).	2. Portfolios on the behavioural-wants frontier satisfy wants for utilitarian, expressive, and emotional benefits (e.g., sincere social responsibility, high social status).
3. Investors consider portfolios as a whole.	3. Investors consider portfolios as layered pyramids, where each layer is a mental account or 'bucket' associated with a want and goal.
4. Investors measure risk by the variance of returns.	4. Investors measure risk by the probability of shortfall from a goal, the amount of shortfall, or a combination of both.
5. Investors have a single risk-aversion in their portfolio as a whole.	5. Investors have many risk-aversions, one for each mental account.
6. Investors are always risk-averse, where risk is measured by the variance of returns.	6. Investors are always risk-averse, where risk is measured by the probability of shortfall from a goal, the amount of shortfall, or a combination of both. Risk-aversion, as measured in BPT, can correspond to risk-seeking, as measured in MPT.

Source: Adapted from Statman (2017, p. 43)

Much of the critique of BPT is wrapped within the general criticisms of BF. Despite a systematic literature review by Fischer and Lehner (2021) which identified 2,472 articles pertaining to BF, the discipline is described as embryonic (Bondt et al., 2008; Statman, 2014) and lacking with regards the unified theory (Levy & Post, 2005) and frameworks associated with tradition finance (Campbell, 2003). Bondt et al. (2008, pp. 16-17) observe that BF is too focused on the '*micro-level study of typical "mistakes*"' and as such lacks the power to comprehensively understand the economic environment. More specifically, its models including BPT are said to have bounded predictive capabilities (Harrington, 2010), and inherent flexibilities that make ratification difficult (Campbell, 2003). Behaviouralists are indignant to the critique. For example Statman (2014, p. 1) balks at the idea that BF '*is nothing more than a collection of stories about investors swayed by cognitive errors and misleading emotions*' and Frankfurter and McGoun (2002, p. 376) rather amusingly likens detractors to '"*the Borg", a collective of techno-organic drones acting in concert as a single organism*' who are seeking to assimilate BF into mainstream economics, thus preventing it from emerging as a new paradigm.

Many landlords invest in the PRS as a source of pension provision which would align with the mental accounting hypothesis, and Watson and Bailey (2021) report that some landlords allocate income from their PRS activities to specific expenditure accounts. Although it was suggested earlier that landlords may adopt a naïve approach to diversification and portfolio creation if at all, BPT may also have some relevance here.

4.4 Summary

Using the theoretical framework as a guide, the purpose of this chapter was to review the literature and explore the main theories, models and frameworks from the traditional and BF literature to identify if these could be used to frame an understanding of the investment behaviours of private landlords.

Whilst the field of TF was not established with PRS investment in mind. It is believed that the normative investment process synthesised from it, is an appropriate yard stick against which landlord investment behaviours can be measured. It is recognised that there are multiple pathways to ownership of a PRS property, though these tend to result from a decision to purposively acquire an investment property or a decision to retain an existing property resulting from inheritance, new home formation or other reason. However, it is reasonable to expect that in each of these cases, landlords would adhere to an investment process as part of their decision-making process. It is accepted however, that when making a decision to retain a property, key stages of the process would be altered (i.e., asset selection), and that in these circumstances, the opportunity for optimisation would be constrained and factors such as transaction costs and emotional attachments would be likely to play a significant role.

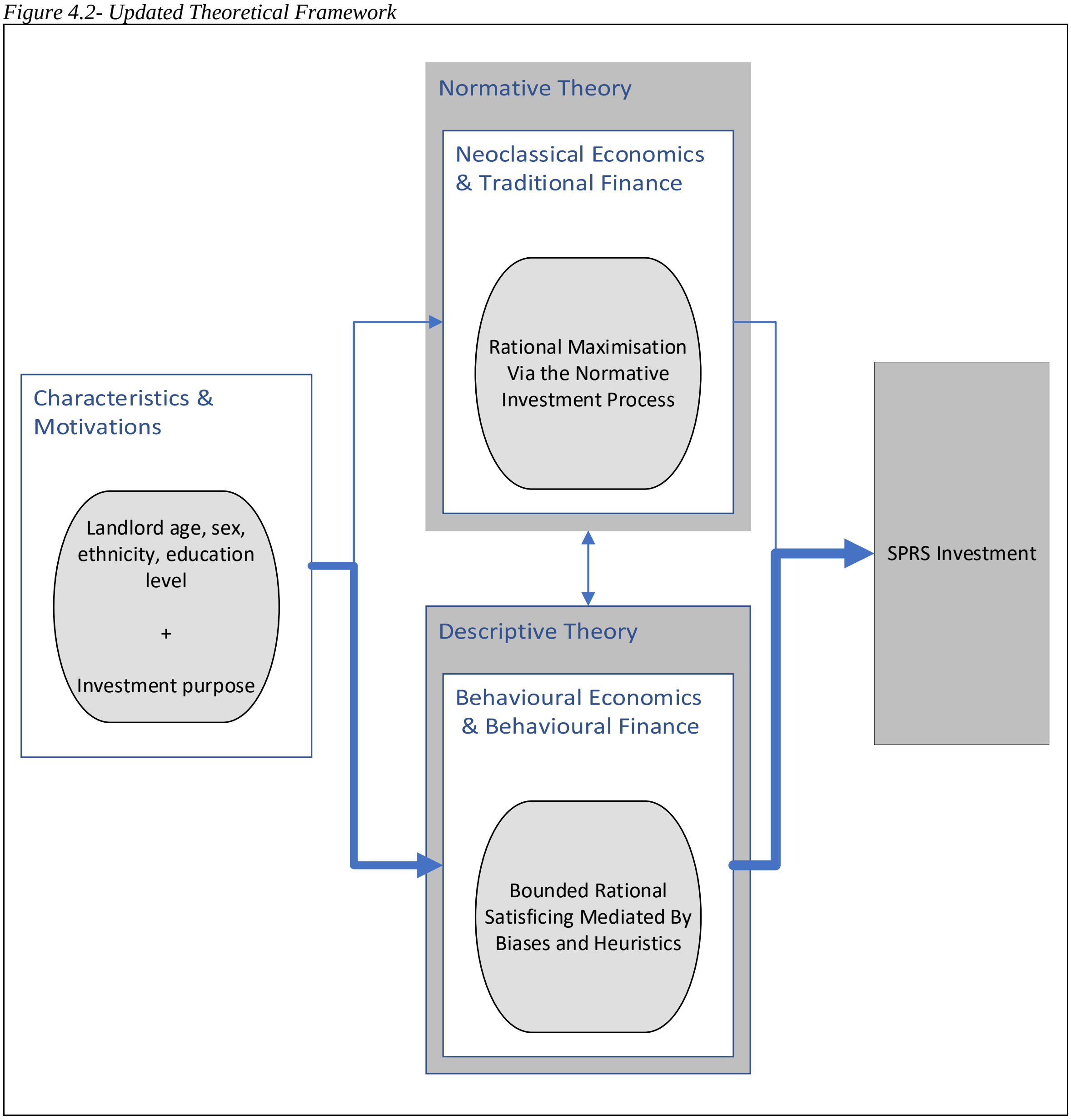
Despite the apparent overall usefulness of the synthesised normative investment process, some elements are more relevant to PRS investment than others. For example, it would appear that MPT is unlikely to offer a realistic solution to portfolio choice for most private landlords, although this and other suppositions flowing from the literature review will need to be verified by the research.

In addition, the BF literature has illustrated that investors do not adhere to the normative investment process and instead rely on biases and heuristics when making their investment decisions. This approach tends to result in sub-optimal investment decisions and outcomes. It is therefore necessary to identify if landlords also deviate from the normative investment process and if so, if there is any evidence that these deviations also result from a reliance upon biases and heuristics. However, whilst the role of biases and heuristics is clearly important, the role of investor characteristics cannot be overlooked. Characteristics such as sex, age and education have already been shown to impact upon investment behaviours and investment outcomes, and they also contribute to the susceptibility of investors to biases and heuristics. For example, some suggest that '*men are more overconfident than women*' in their approach to investment (Barber & Odean, 2001, p. 261). As such there is also a requirement to refresh the landlord characteristic and motivations data.

4.5 Revisiting the Theoretical Framework/Developing a Conceptual Framework

The completion of the literature review allows the theoretical framework to be revisited and updated (Figure 4.2).

Figure 4.2- Updated Theoretical Framework



As the extant investment and PRS literatures suggest that investor/landlord characteristics and motivations are important determinants of investment behaviour, the updated theoretical framework positions these at the root of SPRS investment. The framework then recognises the juxtaposition of the normative and the descriptive approaches to SPRS investment. On the one hand, the normative approach positions investors as rational maximisers who will allocate sufficient time and resource to optimising their investments. On the other, the descriptive approach positions investors as bounded rational satisficers who are unwilling, or unable, to allocate the time and resources required to optimise.

SPRS investment requires the allocation of significant levels of capital into an illiquid, risky, depreciating asset class, which is associated with high levels of management intensity. As such, it is proposed that a small proportion of landlords will display investment behaviours characterised by rational maximisation, or will oscillate between maximising and satisficing behaviours at different stages of the PRS investment process. However, given the small scale, part-time nature of the investment, and evidence from other private investment domains, it is hypothesised that the bulk of landlord investment behaviours will be categorised by bounded rational satisficing. This is recognised in the framework by a more prominent line emphasising the pathway from landlord characteristics to SPRS investment via descriptive theories.

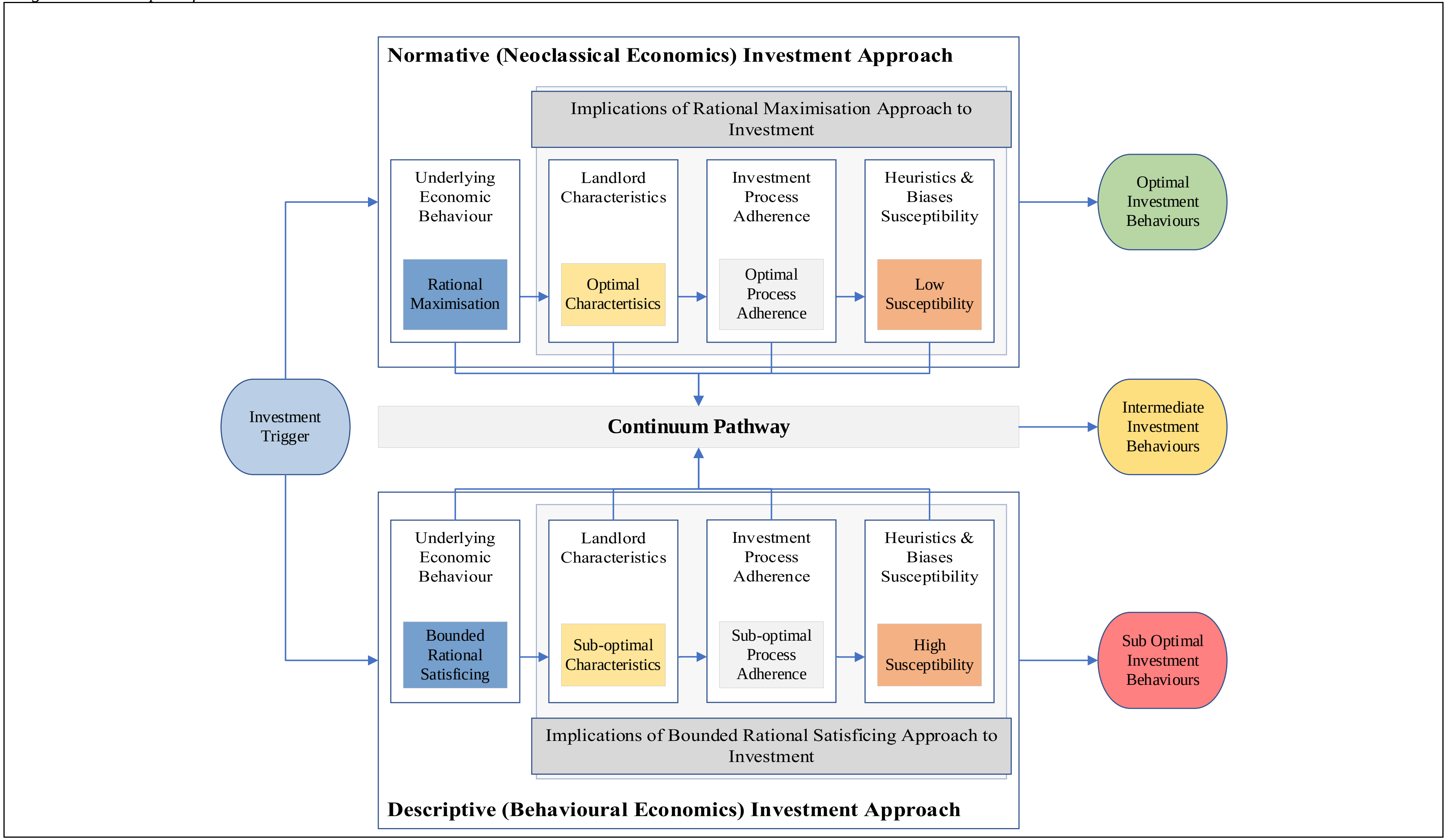
The findings of the ligature review can be amalgamated with the revised theoretical framework and '*the researcher's a priori knowledge' (van der Waldt, 2020, p. 3)* to produce the conceptual framework (Figure 4.3) that will inform and shape the remainder of the thesis.

The conceptual framework indicates two pathways, which represent normative and descriptive theoretical approaches to investment behaviour. The normative path assumes that private landlords are rational maximisers, which leads to optimal investment behaviours, the descriptive path assumes private landlords are bounded rational satisficers, which leads to sub-optimal investment behaviours. The framework includes a continuum pathway to recognise that private landlords may act either as rational maximisers, bounded rational satisficers or somewhere in between at varying stages of the investment process. However, only landlords whose investment behaviours fully reflect the normative pathway can be considered optimal, whereas only those whose behaviours fully reflect the descriptive pathway can be considered sub-optimal. Those who oscillate between both, display intermediate behaviours.

The investment behaviours of landlords within the SPRS will be tested against the theoretical framework and conceptual framework via the synthesised normative investment process. This will identify the extent to which landlord investment behaviours are aligned with rational maximisation or bounded rational satisficing. This is a novel approach within the PRS literature.

The completion of the conceptual framework marks the end of Phase 1 of the research process and the commencement of Phase 2, which is concerned with the research design.

Figure 4.3. Conceptual framework



5 CHAPTER 5- RESEARCH DESIGN

This chapter tackles the research design over four main sections. The first, research preliminaries, provides an overview of the research and includes a statement of the research problem and the RQs created to address it. The second focuses on the specific methods selected to produce and analyse the data required to answer the RQs, with particular reference to the management of anticipated problems and risks. The third presents an overview of how the RQs will be operationalised and matched to the selected methods. The fourth focuses on the methodology, which considers the philosophical implications of the research design. The overall goal of this chapter is to ensure the robustness and trustworthiness of the research (Farthing, 2016; Schwartz-Shea & Yanow, 2011).

5.1 Research Preliminaries

This section on research preliminaries provides a broad description of the research including statements pertaining to the research problem, locus and focus. Thereafter, the research aims, objectives and RQs are presented. This is followed by a justification for the adoption of a mixed methods research approach and the selection of an online survey and semi-structured interviews as the principal research methods.

5.1.1 Research Problem & Justification

The literature review in Chapter 2 identifies that the SPRS plays a sizable and critical role in the Scottish housing mix, and due to a lack of capacity in both the social housing and build-to-rent sectors, an increasingly important role in providing accommodation to low income and vulnerable groups. There are broad concerns over the suitability of the PRS both for these and other groups. Although the investment behaviours of landlords are responsible for shaping the PRS and are at the root of many of these concerns, the literature review reveals a focus on landlord characteristics at the expense of behaviours. Concerningly, the policy responses of the Scottish Government are based on these limited insights and the narrowly-framed landlord typologies that they produce. Given that these responses are frequent, it is not surprising that unintended consequences and landlord disenfranchisement appears rife. Landlords who fail to make adequate returns can either: ‘sweat’ their assets by increasing rent or under-investing in maintenance and repairs; exit the investment market, putting at risk existing tenancies and reducing the availability of rental accommodation; or simply accept poor returns, to their own financial detriment. None of these potential responses are sustainable or conducive to a healthy fit for purpose SPRS.

This thesis takes the view that the lack of knowledge regarding landlord investment behaviour is a significant failing of the literature and a key omission from current PRS debates and policy responses. The shortfall therefore represents a legitimate sociological and economic problem, which justifies a robust response.

5.1.2 The Locus and Focus of the Research

Scotland has been chosen as the locus of the research for contextual but also pragmatic reasons, including that Scotland is the home location of both researcher and research funder. However, as previously noted, the re-growth of the SPRS as a cottage industry and the challenges it poses are not unique to Scotland and reflect those more broadly found in the UK PRS. They are also to be found in diverse countries including Australia (Morris et al., 2021), New Zealand (Chisholm et al., 2017), Spain (Fuster et al., 2018) and the US (Joint Center for Housing Studies of Harvard University, 2022).

SPRS landlords, hereafter referred to as landlords, are the focus of the research. This definition includes individuals, couples, groups, partnerships, companies, property companies, trusts, charities, and institutions who rent out residential property within Scotland.

5.1.3 Research Aims & Objectives

As noted in the introduction, the overall aim of this research is to develop a theoretical framework and conceptual framework suitable for the study of landlord investment behaviour and to apply it via a synthesised normative investment process to the SPRS to better understand investment practices.

The specific objectives which underpin this research are:

1. To develop a theoretical framework and conceptual framework to explore landlord investment behaviour, drawing on wider theories from other sectors.
2. To understand the current structure of the SPRS.
3. To identify and understand the investment behaviours of landlords.
4. To create guidance to support shortfalls in both landlord investment behaviours and existing landlord typologies.

5.1.4 Research Questions

The RQs below have been designed to deliver upon the research aims and objectives:

1. Who are landlords and what are the characteristics of their SPRS investments?
2. What are the investment behaviours of landlords in relation to the normative investment process and where/why do deviations occur?
3. To what extent are landlord investment behaviours subject to biases and heuristics?

4. How can landlord typologies and landlord investment behaviours be improved for the betterment of the sector?

5.1.5 Research Type

This thesis contains elements of both basic and applied research as it targets knowledge for both '*understanding*' and '*action*' (Blaikie & Priest, 2019, p. 41).

5.1.6 Research Approach- Mixed Methods

The research approach is concerned with the selection of quantitative, qualitative or mixed methods research (Creswell & Creswell, 2018). It is clear that some of the RQs are better suited to a quantitative approach, which allows for the collection of a '*wide range of data from a large number*' of participants (Leavy, 2017, p. 19). However, it is also apparent that the research would benefit from the rich depth of analysis qualitative research can provide, its ability to explore '*initial results in more depth*' (Creswell & Plano Clark, 2011, p. 82) and to identify '*what lies behind , or underpins, a decision, attitude or behaviour*' (Ritchie et al., 2014, p. 32). Accordingly, a mixed methods approach has been selected as it offers '*insights that go beyond separate quantitative and qualitative results*' (Creswell & Plano Clark, 2018, p. 13).

The broader justifications for adopting a mixed method approach are numerous. Bryman (2006) lists sixteen and several resonate with this research. They include using differing methods: to corroborate findings (triangulation); to address relative strengths and weaknesses in each method (offset), and to provide a more detailed account than could be achieved via any one method (completeness).

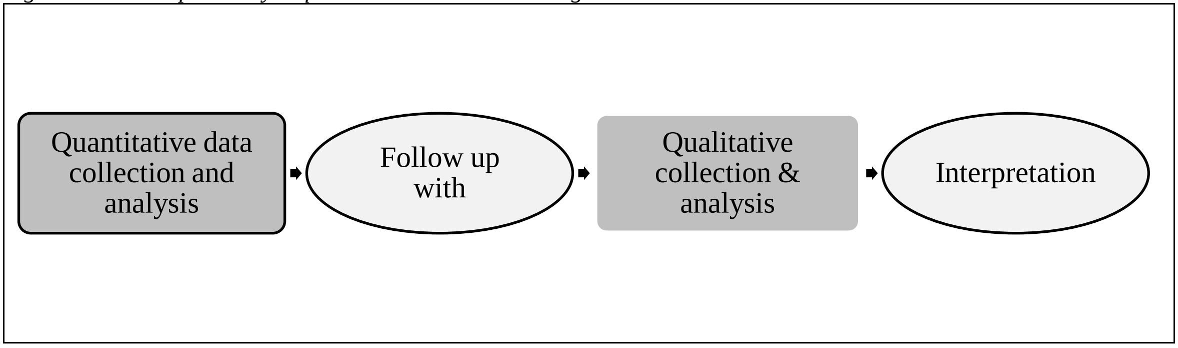
Mixed-methods research is viewed by some as a paradigm in its '*adolescence*' (Teddlie & Tashakkori, 2009, p. 4). However, it has been in use for decades[14] (Driscoll et al., 2007). There is also said to be a general lack of '*agreement on nomenclature*' (Blaikie & Priest, 2019, p. 213) and definition (Johnson et al., 2007). In response to the former, the term 'mixed methods' is adopted in this thesis. In response to the latter, the definition offered by Tashakkori and Creswell (2007, p. 4) below has been adopted as it parsimoniously captures the key tenets of mixed methods research as it is to be used in this research. Mixed methods research is:

> '*…research in which the investigator collects and analyzes data, integrates the findings, and draws inferences using both qualitative and quantitative approaches or methods in a single study or a program of inquiry.*'

There are a number of controversies surrounding mixed methods (Creswell & Plano Clark, 2018) though these primarily coalesce around questions of paradigmatic and epistemological compatibility, which are discussed in the Methodology (Section 5.4). On a practical footing, a mixed method approach can be more demanding in terms of time and resources (Blaikie & Priest, 2019; Creswell & Plano Clark, 2018). The implication is that the research design has to be well conceived and robust. This is where pre-packaged mixed method designs can be helpful. However, they are not every academics' cup of tea and Bryman (2006) is concerned that many are purely theoretical, or too rigid. From the available pre-packaged designs, the '*explanatory sequential*' mixed method design offered by (Creswell & Plano Clark, 2011, p. 69) provides a robust fit with the research. The design is illustrated in Figure 5.1 below.

[14] For example, the researcher completed mixed methods studies in 2008 and 2017 for his MBA and MSc dissertations.

Figure 5.1. The explanatory sequential mixed methods design



Source: Adapted from Creswell and Plano Clark (2011, p. 69)

Whilst the design appears relatively straightforward, Subedi (2016) finds gaps in the guidance of how to implement it. It could be argued that although implementation is fairly intuitive, specific guidance on 'interpretation' would have been welcome. Creswell (2015, p. 38) maintains that the design is challenging due to having to run two '*distinct*' back-to-back research stages, which has time implications (Plano Clark & Ivankova, 2016). However, the task is believed to be manageable within the time constraints imposed by this research. More compelling are concerns regarding what quantitative data to follow up and explain, and who to follow it up with (Creswell & Plano Clark, 2011). These are legitimate concerns; however, both are discussed in more depth later.

As a '*persuasive and strong mixed methods design addresses the decisions of level of integration, priority, timing and mixing*', (Creswell & Plano Clark, 2011, p. 68), this section concludes by formalising these elements here. The study can be defined as interactive as the '*the design and conduct*' of the qualitative stage, is reliant on the data from the quantitative stage (Creswell & Plano Clark, 2011, p. 65). This design has a quantitative priority and the timing is 'sequential' as the quantitative data is collected and analysed prior to the collection and analysis of qualitative data. The 'mixing' occurs at the design stage, at the intersection of quantitative data analysis and qualitative research design, and in the presentation of findings and conclusions.

5.1.7 *Research Ethics*

At the outset of the project, the researcher received ethical approval from the College of Social Sciences Ethical Committee. The application followed established guidelines and sought to identify and mitigate against ethical risks raised by the project. This ultimately required the creation of strategies to ensure participant confidentiality and consent. Confidentiality was ensured in a conventional manner via participant anonymisation. Consent was managed via the creation of a participant information sheet and consent form for each of the research methods described in the section that follows. These were designed with reference to best practice and internal guidelines. Primary data collection did not commence until ethical approval was in place.

5.2 Methods

A broad range of methods were evaluated for congruence with the RQs, research type and research approach discussed in the preceding sections. Those which were not compatible or did not offer optimal solutions were discarded via a process of elimination. This exercise culminated with the selection of the online survey method for the quantitative stage and the semi-structured interview method for the qualitative stage. The following sub-sections provide a more detailed justification for these choices.

5.2.1 *Quantitative Method*

5.2.1.1 *Justifying the selection of the online survey method*

The online survey is the '*predominant method of eliciting participation in academic research'* (Saleh & Bista, 2017, p. 64). It was selected here as it allows for the collection of descriptive data from a large number of respondents across diverse geographical areas (Evans & Mathur, 2005) facilitating the accurate portrayal of the characteristics and behaviours of landlords (Dattalo, 2008). It does so with relative ease (Jones et al., 2013) and affords more speed and lower costs than telephone, postal or in person surveys (Fan & Yan, 2010; Kaye & Johnson, 1999; Sue & Ritter, 2012).

Online surveys are also relatively easy to create, flexible, and incorporate technical features not possible with postal surveys including control of question order, the inclusion of mandatory questions and direction over non applicable questions (Early et al., 2017; Evans & Mathur, 2005). Once created, surveys can be issued with unparalleled scalability (Sue & Ritter, 2012). If designed and tested appropriately, they are fairly intuitive to complete, (Driscoll et al., 2007), and allow participants to complete the survey at a time which suits them (Duffy et al., 2005; Evans & Mathur, 2005). They generally solicit a speedy response (Duffy et al., 2005; Saleh & Bista, 2017) and in the event that response levels are initially low, they are easy to follow up (Evans & Mathur, 2005). On closure of the survey, data entry time is reduced (Fan & Yan, 2010) as on completion, the data is already in a database ready for export and analysis (Evans & Mathur, 2005). Furthermore, from a pragmatic viewpoint, the researcher commenced this research design with proxy access to a database of verified landlord email address but no equivalent access to databases of telephone numbers or postal addresses.

There are of course downsides. For example, online surveys can attract lower response rates than alternatives (Börkan, 2009; Pecáková, 2016), with Saleh and Bista (2017, p. 64) claiming that they have '*witnessed a remarkable decrease in the response rate of e-mail surveys in the last decade*'. There are a variety of factors that impact response rates including geographical limitations on internet access. Whilst this is legitimate, eighty percent of adults in the UK are now internet users (Office for National Statistics, 2018) and the proliferation of internet enabled mobile devices has helped reach those with lower levels of education and income (Dillman et al., 2014). A more pressing concern is survey fatigue, particularly in often targeted groups (Van Mol, 2016). Fortunately, the literature presents potential remedies to address response rates and other shortfalls in the method[15], and these are discussed in more detail in the methods section that follows. In balance, the strengths of the method make the online survey preferable to its alternatives.

5.2.1.2 Sample frame

As noted earlier, this research is concerned with landlords in Scotland who include individuals, couples, groups, partnerships, companies, property companies, trusts, charities, and institutions. In Scotland there is a legal requirement under Part 8 of the Antisocial Behaviour etc. (Scotland) Act 2004 for private landlords to apply for registration with their local authority. The Scottish Government rarely reports on the number of registered landlords although under Freedom of Information request FOI/202000090239 it was reported that there were 246,532 registered Landlords as at July 2020 (2020a),. As it is assumed that there will be a smattering of landlords who have wilfully refused to register, a population estimate closer to 250,000 may be more appropriate. The research sought to reach as many of those landlords as possible via the approaches discussed in the following section.

5.2.1.3 Recruitment

In an attempt to reach the whole population, the Scottish Government were approached and asked if they would issue the survey to landlords via the landlord registration database. Unfortunately, they declined. Local authority landlord registration teams were then asked if they could assist. However, many of their staff were on furlough due to the pandemic

[15] See Evans and Mathur (2018) for examples.

and responses were sporadic. This putative recruitment strategy was abandoned and a different approach pursued.

In Scotland, landlords have a mandatory obligation to register tenant deposits with one of three tenancy deposit protection scheme providers giving rise to a second potential method of recruitment. All three providers, known respectively as SafeDeposits Scotland (SDS), Letting Protection Service Scotland (LPSS) and mydeposits Scotland[16] (MDS), were contacted and asked to support the research. Each responded positively to the request. However, due to operational constraints and key members of staff being furloughed as a result of the COVID-19 pandemic, they offered differing levels of support. For example, both SDS (the largest provider with around 69% of the market) and MDS offered to issue the survey link by email directly to their landlord database, whereas LPSS offered to share the survey link via their social media accounts.

The overall approach was not without limitations. For example, by relying on tenancy protection providers to generate the sample, landlords who did not lodge their tenants' deposits (believed to be the minority) were excluded from participation. The sole reliance on social media in the case of LPSS also risked omitting a proportion of landlords from the survey and increased the potential for malicious interference. Furthermore, in the case of SDS and MDS, not all landlords had consented to be contacted by their providers for marketing purposes and in some cases, deposits were lodged by letting agents using their email address rather than the landlords. Regardless of these limitations, the approach offered a pragmatic method of reaching the bulk of Scottish landlords during the course of a global pandemic.

[16] SDS is a limited company in its own right whereas LPSS is a trading style of Computershare Investor Services Plc and MDS is a trading style of HFIS Ltd.

5.2.1.4 Resultant sample

The online survey received 1,037 completed responses, the vast majority from SDS. Subsequent to data cleaning procedures, 1,033 valid responses were identified, representing around 0.4% of the landlords in Scotland. The survey response rate was just over 3%.

There is a requirement to identify the extent to which the sample can be considered representative of the target population particularly as a limitation of the method adopted is the potential for self-selection (i.e., volunteering to take the survey) which can bias the results. Crook et al. (2009) did this by establishing the level of geographical coverage in their sample and weighting their data to match known distributions of PRS properties. Following Crook et al. (2009), four geographic groupings were used here: the two major cities, Edinburgh and Glasgow; the next two cities by size, Aberdeen and Dundee, the rest of the Central Belt[17]; and remaining (largely small town and rural) areas. In Table 5.1 the sample achieved is compared with the known distribution of registered landlords provided by the Scottish Government, both based on location of properties rather than landlord's place of residence. The sample has a small degree of over-representation in the 'Edinburgh and Glasgow' and 'Rural Areas' grouping and under representation elsewhere. The dataset was therefore weighted (column D) to correct for this geographic imbalance resulting in a revised N=1,054. Unless stated otherwise, weighted data is used throughout this report.

[17] In this case, the central belt refers to the 'small central' belt or 'lowland triangle' i.e., it incorporates local authorities which have no extensive unpopulated areas.

Table 5.1. Response weighting

Column A	Column B	Column C*	Column D
Geographical grouping	Survey sample %	Known % registered landlords	Weighting
Edinburgh & Glasgow	35.2	33	0.945
Aberdeen & Dundee	9.8	12	1.238
Rest of the Central Belt	10.6	14	1.334
Rural Areas	42.4	41	0.955
Prefer not to say	1.9	n/a	1

*Source:(Scottish Government, 2020a)

It is possible to get some insights into the representativeness of the weighted sample data by comparing its findings with key landlord personal and investment characteristics from other surveys[18] of the Scottish PRS. The measures chosen for comparison are 'landlord type' and 'portfolio size'. In Table 5.2, the composition of 'landlord type' is compared with data from a recent survey by Watson and Bailey (2021) and with data from the first major Scottish landlord study by Crook et al. (2009). Data from the English Private Landlord Survey 2018 has been included to help gauge the applicability of findings from Scotland to England. It finds that, in every survey, the vast majority of landlords are private individuals or couples. The most recent study (Watson & Bailey, 2021) used a differing recruitment method but offers a particularly close fit with the findings from the present one.

Table 5.2. Landlord type comparison

Type of landlord	Survey Sample %	Watson and Bailey (2021) %	Crook et al. (2009) %	MHCLG (2019) %
Sample geography	Scotland	Scotland	Scotland	England
Individual or couple	92	90	84	94
Company, partnership or property trust	7	9	14	4
Institution/other	1	1	2	2
N=	1054	1734	1546	7823

[18] It should be noted that these surveys focus on different geographies, draw from different samples and use different sampling techniques. In addition, some aim to be representative of the entire population and others representative of private renters. As such studies are not directly comparable though they can provide an indication of how representative the survey sample is in terms of landlord characteristics.

The ‘portfolio size’ of landlords can also be compared using the same survey data. It is clear that in each survey (Table 6.6), a large minority of landlords own one property and a majority own less than 5. Again, the most recent study (Watson & Bailey, 2021) offers a particularly close fit with the findings. These findings provide some reassurance regarding the representativeness of the sample.

5.2.1.5 Delivery

Whilst endeavours were made to implement a comprehensive communication strategy which drew from best practice, many aspects of the surveys issue and communication were outwith the control of the researcher due to operational, system and staffing constraints of the providers. For example, MDS were willing to issue the survey but not to provide advance notice or provide follow ups. This is understandable in the circumstances but nonetheless disappointing as reminders can significantly increase response rates (Göritz & Crutzen, 2011). Circumstances also prevented implementing response generating strategies such as choosing the optimal day of the week and optimal time for survey issue[19] (Van Dessel, 2015) although providers sought to support requests where possible.

In the case of SDS and MDS, an email was issued to validated landlord email addresses in a newsletter format. The email included a short introduction to the research written by the researcher and was accompanied by an electronic link to the survey. Whilst it is anticipated that most emails were delivered and reviewed, it is recognised that a percentage of email accounts will be seldom checked, or abandoned and that in some cases emails will be have been ignored, overlooked or potentially blocked by enthusiastic spam filters. In the case of

[19] It is not clear what an optimal strategy is in the midst of global pandemic when many respondents were furloughed.

LPSS, a social media friendly post was created which incorporated the same electronic link as above.

In both cases, clicking the survey link directed landlords to the survey landing page, which provided a more detailed overview of the research as well as links to the online survey consent form and participant information sheet. Landlords were unable to proceed with the survey without acknowledging that they had read and understood these documents and had provided their consent.

5.2.1.6 Survey instrument & data analysis tool

The online survey instrument was created and hosted using JISC online survey software whose use is mandated by the University of Glasgow. The software offers an easy to navigate graphical user interface, flexibility in the structuring of the RQs, a robust IT platform to cope with multiple responses, and sufficient security to ensure the validity of data protection measures.

On completion of the survey, the data was securely exported from JISC online and transferred to SPSS for analysis.

5.2.1.7 Data analysis

Once transferred, the survey data was cleaned before being analysed using a variety of established descriptive and inferential techniques including chi-square tests of independence.

5.2.1.8 Overcoming limitations

Research limitations, including some of those raised earlier, are often viewed in terms of reliability and validity. Research reliability is concerned with the '*accuracy or trustworthiness of the data*' in terms of the extent to which the research design and methods are able to consistently replicate the data (Gronmo, 2020, p. 275). Research validity is concerned with the '*adequacy or relevance of the data for the research questions and the phenomena to be examined*' (Gronmo, 2020, p. 276). In the social sciences internal validity is the '*extent to which an investigation is actually measuring what it is supposed to measure*' whereas external validity refers the generalisability of the findings (Alshenqeeti, 2014, p. 43). To improve the reliability and validity, random and systematic errors associated with each need to be minimised.

Online surveys are said to be subject to error '*at every stage of a survey*' (Weisberg, 2005, p. 17). Specifically, these include coverage error, sampling error, measurement error, non-response error (Sue & Ritter, 2012) and post survey error (Weisberg, 2005). The research design and survey instrument design incorporate a number of considerations and recommendations from the literature to mitigate against these and other errors. Some specific examples include; the use of tried and tested question sets where available (discussed in more detail later), the avoidance of open-ended (Saleh & Bista, 2017) or double barrelled questions (Jones et al., 2013) and ensuring survey brevity (Dillman et al., 2014; Fan & Yan, 2010). In an attempt to more broadly limit errors, the survey was rigorously pilot tested prior to launch. This testing occurred over five iterations of the survey and the design was informed by the research supervisory team, landlords, property professionals, and research funders respectively.

To improve response rates, reminders were issued where possible[20] (Göritz & Crutzen, 2011) and as noted the researcher endeavoured to influence the day of the week and time the survey was issued[21] (Van Dessel, 2015). In addition, as '*surveys sponsored by*

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[20] This was only feasible in the case of SDS.
[21] The researcher was able to ensure that the survey emails went out at the start of the week early in the morning.

academic and governmental agencies have higher response rates than those sponsored by commercial ones' (Fan & Yan, 2010, p. 133), the academic reputation of the University of Glasgow and its partners was leveraged to improve response rates (Hox & De Leeuw, 1994) through the use of branding. Despite concerns over the legitimacy of incentives, response rates are reported to benefit from incentives, with little or no cost to response quality or sample composition (Lipps et al., 2019). As Crook et al. (2009) used incentives during their survey, it was decided to offer participants the option of entering into a prize draw for £200 of DIY store vouchers.

5.2.2 Qualitative Method

5.2.2.1 Justifying selection of the semi-structured interview method

A semi-structured interview is '*a conversation, whose purpose is to gather descriptions of the [life-world] of the interviewee*' (Kvale, 1996, p. 174). It allows participants to express their *'thoughts and feelings*' in '*their own voice*' (Berg, 2007, p. 96) in great depth (Kvale, 1996) and to focus on what they perceive as being '*important or relevant*' (Young et al., 2018, p. 11) . It is particularly useful in the investigation of '*complex behaviours*' (Young et al., 2018, p. 11) like those being studied in this thesis and well suited to a '*small-scale project when the researcher is also the interviewer*' (Robson & McCartan, 2016, p. 290).

Importantly, it provides the opportunity to '*enhance*', '*offset*', and '*explain*' the quantitative results previously obtained (Bryman, 2006, p. 106). It has been selected over alternative interview types as the use of '*pre-planned*' questions (Alsaawi, 2014, p. 151), provides a degree of structure and ensures focus (Rabionet, 2011). However, it is also an extremely flexible method (Gubrium & Holstein, 2001), which allows the researcher to probe responses (Rubin & Rubin, 2005) take diversions, discuss emerging themes

(Morgan, 2014), explore tangents (Maylor & Blackmon, 2005), and change the sequence or framing of questions (Flick, 2015) in order to obtain rich or 'thick' data.

The method does have it constraints, it is notably resource intensive in terms of field work and interview transcription. In addition, the appealing flexibility of the method also presents a threat to validity via a lack of standardisation (Robson & McCartan, 2016) and care must be taken to ensure that interviews do not drift and '*undermine the coherence of the study*' (King et al., 2019, p. 55). Other failings include a tendency for participants to adopt un-insightful '*familiar narrative constructs*' when responding (Miller & Glassner, 2016, p. 52), or posit responses shaped either by convention, or their interpretation of what they believe the interviewer wants to hear (Hammersley & Gomm, 2008). Despite these and other challenges, which will be addressed later, the method is believed to be well suited to this research.

5.2.2.2 Sample frame and recruitment

In the first instance, it was necessary to interview some of the landlords who had completed the survey. However, in order to corroborate the findings of these interviews and the survey, and to gain broader insights into landlord investment behaviours, it was determined that a range of property and property related professionals, hereafter referred to a SPRS professionals, should also be interviewed.

The landlord interview sample frame was drawn from the online survey. During the survey, landlords were asked to check a box and to provide their contact details if they were willing to participate in a follow up interview. The responses of landlords who did so, were filtered and analysed to produce a shortlist, which was broadly representative of the survey sample both in terms of personal/investment characteristics and behaviours. Landlords on the shortlist were contacted via an email, which explained the interview process and included a copy of the invitation to participate and consent form. Those who responded were then asked to choose from a series of times and dates for interview, which were confirmed by email.

In order to identify an appropriate SPRS professionals sample frame, it was first necessary to identify the type of professionals that can support landlords when they are making SPRS investments. As this is not discussed in the literature, the researcher drew from his own experience to identify an SPRS professionals chain that includes accountants, financial planners, solicitors, estate agents, letting agents, surveyors, mortgage brokers, and repossession service providers[22]. The researcher then identified potential participants with these credentials from his own professional network. First contact was made via a phone call and for those who agreed in principle to participate, secondary contact repeated the process followed for the recruitment of landlords above.

Unfortunately, there is no common agreement in the literature regarding how many participants should be interviewed with estimates of twelve, (Guest et al., 2016), under twenty, (Crouch & McKenzie, 2016), fifteen to thirty (Marshall et al., 2015), twenty-five to thirty (Dworkin, 2012), and fifty (Baker & Edwards, 2012) all proposed. However, many believe that such an approach is arbitrary (Baker & Edwards, 2012). Creswell (2015) suggests that while researchers should refer to existing studies as benchmarks, interviews should progress until saturation has occurred. Saturation is the point at which further interviews will yield no new relevant data. In light of the lack of clear guidance, appropriate benchmark literature, and an inability to predict how many interviews would lead to saturation, the research commenced with a target of 33 interviews (20 with

[22] It is acknowledged however, that not all landlords will utilise the services of these professionals.

landlords and 13 with PRS professionals) with the caveat that this may rise or fall as required.

5.2.2.3 Resultant sample- landlords

In total, 274 landlords who completed the online survey indicated that they would be willing to take part in a follow-up interview. Although 20 interviews were initially targeted, it was believed that non-response might be an issue and so 50 landlords (purposefully chosen to be broadly representative) were added to the shortlist. A total of 26 landlords responded to the email request to take part in an interview and interviews were arranged with 20 of those. The characteristic of these 20 landlords is summarised in Table 5.3. The names shown are pseudonyms to preserve anonymity, although it should be noted that names were chosen to indicate the ethnicity of participants where relevant.

Table 5.3. Landlord interview participant characteristics

Landlord	Landlord type	Age	Relationship status	Sex	Employment status	Highest level of qualification
Paul	Couple/family	55-64	Married	M	Retired	Undergraduate degree
Stuart	Private individual	45-54	Single	M	Retired	Undergraduate degree
Ben	Private individual	55-64	Widowed	M	Retired	PgC, PgD or Master's degree
Vicky	Private individual	45-54	Married	F	Self-employed full-time	Undergraduate degree
James	Couple/family	45-54	Married	M	Self-employed full-time	PgC, PgD or Master's Degree
Susan	Couple/family	65+	Widowed	F	Retired	Undergraduate degree
Fred	Private limited company (Ltd)	-	-	-	-	-
Linda	Private individual	65+	Married	F	Retired	HNC, HND, Foundation degree
Mark	Other (private individual and Ltd)	45-54	Married	M	Self-employed full-time	High school
Lorna	Couple/family	35-44	Married	F	Employed full-time	PgC, PgD or Master's degree
John	Other (private individual and Ltd)	35-44	Single	M	Retired	Undergraduate degree
Brian	Couple/family	55-64	Married	M	Employed full-time	HNC, HND, Foundation degree
Jane	Private individual	55-64	Married	F	Employed part-time	PgC, PgD or Master's degree
Patrick	Couple/family	65+	Married	M	Retired	HNC, HND, Foundation degree
Lyndsay	Private individual	55-64	Single	F	Self-employed part-time	PgC, PgD or Master's degree
Joanne	Private individual	65+	Divorced	F	Retired	Undergraduate degree
Robert	Private individual	35-44	Married	M	Employed full-time	Undergraduate degree
Deepika	Private individual	45-54	Married	F	Self-employed part-time	Undergraduate degree
Rodney	Private individual	35-44	Married	M	Employed full-time	Undergraduate degree
Jack	Private individual	35-44	Married	M	Self-employed full-time	PgC, PgD or Master's degree

5.2.2.4 Resultant sample- SPRS professionals

The table below (Table 5.4) summarises the characteristics of the 13 SPRS professionals interviewed, with each given a pseudonym to preserve anonymity.

Table 5.4. SPRS professionals interview participant summary biographies

Name	Current role	Summary biography
Frank	Letting agent (social enterprise)	Frank has worked as a letting agent for 5+ years in both the private and not-for-profit sector.
Sarah	Letting agency owner	Sarah has worked in residential letting at a senior level for 20+ years.
Colin	Letting agency director	Colin has worked in residential property for 20+ years including senior roles in letting agencies and deposit protection providers.
Don	Estate agent director	Don is a qualified building surveyor who has worked as a letting agent for 20+ years and now specialises in let property sales.
Debbie	Letting agency manager	Debbie has worked in residential letting for around 5 years and previously worked in compliance.
Jason	Surveyor & business director	Jason has been a surveyor for 20+ years specialising in residential property.
Bill	Mortgage Broker	Bill is a former financial planner with 20+ years' experience who now specialises in mortgage brokering.
Scott	Repossession Expert	Scott has 20+ years' experience as a landlord and consultant to the private rented sector.
Sarika	Letting agency director	Sarika has 20+ years' experience as a letting agent.
June	Accountancy firm owner	June has 20+ years' experience as an accountant.
Peter	Financial planner	Peter has 10+ years' experience working as a financial planner for a large firm.
Connor	Mortgage provider	Connor has worked in banking and mortgage provision for 15+ years. He currently works for one of the UK's largest buy-to-let mortgage providers.
George	Conveyancing solicitor (partner)	George has 20+ years' experience as a property conveyancing solicitor.

5.2.2.5 Delivery

It was anticipated that the semi-structured interviews would be undertaken on a face-to-face basis. However, due to the uncertainty caused by the pandemic and the subsequent restrictions imposed by the Scottish Government mandated lock-down, it was necessary to adjust the design. The most compelling and cost-effective alternative solution was to adopt online video conferencing (Zoom) which had become widely deployed and socially accepted during the lockdown. Zoom also offered in-software audio and video recording and associated file download. There were of course some downsides to this change in the design. For example, although Zoom allowed some of the benefits of person-to-person interviewing, such as the opportunity to read facial expressions and other non-verbal cues (Cole et al., 2016), this was limited by camera framing but also by having the software as an intermediary between the researcher and the participant.

Participants were sent Zoom meeting links via email at least three working days before each interview. Interviews were scheduled to last for one hour. Delivery of each interview was managed via an interview schedule (Polit & Beck, 2006). The schedule's key deliverables included: providing a further overview of the research purpose; setting out the interview ground rules; the promotion of an environment of mutual trust and respect; notification of the interviewees right to withdraw; and required clarifications regarding ethics and consent (King et al., 2019). Each schedule also included the interview question set which is discussed in more detail in the subsequent section.

Each interview commenced with simple questions (McGrath et al., 2019; Young et al., 2018) in order to start the interview in a '*relaxed sensitive manner*' (Ryan et al., 2009, p. 311). The researcher's role as the interview progressed was to clearly state questions and offer sufficient time and latitude for the participant to answer (Robson, 2011). Follow-up questions were used to probe for more information and to ensure that the interview flowed '*naturally*' (Dörnyei, 2007, p. 140).

5.2.2.6 Interview instrument & data analysis tool

A standard interview template was created, which was informed by the RQs and aligned to the structure of the online survey. The template adopted a key point format for succinctness and ease of use (King et al., 2019). Before each interview, the question set was tailored according to each participant's response to the online survey (in the case of landlords) or the nature of their role (in the case of SPRS professionals). On completion, interviews were transcribed, checked for accuracy and uploaded to NVivo for thematic analysis as discussed below.

5.2.2.7 Data analysis

Thematic analysis is '*a method for developing, analysing and interpreting patterns across a qualitative data set*' (Braun & Clarke, 2022, p. 5). It was chosen due to its inherent flexibility (Nowell et al., 2017), and was used to organise and help describe the data. Once each interview transcript had been uploaded to NVivo, the contents were reviewed to enhance familiarisation (Braun & Clarke, 2022). Transcript contents were then coded to a series of nodes and sub-nodes, which were aligned with the RQs, online survey structure and interview question sets. These nodes could be viewed as placeholder nodes. Additional nodes were then created to capture new areas of interest and unexpected observations. Thereafter, each of these nodes and sub-nodes were reviewed and further coded allowing for the identification key themes, which captured commonalties in response patterns. The approach to coding adopted included elements of deductive reasoning in that there was conscious desire to understand landlord investment behaviours in relation to the normative investment framework, which could be viewed as a '*pre-existing coding frame*'. However within this frame, observations were '*data-driven*' in line with an inductive approach (Braun & Clarke, 2006, p. 86).

5.2.2.8 Overcoming limitations

The concepts of validity and reliability remain important in the qualitative research design. However, the terms need be re-thought (Denzin & Lincoln, 2005) or reconceptualised (Onwuegbuzie & Johnson, 2006) to account for underlying differences in the approaches. To do so, Lincoln and Guba (1985, p. 357) recasts internal validity as '*credibility*', external validity as '*transferability*' and reliability as '*dependability*'. However, the terms validity and reliability are used herein for consistency.

It is clear from the preceding sections, that semi-structured interviews have a number of inherent weaknesses, which can result in errors. The research and survey instrument design incorporate a number of considerations and recommendations from key literature (Creswell & Creswell, 2018; Creswell & Plano Clark, 2018; Robson & McCartan, 2016) to mitigate against such errors. For example, to improve qualitative reliability by reducing the bias arising from poorly constructed questions (Young et al., 2018), the researcher avoided using leading (Alshenqeeti, 2014), overly complex or double-barrelled questions (King et al., 2019) and esoteric jargon (McGrath et al., 2019). Further steps to improve reliability, such as reviewing transcripts for accuracy and the adoption of a simplified coding system, were also incorporated into the research design (Creswell & Creswell, 2018).

To support qualitative internal validity (credibility) at the design stage, '*peer debriefing*' was used to sense check the interview questions (Creswell & Creswell, 2018, p. 201). Thereafter, the question set was piloted with an SPRS professional and a landlord (McGrath et al., 2019). This process helped identify issues with the interviews content and matters such as flow and timing (Dörnyei, 2007). It also allowed the researcher to practice his interview technique. Later in the research, to aid external validity (transferability) (Nowell et al., 2017), '*rich, thick descriptions'* were used to describe the findings (Creswell & Creswell, 2018, p. 201). Critically, the researcher also adopted a reflexive approach which is discussed in more detail in the next section.

Beyond these specific actions, the research supervisory team were engaged as '*external auditors*' to review the overall research process (Creswell & Creswell, 2018, p. 201).

5.2.2.9 Reflexivity

When using qualitative methods, the researcher, is the '*prime instrument of data collection*' (McGrath et al., 2019, p. 1004) and therefor a source of bias. Researchers can improve research integrity by adopting a reflexive approach which takes cognisance of their role in shaping the research experience (Leavy, 2017). This approach can be supported by the creation of a personal inventory in which the researcher tries to undertake an honest and systematic assessment of their identity, positionality, biases, assumptions, values and subjectivities and what these mean for the project (Fetters, 2020; Ravitch, 2021). A summary of the researcher's personal inventory and its implications for the research are detailed in Table 5.5.

Table 5.5. Personal inventory

Personal inventory
My housing journey
My housing journey has spanned council housing, private renting and home ownership. My experience in each tenure has been largely positive.
Property & housing experience
My professional career has been property focused for over 20 years, from my first job as an apprentice electrician to recent roles in real estate consultancy and housing research. I also spent a few years as the managing director of a letting agency.
Property investment experience
My first property investment was a former public convenience I purchased and renovated when I was 18 years old. I have flipped residential property and also let it as a residential landlord.
My views on the PRS, landlords and tenants
I view housing as a commodity. I believe that the PRS should provide short term accommodation to transient populations, and that local authorities and housing associations should provide long-term housing to vulnerable groups wherever possible. I've had a range of positive and negative experiences dealing with landlords and tenants and found that both can be quite challenging! However, the pervasive view of landlords as greedy Rachman or Rigby types is not generally borne out in my experience.
Implications for the research
I believe that my time as a homeowner, letting agent, landlord, and tenant, provides rich experience, which can positively support the research, but also potentially introduces bias. I am particularly conscious that I am more sympathetic to the challenges faced by landlords than a researcher who views the sector through a tenant centric lens. I have been cognizant of my personal bias as I have written this research design, and reflected upon it throughout the course of this research.

5.3 Operationalising the Research Questions

This section builds upon the research design by detailing how each of the RQs were operationalised via the methods adopted.

5.3.1 Survey Design and Operationalisation

The online survey contributes to answering all four of the RQs. To do so, the survey was created in three key sections consisting of 44 multiple-choice, multiple answer and scale (Likert) questions (see Appendix 1- Online Survey Questionnaire).

The first section of the survey (pages 1 to 8) was designed to identify the characteristics and motivations of landlords in order to answer RQ1 (*Who are landlords and what are the characteristics of their SPRS investments?).* To improve reliability and validity this section of the design drew question topics, question formats and questions styles from the major landlord studies where possible (Crook et al., 2009; MHCLG, 2019; Scanlon & Whitehead, 2016).

The second section of the survey (pages 9 to 16) was designed to answer the descriptive element of RQ2 (*What are the investment behaviours of landlords in relation to the normative investment process and where/why do deviations occur?).* As this section necessitated the creation of new question sets tailored to the normative investment process, a framework was created to support the process.

The final section of the survey was designed to answer RQ3 *(To what extent are landlord investment behaviours subject to biases and heuristics?)*. To improve reliability and validity, the question set was based upon a series of existing questions by Pompian (2012) which were adapted to a residential investment context.

The findings from all three sections were drawn upon to answer RQ4 *(How can landlord typologies and landlord investment behaviours be improved for the betterment of the sector?)*.

5.3.2 Semi-Structured Interview Design and Operationalisation

The semi-structured interview contributed to answering the explanatory element of RQ2 (*What are the investment behaviours of landlords in relation to the normative investment process and where/why do deviations occur?)* and also contributed to answering RQ4 *(How can landlord typologies and landlord investment behaviours be improved for the betterment of the sector?)*.

Following analysis of the quantitative data, a semi-structured interview schedule and question set was created (see Appendix 2- Semi-structured Interview Template). The question set was tailored to each participant prior to interview.

5.4 Methodology

The purpose of this section is to discuss the research methodology and in particular the research paradigm in which the research is located.

There are different versions of the paradigm concept in the social sciences (Morgan, 2007) but Lincoln and Guba (1985), who are widely credited with the introduction of the term therein (Donmoyer, 2006; Mertens, 2012), frame it as a classification scheme (Johnson et al., 2007), which sets out ontological, epistemological and methodological positions of a piece of research. This aligns with Morgan's description of '*paradigms as epistemological stances*' (p. 51) and is how the concept is applied herein.

Although there are longstanding concerns regarding whether the social sciences should be considered a paradigmatic science (Kuhn, 1970; Rees, 2012; Weed, 2009), the term has proliferated (Donmoyer, 2006) to the extent that it has become subject to overuse and misuse (Holloway & Biley, 2011). As can be seen in Table 5.6, there are numerous '*conceptualizations*' (Shannon-Baker, 2016, p. 320) of the term.

Table 5.6. Social science paradigm conceptualisations

Chilisa and Kawulich (2012)	Morgan (2007)	Shannon-Baker (2016)	Creswell and Plano Clark (2018) Hall (2013)	Mertens (2012)
Positivist/ Postpositivist paradigm	Positivist	Pragmatism	Postpositivist	Dialectical pluralism
Constructivist/ Interpretative paradigm	Metaphysical	Transformative-emancipation	Constructivist	Pragmatic
Transformative/ Emancipatory paradigm	Pragmatism	Dialectics	Transformative	Transformative
Postcolonial/ Indigenous research paradigm	-	Critical realism	Pragmatist	-

Despite the debates and apparent confusion, this thesis does not intend to widen the '*yawning gap between the philosophy of social science and the practice of social science*' (Gorski, 2013, p. 663) by adopting an '*a-paradigmatic stance*', (Hall, 2013, p. 2). Instead, it recognises that philosophical assumptions are '*critically important to social scientific inquiry*' (Greene & Ha, 2010, p. 4) and seeks to establish a clear connection between '*ontological and epistemological starting points and the practical research work*' (Danermark et al., 2002, p. 4).

The literature offers pre-packaged paradigm products for a researcher to select from although there are a number of concerns with this approach, firstly it assumes that '*there is some external system that will explain our beliefs to us*' (Morgan, 2007, p. 66). Secondly the containerisation of paradigms creates the impression that paradigms must be '*embraced or rejected in a wholesale manner*' (Biesta, 2010, p. 100) when there in are in fact many shades of grey. Thirdly, whilst the literature provides an abundance of tables summarising the respective positions of each paradigm, '*there is not enough guidance, particularly for novice researchers*' (Shannon-Baker, 2016, p. 320) on how to align these positions to the research and the researcher's world view.

The research paradigm can be identified in a 'top down' or 'bottom-up manner'. The 'top-down' approach espoused by Guba (1987), taken for granted in several textbooks including Chilisa and Kawulich (2012), assumes that ontology constrains epistemology, which dictates the methodology, which informs method. This thesis however, has followed a bottom-up approach to paradigm identification whereby the RQs represent the starting point of the research. This is why this methodology section follows rather than precedes the methods section.

Looked at in isolation, some of the RQs are more naturally aligned to a quantitative deductive approach couched in a positivist research philosophy whereas others are more naturally aligned with a constructivist research philosophy or require elements of both. The pre-paradigm selection of a mixed methods approach presents some challenges for paradigm selection as there are differing views on the extent to which both philosophical considerations and methods can and should be mixed. Guba (1987, p. 31), for example, states that due to opposing philosophical beliefs there can be no *'accommodation at the paradigm level'* between methods. Biesta (2010, p. 9) further contends that epistemological combinations are '*obviously not possible*'. These rejections, according to Howe (1988, p. 10), make Guba and Biesta advocates of the '*incompatibility thesis*' which posits that qualitative and quantitative approaches are epistemologically incompatible and therefore should not be mixed. While Howe (1988, p. 10 & 15) acknowledges that quantitative and qualitative methods are '*outgrowths of incompatible positivist and interpretivist epistemologies*', he views this as historic artefact and advocates the '*compatibility thesis*', in which the modern '*wedding*' of quantitative and qualitative methods is epistemologically coherent and desirable. Where does this leave the search for a suitable paradigm specifically for mixed methods research? In an aptly named paper 'Mixed Methods: In Search of a Paradigm', Hall (2013, p. 72) narrows the choice set to include an '*aparadigmatic stance, multiple paradigm approach and the single paradigm approach*'. The first of these was discounted earlier. The second has multiple forms, but is critiqued for providing a lack of prescription (Hall, 2013). It also means that the researcher operating with two world views, which though feasible (Blaikie & Priest, 2019) and potentially desirable (Creswell & Plano Clark, 2011) is also likely to be challenging. The third, to adopt a single paradigm approach was selected as the researcher's preferred option.

Several paradigms including transformative-emancipation, critical realism and pragmatism are regularly advocated as 'mixed methods friendly' (Hall, 2013; Johnson & Onwuegbuzie, 2004; Mertens, 2012; Shannon-Baker, 2016). However, as Creswell (2015, p. 16) suggests that the choice of research philosophy should be based upon the researcher's knowledge of the philosophy and the extent to which it '*resonates*' with the research, pragmatism was ultimately selected as the research paradigm. Not only has the researcher previously couched research in this paradigm, but as the approach '*indicates a concern for practical matters*', is '*guided by practical experience*' (Robson & McCartan, 2016, p. 28), and is focused on the '*practical usefulness of the outcomes*' (Hall, 2020, p. 23) including their ability to provide '*policy recommendations or other real-world solutions*' (Duram, 2010, p. 1073), the paradigm also resonates strongly with the research purpose.

The philosophy of pragmatism has a long history (Shannon-Baker, 2016) though the writings of John Dewey (1859–1952), William James (1842-1910), and George Herbert Mead (1863-1931) are said to have had '*the most influence on the social sciences*' (Morgan, 2007, p. 66). Richard Rorty is credited with broadening the use of the term more generally (Kaushik & Walsh, 2019) and Morgan is '*one of the first*' to proffer its use in mixed methods' research (Fetters, 2020, p. 77). In a relatively short space of time, it has become the most popular/default paradigm for use with mixed methods research (Creswell & Plano Clark, 2018; Feilzer, 2009; Leavy, 2017; Morgan, 2014; Teddlie & Tashakkori, 2009; van Griensven et al., 2014; Walsh & Evans, 2014). Ontologically, a pragmatist '*assumes that there are multiple views of reality*' (Fetters, 2020, p. 68), which is in a state of flux as it is changed by action (Kaushik & Walsh, 2019). For this reason, there is no single truth (Duram, 2010), instead '*truth is what works at the time. It is not based in a duality between reality independent of the mind or within the mind*' (Creswell & Creswell, 2018, p. 11) and thereby rejects the '*either-or*' view of positivism and constructivism (Subedi, 2016). Epistemologically speaking, knowledge '*is gained iteratively using both independent and subjective interpretations*' (Fetters, 2020, p. 68), more specifically '*learning is built on experience*' (Bazeley, 2018, p. 16) and '*the truth or value of an idea or result is tested by whether it works in action*' (Bazeley, 2018, p. 16).

Kaushik and Walsh (2019, p. 258) note that a '*major contention of pragmatist philosophy is that meaning of human actions and beliefs is found in their consequences*'. Importantly, Morgan (2014, p. 27) adds that these actions '*cannot be separated from the situations and contexts in which they occur*' meaning that the instead of objective truths, pragmatists are focused on '*warranted beliefs*'. Furthermore, as '*actions are linked to consequences in ways that are open to change*' warranted beliefs are provisional (Kaushik & Walsh, 2019) and evolve over time. Although this means that individuals develop unique worldviews, shared experiences result in elements of shared belief. These views provide close fit with the researcher's own ontological and epistemological assumptions.

5.5 Summary

To summarise, this section has identified a clear research problem resulting from a shortfall in the extant literature. The research aims and objectives created in response to this shortfall, are addressed by four RQs. In turn, these RQs are answered via an explanatory sequential mixed methods design. This design incorporates a quantitative phase, utilising an online survey, followed by a qualitative phase, which utilises semi-structured interviews. The research is underpinned throughout by the philosophy of pragmatism.

6 CHAPTER 6- THE CHARACTERISTICS OF LANDLORDS & THEIR INVESTMENTS

6.1 Introduction

This is the first chapter in Phase 3 of the research process and the first concerned with the post data collection, analysis and presentation of the online survey results.

The chapter seeks to answer RQ1 which asks: '*Who are landlords and what are the characteristics of their SPRS investments?*'. This is delivered over three sections: on landlord personal characteristics; on the nature of landlordism; and on landlord SPRS investment characteristics. In each, the data associated with specific characteristics is analysed with reference to the findings of previous studies in Scotland, England and/or the UK (as available), before the implications for landlord investment behaviours are summarised where relevant. The chapter ends with a summary of the findings.

6.2 Landlord Personal Characteristics

6.2.1 Landlord Type

As Table 6.1 shows, survey responses are principally from landlords who are not legal entities. 'Private Individual' and 'Couple/Family' classifications constitute 92% of responses. Legal entities, such as private limited companies and partnerships, make up just 7%. The 1% who selected 'other' are primarily landlords who own PRS property both as legal and non-legal entities.

Table 6.1. Landlord type

Landlord Type	% of landlords
Private individual	52
Couple/Family (i.e., unincorporated)	40
Private limited company (Ltd)	4
Special purpose vehicle limited company (SPV)	0
Public limited company (plc)	0
Partnership (legal entity)	2
Property trust	0
Other	1
Total	100%

(N=1054)

It is clear that the SPRS continues to be dominated by individual private investors, and is therefore subject to the vagaries of individual investment behaviours. Whilst this is not a surprise given previous studies, it was anticipated that there might have been a shift towards landlords operating as legal entities (limited companies in particular) as a result of tax changes and the Scottish Government's focus on professionalising the sector. Instead, both this survey and Watson and Bailey (2021) report a slightly higher percentage of 'Individuals or Couples' than Crook et al. (2009) did over a decade ago. The SPRS appears more 'cottage-like' or fragmented than ever.

It might also have been expected that institutional investment would have increased since Crook et al. (2009), both in terms of the number of landlords and the number of properties under management, particularly given two decades of policy intervention designed to increase institutional investment in the Build-to-Rent (BTR) sector. However the findings chime with observations that the BTR sector remains '*under-represented in Scotland's housing provision*' (Gray, 2021 para. 1) with completions only totalling in the hundreds nationally (Boyle, 2020). The percentage may rise in future, given that by some accounts there is an estimated pipeline of 9,790 BTR homes in planning or with planning approved (Scarlett Land and Development, 2021), although it is worth noting that, even if all of these units were built, they would equate to just 2.9% of the SPRS.

6.2.2 A Note on Personal Characteristics

The remainder of the personal characteristics discussed in this section relate to responses from landlords who are individuals or couples/families (N=973) unless stated otherwise. The personal characteristics of respondents from legal entities are not relevant to the investment decisions of those entities. In the case of the ‘Couple/Family’ classification, characteristics such as ‘age’ are taken from the person who completed the survey.

6.2.3 Age

The majority of respondents were over the age of 45 (80%) and over half were over 55 (58%) (Table 6.2). Crook et al. (2009) do not present their data in the bandings above but do note that 65% of their sample was over 45, with 35% over 55. This suggests that their sample was younger overall. This may be explained by the decade that has elapsed since this data was collected suggesting that private landlords in Scotland are an ageing group or by another reason. The former aligns with observations by Scanlon and Whitehead (2016) using UK-wide data and supports Ronald and Kadi’s (2017, p. 793) ‘*super cohort*’ thesis, which posits that those aged between 40 and 60 (in 2017), ‘*represent a super cohort where landlordism is ostensibly concentrated*’. The findings more closely correspond with the 83% and 59% (Table 6.2) reported in the English Private Landlords Survey 2018 (MHCLG, 2019) and the 81% and 61% observed in UK data (Scanlon & Whitehead, 2016).

Table 6.2. Landlord age

Source	Sample geography	N	Under 25	25 to 34	35 to 44	45 to 54	55 to 64	65 +
Survey sample (%)	Scotland	1054	1	6	14	22	37	21
Ministry of Housing Communities and Local Government (2019a) (%)	England	7823	-	4	14	24	31	28
Scanlon and Whitehead (2016) (%)	UK	2517	0	6	13	20	32	29

(N=973)

It is not unexpected that many landlords are middle aged and older. After all, it is at middle age that earnings potential traditionally peaks. It is also when many will have accumulated sufficient savings to invest and also when individuals are more likely to benefit from inheritance[23].

In terms of investment behaviours, the SPRS has long been associated with retirement planning. However, as one in five landlords (21%) are over 65, the SPRS also appears to play a role in current retirement provision. To fulfil either, the SPRS needs to be able to provide a stable, regular, low risk return, which as will be explored in more detail later, is not always guaranteed.

All else being equal, it might be expected that an older cohort's life experience would make them better-placed to make informed investment decisions or that they would be more prone to risk aversion rather than risk-seeking behaviours, and more focused on considering areas such as divestment and inheritance planning as a priority. As will be seen in subsequent chapters, not all of these premises are accurate.

[23] Particularly likely for those '*households in the top quarter of the income distribution in Britain*' (Nolan et al., 2020, p. 22).

6.2.4 Ethnicity

Respondents were overwhelmingly white (94%), with the majority identifying as 'White Scottish' (73%) (Table 6.3). This is broadly in line with the ethnic make-up of Scotland, where 89% of the population is white Scottish/other British (Scottish Government, 2020b), though it does suggest minority ethnic groups are under-represented. This also closely mirrors Crook et al. (2009) (95% white).

Table 6.3. Landlord ethnicity

Ethnicity	% of landlords
White Scottish	73
White other British	17
White Irish	1
Other white	3
Mixed ethnic	1
Asian or Asian Scottish or other Asian British	2
Black or Black Scottish or Black British	1
Chinese or Scottish Chinese or British Chinese	1
Other ethnic group	1

(N=973)

6.2.5 Gender & Relationship Status

Overall, there were more female respondents (55%) than male (44%) with the remainder choosing not to say. Crook et al. (2009) identify that 52% of landlords are male and 42% are female. The majority (78%) of respondents were in some form of relationship (Table 6.4).

Table 6.4. Landlord relationship status

Relationship status	% of landlords
Single	12
Married	65
Civil partnership	1
Divorced	6
Widowed	3
Co-habiting	12
Other	1

(N=973)

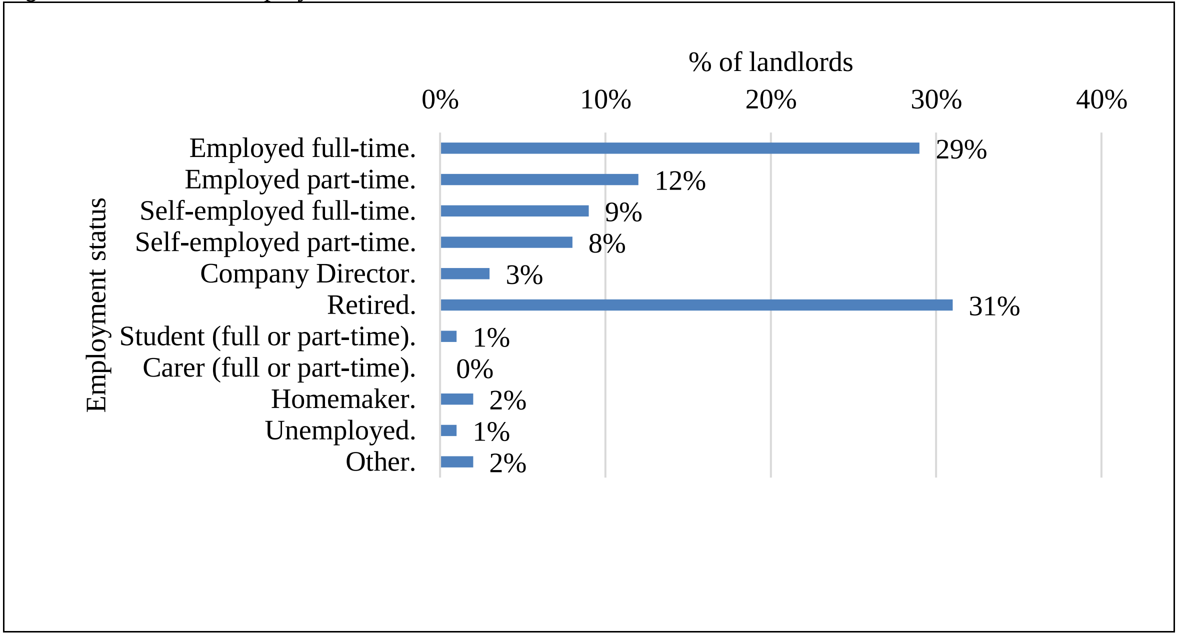
In the married category, 53% of respondents were female. In the 'single' category, the majority of landlords were female (62%) and women were also more likely to be landlords within the divorced category (58% versus 42% of men). This was an unexpected finding and new insight. As noted in the literature review, there is some debate as to whether women are more risk averse than men. Whilst some woman may have a preference for housing investment (Embrey & Fox, 1997) due to risk based reasons, the need for some to access alternative forms of retirement provision due to difficulties in accessing work-based and other pension schemes (Foster, 2012) is likely to play a significant role.

In terms of landlord type, three out of four (75%) respondents who were co-habiting selected 'Private Individual' as their landlord type thereby suggesting a clear split of assets within their relationship and perhaps pointing to the SPRS as a 'hedge' against relationship breakup. It is surprising however, that 40% of those who were 'married' also selected 'Private Individual' and not 'Couple/Family'.

6.2.6 Employment Status

The majority of respondents were in some form of work (62%), with 41% in employment and 17% self-employed (Figure 6.1). Almost one in three (31%) were retired with the remainder consisting of carers, homemakers, students, the unemployed and others. Women were more likely to be employed on a part-time basis than men (83% vs 17%) and less likely to be a company director (24% vs 74%).

Figure 6.1. Landlord employment status



(N=973)

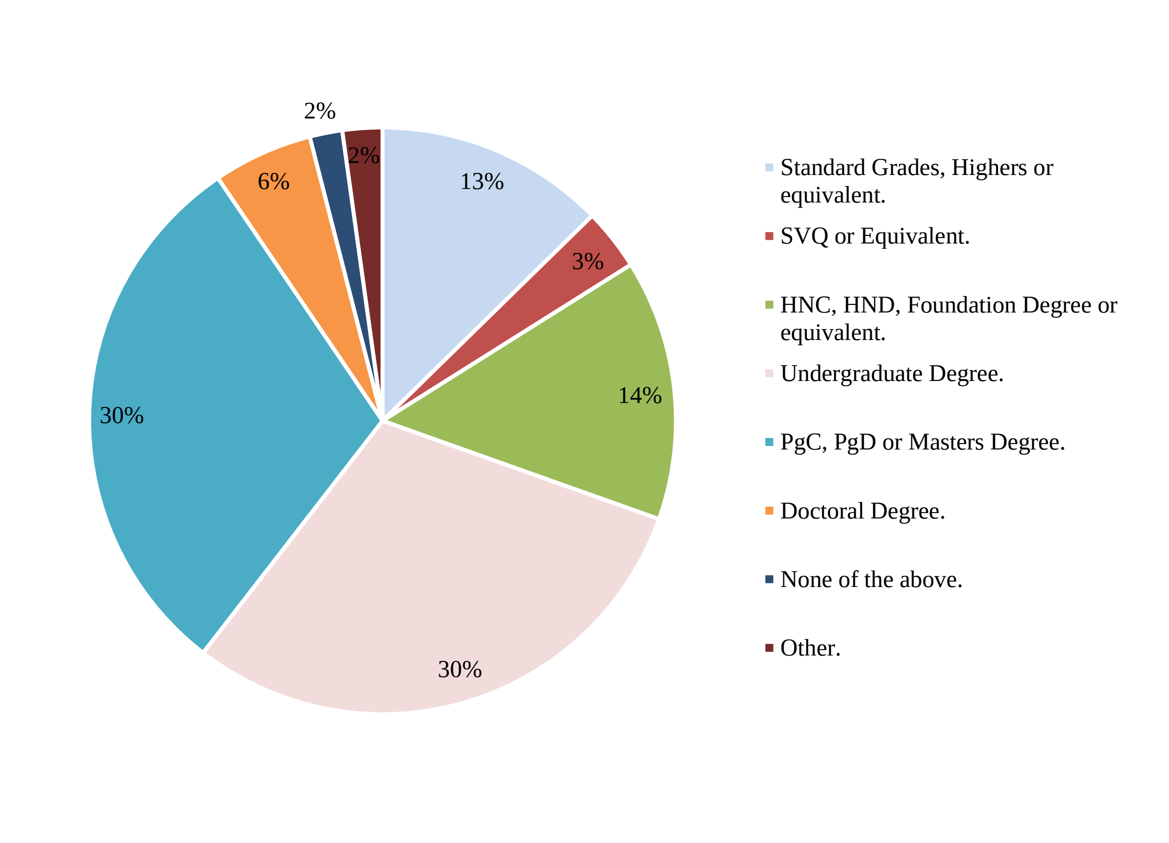
A similar proportion of respondents reported being in full-time employment (29%) and retired (31%) in the English Private landlord survey, although the question was formatted differently making comparison difficult. Scanlon and Whitehead (2016, p. 26) note that '*about a third of landlords worked full-time and a similar proportion were retired*'. Setting aside methodological and sampling differences, the bulk of landlords in most surveys appear to be either in full-time employment or retired. The former raises questions regarding the amount of spare time that part-time landlords have available to allocate to investment and management activities.

The sizable portion of landlords claiming to be retired gives pause for thought. As the PRS is not a passive investment (even for those who use letting agents), landlords technically continue to work to some degree and continue to earn. This questions whether they actually truly retire, but also appears to upend the lifecycle hypothesis of wealth, which argues that individuals deplete their wealth during old age (Modigliani, 1966), although clearly this depends on an individual's definition of 'old age'. This will be discussed in more detail later.

6.2.7 Education

The great majority (83%) of respondents have undertaken some form of further or higher education, with around two thirds (66%) having an undergraduate or postgraduate qualification (Figure 6.2). In the main, those who selected the 'other' category held a professional qualification, for example, a chartered accountant.

Figure 6.2. Level of educational attainment (% of landlords)



(N=973)

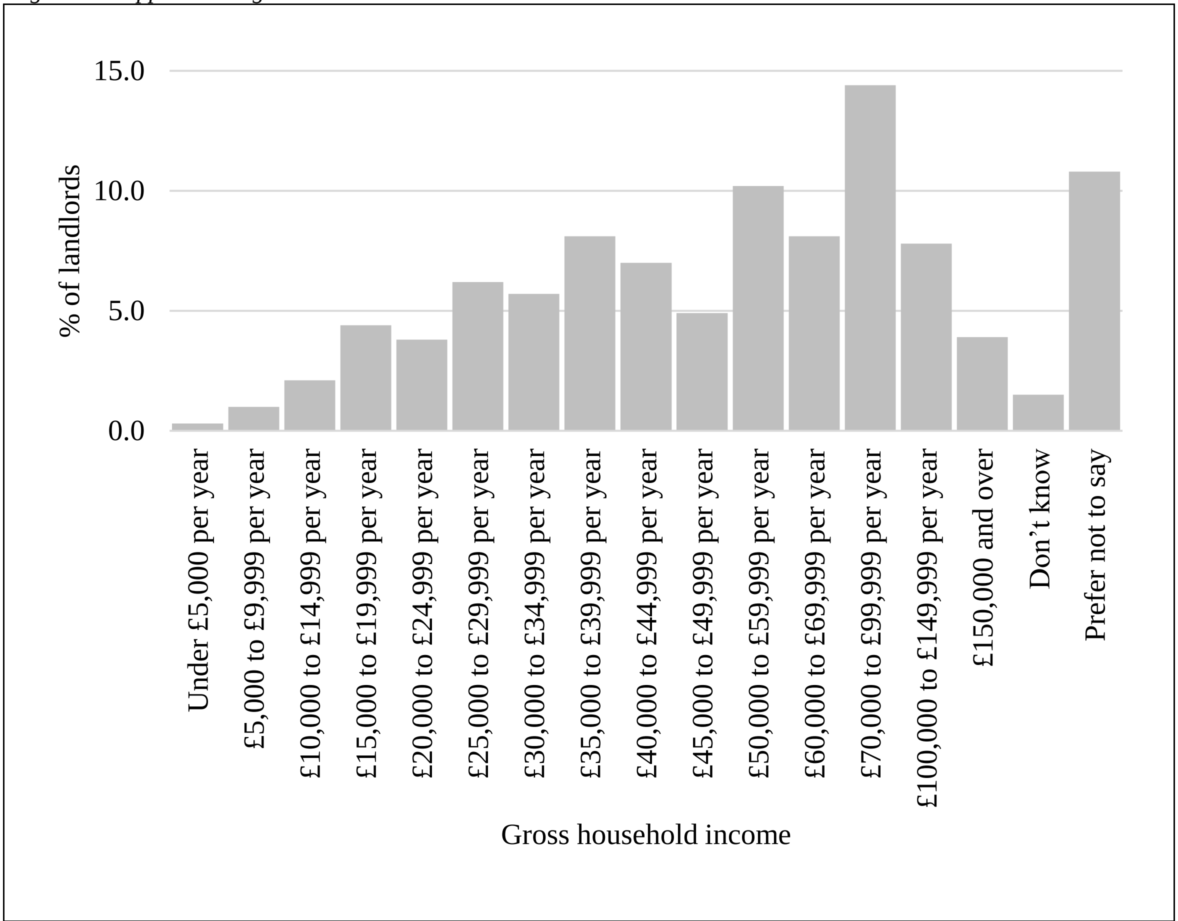
Landlord education levels are largely overlooked by the extant literature. Given that just 32% of the Scottish population over the age of 16 has a university degree or professional qualification (Scottish Government, 2019b) , it would appear that landlords are better educated than the population at large.

It is reasonable to expect that landlords would tend to be better educated, given that educational attainment is positively correlated with wealth. Well-educated landlords may be more likely to approach the PRS with basic investment knowledge or have the ability to acquire it.

6.2.8 Gross Income

Landlord gross household income levels are detailed in Figure 6.3. They range from under £5k per year to £150k and over. Around a third (32%) earn less than £40k a year, a further third (30%) earn between £40k and £70k and a quarter (26%) earn over £70k a year. It should be noted that figures include earnings from landlord activity and are not adjusted for household size/composition.

Figure 6.3. Approximate gross household income



(N=973)

Comparison with other surveys is difficult owing to the plethora of methods utilised. For example, landlords in the English Private Landlord Survey 2018 appear considerably poorer than their Scottish counterparts but the figures reported are net of rental income (MHCLG, 2019). More helpful are Scanlon and Whitehead (2016), who, despite splitting their findings between Buy-to-Let (BTL) and non-BTL landlords, reveal a similar distribution using UK-wide data.

The median gross household income in Scotland in 2018 was £550 per week or £28,600 per annum (Scottish Government, 2018a). Although this figure falls between the bandings used in the survey, it is clear that the majority of landlords have gross incomes in excess of the median even after accounting for inflation. However, '*while landlords are rarely poor in relative terms, neither are they universally wealthy*' (Watson & Bailey, 2021, p. 48) with some landlords earning below £30k (close to the median). The financial status/heterogeneity of landlords varies significantly, and this is likely to have implications with regards to financial resilience and the ability to sustain investments in times of difficulty.

6.3 Nature of Landlordism

6.3.1 Landlord Motivation

Returning to the analysis of all survey responses (N=1054), it was found that the majority of landlords (73%) had a financial motive for acquiring/retaining their most recent SPRS property (Table 6.5– first column). The next most popular motive was to provide a current or future home for themselves or for a relative (9%). This was followed by those who claimed to be unable to sell the property (5%) (reluctant landlords) or who retained the property due to sentimental attachment (4%).

Table 6.5. Motive for investing in SPRS property

Reason for acquiring most recent SPRS property	Survey sample (%)	Scanlon and Whitehead (2016) (%)	Kemp and Rhodes (1997) (%)
As an investment to provide rental income.	34	10	15
As an investment to provide capital growth (house price increase).	5	4	11
As an investment to provide rental income and capital growth.	34	62	17
To provide a future home for myself/my family.	5	7	6
To provide a current or future home for a relative.	4	-	-
A property I'd like to sell, but can't.	5	8	2
To house an employee.	0	0	27
To house someone in need.	1	-	4
It's incidental to another activity.	1	-	7
As a safety net whilst cohabiting with a partner.	1	-	-
To cover costs during a temporary relocation.	1	-	-
I have sentimental attachment to the property and don't want to sell it.	4	-	-
Don't know.	0	4	1
Other.	4	5	11

(N=1054)

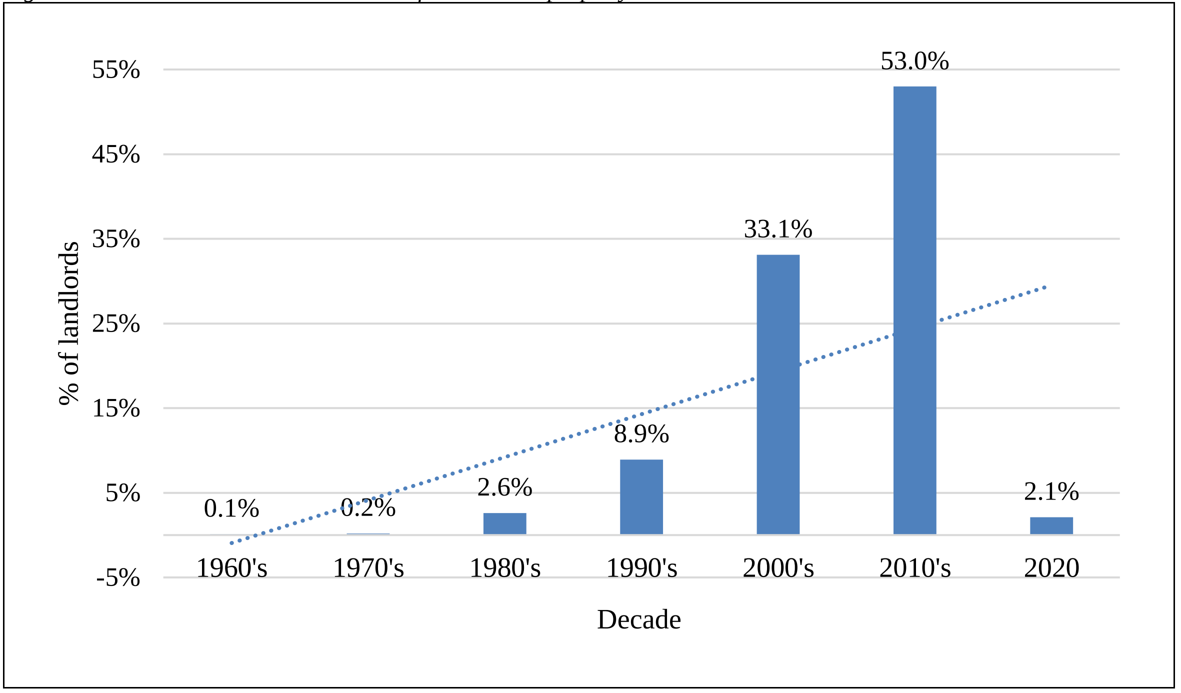
This picture has changed considerably since the 1990s when just 43% regarded the SPRS as an investment (Kemp & Rhodes, 1997) (Table 6.5– third column). The typology of investors proposed by Crook et al. (2009) does not include a detailed breakdown of motivations, though they make clear that 72% of landlords have an investment motive. Scanlon and Whitehead (2016) suggest a slightly higher figure of 76%, though both studies are of the same order as the findings of this study (73%).

The fact that the majority of landlords now have a primarily financial motive for holding PRS property provides this research with added impetus. Implicitly, it suggests that most would be likely to adhere to at least some aspects of normative investment theory.

6.3.2 Time as a Landlord

Respondents were asked in what year they first rented out a SPRS property. The majority (53%) became landlords during the 2010s, closely followed by the 2000s (33%) and 1990s (8.9%) (Figure 6.4).

Figure 6.4. The decade in which landlords first rented a property



(N=973)

The findings are aligned with previous English and UK studies. According to the MHCLG (2019), in England, 44% first became landlords over ten years ago and 56% started within the last ten years. Scanlon and Whitehead (2016) report UK figures of around 41% and 59% respectively.

The findings also mirror the sector's re-growth, which began in the 1990's, and continued throughout the 2000s and 2010s. The data for 2020 was only for part of that year and it remains to be seen how the sector's composition will change throughout the 2020s.

Those who reported their employment status as 'retired' were more likely to have been landlords for longer than those who reported being 'employed full-time'. In total, 48% of those who became landlords during the 1980s are now retired and just 4% are currently ‘employed full-time’. Conversely, 10% of those who became landlords during the 2010s are now retired and 60% are ‘employed full-time’.

The results show that four out of five landlords (78%) have over five years of experience being a landlord although these are not necessarily consecutive years of experience, whereas one in five (22%) have relatively little experience (less than five years).

6.3.3 Full- or Part-Time Landlord

For the majority (94%), landlordism is a part-time activity, broadly in line with previous studies. Crook et al. (2009, p. 31) suggests that 92% of landlords view the SPRS as a part-time pursuit with figures of 92% and 94% reported in English and UK studies respectively (MHCLG, 2011; Scanlon & Whitehead, 2016). Reflecting earlier concerns that SPRS involvement challenges ideas about retirement, 97% of retirees viewed the SPRS as a part-time job, apparently seeing no contradiction, with 3% viewing it as a full-time role.

These results reinforce the notion that landlordism is very much a secondary activity. Whilst the literature focuses on the amateur status this appears to confer, an interrelated concern is that many landlords will face time constraints, particularly (as mentioned earlier) those in full-time (non-SPRS) employment, and that these constraints may have implications for investment behaviours.

6.3.4 Property Portfolio Size

A total of 3,724 SPRS properties were owned between the respondents. For the most part, holdings are skewed towards a small portfolio size with a mean holding of 3.53 properties and a median of 2. The great majority of landlords (84%) own between one and four SPRS properties with 46% owning only one (Table 6.6, first column). Just 5% owned ten or more properties.

While different studies use differing bandings, it is possible to re-group them as can be seen in Table 6.6 below. There is a degree of difference in comparison to the findings of Crook et al. (2009), which likely results from the age of the data. However, there is a clear similarity with the findings of the two most recent surveys.

Table 6.6. Landlord portfolio size comparison

		Survey sample (%)	Crook *et al.* (2009) (%)	Watson and Bailey (2021) (%)	Ministry of Housing Communities and Local Government (2019a) (%)	Scanlon and Whitehead (2016) (%)
Sample geography		Scotland	Scotland	Scotland	England	UK
No of properties	1	46	39	48	45	62
	2 to 4	38	34	35	38	31
	5 or more	16	26	17	17	7

In comparison, the findings of Scanlon and Whitehead (2016) (UK survey) show a far higher percentage of single property landlords (62%).

Further analysis of the data reveals how portfolio size varies by landlord characteristics. Larger portfolios are associated with legal entities, older and retired landlords, men and those in a relationship (Table 6.7). The Chi-Square test of independence confirms that these were statistically significant differences. However, no statistical difference was found between education and portfolio size.

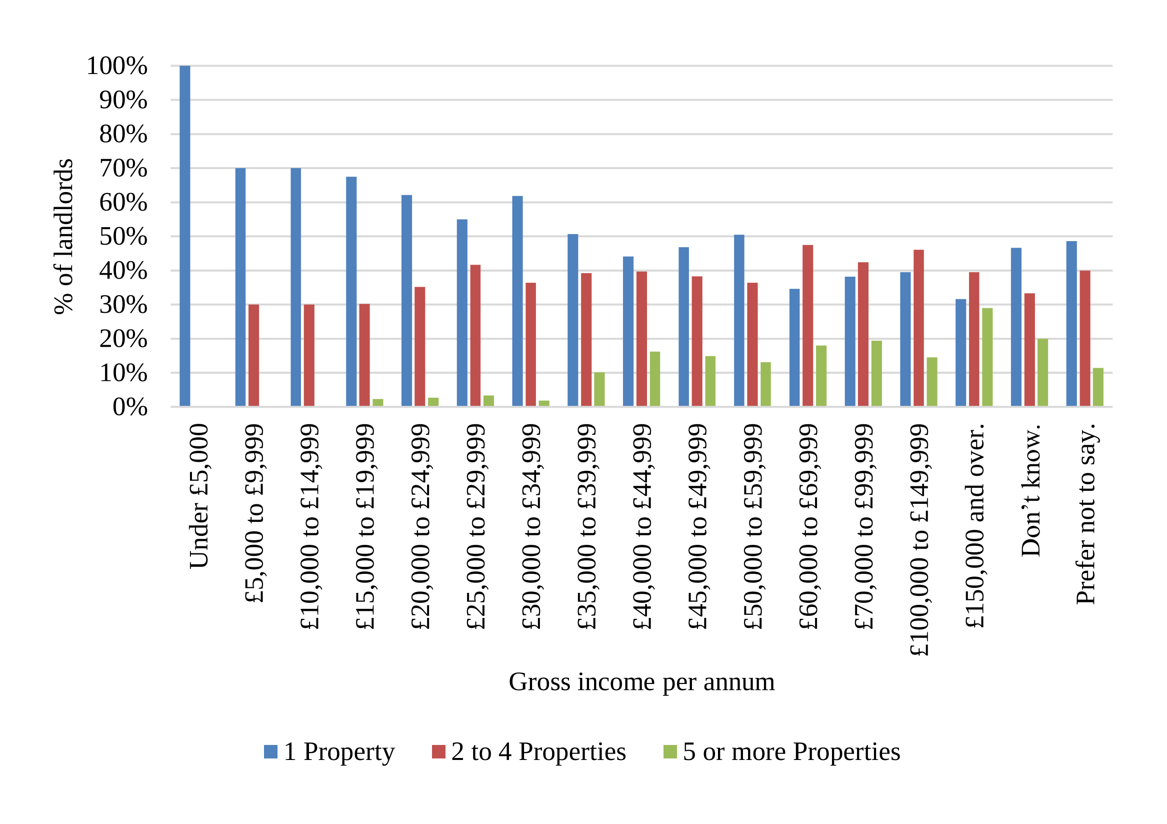
Table 6.7. No of properties owned by landlord characteristic

Characteristic	N	Percentage of landlords			Pearson chi-square test of independence
		1 property	2 to 4 properties	5 or more properties	
Landlord type					
Legal Entity	1054	24%	25%	51%	(χ^2=77.194, df=4, p<0.001)* (Cramer's V= .221, p<0.001)
Non-legal Entity		48%	40%	13%	
Other		0%	22%	78%	
Landlord age					
Under 25.	973	88%	13%	0%	(χ^2=45.193, df=10, p<0.001) (Cramer's V= .152, p<0.001)
25 to 34.		75%	16%	9%	
35 to 44.		59%	34%	7%	
45 to 54.		50%	40%	9%	
55 to 64.		39%	45%	15%	
65+.		44%	40%	16%	
Landlord gender					
Male.	973	38%	46%	16%	(χ^2=33.848, df=4, p<0.001) (Cramer's V= .132, p<0.001)
Female.		55%	35%	10%	
Prefer not to say.		75%	19%	6%	
Relationship status					
In a relationship	973	45%	41%	14%	(χ^2=15.221, df=4, p=0.004)* (Cramer's V= .086, p=0.007)
Not in a relationship		57%	34%	9%	
Other		86%	14%	0%	
Employment status					
Employed	972[a]	51%	37%	12%	(χ^2=16.395, df=4, p=0.003) (Cramer's V= .092, p=0.003)
Retired		39%	47%	14%	
All others		59%	32%	9%	
Education level					
High school	973	47%	37%	16%	(χ^2=4.123, df=4, p=0.390) (Cramer's V= .046, p=0.390)
College		40%	46%	14%	
University		50%	38%	11%	
Other		36%	41%	23%	

[a] Number of valid cases is different from the total count in the crosstabulation table because the cell counts have been rounded. * The percentage of cells that have an expected count of less than five is above 20%. In line with convention, the 'Likelihood Ratio' has been quoted rather than the 'Pearson Chi-Square'.

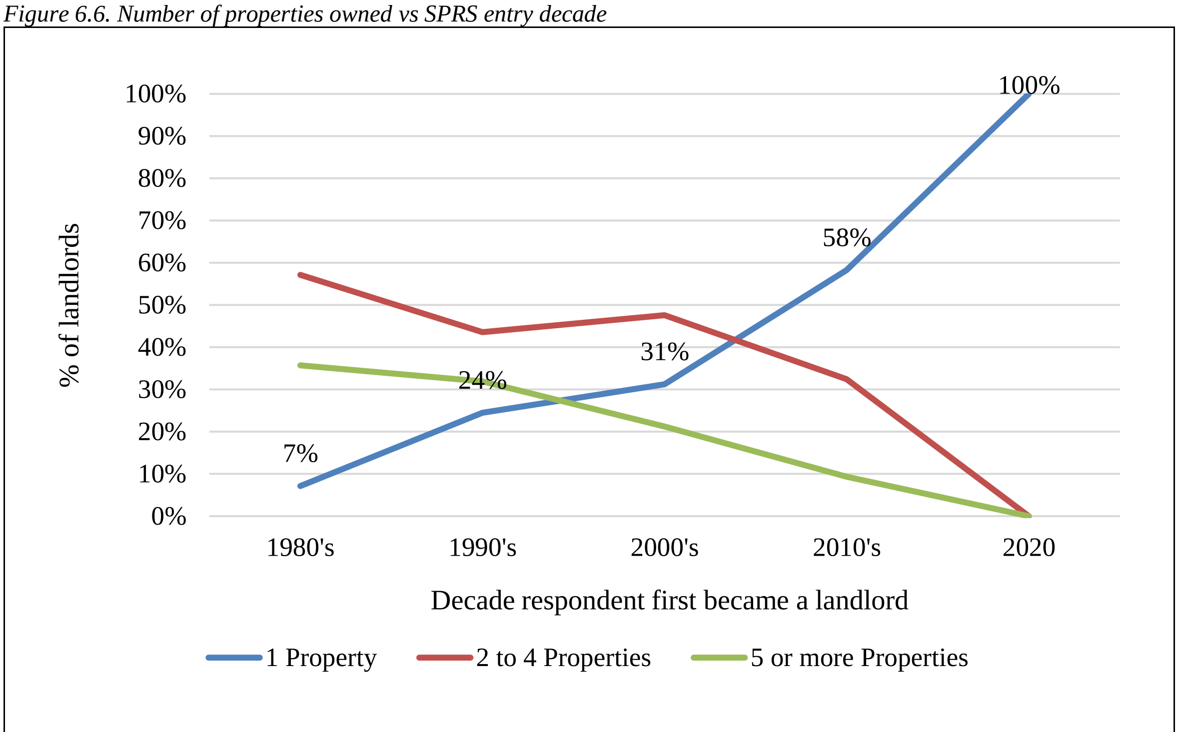
Landlords with higher incomes had larger portfolios though it should be noted that the former include income from the portfolios (Figure 6.5). Those who had been landlords longer also reported larger portfolios (Figure 6.6).

Figure 6.5. Landlord portfolio size by gross income



(N=973)

Figure 6.6. Number of properties owned vs SPRS entry decade



(N=973)

Small portfolio sizes have a number of implications for landlords, such as limiting their ability to diversify risk and reducing opportunities to benefit from economies of scale. To make matters worse, many of the benefits that theoretically accrue to entities via participation in fragmented industries, such as the ability to innovate and respond quickly to market changes (Johnson et al., 2005), are curtailed by the inherent characteristics of property and legislative complexity.

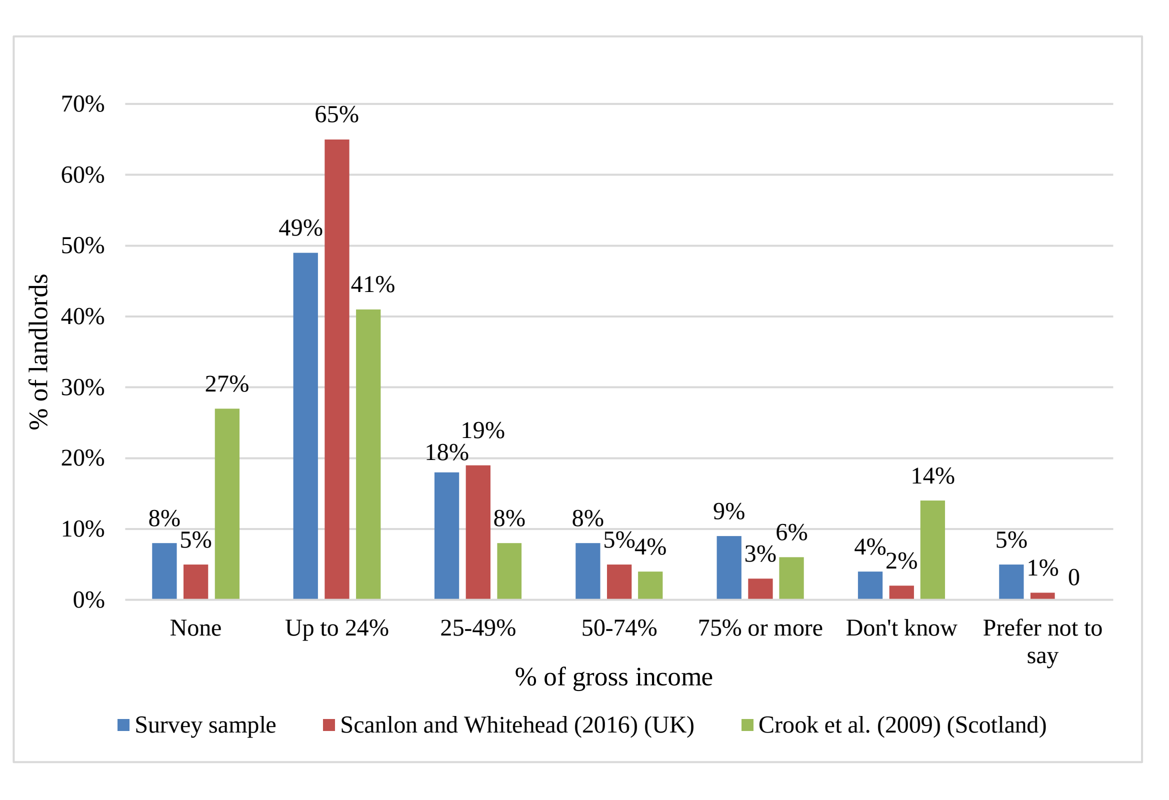
6.3.5 Rental Income as a Proportion of Gross Income

The proportion of the gross income that landlords derive from their PRS rental income is detailed in Figure 6.7. The vast majority (75%) obtain less than half of their gross income from the PRS. For more than half (57%) the PRS represents less than a quarter of their income.

The findings have broad similarities with Scanlon and Whitehead (2016), although the present survey suggests that landlords in Scotland derive a lower proportion of their gross income in the ‘up to 24%’ banding and a slightly higher proportion in the ’50-74%’ and ‘75% or more’ bandings than in the UK data (Figure 6.7). Earlier data (Crook et al., 2009) suggests that a quarter of landlords in Scotland received ‘none’ of their gross income from the SPRS which is a puzzlingly high proportion.

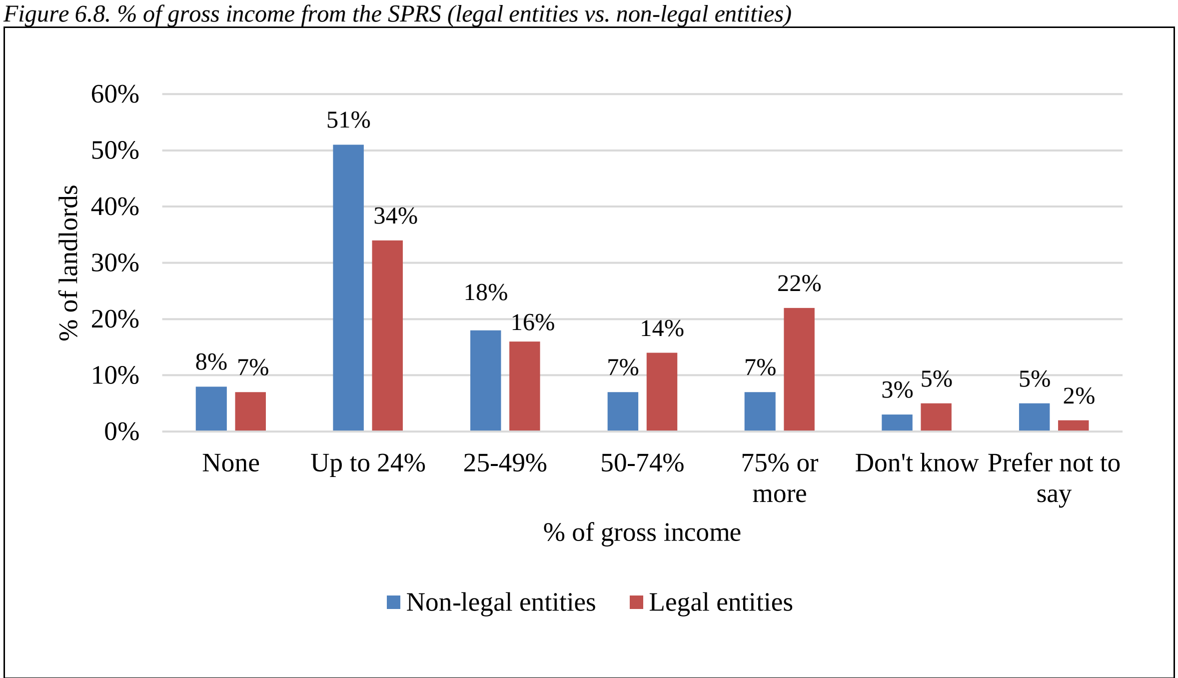
The proportion of gross income derived from SPRS property for non-legal entities (‘individual or couple’) is compared with that for legal entities (all remaining landlord types) in Figure 6.8. Whilst there are similarities in distribution, legal entities tend to derive a higher portion of their gross income from the SPRS than non-legal entities.

Figure 6.7. % of gross income from the PRS



(N=1054)

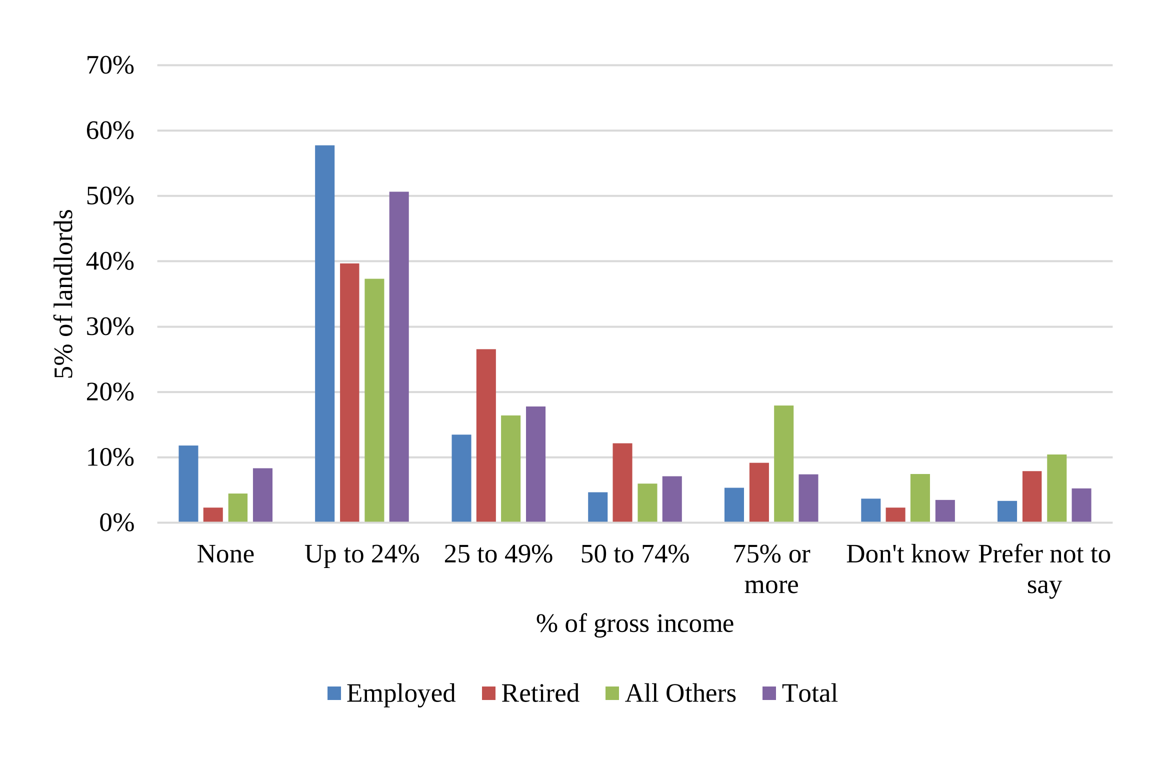
Figure 6.8. % of gross income from the SPRS (legal entities vs. non-legal entities)



(N=973)

The SPRS represented under a quarter of the gross income of the majority (58%) of landlords in employment (Figure 6.9) and two fifths (40%) in the case of retired landlords. The latter indicates that many do not fully rely on their SPRS investment(s) for their retirement income. In actuality, just 9% of retired individuals receive 75% or more of their gross income from the SPRS. This might imply that landlords apply a portfolio approach when investment planning for retirement although this will be further explored later.

Figure 6.9. % of gross income from the SPRS vs. employment status



(N=973)

It was reported earlier (Figure 6.3) that landlords have differing levels of gross income overall. It is now evident that landlords draw different levels of their gross income from their SPRS investments. Although the majority draw less than a quarter of their gross income from the SPRS, nearly one third (32%) draw over a quarter of their income from this primarily part-time pursuit. Chiming with the observations of Watson and Bailey (2021), it appears therefore, that landlords have quite different levels of reliance on their SPRS income, with some much more reliant upon it than others. For those with a high degree of reliance, there will be considerable pressure upon their SPRS investments to perform consistently, and it might therefore be reasonable to expect that these landlords will need to be particularly diligent in their approach to investment decision-making.

6.3.6 *The Allocation of SPRS Surplus/Profits*

The survey asked landlords what they used SPRS surplus/profit for. The findings show that most (40%) use their SPRS profits to support ‘day-to-day cost of living’, and a further 12% use the income to fund general consumption (e.g., to pay a regular bill and to pay for holidays and luxuries). Just under a third (31%) were saving or re-investing the income, and 9% did not make a surplus or profit (Table 6.8). Many of those who put themselves in the ‘other’ category would have been better categorised in one of the previous groups. In open text comments, several pointed to re-investing profits in the property via repairs, maintenance and general improvement, although this does not technically make the funds surplus. There were some unique answers, such as ‘*to pay my ex-husband’s debt*’, but none that offered coherent categories that had been overlooked by the survey.

Table 6.8. How SPRS surplus/profits are used

What SPRS surplus/profit is used for	% of landlords
To support your day-to-day cost of living.	40
To further pay down the property's mortgage/loan.	15
To pay a regular bill (e.g., school fees, car loan).	2
To pay for holidays and luxuries.	10
To save for a specific objective (e.g., a wedding, a child's education etc.).	4
To save for a deposit(s) to buy more property.	5
To re-invest in another type of investment.	7
I do not make a surplus/profit.	9
Not applicable.	2
Other.	6

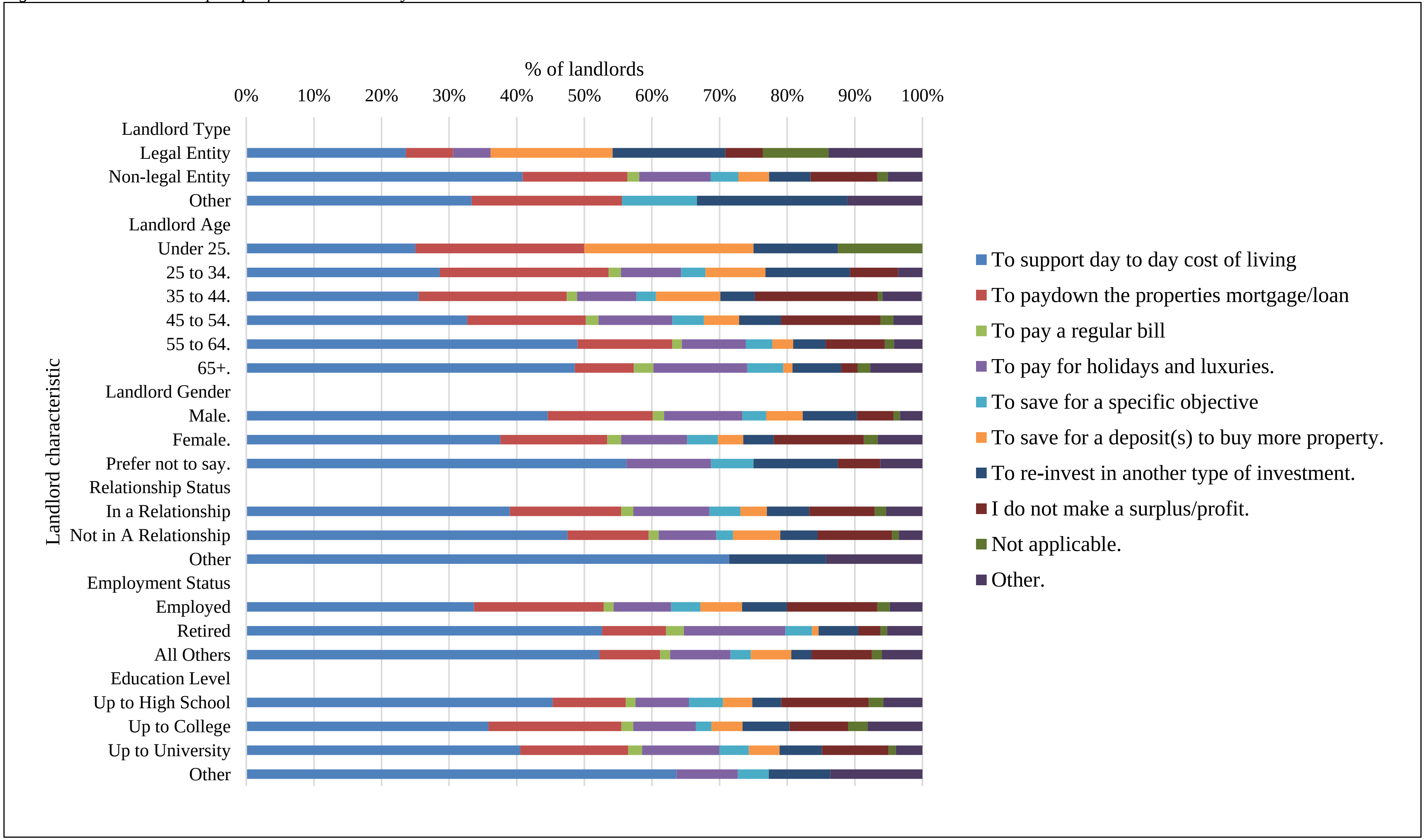
(N=1054)

Unsurprisingly, the characteristics of landlords had a bearing on the availability of surpluses and how surpluses were used (Figure 6.10): men were more likely to report surpluses/profit than woman; legal entities were more likely to re-invest surpluses than non-legal entities; younger landlords were more likely to re-invest surpluses than older landlords; those in relationships were less likely to use SPRS surpluses to support their day to day living than those not in relationships; and the employed were less likely to make a surplus and be more likely to be paying down debt than the retired.

The results offer a fresh perspective on the behaviours of landlords and the purposes of their PRS investments. Though for many, the SPRS represents a small part of their gross income (Figure 6.7), it still clearly plays a role in supporting many landlords' current consumption levels. While some of these results were anticipated, it was expected that a much larger proportion of landlords would be re-investing their surpluses/profits. Instead, many landlords appear to be simultaneously retaining their cake and eating it, with clear implications for the quantum of the long-term funds that will accrue. A further implication is that the bulk of landlords do not appear to be portfolio building, an observation supported in other surveys. For example, Scanlon and Whitehead (2016) identified that only 14% of UK landlords intended to increase their holding over the next five years. The MHCLG (2019) and Crook et al. (2009) reported the figures as 11% and 17% respectively over a two-year window.

The findings also provide a further indication of landlords being subject to behavioural biases. The direct allocation of fungible income in the form of rent to specific spend categories is symptomatic of mental accounting (Thaler, 1999). In addition, the fact that 9% do not make any profit at all raises some questions regarding the rationality of some investments from a purely financial perspective. It is feasible that in some cases landlords are choosing to forego rental income now in return for capital gains later, however, a forward look at the data suggests that this is not always the case.

Figure 6.10. How SPRS surplus/profits are used vs. key characteristics



(N=973

6.4 Landlord's Investment Characteristics

This sub-section analyses the data on landlord investment characteristics with a focus on the most recent SPRS property acquired.

6.4.1 Funding of the Most Recent Property

The majority (59%) of respondents funded their most recent SPRS property via a loan or mortgage. This was followed by those who bought their property with cash (32%) and those who inherited it (5%). The remaining 4% is taken up by landlords who received the property as a gift, acquired it as part of another transaction, built it, or acquired it in some other way (Table 6.9).

Funding differs markedly from Kemp and Rhodes (1997) when inheritance was the most popular funding method (40%) with just 11% using a loan or mortgage[24] (Table 6.9). This change is likely a consequence of the proliferation of buy-to-let mortgage products from the nineties. The current findings are in line with Watson and Bailey (2021), the most recent survey of landlords in Scotland. Although English and UK surveys take different methodological approaches, they too find that the majority of landlords use mortgages or loans (MHCLG, 2019; Scanlon & Whitehead, 2016).

[24] It should be noted that the earlier surveys (Crook et al., 2009; Kemp & Rhodes, 1997) relate to the sampled address and not the most recent purchase.

Table 6.9. Most recent property funding comparison

How property was obtained	Survey sample (%)	Watson and Bailey (2021) (%)	Crook et al. (2009) (%)	Kemp and Rhodes (1997) (%)
Sample geography	Scotland	Scotland	Scotland	Scotland
Bought it with cash.	32	34	19	34
Bought it with a loan/mortgage.	59	56	61	11
Inherited it.	5	7	14	40
Received it as a gift.	1	1	-	3
Rent it from another landlord.	0	-	-	-
Acquired it as part of another transaction.	1	1	-	-
Built it.	2	1	-	6
Acquired it some other way.	1	1	6	6

(N=1054)

Although landlord’s gearing levels will differ, the requirement to make a mortgage payment each month would rationally point to the need for landlords in this position to be extra vigilant in their investment approach. The relationship between landlords’ personal characteristics and the method of property acquisition is explored in Table 6.10. The data indicates that legal entities were equally likely to have obtained their most recent property using cash (41%) or a loan/mortgage (40%). On the other hand, non-legal entities were more likely to have used a loan/mortgage (60%) than cash (31%).

Those over the age of 65 were more likely to have used ‘cash’ and less likely to have used a ‘loan/mortgage’ than younger age groups with the exception of those under 25. The latter is believed to be anomalous due to the small number of landlords in this category. There are signs of intergenerational wealth transfer via both inheritance and gifting. The former is more spread across the bandings than the latter, which is concentrated in the younger age groups. There is little difference between the funding methods of male and female landlords, nor between those in a relationship or not in a relationship. However, landlords who were employed were far more likely to have used a ‘loan/mortgage’ (70%) than landlords who are retired (44%). Finally, those who attended university appear to be marginally more likely to use a ‘loan/mortgage’ than those with a ‘high school’ or ‘college’ educational level.

Table 6.10. Most recent property funding vs. key characteristics

Characteristic	N	Cash	Loan/mortgage	Inherited it	Received it as a gift	Rent it	Other transaction	Built it	Some other way	Pearson chi-square test of independence
		How the most recent property was obtained								
Landlord type										
Legal entity	1055 [a]	41%	40%	8%	0%	0%	3%	7%	1%	(χ^2=27.874, df=14, p=0.015)* (Cramer’s V= .145, p<0.001)
Non-legal entity		31%	60%	5%	1%	0%	0%	1%	1%	
Other		20%	60%	10%	0%	0%	10%	0%	0%	
Landlord Age										
Under 25.	972 [a]	50%	25%	0%	13%	0%	0%	0%	13%	(χ^2=114.017, df=35, p<0.001)* (Cramer’s V= .162, p<0.001)
25 to 34.		20%	69%	4%	7%	0%	0%	0%	0%	
35 to 44.		16%	78%	2%	3%	0%	0%	1%	0%	
45 to 54.		20%	70%	5%	1%	0%	0%	2%	0%	
55 to 64.		35%	57%	4%	0%	0%	0%	1%	1%	
65+.		48%	41%	8%	0%	0%	1%	1%	1%	
Landlord Gender										
Male.	973	33%	59%	4%	1%	0%	0%	2%	1%	(χ^2=24.334, df=14, p=0.042)* (Cramer’s V= .138, p=0.001)
Female.		31%	61%	6%	2%	0%	0%	0%	1%	
Prefer not to say.		19%	56%	6%	0%	0%	0%	13%	6%	
Relationship Status										
In a relationship	973	31%	60%	5%	1%	0%	0%	1%	1%	(χ^2=11.773, df=14, p=0.625)* (Cramer’s V= .070, p=0.791)
Not in a relationship		32%	58%	5%	2%	0%	1%	0%	1%	
Other		29%	71%	0%	0%	0%	0%	0%	0%	
Employment status										
Employed	973	22%	70%	5%	2%	0%	1%	1%	1%	(χ^2=88.366, df=14, p<0.001)* (Cramer’s V= .210, p<0.001)
Retired		48%	44%	5%	0%	0%	0%	1%	1%	
All 0thers		39%	46%	7%	3%	0%	0%	3%	1%	
Education level										
High school	975 [a]	34%	57%	7%	0%	1%	0%	1%	0%	(χ^2=33.116, df=21, p=0.045)* (Cramer’s V= .107, p=0.041)
College		34%	57%	6%	1%	0%	0%	2%	1%	
University		29%	62%	4%	2%	0%	1%	1%	1%	
Other		55%	32%	5%	0%	0%	0%	5%	5%	

[a] Number of valid cases is different from the total count in the crosstabulation table because the cell counts have been rounded. * The percentage of cells that have an expected count of less than five is above 20%. In line with convention, the ‘Likelihood Ratio’ has been quoted rather than the ‘Pearson Chi-Square’.

The analysis points to the pivotal role of personal mortgage debt in SPRS acquisition. This finding has broader macro-economic implications, and presents a risk to landlords in the event of default. It also suggests that if policymakers wish to control entry to the SPRS, the mortgage market would be a good place to begin. As most landlords have borrowed to invest in their SPRS property, it is perhaps reasonable to assume that they have done so via a robust investment process.

6.4.2 The Year the Most Recent SPRS Property Was Let

The majority of respondents (66%) reported that they first let their most recently acquired property during the 2010s (Table 6.11). The Table also shows the percentage of landlords who first became landlords in each decade.

Table 6.11. Year most recent property was rented

Decade	% of respondents who let their most recent property in this decade	% of respondents who became landlords in this decade
1960's	0	0
1970's	0	0
1980's	1	3
1990's	4	9
2000's	24	33
2010's	66	53
2020’s	5	2

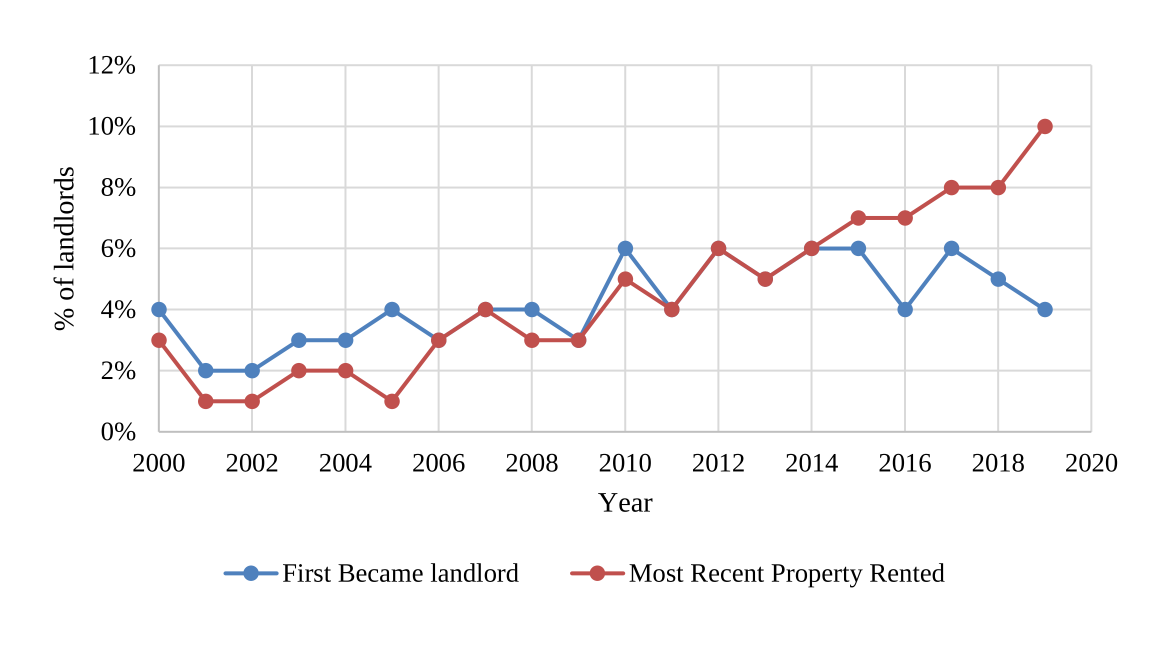
(N=1054)

Although 3% of respondents first became landlords in the 1980s, just 1% of respondents let their most recent property in that decade suggesting that some landlords were building portfolios in later decades[25]. This pattern continues in the 1990s and 2000s but is reversed in the 2010s, when the majority of respondents let their most recent property. The trajectory (Figure 6.11) shows a gradual but continued growth in new properties between

[25] It is feasible that some landlords were not portfolio building, but instead chose to leave the sector only to return at a later date.

2000 and 2019, but a downward trend in the number of landlords entering the market from its second highest ever level 2017. Surprisingly the global financial crisis reveals itself as a relatively small blip in the process.

Figure 6.11. Year most recent property was rented vs. year of becoming landlord



(N=1054)

Further novel analysis highlights that whilst 63% of respondents became a landlord and let their most recent property within the same year, 16% had been active in the sector for between 1 and 5 years before making their most recent SPRS acquisition and 21% for 6 years or more (Table 6.12).

Table 6.12. No of years between becoming a landlord and most recent property

No of years between becoming a landlord and most recent SPRS acquisition	% of landlords
0 years	63
1 year	6
2 to 5 years	11
6 to 10 years	10
Over 10 years	11

(N=1054)

6.4.3 Most Recent Property Location

The geographical location[26] of each respondent's most recently acquired property is provided in Table 6.13 below along with the geographical location of the respondent's own home. The bulk of SPRS properties are located in city regions (45%), with a further 40% grouped under rural areas. It should be noted that this classification does include some larger conurbations such as North Lanarkshire. Conversely, just 26% of landlords live in Scottish city regions and the majority live within rural areas (46%). In addition, 11% of respondents do not live in Scotland.

Table 6.13. Location of most recent property and landlord home

Geographical area	Location of the most recent property (% of landlords)	Location of respondent's home (% of landlords)
Edinburgh & Glasgow	33	20
Aberdeen & Dundee	12	6
Rest of the central belt	14	16
Rural areas	40	46
Prefer not to say	2	1
I do not live in Scotland	-	11

(N=1054)

Table 6.14 reveals that the majority of landlords live in the same geographical area in which they acquired their most recent SPRS property, although the percentages do vary. For example, 81% of landlord who live within the grouping 'Edinburgh and Glasgow' also bought within this grouping. However, just 54% of landlords living in the 'rest of the central belt', acquired their most recent property in that grouping.

A more granular analysis utilising local authority areas finds that most landlords acquire SPRS property in the local authority in which they reside. However, in areas such as East Dunbartonshire and East Renfrewshire this was not the case, with just 26% and 6% of landlords doing so respectively. This is likely to be influenced by the perception that

[26] As per groupings suggested by Crook et al. (2009).

neighbouring cities offer high tenant demand, healthy rental yields and positive capital growth.

Table 6.14. Location of most recent property vs. landlord home location

Landlord location	Property location (% of landlords)					Total (%)
	Edinburgh & Glasgow	Aberdeen & Dundee	Rest of the central belt	Rural areas	Prefer not to say	
Edinburgh & Glasgow	81	2	11	6	0	100
Aberdeen & Dundee	6	84	0	10	0	100
Rest of the central belt	37	1	54	8	1	100
Rural areas	14	11	4	71	0	100
Prefer not to say	33	0	17	33	17	100
I do not live in Scotland	32	11	10	34	14	100

(N=1054)

The fact that landlords tend to invest in SPRS property locally is in one sense entirely rational. Close proximity allows landlords to 'know the area' thereby potentially reducing a variety of investment risks. For those who choose to self-manage, geographical proximity could be viewed as a critical success factor, due to the potential to reduce management costs. However, this strategy also points to a lack of geographical diversification, meaning that many landlords are subject to the vagaries of local markets.

6.4.4 Property Capital Value

Landlords were asked to estimate the capital value of their most recent SPRS acquisition when it was first rented. The mean capital value of these properties was £120,903 and the median £100,000. The spread is large (£15,000 to almost £900,000) although more than three quarters (77%) were valued at less than £150k (Table 6.15).

The capital values of SPRS properties are not detailed in existing studies. In research focused on England or the UK as a whole, the focus is primarily on combined portfolio values (MHCLG, 2019; Scanlon & Whitehead, 2016). Whilst this is interesting, a more granular understanding of the capital values of individual properties allows for a better understanding of the type of properties landlords are acquiring and the issues these present not only in terms of investment risk, but also with regards the implications for housing supply within different market segments.

A sizeable portion of landlords are clearly targeting the bottom end of the market. In fact, 23% of the respondents' most recent RPS acquisitions fall within the sub-£65k bracket, which is identified by Watson (2018) as constituting the bottom end. Caution is required here; these figures relate to when the property was first rented (nominal data), which in some cases, is some time ago (see Table 6.11). However, Table 6.15 addresses this by adding landlords' estimates of the property values at the point of survey[27] in column 3 (real data). Re-applying the notional £65k threshold to current day valuations points to 14% of respondents' most recent acquisitions falling within this threshold, although applying inflation to Watsons (2018) figure increases this to around 28%. Regardless, this means that a sizeable proportion of landlords operate in this space. The mean current value of the respondents' most recent SPRS acquisition was £142,793 and the median £120,000. This mean is slightly lower than the mean property value in Scotland, which was £155,191 at the time of the survey (HM Land Registry, 2020). The spread in the survey data remains large with a minimum below £15,000 and a maximum of £1,100,000, highlighting both capital losses and gains within the cohort. In comparison to the value at acquisition, less than three quarters (69%) of current values were under £150k.

The most prevalent capital value banding both at point of acquisition (38%) and at point of survey (33%) is the £50,000 to £100,000 banding suggesting that this may represent an

[27] The survey took place in Q4 2020.

investment ‘sweet spot’. This of course assumes that landlords choose investments which maximise rental income, capital growth or both.

Table 6.15. Capital value of most recent property when first rented vs. current value

Property capital value	% of landlords by property value when first rented	% of landlords by property value at point of survey
Less than or equal to £50,000	13	7
£50,001-£100,000	38	33
£100,001-£150,000	26	29
£150,001-£200,000	13	15
£200,001-£250,001	5	7
£250,000-£300,000	2	4
£300,001-£350,000	1	1
£350,001-£400,000	1	2
Greater than £400,000	1	2

(N=1054)

6.5 RQ1 Summary Discussion

The primary goal of RQ1 was to obtain an up-to-date understanding of who landlords are and what their SPRS investments in Scotland look like. The findings have painted a vivid picture of the key personal characteristics of landlords and their investments. Overall, these findings are hardly surprising given the ethnic make-up of Scotland and the tendency for wealth to be accumulated over time. They are also broadly in line with earlier studies and, as such, the data can be considered as a refresh of the extant knowledge. However, the data does point to changes in the composition of the sector. In particular, a growing role for women within the SPRS, who now make up the majority of landlords in the ‘single’, ‘civil partnership’, ‘divorced’, ‘widowed’, ‘cohabiting’, and ‘other’ relationship status categories.

In terms of the nature of landlordism, most respondents had five or more years’ experience and viewed the SPRS as a part-time venture undertaken as an investment. Portfolio sizes are small, with the vast majority owning four properties or fewer. These insights are also in keeping with extant academic knowledge (Crook et al., 2009; Watson & Bailey, 2021).

The proportion of gross income landlords derive from SPRS rental income varies a lot, although for just under half, it constitutes 25% or more. Again, this is well established in the literature, however, the insight that a small majority use SPRS profits to fund their general day to day consumption is novel, and not only illustrates the importance of rental cash flows, but also raises questions around the ability of landlords to sustain themselves and their investments when times ‘get tough’.

With regards to investment characteristics, the most recent property acquired by respondents had a mean current capital value under £150k and was purchased in the same year that respondents first became a landlord. Using a new approach, the data identified that the majority invest in properties within their immediate local authority area or alternatively, within their nearest major city region.

This chapter has identified a number of statistically significant associations between landlord personal characteristics, the nature of their landlordism and the investment characteristics associated with their most recent properties. Whilst interesting in their own right, these associations point to the importance of this characteristics data (and the need to regularly refresh it) and gives some credence to the existing landlord typologies which they undergird. After all, the survey data and these typologies clearly tell us who landlords are, what properties they have and why they have them.

However, as noted earlier, both the data and the typologies are one-dimensional and therefore limited, these characteristics do not exist in isolation, they both shape and are shaped by landlord investment behaviours. The extant PRS literature is silent on these behaviours, and this could be by omission or by the assumption that landlords act ‘as if’ adhering to normative investment behaviours. The latter seems more plausible. So much so in fact, that it is also the basis for the implications and assumptions drawn from the survey data in the sections above.

However, the question of how landlords approach investment is not made explicit within the wider PRS literature, which also fails to take account of the investment literature and observations therein that private investors tend to deviate from normative investment behaviours. Therefore, to progress, it is necessary to identify the extent to which landlords adhere to the normative investment process and this is the task of the next chapter.

7 CHAPTER 7- DEVIATIONS FROM STAGE 1

Chapter 7, Chapter 8 and Chapter 9 are concerned with answering RQ2 (*'What are the investment behaviours of landlords in relation to the normative investment process and where/why do deviations occur?*). The normative investment process referenced in the question is as synthesised/defined in the literature review (Figure 4.1). The goal of the question is to understand actual landlord investment behaviours in relation to the requirements of each of the three stages of the process, and to identify reasons for any deviations therein.

To answer the first part of the question ('*What are the investment behaviours of landlords in relation to the normative investment process and where… do deviations occur?*'), data is principally drawn from the online survey. The second part of the question, ('… *why do deviations occur?*') is largely answered via data from the semi-structured (qualitative) interviews.

This Chapter 7 reports on stage 1, which is focused on investment criteria and specifically, the setting of investment objectives in relation to investment constraints (investment time horizon) and landlord risk tolerance levels. Chapter 8 reports on stage 2, which is concerned with asset allocation and asset selection decisions and Chapter 9 reports on stage 3, which focuses on investment monitoring, investment management and divestment decisions.

7.1 Stage 1- Investment Objective Setting

The literature review framed setting detailed financial objectives as a crucial step in the normative investment process and a prerequisite of the asset allocation and asset selection decisions made during Stage 2. As such, the extent to which landlords set objectives was chosen as a key measure of the extent to which they adhere to the first stage of the normative investment process. It should be noted that objectives do not always have to be financial, although given that the majority (73%) of respondents cited financial motivations for acquiring/retaining their most recent PRS property, they should be for most landlords.

7.1.1 Do Landlords Have Clear Investment Objectives?

Landlords completing the online survey were asked to select from a range of statements the one which best described their financial objectives for their most recent PRS property[28]. The findings are detailed in Table 7.1 below. In summary, when prompted, 64% said they have set some form of financial objective but just 5% had detailed financial objectives; the majority of landlords (58%) have set 'non-detailed' or 'general' objectives. Just under one third of landlords (32%) did not set any financial objectives with regards to their most recently acquired SPRS property.

Table 7.1. Landlord investment objectives

Statement	% of landlords
I have set detailed financial objectives. (For example: to earn 6% net income return per year over 15 years and capital growth of 2% per annum).	5
I have set specific, but non-detailed financial objectives. (For example: to supplement my/our private pension(s) in retirement).	36
I have set general financial objectives (For example: to save for the future).	23
I have not set financial objectives.	32
I do not seek a financial return.	3
Don't know.	2

(N=1054)

As previously noted, there is no directly comparable data within the wider PRS literature, though the findings reflect observations made during the literature review that objective

[28] The financial objectives associated with landlords most recent PRS acquisition is used here a proxy for the setting of investment objectives overall.

setting receives little attention from investors in general (Laopodis, 2013). Despite this, far fewer landlords than anticipated have set 'detailed' financial objectives, pointing to a clear deviation from the normative process. It is interesting that just under one third 'have not set financial objectives' at all, even more so considering that further analysis shows that 67% of those respondents viewed their SPRS holding as investment designed to provide income, capital growth or both. It is concerning that the vast majority of landlords (90%) have either not set objectives or set non-detailed or general objectives. This has a number of implications with regards to asset allocation, asset selection, performance management and divestment, which will be discussed later in the chapter.

Objective setting varies by landlord characteristic. For example, and as might be expected, a higher percentage of legal entities (21%) set detailed objectives than non-legal entities (4%) suggesting a more professional approach in some cases, although just over one fifth of legal entities (23%) failed to set any financial objectives, suggesting that not all legal entities should be viewed as professional investors (Table 7.2). Older landlords are less likely to set detailed objectives and more likely to have no financial objectives. Other characteristics yielded differences but these were often very small. For example, males were marginally more likely to have set specific, but non-detailed (38% vs 34%) and general financial objectives (24% vs 22%) than women, and marginally less likely to not have set any financial objectives (32% vs 34%). Similarly, fewer of those who were retired had set detailed objectives (2%) than those who were employed (5%), and those educated up to high school level were less likely to set detailed objectives, or indeed any form of objectives, than those with higher levels of education.

Table 7.2. Landlord investment objectives by characteristic

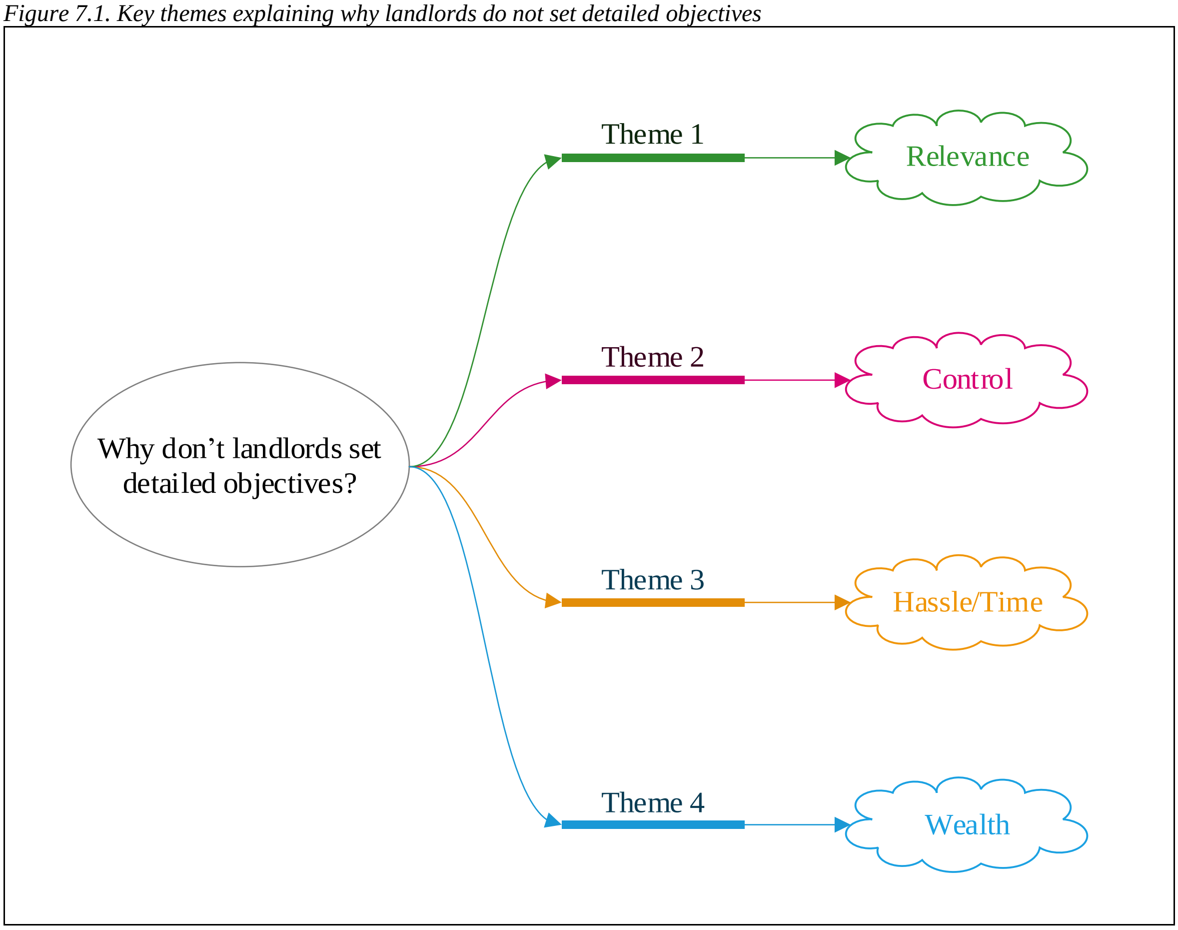
Characteristic	N	Level of financial objectives set: Detailed	Specific, but non-detailed	General	None	No return sought	Don't know	Pearson chi-square test of independence
Summary								
All landlords	1054	5%	36%	23%	32%	3%	2%	
Landlord type								
Legal entity	1054	21%	31%	24%	23%	0%	1%	(χ^2=35.774, df=10, p<0.001)* (Cramer's V= .157, p<0.001)
Non-legal entity		4%	36%	23%	32%	3%	2%	
Other		30%	30%	10%	30%	0%	0%	
Landlord age								
Under 25	972[a]	13%	25%	50%	13%	0%	0%	(χ^2=55.858, df=25, p<0.001)* (Cramer's V= .114, p<0.001)
25 to 34		7%	20%	33%	25%	13%	2%	
35 to 44		5%	29%	32%	30%	3%	1%	
45 to 54		4%	34%	24%	32%	3%	3%	
55 to 64		4%	41%	20%	32%	1%	2%	
65+		1%	40%	17%	37%	3%	1%	
Landlord gender								
Male	972[a]	4%	38%	24%	32%	1%	1%	(χ^2=18.714, df=10, p=0.044)* (Cramer's V= .094, p=0.069)
Female		4%	34%	22%	34%	4%	2%	
Prefer not to say		0%	44%	31%	13%	6%	6%	
Relationship status								
In a relationship	972[a]	4%	37%	22%	32%	3%	2%	(χ^2=16.190, df=10, p=0.094)* (Cramer's V= .088, p=0.135)
Not in A relationship		4%	32%	26%	34%	2%	1%	
Other		0%	86%	0%	0%	14%	0%	
Employment status								
Employed	972[a]	5%	33%	26%	31%	3%	2%	(χ^2=25.397, df=10, p=0.005) (Cramer's V= .114, p=0.005)
Retired		2%	42%	16%	36%	3%	1%	
All others		5%	33%	24%	32%	3%	3%	
Education level								
High school	971[a]	2%	33%	17%	44%	1%	2%	(χ^2=20.893, df=15, p=0.140)* (Cramer's V= .084, p=0.149)
College		4%	41%	20%	30%	2%	3%	
University		5%	35%	25%	31%	3%	1%	
Other		5%	48%	14%	29%	0%	5%	

[a] Number of valid cases is different from the total count in the crosstabulation table because the cell counts have been rounded. *The percentage of cells that have an expected count of less than five is above 20%. In line with convention, the 'Likelihood Ratio' has been quoted rather than the 'Pearson Chi-Square'.

7.1.2 Why Do Landlords Not Set Detailed Objectives?

During the qualitative interviews, an attempt was made to understand why landlords did not set detailed objectives prior to making their SPRS investments. Landlords and SPRS professionals offered a number of justifications or excuses for this omission, including the observation that objective setting was not '*sexy*' (Frank, letting agent) and thereby not in line with landlord perceptions of the sector. However, four key themes emerged: relevance, control, hassle/time, and wealth (Figure 7.1), which are discussed in more detail below.

Figure 7.1. Key themes explaining why landlords do not set detailed objectives



7.1.2.1 Relevance

A few of the participants viewed setting investment objectives as something ethereal that a business or a large-scale landlord would undertake, not as something relevant to them. Paul typified this view:

> '*I suppose if this was a property investment business with shareholders or multiple investors, then we would have to take a more statistical approach to it and to set some targets, and measure against those targets.*'

Paul tacitly acknowledges the importance and value of setting objectives but abstains from setting them by reason of his 'amateur' status. It could be argued that setting financial objectives is equally important for a private individual as it is for a business or large-scale investor. Don (letting agent) felt that many landlords did not set detailed objectives as small portfolio sizes led them to adopt a '*very basic approach*'.

7.1.2.2 Control

Some felt that setting objectives was futile as they could not control outcomes or were setting themselves up to fail. For example, Mark noted:

> '*I'm not going to sit and wring my hands and say, I need to have 5% yield next year, because what happens if there's a worldwide crash or Coronavirus hits? They can be arbitrary targets for no reason*.'

Paul seconded this view noting:

> '*In my case, I thought if I set too strict an objective, I might find it hard to meet the objective.*'

However, it should be noted that part of the point of having objectives is that the performance of investments can be measured against them and risk management actions and/or alternative investment decisions taken in response to environmental changes such as a '*worldwide crash or Coronavirus*'. In any event, objectives should not be '*arbitrary*' and should be realistic.

7.1.2.3 Hassle/Time

Others appeared to feel that setting objectives was a hassle, either because it was too much like hard work or too onerous in terms of time. John illustrates this view, whilst also questioning the 'relevance' of setting objectives:

> '*It's not something I'd consider [setting formal objectives]. As far as I'm concerned, my career is finished. This is just me slowly cruising towards the grave in a nice relaxed manner… I just want to relax now.*'

Robert did not appear to want the hassle of setting of objectives as his SPRS investment was not his '*main business*':

> '*I never did [set investment objectives]. It was a wide, kind of vague idea, but there was nothing specific, nothing concrete. As I say, I wanted more money at the end of the month than I was putting out. As long as that was happening, I was happy to let it sit there. Maybe it's because it's not my main business.*'

Paul was extremely forthright suggesting that he simply couldn't be bothered setting objectives:

> '*I'm lazy, and I can't be bothered. It probably again comes back to that comfort factor.*'

Deepika noted the role of competing time pressures:

‘*Formal financial objectives?... I just don't really have the time, to be honest. [laughs]. I've got kids, I've got businesses, I've got a very hectic life.*’

Frank (letting agent), suggested that time constraints were an issue for many landlords:

‘*I’d say that most landlords that we deal with, they’re quite…they’re just kind of normal people with busy lives, they don’t want to spend the time going into too much detail.*’

It became clear that most landlords framed the SPRS as a part-time passive income generating investment and that they believed that having to spend time setting financial objectives was counter to this. However, setting objectives is not a particularly time-intensive or onerous task as demonstrated by Jack, who was able to set objectives in just a few seconds during the interview:

‘*It’s in my head. I know it’s for my pension, but that seems a long way away. I haven’t worked out how much I will need when I retire. I’ve not even thought about how I’d go about that. I’d need to start thinking about inflation, taxation, uuurrgh. Then again, I guess, 10 properties at £300 net a month gives me £3k a month. Seems doable and liveable? There you go, objective set, job done.*’

This is clearly an overly simplistic approach, and if Jack factored in other sources of income such as his private and state pension forecasts (if any), he may find that he needs fewer properties to meet his pension requirements. He could therefore re-direct the time and capital that would have been spent building an unnecessarily large SPRS portfolio towards other avenues such as his family, hobbies and/or interests. Many landlords were not thinking in these terms.

7.1.2.4 Wealth

The final theme that emerged from the data was ‘wealth’. Some landlords posited that objectives were superfluous as they were sufficiently wealthy that they did not have to rely upon their PRS investment returns and therefore had no reason to maximise them and so instead choose to satisfice. When Patrick was asked if there was a reason for not setting financial objectives and whether he thought there could be a benefit to doing so, he suggested that it would be a futile exercise:

> ‘*I can see that [setting objectives] working for people who need to live off it. They need to set money aside for a pension. They need to think about what they're doing for the future. As I said, we're very lucky in that we can exist quite happily without either of the properties and on what I get as a pension, what I will get as an old-age pension plus my wife's salary, we were neither of us underpaid.*’

Lorna, similarly did not need the income, as she had sufficient income from other sources:

> ‘*No, we don’t do that [set financial objectives]… I earn enough to support both of us. We're not looking to buy another place. We're not looking to pay off our mortgage within a certain amount of time. I haven't got any time-based goals. If it makes us a bit of money on the side, then that's brilliant…I got enough coming in otherwise.*’

Mark, was ‘*not hung up on a specific target for any given property or portfolio’* as long as he and his wife had ‘*enough money’* to do what they ‘*wanted to do*’. In an example which broadly summaries the wealth excuse, Stuart notes that:

‘*Not everybody is sophisticated financially, and some people, if you're wealthy enough, then you don't really need to have specific goals for things like retirement or school fees… I'm wealthier than most people that are in…But I don't really set goals. The only goal I set is, have all my properties rented out at a fair market rent?*’

This theme aligns with the diminishing value of wealth concept discussed earlier and once more points to landlords satisficing rather than maximising.

7.1.3 Non-detailed/General Objectives and Objectives in Specific Domains

The non-detailed/general objectives set by landlords were often vague to the point of having minimal value as a guide to investment decisions. These included to obtain ‘*a regular rent… as a sort of pension, or pension supplement*’ (Jane); to have ‘*a steady rental income*’, which will ‘*supplement the state pension and small works pension*’ (Joanne); and to provide a ‘*family investment pension sort of thing*’ (Brian).

Separately, it is interesting that some landlords who did not set detailed objectives, were able to set arbitrary objectives in some domains. For example, most were able to articulate how many properties they ultimately intended to purchase, with some expressing a desire to ultimately own five, ten, twelve, fifteen or twenty properties. However, most were unable to provide a financial rationale for these aspirations, which instead were largely driven by biases and heuristics. When James was asked to venture why landlords, including himself, tended to focus on obtaining an arbitrary number of properties, he responded:

‘*I don't know if it's just arithmetic and you're comfortable with rounded 5, 10, 20s numbers.*’

Bill (mortgage broker) reported that five properties was a common target and provided some justification for this choice:

> '*If you're buying them on a repayment [mortgage], and at the end of the terms you're going to own these properties outright, then if you've got five properties, say at an average, £500 or £600 per month, that's not a bad retirement income. You're taxed on it of course, but it's not a bad retirement income. Because very few pension will return that sort of money. You know, you can imagine just how much has to go into a pension to get £2,500, £3,000, £3,500 a month. So, five, if you're doing them on repayment.*'

Paul had other reasons for targeting 10 properties:

> '*I'd like to get to 10 purely because it sounds like a nice, round number. I can't currently afford to buy the 10th but I have every intention of getting number 10 on there. Why is that a magic number? You know what?... I went on a business basics training course and they talk about investment portfolios…If you have shares in 10 companies, then that's a good spread of risk and return. That was a statistical model and it was based on equities, on shares. It probably stuck in my mind that you never invest in individual assets, individual shares. Always have a portfolio. When it comes to property, don't just have one, have a spread.*
>
> *Currently, I've got nine, I would like it to be 10. It's a nice round number and probably stems back to that feeling that to…have a spread of risk, to have 10 properties is better than having just one or two.*'

As the literature review highlighted however, diversification is about more than the number of investments. He went on to reference a historic interaction with someone who had ten properties:

‘*She just managed 10 rental properties. She was in her 20s, 30s. No, probably early 30s, I would guess at that time. I went away from that thinking, ‘Wow, so you can just live off the rental income from 10 properties at age, early 30s.’ Another reason perhaps why that number 10 just resonates with me.*’

This clearly points to behavioural bias in the form of the ‘Anchoring Bias’. Brian’s reason was possibly more abstract:

‘*One of the reasons we're called [name] is I had it in my head, that we will have [x] properties. So, we got to [x-1], so I've got one more property to go.*’

So strong was his desire to reach his target number of properties that he was holding onto a problematic property, because selling it would mean that he was further away from his goal.

With objectives as arbitrary as these, it is apparent that some landlords are not asking themselves pertinent questions regarding their investment. This is confirmed by Sarah (an experienced letting agent) who had specifically purchased some SPRS properties to support her retirement, but had not set detailed objectives. She was asked:

‘*Did you have a sense of how much of your income that those properties would replace and therefore how many properties you would actually need? Did you go through that kind of calculation?’*

She responded:

‘No. No. I can’t say I did. No, absolutely not. I just bought them as I saw them come up...’

The question posed above is not left field. It is exactly the type of question that a financial planner would ask a client. Case in point, Peter (financial planner) asks his clients:

‘*Why do you need more money in your pension? What have you got, just now? What's your income, just now? What's your expenditure? What are you likely to need in retirement?*’

The upshot of landlords not asking these questions is that some approach the SPRS as a life size game of Monopoly, whereby they acquire assets that they come across when they can afford them without any real idea of how they align with their needs. The latter is evident in the case of John who buoyed by low interest rates intended to gather assets with abandon:

‘*There is no ideal, obviously, the bigger the better. The more you're borrowing the better. There's no ideal size. Who doesn't want more property?*’

Peter (financial planner) was understated when noted that this type of reasoning was ‘*maybe not a good enough reason to invest*’. In fact, as noted in the previous section, some had acquired properties that they did not really need to support their income or retirement. Patrick for example ‘*could do without*’ his SPRS income. The absence of detailed objectives means that landlords are misallocating capital and missing out on alternative uses.

7.1.4 Contradictions, Oversights & Specific Domains

It should be noted that there were some contradictions and oversights in landlord responses. Specifically, some who claimed not to have set objectives, clearly had done so even if it was to a lesser degree than might be expected. For example, John strongly stated that objective setting was not something he would consider. However, further discussion revealed that he had used savings from income to secure mortgage debt which allowed him to create a £600k SPRS property portfolio. The individual properties in the portfolio were selected to produce a combined net rental income in the order of £1,800 to

£2,000 per month thereby allowing him to take early retirement. Rodney also unwittingly set objectives:

> '*No, I never really, say, considered it [setting objectives]. At that point, it just became, because I had an endpoint of, it's a means to end that tied in with almost like a 12-year mortgage. It's a 12-year investment at that time, my daughter would be 18. It was hopefully something that sat in the background that was relatively, maybe bar about £100, £150 a month it was cash neutral over the piece. Then it just became, 'Right that's a 12-year plan*'.

He later acknowledged that perhaps '*in your mind, you do more calculations than you give yourself credit for*'. This may also be the case for some other landlords, but for many, SPRS investment is clearly not being driven by detailed financial objectives.

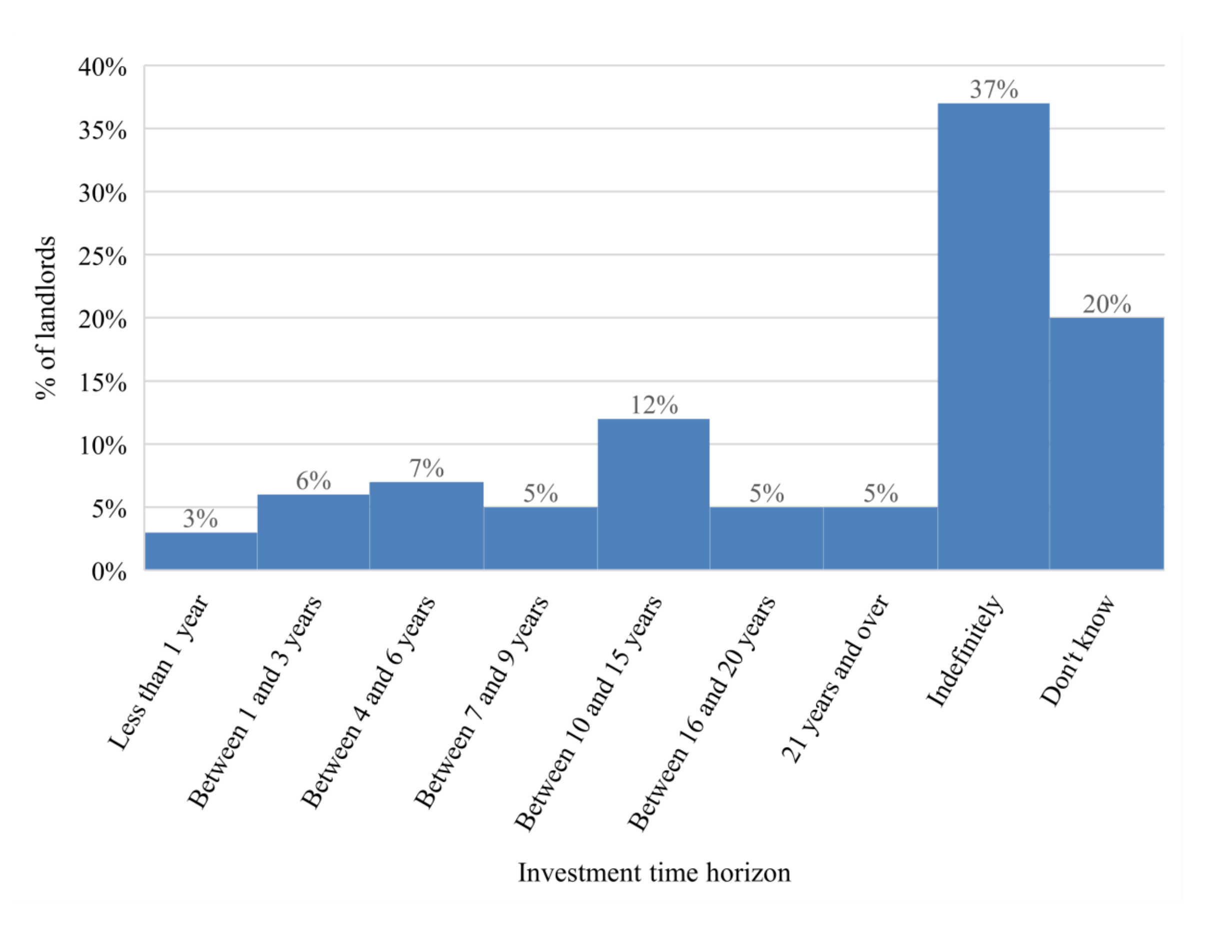
7.2 Stage 1- Investment Constraints

7.2.1 Do Landlords Consider Investment Constraints?

As previously noted, investment constraints are factors which can impact upon the suitability of different investment types. The proceeding sections allude to landlords considering some constraints such as affordability. However, the investment time horizon is a critical constraint and as such has been selected as a proxy to identify the extent to which landlords consider investment constraints overall.

Although residential property can be 'flipped' to realise short term gains, a PRS investment is generally better suited to a long-term investment time horizon. To identify if landlords have considered investment constraints and made appropriate decisions thereafter, survey participants were asked to select the investment time horizon for their most recently acquired SPRS property from a range of options. Taking ten years as a long-term investment, 59% of landlords had a long-term investment time horizon and conversely 33% had a short-term time horizon (Figure 7.2). Furthermore, one in five landlords (20%) did not know their investment time scale.

Figure 7.2. Landlord investment time horizon for most recent property



(N=1054)

In light of the absence of detailed financial objectives for many landlords, the latter is not entirely unexpected. If landlords have not considered their investment time horizon, it can be reasonably assumed that they will not have considered subsequent stages of the normative investment process. In particular, the observation that 37% intend to keep their property indefinitely is striking and could point to a lack of robust divestment planning, although this will be explored in more detail later.

It might be expected that those with a short-term investment time horizon would largely comprise of circumstantial landlords[29] and others for whom their SPRS holding is not primarily investment driven. However, in every short-term investment time horizon category, the majority of landlords stated that their SPRS acquisition had an investment motivation of some kind. In some cases, short holding periods may be a response to the investment environment, in others they may result from landlords failing to fully consider the characteristics of property (in particular illiquidity and transaction costs), when making investment decisions.

7.3 Stage 1- Risk Tolerance

7.3.1 Are Landlords Aware of their Risk Tolerance?

Risk tolerance is defined here as the '*willingness of an investor to take financial risks*' and is considered '*essential to determining investment suitability*' (Davies & Brooks, 2014, p. 110). In order to ascertain the risk tolerance of landlords, they were asked to rate their willingness to take financial risks based upon a seven-point scale (Table 7.3). The same percentage of landlords rated themselves as below average risk takers as rated themselves as average risk takers (44% in each case), whilst 12% identified as above average risk takers. Though 18% identified as extremely low or very low risk takers, just 11% identified as high or very high risk takers.

Table 7.3. Landlord risk tolerance assessment

Willingness to take financial risks	% of landlords
Extremely low risk taker	8
Very low risk taker	10
Low risk taker	27
Average risk taker	44

[29] Those who decided to retain a residential property resulting from inheritance, co-habitation etc., and use it as an SPRS investment, as opposed to those who purposively acquired a residential property as an investment.

High risk taker	11
Very high-risk taker	1
Extremely high-risk taker	0

(N=1054)

On the whole landlords reported low levels of financial risk tolerance and therefore can be described as risk averse in their approach to investments. This is line with assumptions inherent within normative investment models and reflects observations regarding private investors in the investment literature (Klement, 2015). In fact, if UK population estimates by Aegon hold true (Esnerova, 2019), private sector landlords may be comparatively more financially risk averse than the population in general.

Comparison with the characteristics data reveals a statistically significant association between landlord's risk tolerance levels and gender, employment status and education level (Table 7.4). Specifically; women are more risk averse than men; the retired are more risk averse than the employed; and those with higher levels of education are less risk averse than those with lower levels of education. These findings are in line with the bulk of the investment focused literature reviewed previously. However, there was no statistically significant association between relationship status or age as suggested in the same literature. Regardless, in some instances, there were similarities in the data. For example, younger landlords were found to be more risk averse than middle aged landlords with the trend reversing as landlords aged. This '*U-shaped pattern*' has been found elsewhere (Blake et al., 2019, p. 28). All in all, it is clear that landlord characteristics have some bearing on the willingness of landlords to take financial risks, but perhaps not to the extent that might have been expected.

Table 7.4. Landlord risk tolerance vs. landlord characteristics

		Risk tolerance

Characteristics	N	Extremely low risk taker	Very low risk taker	Low risk taker	Average risk taker	High risk taker	Very high-risk taker	Extremely high-risk taker	Pearson chi-square test of independence
Landlord gender									
Male	974[a]	4%	8%	23%	49%	15%	1%	0%	(χ^2=51.066, df=12, p<0.001)* (Cramer's V= .159, p<0.001)
Female		11%	11%	31%	40%	6%	0%	0%	
Prefer not to say		14%	0%	14%	71%	0%	0%	0%	
Employment status									
Employed	972[a]	7%	8%	25%	46%	13%	1%	0%	(χ^2=32.487, df=12, p=0.001)* (Cramer's V= .124, p=0.003)
Retired		8%	12%	32%	42%	5%	0%	0%	
All Others		15%	9%	30%	36%	9%	0%	0%	
Education level									
High school	974[a]	15%	12%	24%	40%	6%	2%	0%	(χ^2=33.677, df=18, p=0.014)* (Cramer's V= .107, p=0.014)
College		4%	7%	34%	45%	9%	0%	1%	
University		7%	10%	27%	44%	11%	0%	0%	
Other		5%	9%	27%	59%	0%	0%	0%	

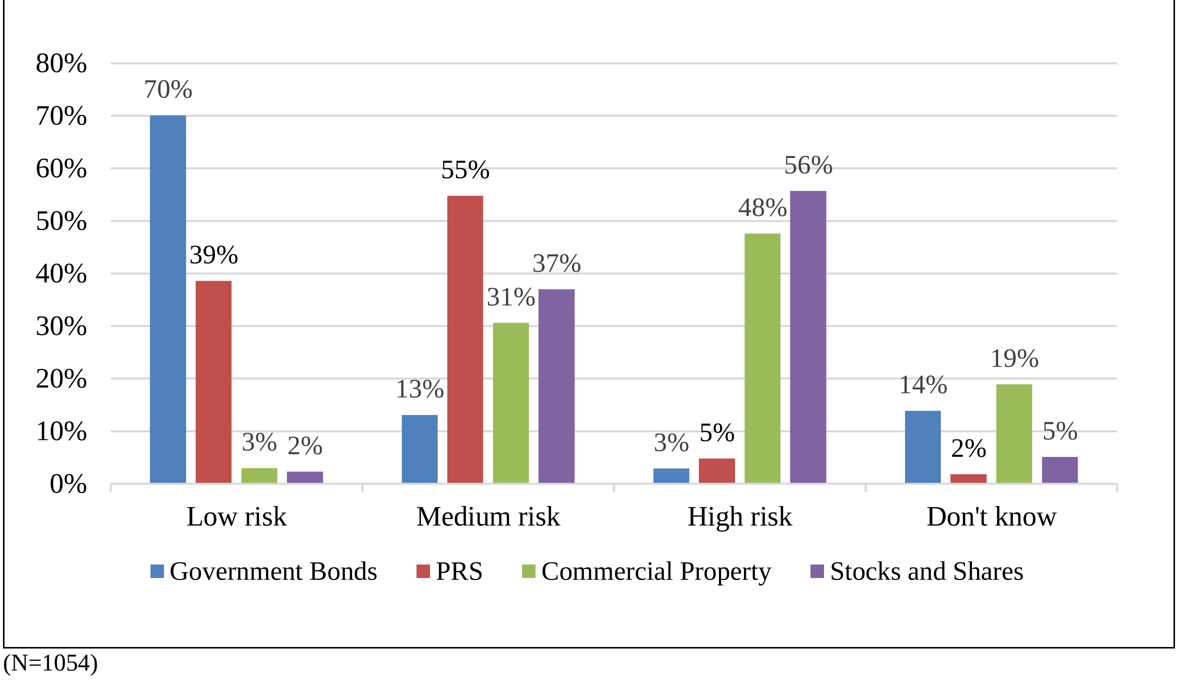
[a] Number of valid cases is different from the total count in the crosstabulation table because the cell counts have been rounded. *The percentage of cells that have an expected count of less than five is above 20%. In line with convention, the 'Likelihood Ratio' has been quoted rather than the 'Pearson Chi-Square'

Landlords were subsequently asked 'how risky?' they perceived four common asset classes to be. The majority of landlords correctly identified that government bonds were the lowest risk (70%), that the SPRS was a medium risk (55%), and that stocks and shares were high risk (56%) (Figure 7.3). Landlords had differing views on where to place commercial property investments within the risk hierarchy with 19% not knowing, 31% assuming it was a medium risk and 48% a high risk. This may be partially due to poor questionnaire design as neither the type (e.g., office, retail, industrial etc.) nor quality of commercial property (e.g., prime, sub-prime etc.,) was stipulated. Generally speaking, prime commercial property can be viewed as a medium risk in relation to government bonds and stock and shares, but it is perceived to be riskier than residential property, making it difficult for respondents to locate it on a three-point scale.

Strangely, a large percentage of landlords downgraded the risk associated with the SPRS (and also Stocks and Shares). In fact, although the majority 55% placed the SPRS as a medium risk, 39% suggested that the SPRS was low risk, that is, as risky as bonds. The perception that the SPRS is a low-risk investment has not been previously observed in comparison to alternatives. It has however, been observed in relation to home ownership (Case & Shiller, 2003). The potential analogy between home ownership, and the perception of the SPRS as a safe investment will be further discussed later in this chapter.

A number of landlords did not know how risky certain asset classes were, and though it was a small percentage, 2% of landlords had acquired property without an understanding of how risky the investment was. Overall, these findings raise concerns regarding the risk perception of landlords, and more broadly their level of financial literacy.

Figure 7.3. Landlord classification of the risk associated with key asset classes



(N=1054)

On the whole, the majority (89%) of landlords self-identify their overall willingness to take risk as average or below average and the majority view the SPRS as a low or medium risk. It is interesting to note that 47% of the landlords who identified as below average risk takers[30] owned PRS properties which they viewed as medium risk and around one third (31%) of those who identified as above average risk takers[31], viewed the PRS as a low-risk investment. One possible explanation for this is that PRS holdings may represent part of a balanced portfolio which meets their preferred risk tolerance overall, although as will be seen later, this is not necessarily the case.

7.4 Stage 1- Summary Discussion

Importantly, the investment process is sequential, and the importance of setting detailed financial objectives cannot be understated. As Peter (financial planner) noted, it is '*absolutely imperative*'. Despite this, the vast majority of landlords failed to set such objectives for their most recent SPRS property acquisition and were unable to offer justifications for not doing so. These were all the more unexpected given that for most of the landlords interviewed, the setting of objects was not a novel concept. In fact, many of the answers provided suggested a clear understanding of the role of objectives, and many had routinely set objectives in their workplace or business. Amongst those who did not set investment objectives was a financial director, a financial analyst and a commercial director. These are clearly individuals who do not struggle more broadly with financial literacy, though of course this does not preclude them from issues with private investment literacy.

In any event, the ability of landlords to set detailed objectives in line with the normative investment process, that is, in relation to investment constraints and their risk tolerance is comprised by inadequate knowledge/focus in those areas. For example, one in five landlords are unaware of their investment time horizon, which makes setting objectives

[30] An amalgamation of the 'extremely low risk taker', 'very low risk taker' and 'low risk taker' categories.
[31] An amalgamation of the 'high risk taker', 'very high risk taker' and 'extremely high risk taker' categories.

with reference to investment constraints impossible. Similarly, the ability of landlords to take cognizance of risk tolerance levels when setting objectives is compromised by 46% of landlords incorrectly categorising or not knowing the risk level commonly associated with their SPRS investment. Where landlords did set objectives, these were generally vague, and in specific domains, appeared arbitrary. In a sense, most landlords have fallen at the first hurdle presented by the normative investment process, and this has implications for subsequent stages as well as the suitability and performance of the investments they make.

8 CHAPTER 8- DEVIATIONS FROM STAGE 2

The second stage in the normative investment process is concerned with asset allocation and asset selection. These are addressed in Sections 8.1 and 8.2 respectively.

8.1 Stage 2- Asset Allocation

At the asset allocation stage, investors take a step closer to meeting their investment objectives by choosing the combination of assets (a portfolio) that optimally balance risk and return for their given level of risk tolerance, and investment time horizon. As discussed in the literature review, this stage is a significant determinant of overall returns.

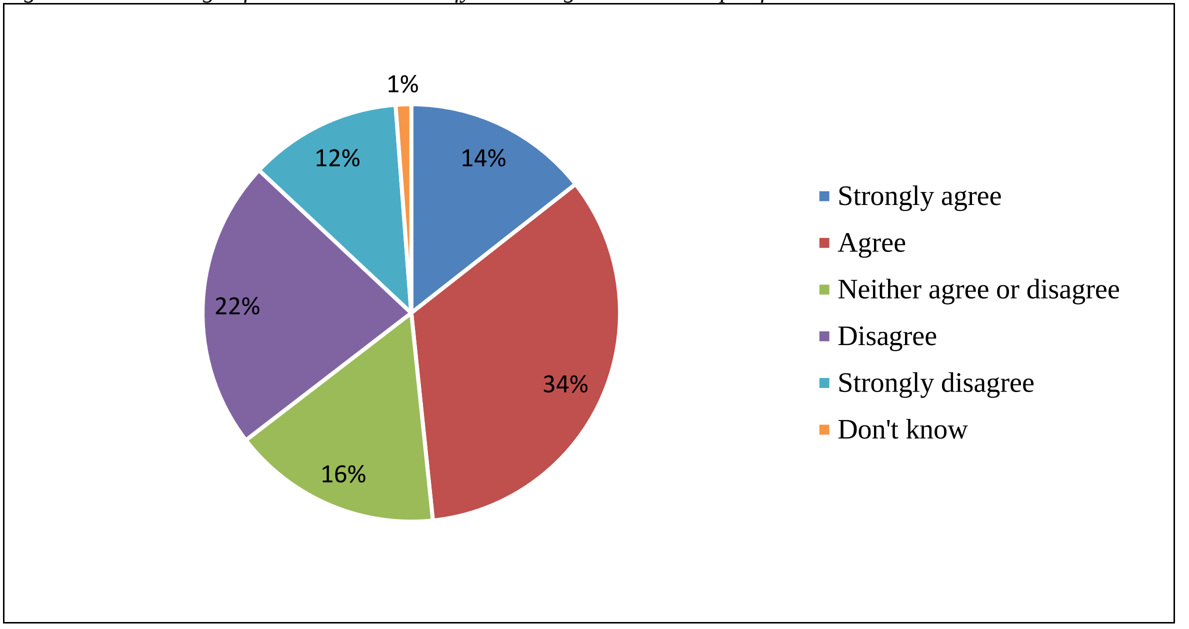
While the absence of detailed financial objectives has already compromised the asset allocation approach, landlords still have a lot to gain by diversifying investment risk via the creation of balanced portfolios. This section is initially concerned with discovering the extent to which landlords identify as investment portfolio owners and identifying the characteristics of their portfolios. It then explores the extent to which landlords consider alternative asset classes and diversification as part of an investment process that leads to the decision to invest in the SPRS. Thereafter the methods of portfolio creation employed by landlords is considered and finally, there is a focus on understanding why some landlords do not seek to build balanced mixed asset portfolios.

8.1.1 Do Landlords Adopt a Portfolio Approach?

8.1.1.1 Perceptions regarding portfolio ownership

To identify their perceptions regarding portfolios, landlords were asked to what extent they would describe themselves as owning an investment portfolio. Just under half (48%) agreed that they did so and just over a third did not (34%), 16% neither agreed nor disagreed and 1% did not know (Figure 8.1).

Figure 8.1. Percentage of landlords who identify as owning an investment portfolio



(N=1054)

8.1.1.2 Portfolio characteristics

To get a sense of what landlord portfolios look like, they were asked to select which investments they owned from the list detailed in Table 8.1.

Table 8.1. Type of investments owned by landlords

Investments owned	% of landlords (cases)
Private rented sector	100
Own home	88
Private pension	65
Stocks and shares	47
Cash ISA	44
Stocks and shares ISA	35
Bonds	21
Mutual funds	10
Commercial property	6
Commodities (gold, silver etc.)	6
Real estate investment trusts (REITs)	2
Other	5
None of the above	3

(N=1054)

In the previous section, it was identified that 34% of landlords did not identify as owning an investment portfolio. However, 97% of landlords reported owning one or more investments over and above the SPRS (see Table 8.2). This means that the vast majority of landlords have at least a two-asset investment portfolio. In fact, not including the SPRS, 85% had two or more; 66% had three or more; 43% had four or more; 23% had five or more and 9% had six or more. The mean number of investments held by respondents was 3.3.

Table 8.2. No of investment owned by landlords

No of Investments	% of landlords
0 other investments	3
1 other investment	12
2 other investments	20
3 other investments	22
4 other investments	21
5 other investments	14
6 other investments	7
7 other investments	2
8 other investments	0

(N=1054)

The most popular investment assets included equity in their own home, a private pension, stocks and shares, a cash ISA, a stock and share ISA and bonds (Table 8.1). The fact that the vast majority own their home (88%) and have a private pension (65%) is not unexpected given relatively high-levels of income and employment. However, despite their espoused proclivity for risk aversion, only one in five (21%) directly own bonds, although this is a higher percentage than the UK average. In addition, as 100% had invested directly in the SPRS, it is notable that just 2% had invested directly in Real Estate Investment Trusts.

Though not directly comparable, a relatively large proportion of landlords hold stocks and shares (47%) or stocks and shares ISAs (35%) when compared to percentage of households that hold these assets in the UK as a whole (17%[32] and 12% respectively) (Office for National Statistics, 2022).

This appears to contradict assertions that home ownership is correlated with '*a lower likelihood of stock market participation and with reduced holdings of stocks and other risky financial assets in households'* (Kullmann & Siegel, 2003, p. 1), but supports the notion that higher levels of wealth result in increased participation in the stock market. However, it was anticipated that relatively high income and educational levels (factors that affect stock market participation) observed in landlords earlier, would result in an even higher level of investment in these instruments than observed.

Although respondents were not asked to provide a valuation for each asset, it became evident during interviewing that some portfolios were heavily skewed towards residential property with the value of non-SPRS investments being relatively small by comparison. For example, Jack commented: '*including my house, I'd say 95% of my wealth is in property. It's my primary investment'*. Robert concurred and Patrick noted: '*we have stock market ISAs. We've got cash ISAs as well, not huge, and nothing on the scale of the value of the properties we've got*'. This lack of balance is plainly at odds with portfolio theory but in line with suggestions in the literature that individual investors tend to own under-diversified portfolios (Barber & Odean, 2013; Kullmann & Siegel, 2003).

Goetzmann (1993, p. 217) asserts that '*the minimum variance portfolio contains a significant proportion of personal wealth in the home*'. However, 88% of landlords are owner occupiers and have this allocation to housing in addition to their SPRS investment properties. It appears therefore that they have not taken the advice of Kullmann and Siegel

[32] Includes 'UK Shares', 'Unit/Investment Trusts' and 'Overseas Shares' category.

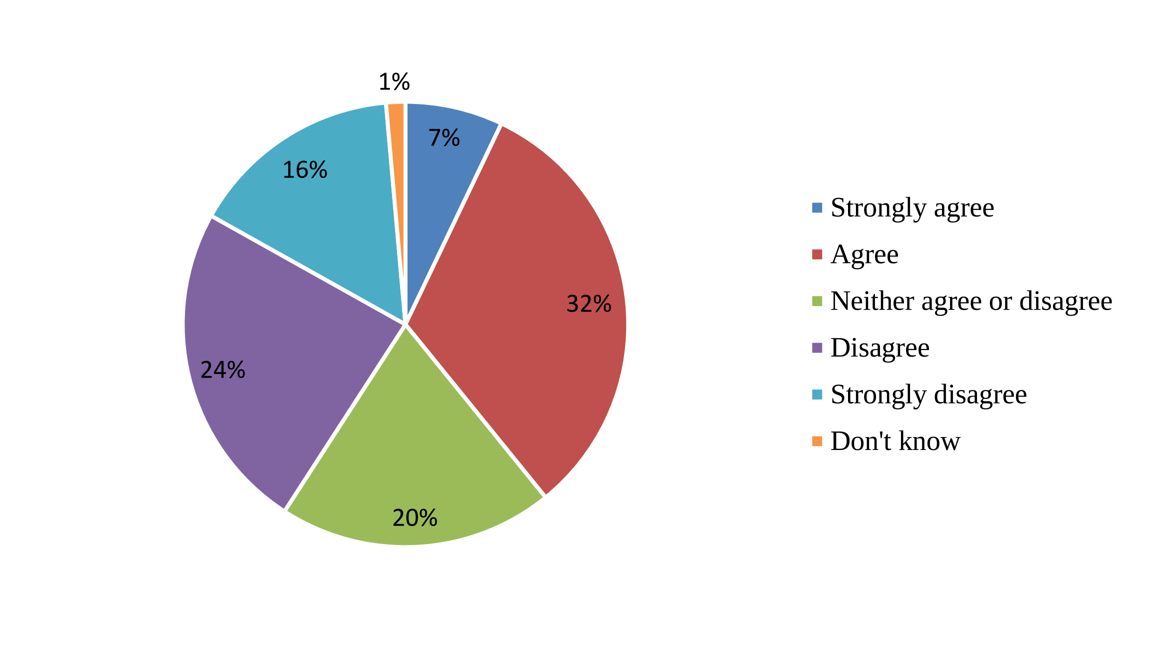
(2003, p. 2) and considered this exposure when making ‘*future financial decisions*’. The net result is the creation of unbalanced portfolios that will make risk minimisation via diversification unlikely.

Although Jack did not have a balanced mixed asset portfolio, he did have a property portfolio which included commercial investments, and yet he did not consider it as such because he perceived that it was ‘*just not big enough to call it a portfolio*’. John shared this view- ‘*I don't think nine's enough to be considered a portfolio… A portfolio to me is something bigger than that.*’ As noted earlier, any two assets can be viewed as constituting a portfolio, this is therefore an inaccurate conclusion for landlords to arrive at from an investment perspective.

8.1.1.3 Consideration of alternative asset classes

Asset allocation and the creation of portfolios requires the consideration and comparison of different asset classes prior to making an investment decision. To identify if landlords embarked upon such a process, they were asked if they had ‘considered the pros and cons of other investments’ before deciding to acquire their most recent SPRS property. The results were balanced between those who agreed (39%) and those who disagreed (40%). A further 20% neither agreed nor disagreed and 1% did not know (Figure 8.2).

Figure 8.2. I considered the pros and cons of other investments



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It is troubling, that some landlords (at least 40%) are ignoring alternative asset classes and the opportunity to create balanced portfolios. In fact, two in five landlords decided to retain or acquire an SPRS investment without reference to and consideration of alternatives. June, who was interviewed to gain an accountant's perspective, was asked if she had observed a failure to consider alternatives amongst her client base. She responded candidly:

> '*I've got 1,200 clients and I would say there's about three that would do that [compare SPRS investment with alternatives]. People do it [invest in the SPRS] because they hear their pals in the pub saying, "I've got rental properties, get yourself one of them, you got any money?" "Yes." "Buy a property, yes that's what you do, you put it in property", and you say to them, "why did you put it in property?" And they go, "my pal does it." That is, I swear to God, the general logic.*'

With this statement June points to landlords being susceptible to both 'herd behaviour' and the 'availability heuristic'. The latter in the form of 'retrievability', whereby investment decisions are made based upon available information as opposed to via search (Pompian, 2012).

Lorna typified a landlord who did not consider alternatives, she noted that she hadn't *'thought about investing in anything else really'.* Mark had thought about alternatives, but ruled them out:

> '*Pensions, stocks and shares, and commercial, I would say I've investigated and ruled out.*'

The extent of his investigation was not necessarily exhaustive as he later admitted that he did not *'know too much about'* commercial property.

For many who had considered alternative assets, the approach was less than robust. Brian is prime example, he had purchased some stocks and shares, '*didn't really look at other property types*', '*looked at banks and building societies*' and '*looked a little bit at annuities*', but didn't feel he needed one.

Paul's approach was '*not at all structured*'. He described it as follows:

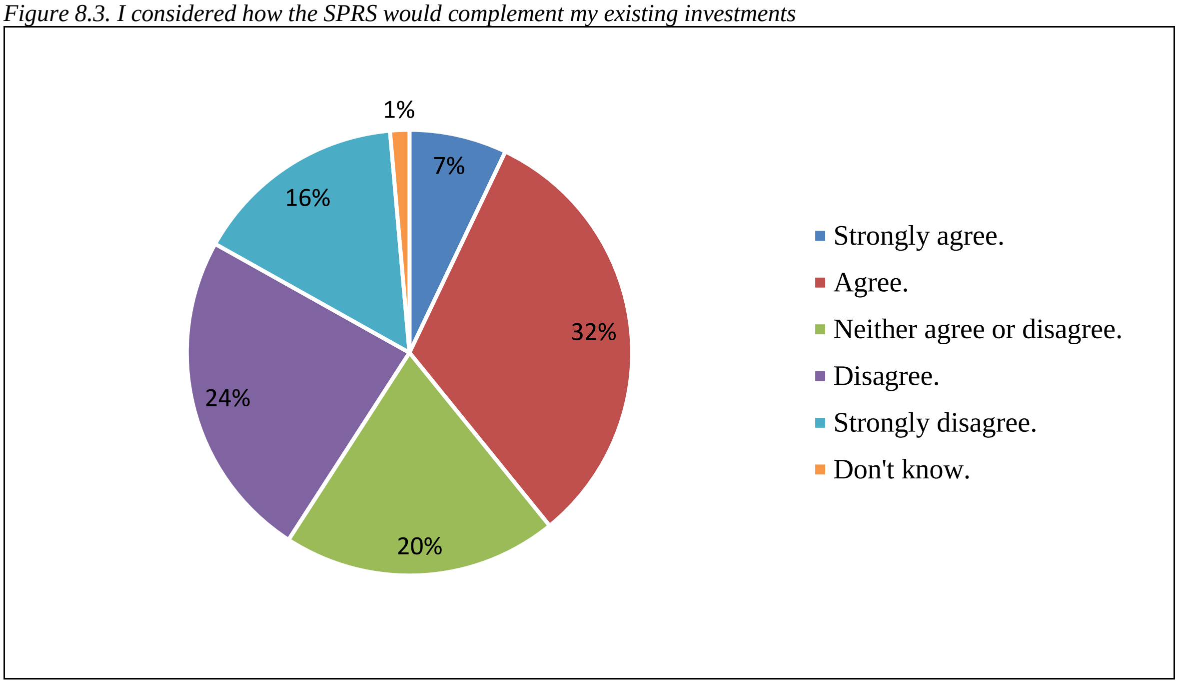
> '*It's a lot of thinking and a little bit of analysis and, "oh, what about this? What about that?" I'll Google for some information, but I'm in no way a structured investor.*'

These examples are underpinned by a bias for property that is unlikely to be maximising and which represent deviations from the normative investment process. The findings of the online survey confirm that many landlords share this bias; when asked if they 'prefer bricks-and-mortar investments to investments such as shares and bonds', the majority (57%) agreed, just 15% disagreed, 26% neither agreed nor disagreed and 2% did not know.

8.1.1.4 Diversification

To identify if landlords had more generally considered diversification when making SPRS acquisitions, they were asked if they had 'considered how obtaining an SPRS property would complement' their existing investments. The results were balanced with 39% agreeing that they had done so and 40% disagreeing. A further 20% neither agreed nor disagreed and 1% did not know (Figure 8.3).

Figure 8.3. I considered how the SPRS would complement my existing investments



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Landlords were subsequently asked if they had purposively acquired their most recent SPRS property in order to diversify their existing investments, just 30% agreed, 20% neither agreed or disagreed, 49% disagreed and 1% did not know.

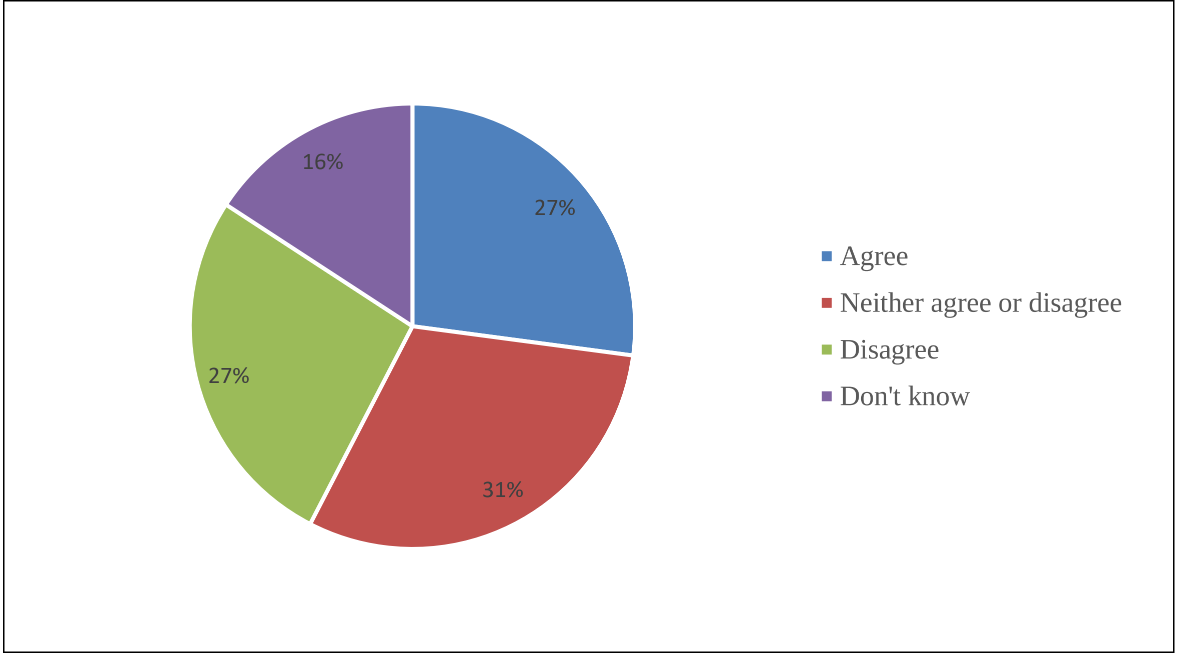
Curiously, intentionally purchasing an SPRS property to diversify their overall risk position did not necessarily mean that landlords considered themselves in possession of an investment portfolio. For example, 13% of landlords who disagreed that they had a portfolio, claimed to intentionally diversify in this manner.

Overall, landlords do not appear to be considering diversification at the portfolio level. To identify if they were considering diversification within the SPRS as an asset class, they were asked:

> '*When buying multiple SPRS properties, it is important to select properties in different geographical locations and different markets to diversify risk?*'

The findings were illuminating (Figure 8.4). The same percentage agreed as disagreed (27%), 31% neither agreed or disagreed and 16% did not know. It appears that even within the SPRS asset class, landlords do not prioritise diversification. Instead, as highlighted in Section 6.4.3 and within the literature review, landlords tend to prioritise the geographical proximity of investment properties to their home location. This closest comparable in the broader investment literature to this phenomenon, is the tendency of investors to '*prefer local stocks*' (Barber & Odean, 2013, p. 1563) over national and international stocks.

Figure 8.4. It's important to select properties in different markets and geographies



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When asked if they were generally concerned about having most of their eggs in the housing basket, some landlords appeared to be genuinely concerned, particularly given the advent of COVID-19:

> ‘*Yes. There's always that niggling feeling, that niggling thing in the back of your mind. “What if something went horribly wrong?” I know there's insurance on them all, and insurance would pay out in certain aspects, but then, for example, we've just gone through COVID and people have not been paying rent. I thought my insurance policy would cover areas like that, but then to find out, “Actually no, a pandemic is not included in your insurance, it's not covered.”... I think this, in particular, has really made me wonder as to is it the safest option? I'm not sure, but it does raise a few concerns.*’ (Deepika)

Others thought nothing of it:

> ‘*No, I've no worries about that at all because what's the worst thing that can happen? If the whole economy tanks, well, we're all in the same boat.*’ (Paul)

Overall, the proportion of landlords deviating from the investment behaviours that would be expected at the asset allocation stage of the normal investment process is quite remarkable and naturally leads to the question: why do some landlords fail to consider alternative assets and seek to build balanced investment portfolios? However, before investigating this, there is a need to understand how those identifying as owning portfolios go about building them, and whether this approach deviates from the normative model.

8.1.1.5 How do landlords go about building portfolios?

For those landlords who had identified as owning an investment portfolio, it was necessary to understand how the portfolio had been built. It became clear that landlords adopted very different approaches.

Stuart a self-proclaimed '*financial person*' was at the apex in terms of understanding and outcomes. He purposively set about creating a portfolio to diversify risk by investing 50% of his capital into stocks and shares (across different funds) and investing 50% into the SPRS (across several countries). However, despite this apparent sophistication, he did so with no espoused investment objective and used an informal approach:

> '*Oh, it was really the gut feeling that I wanted to diversify. The properties I had on the continent were good income streams. I really wanted to have an additional income stream and I wanted to diversify. My process wasn't particularly heavily researched.*'

When asked if he had considered Real Estate Investment Trusts (REITs), commercial property or indeed any other alternative types of investment, he responded:

> '*I must admit, I didn't really consider these things.*'

Next in the pecking order was Vicky, who had an intuitive grasp of the need to diversify risk across different asset classes:

> '*I'm a bit of a squirrel. I like pots of money in different places. That's part of who I am. For me, property is one pot. I've got a very poor pension, I've got an ISA. We've got some stocks and shares. It's like, I've got different things that if one is successful, or one's poor, I'm not being pulled down… like I said, I'm a squirrel. I've my nuts in different areas because you don't know if it's going to get raided.*'

However, Vicky did not view her investments holistically, nor as a portfolio built to achieve investment objectives.

Some had the approach of a collector, gathering assets over time opportunistically as circumstance and intuition allowed. For example, Lyndsay already had some cash savings, and so chose to invest an inheritance within the SPRS:

> '*I think if I hadn't already had savings and investments, then I would probably have been sensible and just put the money that I got [inheritance] in the bank and stuff like that. Because I already had that, it was something different. It was adding variety, which is, from a sensible point of view of your investment portfolio, that's a good thing to do apart from its actually good fun to have different things.*'

James had collected investments through career transitions:

> '*I don't believe in putting all of your eggs in one basket. I have, like a lot of people who've worked a lot in different jobs, different pension pots and stuff, about the place*'.

In some cases (as above), a portfolio had been created by an intuitive desire to avoid putting '*all the eggs in one basket*' or to '*squirrel*' money away in different locations, with assets being purchased as opportunity and circumstance allowed based largely on gut feel. This approach can be categorised as a form of naïve diversification.

Although MPT and variations thereof are synonymous with the asset allocation stage, the interviews uncovered no instances of asset allocation being driven by these models, with just three having heard of them. It was suggested during the literature review that these models may be too complex for private investors and Jack concurred:

'I learned about it once at uni, but wouldn't even know where to begin now. It's far too complicated for the man on the street'.

Some of the approaches did appear to approximate BPT when considered in relation to allocation of SPRS income to consumption although evidence of the apportionment of other investment income would be required to ratify this.

It is not entirely unexpected that those who had a semblance of a portfolio approach, put very little thought or planning into it. The inevitable consequence is that landlords are unlikely to create balanced portfolios of negatively correlated assets and therefore more likely to be subject to greater unsystematic risk and lower returns.

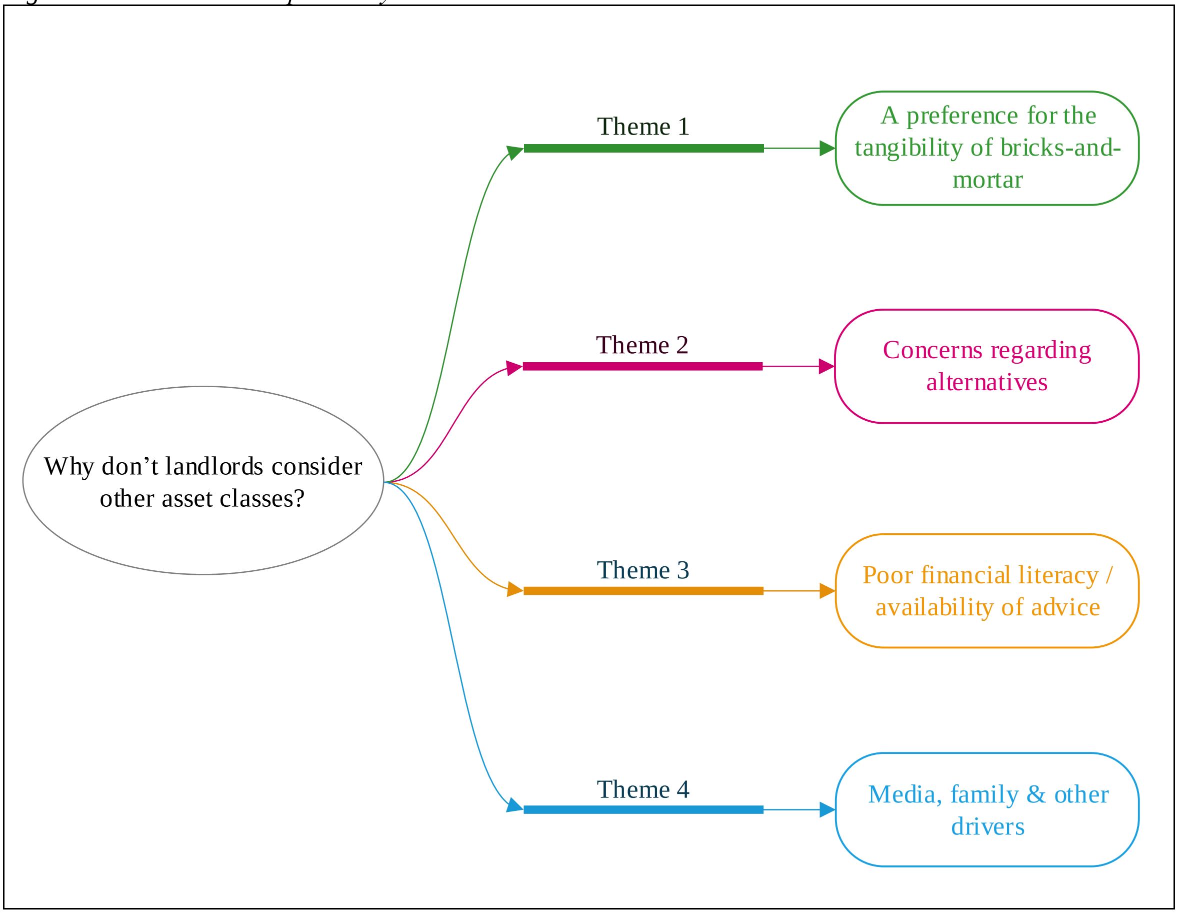
8.1.2 Why Do Landlords Fail to Build Balanced Mixed Asset Portfolios?

It was identified earlier that some mixed asset portfolios were created opportunistically, but also circumstantially. For example, James had noted that career transitions had unintentionally resulted in the creation of a portfolio. Interestingly, Robert suggested that this 'sequential' approach to building assets, sometimes unexpectedly and over time, made it more difficult to view a portfolio holistically than if the decisions were made '*all at once*'.

However, this once again frames investment as something that happens as opposed to something that is planned and driven by objectives. However, there is some substance to his point as the literature review found that individuals are more likely to seek variety when faced with simultaneous choices than when presented with sequential choices albeit in reference to short time frames. Overall, it appears that collecting investments over time appears to act as a barrier to some landlords considering them holistically.

In other cases, landlords failed to consider alternative assets or to build balanced investment portfolios for the same reasons as they gave for not setting objectives e.g., hassle and time. However, as the interviews progressed four additional themes emerged. These are illustrated in Figure 8.5, and explored in the subsections that follow.

Figure 8.5. Themes that explain why landlords don't consider other asset classes



8.1.2.1 A preference for the tangibility of 'bricks-and-mortar'

One reason that landlords do not consider alternative assets or create balanced portfolios is that they are '*enamoured*' by (Bill, mortgage broker) and have a clear bias towards/preference for 'bricks-and-mortar'. In fact, it was reported earlier that 57% of landlords 'prefer bricks-and-mortar investments to investments such as shares and bonds'. These findings were discussed in-depth during the qualitative interviews and it emerged that this preference is partly rooted in the tangibility of housing. As James noted:

‘*I think myself and other landlords, and I've spoken to other landlords about it, they like the bricks-and-mortar aspect of the investment.*’

In some cases, the bias was so strong, that landlords selected the SPRS even when they knew that they could obtain better returns elsewhere. James mused:

‘*If I'd have put all my money in the stock market back in say 2000, it would probably be worth more than my property portfolio on a reasonable low to medium risk investment. If I'd gone higher, it'd have been a higher return... I prefer bricks-and-mortar investments. It's a tangible thing for me.*’

However, tangibility was prized for differing reasons. For some, tangibility was directly related to the perceived safety and robustness of the investment. Terms including ‘as *safe as houses*’ and ‘*bricks-and-mortar*’ were often used. When asked why he thought the SPRS was a ‘safe bet’? Jack simply responded ‘*tangibility and capital protection, plain and simple*’.

Robert also equated the physicality of the investment to robustness but in relation to other investments:

‘*I have a good feeling that I do have the flat, and it's nice to think about now and again. It's not like it's, shall we say, figures on a screen that's suddenly going to disappear. I do like, I enjoy the fact that it's a physical thing that's there.*’

Stuart had a slightly different take. He suggested that SPRS tangibility was attractive as it afforded the physical recognition of wealth:

‘*I think the main reason that people invest in property is because it is physical. They can see it, they know it exists, they can touch the bricks. With shares are on a computer, it's very impersonal… it doesn't feel as if your rich… I think people feel*

> *the need to have some sort of physical recognition of their personal wealth. I think there's a very strong psychological element to that.*'

For others the tangibility of property offered an extreme hedge against a catastrophic loss (either financial or other) thus framing the SPRS as a welfare strategy. For example, Joanne reflected on the fact that her SPRS investment was '*something tangible', 'that you can see and touch and feel*' but relished its physicality as it provided her with the opportunity to live in the property if necessary. Jack expressed a similar motivation:

> '*The tangibility, it's a real asset I can see and touch. If the world turns to shit, I own it, it won't disappear. The value might go down, but I could live in it if I had to.*'

It is worth noting that these views position the SPRS as a hedge against the loss of a primary residence whereby the SPRS property is positioned as the accommodation of last resort. This is a novel divergence from the extant literature, which assumes that the PRS investment would be sold if required in order to safeguard the primary residence (Soaita et al., 2016).

Ben, on the other hand, did not view the SPRS in this way, but had still taken advantage of the tangibility of property and the flexibility of SPRS ownership, by electing to live in one of his rental properties during lockdown while he renovated it. This also afforded him the pleasure of local '*forest walks*'.

Many of the interviewees derived satisfaction from the projects made feasible by the tangibility of housing. Joanne for example, '*enjoyed*' the process of renovating her SPRS property. So did Lyndsay, who acknowledged that she got rather carried away during her SPRS refurbishment project spending more than she needed to:

‘*As I say that first flat,… it was good fun because it was furnished and I had it painted like a flipping rainbow. Every room was a different colour… It's like my Wendy house that I never had and it was beautiful.*’

Robert was similarly drawn to the project opportunities the tangibility of housing presented:

‘*I like going into a place, and making it my own, and spending a bit of time doing it up. That's one of the reasons I went for the flat that I did in the first place because it had a wee bit of scope to improve on it.’*

Robert’s point also highlights that taking on projects allows landlords to more directly influence/control SPRS investment outcomes (by adding value) than would be possible with alternative investments. Paul also pointed to this.

‘*I've always been into a bit of DIY. I mentioned that I've always wanted to improve and increase the value of the properties… I like to get stuck in and do some stuff, which you can't do with other forms of investment.*’

Lorna, summarised this view by positing that SPRS investment allowed landlords to make ‘*what you will*’ of the property and hence the investment, thus tying the fortune of the investment directly to the actions of the landlord. This sense of control was important to many landlords and not just with reference to asset tangibility as will be explored later.

Projects had a particular resonance where landlords had a history of working either in housing or a related sector and/or were able to utilise their skillsets in advancing their SPRS investments. By way of example, Lyndsay had worked in housing and was able to leverage her legal skills to support her investment:

‘*Having worked in housing… I knew all about housing law, so I knew how to write* *a lease that was legal and stuff like that. To start off with, I would do the leases. I would say to the letting agent, "Use mine. Use mine. Yours is rubbish anyway"… I had that background technical knowledge as well which I found helpful.'*

Ben, a retired architect, clearly relished the opportunity to use his skills to preserve a listed building:

'*New windows, central heating, rewiring, levelling the floors because there had been some subsidence, taking down the ceilings, reinstating ceilings, while all the time safeguarding all the original listed fittings… I spent months picking away at it, renovating the cornices, restoring the fireplaces. If I say so myself, it ended up a really attractive flat.... only Historic Scotland, I think, would have the resources and high-end architectural buildings to do that sort of level of renovation work.'*

Ben could be viewed as a conservationist seeking to restore the former grandeur of his investment property for future generations but also as a hobbyist renovating the property for his own enjoyment.

Overall, the ability to apply their skills gave Lyndsay and Ben a connection to their SPRS investment that was patently important to them. Favouring the SPRS due to the ability to '*relate'* the investment *'to their own behaviour*' is a textbook example of 'availability bias', which was strengthened in some cases by the landlord's '*narrow range of experience*' in terms of their employment (Pompian, 2012, p. 158).

Emotional or sentimental connections, made possible by the tangibility of property, were also important to some, particularly where these attached specific meaning or memories to the SPRS properties. Mark suggested that '*a lot of people get emotional about property*'. Lyndsay further observed that:

‘*… there's an emotional thing, an emotional attachment. If it's been your home, you've got that emotional attachment to it and when your life moves on, you still want to hang onto a wee bit of the past.*’

Patrick described his own sentimental attachment:

‘*I think you can become attached to it [SPRS property], we have. We wouldn't like to let go of my wife's house. It's all very different for different people, but we are quite attached to that property*.’

Lorna’s emotional attachment to a former home, was a principal factor in setting her investment time horizon:

‘*I've got some emotional attachment to that flat as well because I lived there. I don't think I'll sell it until I'm an old lady [chuckles]. If it was a choice between the flat that I've got, and putting my money somewhere else, no, I would keep it where it is.*’

For Stuart, who had lived abroad for quite some time, owning an SPRS property allowed him to retain a connection to Scotland. Similarly, an SPRS property acquired in a less affluent part of a city meant that James, now an affluent suburbanite, could retain a connection to the location in which he was born. Joanne, chose a property a considerable distance from her home location partly as she ‘*had a very good friend*’ who lived in its vicinity and liked to visit them. Ben had ‘*family and architectural ties*’ in the city in which he had decided to retain his parents’ former home.

These connections are not necessarily the sole determinant of the decision to invest in the SPRS, but they clearly play a bigger role than rationality would dictate and can have negative financial consequences for landlords. In Jane’s case, sentimentality led to her keeping a property which she '*probably would have sold'* if not for her late father having '*always said*' that '*he would like to pass the house on…when he died as an investment*'. In a further example, it led Ben to make the costly decision to retain his late parents' house, when the market dictated that it should have been sold:

> '*I missed the boat really because of the sentimental attachment. My parents moved into the flat… around 1961. When my mother died in 2011, the market here was still buoyant, that was probably the time to sell. That would have been emotionally too difficult for me to do at that time. The issue for me now, the main concern is what to do with the flat, given that I've spent a fair amount of money renovating it. I know if I were to put it up for sale, I would get no more, possibly less than I would have done had I sold it in 2011.*'

For others the tangibility of property afforded them the opportunity to assist children/family members or others in an altruistic manner. Jane noted difficulties in obtaining property in her hometown and felt that by retaining an inherited property, it had become a '*valuable family asset*' that she could use to both secure an income and assist her children. Linda rented her property out via a charity '*that seeks to prevent homelessness in young adults*'.

Clearly in these two examples the SPRS is not viewed solely as a financial investment with purely financial objectives. However, it should be noted that both Jane and Linda sought to retain the equity in the properties, to collect rent and to have expectations regarding how the property would support them in the future. The existence of their non-financial motivations, is likely to heavily influence the ability of their investments to meet these expectations.

Some landlords also derived rather esoteric benefits from the tangibility of property. For example, Ben had been able to house a friend in need, but also learn French from one of his tenants:

> '*I've found it quite rewarding. [my tenant] speaks French to me most of the time, so it's a great opportunity to keep my French up to speed. As well as getting some financial return, I get a return in terms of friendship as well with my tenants.*'

The observations above indicate that landlord bias for SPRS investment is partly driven by a multitude of reasons derived from the tangibility of property. In most instances, these reasons have little to do with the maximisation of investment returns. Instead, they point to landlords deriving significant utility from non-financial components of their investments, with the SPRS conveying some psychological, emotional and real benefits, that are not directly replicated in alternative asset classes such as stock and shares. Inevitably there will be times when this necessitates a trade-off between financial returns and satisfying alternative desires and wants and landlords are clearly able to seek utility in whichever form they choose. However, as most view their SPRS holding as some form of financial investment, these findings were somewhat unexpected. The duality of purpose is clearly in conflict with financial maximisation, which is aptly demonstrated in the contradictions evident in Linda's view of her investment:

> '*I'm not in it for the money. It's an investment. I get more return than I would if my money was sitting in a building society.*'

It is entirely feasible that landlords could fulfil both their financial and non-financial desires with alternative investments/in other ways, but this would require that landlords follow an asset allocation stage.

Biases and heuristics are clearly at work here. In particular the sense of control that landlords derived from their direct involvement in property, is as form of 'illusion of control bias', which is known to result in investors maintaining '*under diversified portfolios*' because they select investments over which they believe they have control (Pompian, 2012, p. 102). Whilst the SPRS does offer landlords a degree of control or influence over their investments, it is not to the extent anticipated by some landlords. For example, landlords do not exert significant influence over tenant behaviour, regulatory change or capital growth levels. As the tangibility of property plays a key role in shaping the perceptions and investment behaviours of landlords, it could be viewed as a bias in its own right.

Furthermore, it is a bias that is rooted strongly, which will inevitably make it difficult to change behaviours that are driven by it. As Peter (financial planner) advised:

> '*The tangibility aspect is something that's very difficult to put somebody off, isn't it? If you can feel and touch something, it does make a big difference.*'

There is no existing SPRS/PRS research within which to locate these novel findings. This is unexpected given that tangibility of property is a defining characteristic. However, there are striking similarities between these findings and research into the motivation of those opting for home ownership. In point of fact, the quotations of homeowners in some studies are analogous with those made by landlords as part of this research:

> '*… buying this big beautiful home I know it's a hard asset that would hold its value & appreciate while it gives me great enjoyment.*' (Case & Shiller, 2003, p. 330)

> '*Housing is inherently safer investment. You can always just live in it.*' (Shiller, 2015, p. 96)

This is an area that will be returned to later.

8.1.2.2 Concerns regarding alternatives

Landlords also failed to consider alternative assets or to create balanced portfolios because they had concerns regarding the alternative investments available to them. In fact, many landlords appeared to have a general dislike or fear of those alternatives. For some, like Lorna, this dislike was not necessarily based on experience:

> '*I don't really like putting my money in shares and stuff like that*' (Lorna)

Others, disliked or feared alternatives due to previous 'bad' experiences. Jane illustrates this below:

> '*In the past, I suppose I felt a bit stung by trying to invest wisely… I invested into an ethical investment thing… And then it was one of those Black Mondays or Black Fridays or whatever that happened, it was about three days after I paid all the money into the investment, so of course it's taken more or less up until now to regain any value. Previously, when I was helping manage my father's affairs, he had some cash, which we were trying to put into a long-term savings plan for five years or something and similar sorts of things happened with that. And so, I feel as a result of those experiences that what looks like a good arrangement and a good deal when you start can often change as goalposts change in time.*'

Patrick had a similar experience noting a significant overnight loss, although it was later recovered:

> '*Well, I watch the two ISAs. We do get half-yearly statements out of them, and they're worth about the same. They're slightly different. Mine was sitting about £44,000 on the 22nd of February. The 24th of March it was worth about £32,000. It's a 25%, or near a 30% drop, and it was virtually overnight!*'

Linda was impacted by the tech bubble:

> '*Years ago, I did do some more investments and they split the investments into about five different funds and the tech fund was doing fantastically. Then of course it all blew up in the '90s and became virtually worthless*.'

Brian viewed investing in stocks and share as '*gambling*' and had incurred 100% losses on some alternative investments. Mark had a series of disappointments and concluded that alternative investments simply weren't for him:

> '*In terms of stocks and shares, I've only ever dabbled in stocks and shares, ISAs, or actual shares. I've always come a cropper. It's always been a terrible investment and I would never invest any more than I would be prepared to lose. I'm shy of the stock market because of that.*'

Jack also had a bad experience with stocks and shares, but acknowledged that this was due to errors in his judgement and approach:

> '*I tried shares; I wasn't comfortable with it. I ended up losing about £20k. I did it wrong, I bought individual shares in companies I knew instead of funds, then I went a bit nuts and bought shares recommended in magazines. I doubt Warren Buffet makes decisions based on Jean's view in The Investor's Chronicle.*'

Stuart held a fairly large stocks and shares portfolio, but highlighted the stress caused by its volatility:

> '*When the stock market is going down, especially when you've got a big crash—like last year, when we had the pandemic, and in March the market was sometimes off 4 or 5%. Sometimes you don't even want to look at your screen, because you think, 'I've probably lost 20 grand today.' You're thinking, 'Oh my god, I really don't*

need this.' So that is stressful.'

These views were in stark contrast to the perceived safety of the SPRS described in the previous section and expanded upon here by Paul who claimed that it would be '*quite hard to lose money on property unless you buy really stupidly*'.

During the interviews it became clear that many were scarred by these personal experiences and had been put off investing in alternatives (often stocks and shares) because of them.

These findings resonate with the wider private investment literature and the simple concept of reinforcement learning ,whereby individuals repeat behaviours that result in pleasure and avoid those that result in pain (Barber & Odean, 2013). For example, Andersen et al. (2019, p. 116) found that '*first hand*' negative investment experiences '*are so powerful that they make individuals shy away from risk*'. Malmendier and Nagel (2011, p. 373) found that those who had experience macroeconomic shocks, were '*less likely to participate in the stock market, invest a lower fraction of their liquid assets in stocks if they participate, and are more pessimistic about future stock returns*'. In short, they took less financial risk. They were also less likely to keep '*unexpected inheritances of risky assets*' (Andersen et al., 2019, p. 1) . Interestingly, the impact of macro-economic shocks on financial risk taking were found to persist long after the event itself (Malmendier & Nagel, 2011).

It is observed elsewhere however, that home-buyers expectations of house price rises were '*substantially affected by recent experience*' (Case et al., 2003, p. 1); that homeowners are subject to the 'anchoring and adjustment bias' (Farlow, 2004) and that stock market investors expected continued success with assets in which they had already '*personally experienced success'* (Choi et al., 2009, p. 2532). Patrick's outlook as a landlord reflects these sentiments:

> '*I think you learn from your experience. In other words, future investments may go down, but they've always been going up, so we always believe they always will go up.*'

This display of 'optimism bias' is alarming, especially as Rodney pointed out, many (not all) landlords in Scotland had not observed an economic downturn in housing which could potentially allay these behaviours:

> 'W*e've not had a big, huge downturn. Even back in 2008 when markets crashed and everything…It just kept going.*'

As a result, landlords are able to muse- '*over time, it's never gone wrong*' (John).

In effect, SPRS landlords are subject to two feedback loops. One in which their negative experiences inform their avoidance of alternatives and the other in which, SPRS success supports ongoing expectations. As the SPRS is not immune from macroeconomic shocks, these feedback loops are both inaccurate and irrational. For example, some of the survey participants were in negative equity as a result of the Global Financial Crisis and a study by Watson and Bailey (2021) found that COVID-19 had resulted in unprecedented levels of rent arrears within the SPRS.

The broader issue for some landlords appears to be that stock market swings can be more dramatic and frequent (i.e., have higher levels of volatility) than in SPRS investments and can potentially result in the complete loss of capital. This was apparent in Robert's earlier statement likening alternatives to '*numbers on a screen*' that can '*disappear*' and in Brian's mention of '*100% losses*'. In comparison, landlords were confident that even if they lost money on their SPRS investments (most did not believe that they would), that they would be extremely unlikely to lose it all. Deepika asserted:

> '*Even with a big recession and crashes and things, if you've got a really high-value property, fine they can come down in price a fair bit, but when you've got a low-value property, it's not going to be worth nothing. You're not going to lose that much on it, even if there is another big recession, or big housing market crash*.'

This sentiment was echoed by Paul:

> '*I choose to invest in the private rented sector probably because it's a relatively, yeah, so it's a safe investment because you're not going to lose it all… The value of the house might go down, but you're never going to lose everything. There's that element of safety that I like about bricks-and-mortar.*'

John concurred:

> '*They [SPRS properties] never disappear. My properties won't ever go bankrupt. I could put all my money in Amazon and it probably won't go bankrupt, but it can.*'

These attitudes display a healthy dose of 'Optimism Bias'. Although landlords who are mortgage free are unlikely to lose it all, it is possible via uninsured risks such as subsidence for example. Capital levels can be drastically reduced by macro and micro economic conditions which although unlikely to reduce the value to zero, can have a significant impact. For those who have mortgages, repossessions and negative equity is a distinct possibility. To illustrate, some the landlords who had participated in the research had '*lost it all*', others were in negative equity, and others had witnessed significant capital depreciation. As Joanne noted:

> '*I and my ex-husband, we went to one of these property seminars where they try*

and flog you promises, and we both fell for it. I bought a place in [a Scottish Town] and he bought a flat in Spain, which turned out to be an absolute nightmare. He eventually had to sell it, but he lost a lot of money on that. So far, I haven't lost money on my investment but obviously, I would do if I came to sell it because the prices have dropped substantially in that area.'

Peter (financial planner) acknowledged that landlord concerns were valid with regards *'the risk that comes with just 100% equities'*. However, he went on to note that '*you wouldn't naturally do that*' as you would diversify even on '*higher-risk portfolios*' through '*multi-asset, multi-fund investing*'.

By investing across funds, and through the use of 'stop loss' and 'guaranteed stop loss' functions in direct stocks and shares investments, investors can to an extent mitigate against direct large-scale losses in stocks and shares should they choose.

Many of the examples noted in this subsection point to lack of control being central to landlord's fear of alternative investments. It was noted earlier that some landlords were attracted to the SPRS due to the perceived control they had over the investment. As such, it is not surprising that the inverse was true of alternative investments such as stocks and shares, where landlords felt that there were '*quite a long way from the business*' that was being invested into thereby causing a perceived '*lack of control*' (Brian). Lyndsay summarised this position:

'There's a big difference between investing in a property, and investing in, say, stocks and shares. You can choose what fund you want to invest your money in, but you've got absolutely no control whatsoever over the performance of that fund. The only thing you can do is bail out or hang on to it and think it will get better. But with a property, if it suddenly starts to underperform, the chances are that it's

something that you can address to reverse that.'

Stuart also felt this way:

> '*I would rather put £200,000 into a house in Stirling than put £200,000 into five different shares, and suddenly they go down 50% in value, and then they're not even paying a dividend, so I'm not even getting anything back. It's also the perception that property held directly, you're more in charge of what is going on*.'

The dislike/fear of alternatives led Jack to adopt some very high-level framing as part of his justification for investing in the SPRS:

> '*Cash is for spending; bonds are for people who with enough cash to bother diversifying and shares are for gamblers. What else is there?*'

The default discounting of alternatives led to several landlords framing their decision to acquire in the SPRS as a dichotomous choice between bricks-and-mortar or the bank. The observation that potential SPRS returns could outstrip historically low bank interest rates would then be used as a justification for choosing the SPRS. A number of examples were forthcoming from landlords as detailed in Figure 8.6. However, this approach was exemplified by James:

> *'Now, there's still opportunities within Glasgow to buy property at £50,000 and get £500 rental. Now, in a very rough sum, you're talking about 10% return there almost. You can get about 0.1% in the bank.*'

Figure 8.6 Bank deposits as a benchmark

'*You don't get that kind of return [SPRS returns] in the bank or anything.*' (Deepika)	'*It's the difference between getting 0.75% interest in a savings account and probably getting a return of maybe 5 or 6%. A bit of a no-brainer to be honest.*' (Lyndsay)	'*I get a 5%, 6% return. That's going to be certainly a damn sight more than you get from a bank*' (Rodney)
'*Money in a building society gets nothing or virtually nothing and you've got an asset. You've still got a concrete or stone thing.*' (Linda)	'I *don't know what my return on my investment is on my properties. I know that the ones I own, if the money was sitting in a bank, I'd be getting about 0.5% if I was lucky.*' (James)	'*I think it's either that or putting your money under the mattress or under the bed or a bank of some sort and returns are very poor at the moment so bricks and mortar.*' (Jane)

Underlying these views is the notion that landlords want their money to be working for them, but in a manner which is negatively constrained by their risk tolerance levels and biases. Stuart for example, did not want his money to sit in an account getting '*zero interest*', but wasn't willing to '*take a big gamble*' on alternatives. While bank interest rates can serve as a worthwhile investment benchmark, landlords discussed differences in rates of return without reference to the differing risk profiles of each investment. It should also be noted that at the point of interview bank interest rates had been at historically low rates for some time. At point of writing up the thesis however, a range of factors including political instability in the UK, had caused rates to rise dramatically.

Several landlords did not pursue alternatives because they were underwhelmed by their performance, especially given their perceived higher risk. For example, John noted:

> '*I used to own, and trade but not in a big way, shares. I've had about £30,000, £40,000 worth of shares. Just in things like BT, and Vodafone, and Sainsburys. I had a wee thing that if they went up 10%, I'd sell them and if they fell 10%, I'd buy*

another 20%. It was over a number of years…I didn't make a huge amount of money.'

Vicky simply couldn't countenance getting the same return for the same level of risk:

'*Once my mortgage is paid, and my insurance and all the direct debits and all of that comes out, I get a fixed income from my flats, that I don't think I would get from anything else.*'

A number of biases and heuristics are evident in this subsection. For example, a lack of knowledge and experience (in some cases) of alternatives, points to landlords being subject to 'availability bias', whereby they choose the SPRS based upon the information available to them and the fact that the investment resonates with them (Pompian, 2012). By underestimating the possible downside of SPRS investments, landlords are falling prey to 'optimism bias'. By relying on the influence of past experiences, landlords are displaying 'affect bias'. Using bank interest rates as a benchmark to justify their SPRS investment is a clear indication of 'oversimplification tendency' but also of failing prey to the 'anchoring and adjustment bias'. All of these biases can lead to the creation of portfolios that are less than optimal and will be explored in more depth later.

Unfortunately, there is no directly comparable data within the SPRS/PRS literature in which to locate these novel findings. However, the findings are analogous with Shiller's (2015, p. 96) findings pertaining to home buyers in America:

'*We lost a high percentage of… [retirement savings]… during 2000/2002. We've never really lost money on real estate.*' (2015, p. 96)

'*Real estate is safer. At least you own the property. With stocks, if you lose, you have nothing.*' (2015, p. 96)

8.1.2.3 Poor financial literacy/availability of advice

Financial literacy and the availability of advice are additional factors that prevent landlords from building a balanced mixed asset portfolio.

The weight of the findings so far points to landlords having a general comfort with residential property as illustrated by Deepika:

> ‘*I guess it's easy in a way. I understand it. I know exactly what it's all about. Get the money, buy a property. You rent it out, you get a return.*’

In fact, several displayed an overconfidence with regards their own abilities and knowledge (‘Overconfidence Bias’) including Stuart:

> ‘*I've already done my research on the private renting sector, I know the laws inside out, I know how the First-tier Tribunal works. I'm completely genned up, there's nothing that can really surprise me.*’

However, if landlords are somewhat overconfident regarding their knowledge of housing and housing investment, they are often somewhat underconfident in their knowledge of alternatives. Several did not feel that they understood alternative investments further pointing to shortfalls in financial and investment literacy. As Deepika volunteered:

> ‘*Stocks and shares, I don't really understand, and I've got money in it and it's just sitting there. I don't really know what it's doing. As far as I'm concerned that doesn't even exist at the moment. At some point, I'm going to take my money out of that.*’

Stuart, who had previously participated in options trading, illustrated the relative complexity of some alternatives but also that a lack of continued exposure can result in knowledge being lost:

‘*I joined an investment club once. We were investing in covered calls, which was an interesting one. Covered calls are quite similar to buy-to-let. If you've never heard of them, a covered call is where you buy a call option on a stock and you cover that by buying the stock as well. I don't know if I'm explaining that properly. The idea is the call option is at a point in time, I'm buying the right-- No, it was buying the right to sell the stock-- Oh God, I'm confusing myself now. Bloody hell, such a long time since I did this. We were buying the stock, and then we would buy a call or a put? A call option, a covered call. We'd sell the call. Fucking hell...*’

For others the issue was less that they did not understand alternatives, but that they could not live with or were puzzled by their idiosyncrasies. James noted:

‘*I can't base my financial profile on the chief executive being caught at a sex party in the stock market. I can't get my head around how Tesla is the second biggest company in the world and it's never made a profit. I just can't get my head around that.*’

Jack had similar concerns:

‘*There not always a direct link between the strength of company and its share price. That makes no sense to me, there's no logic to it.*’

Although aligned to financial literacy here, these observations also reflect concerns regarding a lack of control associated with alternative investments that were raised in the previous section. Discussion with the SPRS professionals revealed some genuine concerns regarding investment literacy. Asked directly if she believe that in general, her landlord clients had high-levels of financial literacy, June (accountant) candidly noted:

> ‘*Oh God no. Oh God No… I cannot tell you how many times and actually wondered how people have actually managed to get through a day. Survived a day in the world and I’m not kidding… you have no idea things that we get asked and the things people say to us.*’

Don (Estate Agent) more subtly noted that some landlords ‘*are not aware of things you would expect them to be aware of’*. Sarah (letting agent) pointed to some landlords not having ‘*business economic sense*’ and Colin (letting agent) suggested that if landlords understood that they could make ‘*25 per cent growth*’ on an annual basis via a Baillie Gifford fund, ‘*they wouldn’t be investing in property just now*’.

This lack of knowledge can manifest in a number of ways. One example, again provided by June, pointed to some of her clients not understanding the tax implications of their investments:

> ‘*The biggest problem I have is clients do not understand…they’ve brought in £6,000; they’ve paid out £450 a month to their mortgage, they don’t get mortgage interest relief “but I’ve not got any money left to pay the tax.” “I understand that but you don’t get relief now, for the mortgage, you only get relief for the mortgage interest and the portion is now zero per cent of that mortgage interest. Therefore, you don’t get any relief at all.” “Ah, but that’s not fair.” “Well, it might not be fair, but that is the rule.” That’s the biggest problem I have, is explaining how they’re paying tax on money that they don’t physically have.*’

This evidence points to some landlords lacking financial literacy in some areas. As low levels of financial literacy can result in investment non-participation, particularly in relation to the stock market (Bucher-Koenen & Ziegelmeyer, 2014; van Rooij et al., 2011), this may be a further factor that contributes to a preference for property.

Some, like Deepika, were not interested in addressing their investment literacy and knowledge shortfalls:

> ‘*There's other investment opportunities, maybe I don't really have enough knowledge about or understand. I kind of understand property, I know property. I think it's just the easy option for me. I'm aware that there's other ways that you can invest your money, but that would have involved a lot more research and study into these different methods. I just don't have the time or inclination to do so.*’

Peter (financial planner) claimed that there was a general lack of interest in learning amongst investors:

> ‘*You can Google it and you can do a bit of digging, but who wakes up in the morning and thinks, "Right, I need to read up on financial planning and financial literacy." Nobody really does that.*’

Others pointed to barriers to obtaining advice. Some of these barriers were self-imposed. Brian for example, had some knowledge gaps, but was reluctant to take advice from investment professionals due to a lack of trust:

> ‘*I must admit I have a trust issue with, or risk-averse with handing money over to a broker or to an investment person and saying, "Here's a wadge of my own cash. Go and make me money out of it."*’

Referencing an early experience, he went on to state:

> ‘*… they [investment advisor] were only telling me what they wanted to tell me, because they wanted me to continue giving them money.*’

However, harking back to an earlier theme, James did not appear to want to relinquish control over his investment:

‘*It's not a world I know inside out, I don't like relying on other people's knowledge or performance.*’

For others the barriers were tangible. Jane’s issue centred on her remote geographical location although, it could also be ventured, a lack of prioritisation:

‘*It would be a useful exercise to do it [take investment advice]. Something that I’ve been putting off, partly because in order to get good financial advice, we’d have to travel up and down to [Scottish Town], which is an hour and fifteen minutes’ drive away. It’s just coordinating time off from work in order to be able to go and see an advisor or solicitor or whoever. And it basically takes a day out of your working week. So that’s the main sort of barrier to actually getting on and doing it.*’

Jack pointed to a lack of wealth being a barrier to retaining the services of a financial planner:

‘*Financial advisers won’t speak to you unless your loaded and they can sell you something. And they don’t get a fee from the PRS, so you can imagine how often that’s recommended.*’

Incidentally, the financial planner (Peter) agreed to some extent:

‘*Our business model would generally state that unless you've got more than £250,000 of investible assets, you don't really need advice from us.*’

This is a very real problem that is recognised in the wider literature, but was also recognised by Peter himself:

‘*I wholeheartedly disagree with that [needing more than £250,00 of investable assets to obtain advice]. I would say that a lot of my clients or a lot of people I've supported over the last couple of years, had a lot, lot less than that. I think there is* *ways in which you can get advice and make sure you're getting value for that… I don't think that means you don't need advice, I just think you're probably right, you maybe don't need to pay the levels that you would be paying a mainstream financial advisor for.*'

On the same theme, Mark reasoned that landlord's with '*one or two properties*' probably weren't generating enough business to have accountants and mortgage advisers in their '*corner*' providing advice. Mark viewed paid-for advice as '*just another source of financial drain*', while also acknowledging that '*probably the worst advice you can have is free advice*'.

Connor (Mortgage Provider) provide an example of where 'free advice' wasn't necessarily the correct advice:

'*… a guy wanted to buy a buy-to-let. Fifty grand property, we approved the loan for him and he had a change of plan and the broker said, "yeah he wants to do it as a limited company." I said, "we don't offer that product, but just your thoughts behind that?"… He said "he works in the gym on 20 grand a year and he's buying a flat for 50 grand. So, he can make about 5 grand a year on rent." And I said, "is he buying any more?" He said, "yeah he might get another, maybe buy one more." I said, "well he will not be a higher rate tax payer so why is he looking at a limited company?" He said "oh, his pal did that and that's what he thinks he should do." But it wasn't the best route for the customer.*'

Even when landlords had obtained advice, they did not necessarily listen to it:

'*My financial advisor tears his hair out to be honest,… he'll say to me, "listen, you've got to put some of that into pension because the government will give you this amount for every pound you put in. So over the next 10 years that will be worth* *more than any flat you buy now." However,… it's not a world I know inside out, I don't like relying on other people's knowledge or performance.*' (James)

This failure to listen to advice was resolutely reported by June (accountant):

'*I'm doing this for nearly 25 years now, so I was sitting with people who were 40 and they're now 65 and they're now coming into me going, 'oh, I can't retire'. "No, you didn't do what I told you to do",… I don't say that obviously,… they all say to me, "I just wish I'd listened to you" or "I wish I had put in more" or "I wish I hadn't done this" or "I look back at what I spent when I was in my 40s, when I thought I was making money and just splurged it and bought stupid properties"*'

However, Bill (mortgage broker) reported that most of his clients listened:

'*I found most people are, they're receptive to you, they'll listen to you.*'

In the absence of robust financial advice, SPRS professionals noted that some landlords appeared to rely on advice from friends, who have positively influenced their decision to enter the SPRS. For example, June (accountant) earlier highlighted the influence of '*their [landlord] pals in the pub'.* Connor (Mortgage Provider) somewhat dryly suggested: '*the individual landlord, the first-time landlord or the accidental landlord, they know they can do it, their pal's told them they can do it*'. As the performance of the investments of peers and levels of social interaction are known to have an impact on the selection of alternative assets, and in particular, the stock market (Kaustia & Knüpfer, 2012), this is perhaps not entirely unexpected. The influence of others, in the decision-making process will be elaborated upon in the next section.

This section has identified specific issues with regards landlords' financial literacy and their willingness and ability to take advice to address shortcomings in their investment behaviours. There is no directly comparable data within the extant literature, although parallels can be drawn with observations that landlords tend not to be aware of pertinent legislation, and yet show little intention of addressing this.

8.1.2.4 Media, family & other drivers

A number of landlords appeared to fail to create balanced investment portfolio as they were pre-disposed to SPRS investment due to cultural and media influences, family drivers and the familiarity of property conveyed by owner occupation.

A few landlords stated that they read books on property and property investing and more had watched TV shows on the subject. Mark for example had been influenced by reading ‘Rich Dad, Poor Dad’ (Kiyosaki, 2011):

> ‘*We had read a number of books on passive income, Robert Kiyosaki type books*[33]*, they really appealed to me.*’

Although getting investment advice from a book is better than getting no investment advice at all (usually), the literature review pointed earlier to issues with the ‘self-help’ type books currently within the PRS domain.

Lyndsay had a ‘*love*’ of property related TV programmes and Robert had been helped by watching them:

> ‘*I do end up watching programs like that [Property Ladder etc.*[34]*] because I end up getting ideas from them. Whenever I switch on, my wife groans and rolls her eyes.*’

Mark could be viewed as a hobbyist who loved all things property, he also occasionally

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[33] Interestingly, this is a book that recommends investment strategies based upon the comparison of the differing approaches of two parents.
[34] Silver (2001-2009).

viewed property TV programmes:

> '*I'm a wee bit of a geek as well, my wife and I love property for the aesthetic. We would very much be interested in flips or do-ups or self-builds… We're interested in property generally. We like to watch property programs on TV as well but we're not slavish to them. But aye, I would say there's a bit of a geek about us.*'

The scale of what could reasonably be called the 'Sarah Beeny effect[35]' was not measured, but it clearly influenced some, like Jack:

> '*Like most people, I've got an affinity for property and property investment. You can blame Thatcher, Beeny and McCloud for that, and the wee annoying one… Martin Roberts[36].*'

And Colin (letting agent) felt that is part explained the popularity of the PRS in general:

> '*I don't know, is it a cultural thing? Is it something to do with, you know, the fact that daytime telly is full of, you know, programmes about, you know, investing in property?*'

In reference to owner occupation, Farlow (2004, p. 11) suggests that the '*myriad of TV programmes on house and home reinforce the belief that prices can only keep rising*' and suggest that news media is biased towards '*optimistic*' coverage of house prices (2004, p. 10). This optimism has undoubtably also influenced landlords with James suggesting that some were '*seduced by what they see on TV*' potentially in the same manner as stock market investors are influenced by news cycles (Barber & Odean, 2013). For Brian, the influence of TV programmes extended beyond informing a pre-disposition to the SPRS,

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[35] A popular presenter of numerous property related TV shows.
[36] These are presenters of UK based property development and improvement TV shows.

they also created anchors with regards to return expectations:

> '*We watch Homes Under the Hammer*[37]*, and right at the end of that, they say, 'Well, look, this costs blah blah, they're getting 6%, 7%, 8% return,' which is quite reasonable. [My wife] says to me, "Look, that's the number that we should be comparing against." And she says it seriously, "That's what we should be ending at" and that's it. That's her investment concept 6%, 7%.*'

However, it should be recognised that not all participants watched property-based television shows and that the media's coverage of the overall PRS is generally rather pessimistic, suggesting that it is not a dominant factor. For example, the television programme 'Nightmare Tenants, Slum Landlords[38]' and newspaper headlines such as:

> '*Police hunt rogue landlord after officers find more than 20 men living in 'disgusting' three-bedroom semi-detached house full of mattresses that he made £1,000 a week from.*' (Boyle, 2018, Headline)

Family drivers were a further spur to SPRS investment. Several landlords had been influenced by their parents. Some, like Deepika, had grown up exposed to the idea of property as an investment:

> '*My family have always been in property... My parents had a few different rented properties when I was younger. It was kind of what I knew.*'

Robert had also grown up with parents who had invested in property and noted that this directly influenced his decision to acquire SPRS property:

> '*I picked property because, partly because my parents had done it and I saw that it*

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[37] Wilson (2004-2021).
[38] Davis (2015-2022).

> *went quite well and partly because just looking around it seemed a safe investment with a good return*.'

Others, motivated by the idea of regret, had invested in the SPRS because their parents had not:

> '*My dad had a property in [a Scottish Town] that he put some money into when my sister was in university there. He always said that his biggest regret was not keeping it after she finished uni because my mum and dad ended up selling it on, and then using the money for something else. He said he always regretted not having that just there because it would have been either a source of income eventually, once the mortgage was paid off, or hopefully, would go up in value. To me, that sounded like the most sensible thin*g.' (Robert)

Paul's motivation for investing in the SPRS was at least partly driven by comparisons to his father's approach:

> '*If I compare it against my father, for example. He's kicking himself because he wishes he'd gone into PRS market himself, but he never did. He's got his traditional teacher's pension, which dies when he dies. He's got a couple of other investments but they're invested in funds that give him a return. They are a balanced portfolio across a mix of asset classes that give him a pension income. That's what he lives off. I've chosen a different approach.*'

The insight that parental attitudes to investment can impact upon those of their children is novel with regards the wider PRS literature, but has been observed in relation to other investment types. For example, Zhao (2021, pp. 1, 29) notes that '*learning from parents explains heterogeneity in financial decisions later in life*' and leads to '*inter-generation homogeneity in terms of stock market participation*'. Barnea et al. (2010, p. 602) also finds that ‘*family environment*’ has a short lasting, but ‘*significant effect on the investment behaviour of young individuals’*.

The next factor identified relates directly to ‘Familiarity Bias’. Several landlords were drawn to SPRS investment by the familiarity engendered through owner occupation. This familiarity provided landlords with a sense that they understood property. Deepika opined:

> ‘*At the end of the day, most of us probably are already homeowners or have rented in the past. It's kind of like, ‘Home is where the heart is.’ It's what you've always known. Most people have had a roof over their heads. It does have a sentimental attachment, and you think that property is something that you know and you understand, as I said before. I think it definitely has an impact on your judgment maybe, or your decision-making processes.*’

It is interesting that Deepika recognises this familiarity bias in her investment behaviours but does not use this recognition to question the legitimacy of the bias. Sarah (letting Agent) pointed to familiarity being relatively common and noted some downsides:

> ‘*... people think, “well I live in a house so I understand how to manage a house.” What they don’t maybe understand is how to manage a let property with somebody else living in it and they don’t investigate that. They just assume that, “I live in a house so it can’t be that difficult”, you know, “I’ll just get somebody else to live in it and pay me.” But there’s more to it than that.*’

A shortfall in lettings management knowledge was in fact noted by Colin (letting agent) and Debbie (letting agent) who observed that they often received very basic questions regarding legislation, management and liability.

There is some ‘*debate*’ within the individual investment literature as to the impact of familiarity (Barber & Odean, 2013, p. 1550). On the one hand, the familiarly of owner occupation can be viewed as a positive given that people are '*better informed about the familiar*' (Huberman, 2001, p. 675). However, the research on stocks and shares investments finds that investing in the '*familiar*', 'reflects people's tendency to be '*optimistic about and charitable toward what they feel affinity with*' (p. 676) and can result in people '*ignoring the principles of portfolio theory*', (p. 659) as is certainly the case for landlords, resulting in low levels diversification (De Vries et al., 2017).

Furthermore, the familiarity here is borne (in some cases) from owner occupation (88% of landlords). However, the decisions leading to owner occupation is both a question of consumption (Kullmann & Siegel, 2003) and investment, which is not wholly driven by '*cognitive and rational factors*' (Koklic & Vida, 2009, p. 75), but also draws upon '*social and emotional*' factors (Salzman & Zwinkels, 2017). As such it should not be considered as a proxy for the decision to invest in the SPRS which, from a normative investment perspective, should be a purely investment driven decision.

The factors raised in this sub-section were not universal to all participants and appeared to have varying degree of importance with regards investment decision-making. Nonetheless, they have contributed to the biases and the decision-making processes of some landlords that have led to the omission or compromise of the asset allocation stage of the normative investment process.

8.2 Stage 2- Asset Selection

This section moves on to consider the asset selection element of Stage 2 of the normative investment process in which landlords select the individual property or properties, which meet their risk and return requirements. Given that asset selection can result in '*costly mistakes*' (Fischer & Gerhardt, 2007, p. 11), it is important that landlords get it right.

While existing literature points to the types of properties landlords own and the types of tenants they house, less is known about the asset selection process followed by landlords. This section seeks to address this. To do so, it first focuses on the search processes used by landlords and the frequency of those searches. Secondly, it examines the approaches that landlords use to simplify their choice frame. Thirdly, it identifies the property and investment appraisal methods and techniques undertaken by landlords prior to selecting a property for acquisition. Fourthly, it considers the extent to which landlords consider market timing. Fifthly, it discusses the acquisition process, and the sixthly, it endeavours to encapsulate the findings of the section in a process model.

8.2.1 Property Search

Most of the landlords interviewed who had undertaken a property search, did so via standard property portals such as Rightmove and Zoopla, and in a few cases via auction houses. Circumstantial landlords also used portals to access information albeit retrospectively.

Deepika had tried to build relationships with estate agents to allow her to identify suitable properties and more specifically '*good deals*'. However, reflecting Mark's earlier view on the challenges of garnering the support of SPRS professionals, Deepika found that this was difficult in practice as she lacked scale:

> '*I've tried to build relationships with estate agents, and you'd think you've got a relationship with them, but estate agents are so busy that they don't really-- I've never been in a position where I've got like such a good relationship with an agent that they come to me as soon as they've got something that they think might be of interest, because I think they'd probably save that for the people that are, maybe, a bit more cash-rich and who are purchasing quite a lot from them or using them a*

lot. When you only have a few properties that they're dealing with for you, it's not really-- You're not on the top of their list really for contacting all the time. So, Rightmove and auction houses pretty much.'

Jack agreed noting that:

'*Estate agents have cash buyers pestering them for deals every day. They don't have any loyalty.*'

In terms of the frequency of searches, landlords had different approaches though these can be broadly split into those who only search when thinking about making a decision to acquire or retain a property, and those who looked more or less continuously either on an investment basis or as a leisure activity (hobbyists). Jack looked continuously for investment purposes but also as a form of hobby:

'*I'm always looking property, it's a bit of an obsession. Rightmove is my go-to app. It's part research, part nosiness (laughs). Not a lot comes up in the areas I want at the right price, so I really need to be on my toes. I also have a look at auction sites, but Rightmove is King.*'

Brian was also '*permanently looking*' for properties, even when not actively seeking to make an acquisition. Lorna had a penchant for '*sitting online and looking at houses*'. She even jokingly referred to her continuous monitoring of the market as an '*addiction*'.

Mark said that he went through phases of each, but more generally confined search activities to periods in which he was likely to make an acquisition:

'*I'll go through periods of maybe looking at Rightmove and investment opportunities, constantly. Then I'll fall away from it because I'm not in the buying mood.*'

Deepika, whose husband was ‘*always looking*’, also only commenced searching when in acquisition mode:

> ‘*It's an ad hoc process. Really, if I think that yes, we're in the position to find something new, then I start looking.*’

However, this did not prevent her from having an opportunistic streak:

> ‘*If we are finding ourselves in a position that we're not actually looking to buy something but a total bargain comes along, then we might think, "actually, let's just do it."*’

James, also approached property search opportunistically:

> ‘*I don't actively check Rightmove every week or anything like that. If I drive past something, one of my flats, and there's one beside it, I might think, ‘Right, that's a good spot there.*’

More broadly, the property search activities of most landlords were confined to occasions when they were about to acquire/retain a property.

8.2.2 Property Selection

Landlords were initially asked ‘*what makes a good investment property*?’, in the hope that it would provide an insight into the key factors that drove property selection. Landlords provided a broad mix of responses ranging from ‘a *good state of repair*’ (Lyndsay) to ‘*a good oven, and a nice fridge*’ (Lorna). These insights were interesting, but of limited use in building a more coherent picture of the asset selection process.

However, as the interviews progressed, it became clear that landlords sought to initially simplify their choice frame (and ultimately produce a shortlist of properties) via consideration of a range of factors including the property return profile, the property location, the property type and the target market to be served. It is important to note that these factors are inextricably linked, for example, landlords wishing to house students (target market), should ideally select an HMO property (property type) close to a university (property location) that can generate a realistic yield (return profile). However, it emerged that landlords assign each of these factors differing priorities and levels of attention within the asset selection process. These factors are explored in more detail in the sections below.

8.2.2.1 Return profile

Several landlords placed return considerations front and centre, when commencing the asset selection process. This approach, which is closely aligned with normative expectations, is exemplified by John:

> '*I looked at how much rents were and how much it was to buy properties. I just spent ages on that app [Rightmove] and I started to notice that the cheapest two-bed flats were ex-local authority. Then, I looked at the rents. I just compared those two numbers. Then, I just started looking for those types of flats, cheaply as I possibly could, but where the rent was unaffected by how cheap they were. So, I could buy a two-bed ex-local authority in [a Scottish Town] for 95,000 and it would rent out for 650 or I could buy a two-bed ex-local authority in [another Scottish town] for 60,000 and it rents out for 575, so I could buy two. I just used Rightmove. I wanted the cheapest which give the highest return.*'

In this approach, decisions around property type and market served are largely dictated by John's return expectations. By targeting sub £65k[39] properties, generating rent of £550 a

[39] This is at the bottom end of the market according to Watson (2022).

month, John can only buy certain types of properties in certain types or areas, which will attract certain types of tenants, thereby reducing his choice frame considerably. As Jack ventured:

> ‘*I’m sure most landlords are aware that if they buy a £20k property in Port Glasgow or a £150k property elsewhere that they’ll attract different tenant types?*’

It should be noted however, that John commenced his search at the local level (a Scottish City) rather than the national level (Scotland) meaning that his return focused approach was subject to pre-existing geographical biases (‘Home Bias’) and therefore may not have been optimal.

Mark had a similar viewpoint to John and illustrated the different options available for a specific budget:

> ‘*You've got £200,000 house you can rent out for £1,000 or you've got four £50,000 flats that you can rent out for £400, then your rate of return is £1,600 a month versus £1,000.*’

Sarika (letting Agent) reported that most of her clients prioritised income over capital growth. However, the majority of landlords did not. James noted the need for a balance although he still appeared more focused on income as opposed to capital growth:

> ‘*I think most professional landlords understand the concept of capital growth as against revenue. For the vast majority they have to strike a balance between the two... I realised right away that for the price of my property in [former home in expensive area within Glasgow] I could buy five properties which would generate nearly three times as much rental... I would not get the capital growth off those other properties. I might get a tiny bit of inflationary growth, but I'm not getting*

10% per annum growth that you might get somewhere like [an expensive area within Glasgow].'

Many landlords were focused on both income and capital growth or solely capital growth, with the latter being happy for an investment to '*wash its face*' on a day-to-day basis (Lyndsay and Rodney) in order to realise this. Although this is a valid strategy that will suit the circumstances, capital budgets, risk appetite etc., of many landlords, some were surprised at this approach:

> '*It completely surprises me [landlords buying £200k properties] because they're just not-- what they are getting, they're getting capital growth. Well, they hope they're getting capital growth. They're definitely not getting yield… A lot of people just say, 'Oh, fancy property in the middle of Glasgow city centre, I don't think that's the way to go.*' (Sarika, letting agent)

John didn't '*understand it*' and mused:

> '*I don't know how they make money. I mean, they make money on the house price rising, but I bought £200,000 worth of property [multiple flats] so the price rises I still get. Yes? I just have three rents instead of one from my properties.*'

Colin (letting agent) pointed to capital growth not being what it used to:

> '*I hark back to, you know, ten, 15, years ago, when I first came into this game, and, you know, capital growth was the...you know it was double digit. Every year, all year, you know, the house prices were going up, and up, and up, and up, and it was fantastic. Everybody thought this is great, but you know, that's vanished now, capital growth is, you know, probably in line with inflation.*'

And Don (letting Agent) noted:

‘*There's large parts of the country where there's almost zero capital appreciation in property prices.*’

A returns focus was not the priority of all, with many landlords being content to satisfice so long as some money was ‘*coming into the bank every month*’ (Ben) and/or the investment could ‘*make a bit of profit*’ (Lorna).

8.2.2.2 Property location

Given the popularity of the phrase ‘location, location, location’, it is unsurprising that property location is a key driver of the property selection process, which plays an important role in simplifying the choice frame for many landlords. For some, there was the general desire to ‘know the area’ as previously reported by (Crook et al., 2012). Jack noted:

‘*I want to know the area I buy in... Even the worst area looks great on a sunny Rightmove photo. The quality of areas can change mid street. You need to know where you are buying. Things can change, but it’s better to start off on the right side of the road.*’

Brian elaborated:

‘*It's important to know the market. For me, it's worked quite well that I know the town I live in and I know which areas which I think would fit my skilled worker tenant. I know where that is and I know the areas where I don't want to buy them in, where people wouldn't want to be… The important thing is knowing the market.*’

This notion was also backed by Colin (letting agent), who noted that ‘*landlords do feel more comfortable investing in an area they know*’ and Sarah (letting agent), who noted that ‘*people tend to want to buy in markets that they know a wee bit about*’.

Others, though not all, had a desire to live in close proximity to investment properties for practical reasons. For example, for those who self-managed, it made it easier and more cost effective, particularly in terms of travel time, when repairs '*need done*' (Lorna). As Vicky reported:

> '*We were ideally looking for a property close to our first one. so that we weren't going from one end of [a Scottish city] to the other [when carrying out inspections and repairs]*.'

While geographical knowledge and proximity can reduce risk and costs (more on this later), it can also be viewed as a barrier to optimal returns. Though other factors are obviously at play, this is evidenced by James's earlier rejection of Port Glasgow and Patrick's rejection of opportunities in a town that was geographically remote from his home location:

> '*We did come across somebody who bought a property down in the Borders... and he paid about £30,000 or £20,000 for it. He's getting close on £600 and something a month on rent. I think it was around the time I inherited my aunt's house and I thought we could sell this. We could buy three, maybe four, but who's going to manage them? Who's going to drive down there?*'

These preferences can be viewed as a form of 'home bias'. As the investment options available in and around the areas in which landlords live or know, may not represent the best available investment options for them, this bias can lead to suboptimal investment decisions.

Letting agents advocated the benefits of their own local knowledge, but viewed landlord 'home bias' (particularly amongst non-professional landlords) as problematic and sometimes tried to discourage it. For example, Don (Sales and Letting Agent) complained:

> '*I spoke to someone this morning, and they were looking – "I want to buy in the East Kilbride area." "Well, why do you want to buy in the East Kilbride area?" – "It's because I work in East Kilbride, and it's easy for me to manage the property there." And it's like, "well you know, that's probably not where you should be, you know, where you should be looking. It shouldn't be easy for you because you work in East Kilbride, it should be, it works on paper."... they just don't have that investor mentality*.'

Sarah (Letting Agent) also reported that she routinely asks landlords '*to look at different areas*' in order to achieve better returns:

> '*So you might come to me and say, "right I want to buy in East Kilbride" and I'll say "that's fine, that's great, but have you thought about Cumbernauld*?"'

Sarika (Letting Agent) actively discouraged landlords from buying properties in high-risk areas:

> '*Just in the last three months alone, I put two landlords off buying two properties. They were ready to put the offer in and I was like, "don't touch it."... Certain areas, I would say, "okay, you're looking at a G42 postcode, do not touch Allison Street, this number to this number"... that kind of thing.*'

Sarika believed that she was not only protecting her landlords, but also her staff when providing this advice. It could be suggested however, that she was in fact encouraging suboptimal investment decision-making based upon her own biases.

> '*A landlord sent me a link to high-rise and I basically said, "well, if you think me or my staff are going there to do a viewing on a December's night, you can think again. If you buy the property, good luck to you, we'll not be managing it."*'

In addition to being a barrier to optimal returns, geographical/home bias can lead to landlords buying multiple properties in the '*same wee area*' (Lorna) as illustrated by Vicky earlier, this can result in landlords being overexposed to particular areas (and markets) and missing opportunities for diversification.

In some cases, location was dictated by factors other than a desire to know the area or live close by. For example, James was concerned with market demand and noted the importance of choosing locations '*within a reasonable tight circle of the city centre'*. Joanne partially chose her location on the basis of local economic factors including the availability of '*jobs good jobs, not just sort of part-time casual menial jobs at the local MacDonalds, but IT jobs… with good salaries*'. Ben had acquired a property in the block in which he lived as there had been '*some issues*' with the previous landlord owner and he reasoned that '*if there was to be a landlord and to avoid any future problems, it was as well that I was the landlord'.* Similarly, James had acquired one property which he '*wouldn't normally have bought*', but it was in the same block as an existing property he owned, had been derelict for eight years, and he was concerned about what could occur if he did not.

8.2.2.3 Target market served

The target market served was an important consideration for landlords when simplifying their choice frame. A quantitative survey by Crook et al. (2009) pointed to landlords differentiating between tenant types by economic status and household type. The interviews revealed that whilst some landlords sought properties which would appeal to as broad a range of markets as possible, others did in fact have very specific ideas about the types of markets they did and did not want to serve. For example, Stuart was focused on demographics, he did not want transitory '*20- and 30-somethings*' as they could be '*skittish* *and very open to move about*', instead he sought '*a more mature tenant*' with families in order to minimise '*tenant churn*'. John was focused on relationship status, preferring married tenants as they are '*slightly better behaved*' than singles. Brian focused on skill and income levels, targeting skilled salaried workers rather than those on low pay or without pay:

> '*I think that's us in a sentence… £100,000 skilled workers. That's what our target sector is… It's not social housing we're in.*'

Rodney, like other landlords (Watts & Stephenson, 2017) did not want to serve the 'DSS' market, which he associated with '*hassle*':

> '*It's one [flat] that attracts somebody living themselves and down the "no DSS" route. We just wanted somebody who would- they would be able support themselves and cause no hassle and no damage. It was really just a- we just wanted somebody who's not going to cause us any problems. Thankfully it hasn't.*'

Debbie (Letting Agent) noted that she did not want to deal with problem tenants either but highlighted:

> '*We've explained to landlords, we've had doctors renting a £2,500 a month property and left it filthy… There are lots of great tenants that are classed as DSS and I will say to landlords, "Don't judge people", because I give them the doctor example, there's good and bad from all walks of life.*'

James had specifically targeted vulnerable groups, for economic reasons:

> '*I deal with a niche market, and the people from the rent deposit scheme would be ex-addicts, ex-offenders, et cetera, et cetera. You're dealing with a higher-risk tenant. The reason I started down that road was pure economics. At the time, you*

may get 300 pounds rent for a flat, but Housing Benefit paid 350. For me, it was just the economics of it.'

Don (Sales and Letting Agent) noted that landlords often '*stick with what they know*' in that if they were, or had been young professionals, then they would have a sense of what that market required and would be attracted to providing housing to it. Indeed, there was some evidence of this within the sample.

Target market judgements are patently subjective and driven by biases which are not necessarily informed by experience or calculation. As such, some landlords may misjudge the risks associated with specific target markets, leading to sub-optimal investment decisions and outcomes.

8.2.2.4 Property type

The property type was also an important consideration for landlords when simplifying their choice frame and there were clear examples of landlords favouring certain property types as in (Crook et al., 2009) or being swayed by property features. For example, Mark preferred '*modern*' buildings and refused to buy sandstone properties due maintenance issues, whereas conversely Paul preferred '*sandstone tenements*'. Vicky was drawn to unique properties that had '*marketing potential*':

> '*When we saw this flat, because of the view, literally it overlooked [a local landmark], it was like, "this is so unique." The building itself wasn't particularly great, but the vista was really unique. I just saw the marketing potential of that and thought, "this would be a wonderful home. Very different.*"'

Although some landlords who owned more than one property had purchased different property types, Frank (Social Enterprise Letting Agent) had observed a tendency for portfolio landlords to specialise in a particular property type, in much the same way that some landlords specialised in a particular target market:

> '*I've dealt with portfolio landlords, they have a style of flat and they have a style of how they do up the flats and how they look after the flats, so a landlord who has ex-local authority flats, who's always going to buy ex-local authority flats, the landlord who has tenement flats will always buy tenement flats. I've never really seen a landlord who mixes between the two.*'

James agreed noting:

> '*I think if you develop a niche, to a certain extent.*'

However, property type often appeared to be determined by the other factors (return profile, property location and target market served). For example, when James started out, he favoured one-bedroom properties because they offered a higher yield (return profile):

> '*Historically with the housing benefit rates, there was not a massive difference between one and two-bed rates. You'd maybe get £100 a week for a one bed, about £115 for a two. The cost difference might be £15,000 so it takes a lot of £15s.*'

However, one-bedroom properties also suited his target market:

> '*I thought if it's two beds you might be looking at families or pals sharing… I know every partnership that starts almost always ends up failing because people fall out with each other, so I just thought, one person, one bed.*'

John's property type was also influenced by his target market, though he had the completely opposite view to James (above) in that he believed that single tenants are problematic as they are '*single for a reason*' and so he focused on two-bedroom properties instead:

'*I don't think I'd buy a one-bedroom one, especially an ex-local authority because a lot of them are still local authority and one-bedroom tend to be single people and single people are single for a reason. Whether that be drink or drugs. If you're married with a family in a two-bed, you tend to be slightly better behaved than a single person who's got drug and alcohol problems. I would not buy a one-bedroom flat in an ex-local authority again. [silence]. I sound like a snob.*'

Stuart was on the same page as John, but had a '*deliberate policy*' of focusing on three-bedroom houses in order to align with his '*mature*' family target market. The observation that James, John and Stuart, three of the more commercially minded landlords interviewed, targeted completely different property types in the pursuit of optimal returns, serves as a reminder of the heterogeneity of landlords and landlord decision-making, and the ability of biases and heuristics to shape non-optimal outcomes.

Many of the property type preferences of landlords appear driven by biases and heuristics and have implications for the investment beyond the interlinkages of the factors discussed in this section. For example, Jason (surveyor) noted that construction details (both modern in terms of fire cladding issues and historic in terms of non-traditional construction methods) can limit lending availability and re-sale values. In addition, the components of different property types have different lifespans and maintenance requirements, meaning that they have different lifecycle costs.

8.2.2.5 The impact of the factors on property selection

The factors identified are clearly important to the asset selection process, with the prioritisation of some of these factors over others influencing investment decisions. Taken together, the factors identified help dramatically reduce the choice frame for landlords. For example, at time of writing (February 2022), from the 10,000 residential properties listed for sale on Rightmove, just three aligned with Stuart's return requirements, chosen location, target market and preferred property type. In fact, the process has been so effective in this instance, that the choice frame now appears rather limited. If Stuart felt that this was the case, he could of course delay investment until a larger range of properties were available, but this may deplete the existing choice field and presents an opportunity cost.

8.2.3 Appraisal

Having simplified their choice frame and produced a shortlist of available properties, landlords adopted differing approaches to tackle the shortlist. During the online survey, landlords were asked which of the three statements below (Table 8.3) most closely described how they would go about selecting which property to buy from a shortlist of twelve available properties[40].

Table 8.3. Landlord approach to shortlist analysis

Statement	% of landlords
I would analyse the properties one at time and end my search when I identified one that met my minimum requirements.	10
I would further shortlist three or four of the properties and analyse those to identify the best property from the shortlist.	40
I would analyse all 12 of the properties to identify the best property out of them all.	50

(N=1054)

Whilst half claimed that they would analyse all 12 properties, four in ten (40%) would seek to further reduce the shortlist to make it more manageable. Though it is clear from the findings that landlords satisfice throughout the property selection process, one in ten (10%) offered a textbook example of satisficing, by claiming that they would '*end the search*' as soon as they found a property that met their '*minimum requirements*'.

[40] Landlords were asked to assume that there were 12 properties in their shortlist and that these were all located in their preferred location at their preferred price.

The appraisal process landlords subsequently adopted to allow the comparison of shortlisted properties varied, but most included a financial and a property appraisal component of some form. These are discussed in the following sub-sections.

8.2.3.1 Financial appraisal

For many landlords, the financial appraisal commenced with some desktop work to compare the capital values of shortlisted properties. Usually this took the form of researching both current and historic capital values via property portals. Vicky liked to begin by looking at current market values:

> '*Every property we've ever bought, we would look at all the ESPC [Edinburgh Solicitors Property Centre], check all of that, look at what the going rate is, do all the research to get a sense of what the market value is, what it would be over. We look at what was it worth, when was it last sold, how much it was, how much it went for. We do all the research on it.'*

Deepika focused initially on historic values:

> '*I'll check for house prices over the past 10, 20 years. Try and have a wee indication about what other properties are worth, roundabout. If they've been increasing in value in the area, what the area's like. That's kind of it really, in terms of research.*'

Jane explained that the same process was required with regards rental values:

> '*I think you'd also need to have to look at the local rental market level and compare it to similar properties and see what the market level is.*'

Indeed, letting agents reported that they regularly received enquiries regarding rents and market conditions:

‘*So, I get quite a lot of emails, maybe a couple a week from landlords who…they’ve seen our ad on Right Move and they want to know about the rental market.*’ (Frank, Social Enterprise Letting Agent)

‘*Landlords will seek advice about-- They may be looking at a property or want to know, “Is that in a good area? Is that in an area that rents out easily?” What they can expect to achieve in terms of rent. They will ask about market conditions.*’ (Debbie, Letting Agent)

When it came to calculating the expected returns of individual investments, landlords often followed a relatively simplistic approach as illustrated by Lyndsay:

‘*I just worked out how much rent I could get every month from them… I knew how much this buy-to-let mortgage was going to cost me, and I knew that the rent was going to cover that plus a bit more. That was all that I wanted from that first flat, was that it washed its own face.*’

Deepika’s approach (mentioned previously) was similar but more cost focused to allow for the identification of the net yield:

‘*I think I do the generic, “How much does it cost? How much rent am I going to get? What are going to be my expenses? What's going to be the net profit that I get out of it? Is it worth it or not?” That's the limit of financially thinking about whether I'm going to invest in something or not.*’

Such an approach was relatively common, with 22% of landlords selecting that they had forecast expected returns using the net yield (Table 8.4), with many of those with mortgages also calculating their return on investment. Despite landlords starting the process with an interest in the capital value of a property (to avoid overpaying and to calculate net yield), it is plain from Lyndsay and Deepika's approach, that future capital growth is not always considered/forecast.

Sarah (Letting Agent) suggested that capital growth was not something landlords generally asked about. Colin (Letting Agent) noted: '*I just don't think they... you know, the general, sort of, landlord population would even think to look at [capital value forecasting]*'. And Don (Letting Agent) stated that most landlords simply saw property as an asset that '*will hopefully be worth more in 10 years' time, 15 years' time, than it is now.*'

Frank (Social Enterprise Letting Agent) noted a difference in the investment appraisal approach of professional landlords with property investment companies, who spent a lot of time on financial appraisal, and amateur landlords who did the bare minimum. Frank was not alone, each of the letting agents interviewed credited professional or portfolio landlords (the minority of landlords) with greater investment knowledge and a '*more organised*' (Sarah, Letting Agent) '*switched on and savvy*' approach than '*the biggest chunk*' of '*ordinary people with one property*' who are '*not savvy investors*' (Debbie, Letting Agent).

As anticipated earlier, landlords tended not to use more 'complex' calculations/methods such as net present value or internal rate of return. Worryingly, in 47% of cases, landlords did not forecast the return at all (Table 8.4), again, this was presaged by the wider investment literature. The implication here is that it will be more difficult for landlords to carry out comparisons as part of the asset selection stage and to drive performance management in stage 3 of the normative investment process.

Table 8.4. Calculating the expected return

Calculations/methods used to forecast the expected return for the most recent SPRS property	**% of landlords**
Gross yield	17
Net yield	22
Return on investment	22
Net present value	3
Internal rate of return	2
Expected rate of return via the capital asset pricing model	1
I did not calculate the expected return	47
Don’t know	6
Other	3

(N=1054)

The reasons for landlords not utilising these calculations/methods were multifaceted, but largely replicated the themes identified earlier in stage 1 and stage 2 (e.g., relevance control, hassle/time, wealth, financial literacy). For example, relevance remained an excuse:

> ‘*Unless I was a big investor. I'm not that bothered... I think it is a scale thing.*’ (Brian)

> ‘*I think if you've got one or two, it's not worth it. If that were your main business and that's what you did, then obviously you would have to go into it in more detail.*’ (Lyndsay)

Stuart used only basic methods as he did not feel that he could control his investment outcomes:

> ‘*Your whole focus as a landlord should not be, ‘Oh, what is the minimum I'm going to make in a year?’ Because you just don't know. You don't know what your net profit will be.*’

Lorna was happy to satisfice and did not see the benefit of allocating time to detailed forecasting.

‘*I think as long as we're making a bit of a profit, then I'm not going to go into huge amounts of depths, and to how it's being calculated, it's not worth it. I need my leisure time. I work too much [chuckles].’ (Lorna)*

Lyndsay reported that her SPRS investments did not represent a significant portion of her wealth and so she did not see the point in focusing on it:

‘I haven't a clue what percentage return on my investment.… I don't want to sound really snotty, but it's not-- The rental properties in terms of their capital value were not a vast proportion of my whole assets.’

In terms of financial literacy, some landlords were not aware of all of the calculations/ methods that they could use to forecast their return level:

‘*I don't really know what they all are. I know that you've got your gross yield, and you've got your net yield, and that's what I know.*’ (Deepika)

Others were familiar with some of the methods, but had not used them in such a long time, that they would need a refresher before using them:

‘*Yes. In my business as a project manager, I was taught how to do internal rate return calculations and net present value calculations on projects… I would have to go back to the textbooks or to google it, but I used to do it for all my business cases. I haven't done that for 20 years.’ (Paul)*

‘*Ideally, I would do a DCF to let me factor in capex, but I’d have to look out my college notes and that’s not going to happen. I can’t imagine many landlords are going to that level?*’ (Jack)

A further implication of relying on basic methods such as the net yield, is that landlords are unable to take account of the value and timing of the capital outflows necessitated by the tangibility of property over the holding period (e.g., replacing property A's felt roof once every 12 to 15 years versus replacing property B's slate roof every 125 to 200 years), and are therefore unable to financially compare this element during asset selection. As per the 'law of instrument' some landlords clearly have an over-reliance on net yield calculations when in fact alternatives are required in order to complete a more detailed financial appraisal.

8.2.3.2 Property appraisal

The majority of landlords[41] viewed properties in person to allow them to answer an array of questions relating to everything from the property's desirability, to its maintainability. For example, to identify if the property would appeal to her target market, Vicky wanted to visit the property to ascertain if she or her child would feel '*safe, happy, secure*' if they lived there. James sought to answer practically focused and project related questions such as:

'*How easy is it to fit smoke alarms? Will that central heating system last?*'

Many, including Brian, were concerned with legislative factors including energy performance certificate (EPC) ratings:

'We look at the environmental assessment. What level is it at? 'E, that's going to be either expensive to develop, to improve, difficult to rent or difficult to sell… Those are risks, I'll look somewhere else because I can.'

Most were concerned about the contents of the Home Report and in particular the condition of the property:

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[41] Not overseas or southern landlords who tended to rely on listing details, letting agents and other 3rd parties.

‘*When I buy my flats, you look at the home report, yes? I just go by the home report. A home report's quite detailed. It tells you what's right and what's wrong.*’ (John)

However, John later asserted that home reports were not fool proof and could contain ‘*terrible mistakes*’. A home report does in fact have clear limitations as noted by Jason, a surveyor for a home report provider:

‘*I think people don't quite understand that the Home Report is just a visual inspection of property. It's not a detailed report on the condition of property. If somebody does want that then there is the scope to go and use a building surveyor to get a detailed report on the condition. We are obviously commenting on what we see… I think maybe people don't realise they should probably get further advice when there is [for example] category 2 repair.’*

Jason advised that the RICS ‘Homebuyers Survey’, an enhancement on the Home Report was ‘*a good tool for buy-to-let investors to use*’, but noted:

‘*I suspect it is very rarely used if at all across the whole sector.*’

In fact, very few landlords appeared to have opted for a separate survey to be carried out. This might explain why Jason’s firm no longer offered them although some firms still did.

Landlords also appeared to generally consider the likely short-term maintenance and refurbishment requirements necessitated by the properties they shortlisted as part of the property appraisal process, though long-term requirements necessitated by the property condition and type, as alluded to in the previous section, did not appear to be considered in detail even although they can impact upon investment outcomes. In fact, Frank (Social

Enterprise Letting Agent) noted that the whole '*notion of lifespan seems like a new concept'* to landlords. This will be discussed in more detail in Stage 3.

Several were concerned about whether flatted properties were factored[42]. John was adamant that he '*would never buy a property without a factor ever*' and most others preferred to have a factor in place, albeit with some reservations over cost and service. Interestingly, some letting agents actively steered customers away from non-factored properties in certain property types. For example, Sarika (Letting Agent) noted:

> '*Tenements, I don't think I'd touch a property or advise anyone to buy a tenement without a factor because there's too many problems. How do you get six or eight people together to do a roof repair on a tenement if it's not factored?*'

Other considerations made by landlords during the property appraisal process varied, but included the distance to local amenities and the extent of transport links associated with specific properties.

Despite this broad range of formal activity, property selection was also heavily influenced by '*gut feeling*' (Vicky) or '*gut instinct*' (Rodney). It should also be recognised that not all landlords undertook a detailed property appraisal considering each of the areas discussed. In fact, there were tangible examples of landlords skipping all or large parts of the property appraisal process:

> '*I got a call from a landlord the other day who loves property auctions, and she just bought a one bed in [a Scottish Town] off an auction site and wanted us to rent it out for her, and I'm asking her what condition it's like inside and she's saying,*

[42] A factored property is one in which the owners have appointed a property factor to look after the common parts of their property.

oh, I've never seen the place, so I've got no idea what it's like inside, but it looks good from the photos, and it seems a popular area, so I'm sure it'll rent out. And that seems wild to me that she would do that, so there was clearly no selection process there other than it was quite cheap and it looks quite nice in the photos, and she wasn't asking for the rent price beforehand, she just told me she'd bought it, because she was essentially bored at the weekend and she had some money to burn. So that's an interesting approach.' (Frank, Social Enterprise Letting Agent)

8.2.4 Market Timing

Market timing can play an important role in investment optimisation. With regards the SPRS, it can be thought of in two respects. The first is from a macro perspective, in which landlords would be expected to undertake SPRS acquisitions during troughs in the property cycle when house prices are low and to make disposals (if relevant) at the peak when prices are high.

Though landlords were not all aware of the term 'property cycle', they understood the terms 'housing boom' and 'housing crash', and some, such as Ben, had managed to buy during a crash/trough:

> '*I bought it 2008. There was a property crash, if you remember at that point? There was very little interest in buying properties in [a Scottish Town] at that time. I got a pretty good deal.*'

Others acknowledged in hindsight that they had bought at market peaks or as Joanne put it, '*at the wrong time*'. However, in both of these cases, the acquisitions were not predicated on market timing but rather were incidental to it. Instead, investment timing was driven by life events and the availability of capital. As Deepika reports:

‘*I think rather than focusing more on the property cycle, it's more about when I've got some spare cash.*’ (Deepika)

Landlords did not reference alignment with the property cycle when discussing their investment time horizon earlier, though Colin (letting Agent) had observed a differing approach in the behaviours of ‘professional’ and ‘average’ landlords in relation to market timing:

‘*I dealt with, you know, a number of professional landlords… they took advantage of opportunities coming out of the last recession as we touched upon… they had a plan to, you know, dispose of the assets by drip feeding them to the market when prices were good. And when prices maybe dropped backward, there was a bit of, you know, uncertainty in the economy, they would then, you know, change their strategy and hold to rent. They had a plan. They knew what they were doing. Your average landlord with one, two, properties is probably thinking "I'll just sit on them", they'll keep them.'*

Deepika suggested that this inaction may be due to difficulties faced by lay landlords in timing market peaks and troughs in order to be able to take advantage of them:

‘*… there's no way of knowing when there will be a crash, it could be anytime. If you've got the cash, you can't just sit on it*’.

However, a much larger challenge in buying at the bottom is that ‘herd behaviour’, ‘optimism bias’, and the availability of capital often drives acquisition at the peak. For example, James was caught up in the pre-2007 housing boom:

‘*During the '90s in particular, early 2000s, I was literally bombarded with finance offers. I was pre-approved to purchase 50 properties by the Royal Bank, I was pre-*

approved to purchase another load. I could have easily got over 100… At that time the people in charge of Royal Bank, a lot of the banks buy-to-lets were glorified car salesman… They quite openly said, "If you buy one, we'll immediately send a guy out to revalue and that'll be your deposit for the next one."... I bought all those properties in the day whereby as soon as they were advertised, you'd phone up for a viewing, you couldn't even get a viewing. They'd say, "We've got 20 people going." I started buying them without viewing them because that was the only way you could purchase property in 2005, 2006 was to just throw a bid out and say, "You've just advertised this morning, I'll give you X over the asking price for it."'

However, not all participants were landlords during this period or were influenced in this way. For some, the property cycle acted as a break to investment at or near the top of a cycle. For example, when Jack was asked:

'*Do you ever think about the business or property cycle when it comes to buying or selling property?*'

He responded:

'*Only if I'm looking to buy and I feel like we're at the top of the market. I get a bit worried; I don't want to get caught up in a gold rush, it's easily done. In fact, it's happening now. People are going nuts with their bounce back loans and covid savings and prices are shooting up.*'

The impact of poor market timing can be significant and long lived as James had discovered:

'*I bought one in [a deprived area] for 65, I think I'd have to move the point across somewhere to get that price now. I would struggle to get maybe 55 for that now. As*

> *a wise man once told me during the property boom, "just remember", forgive my language, "if you're buying at inflated prices in these areas like [two deprived areas], they're shit holes and they will always be shit holes for the vast majority of people." So when shit hits the fan, the prices are going to tank in these areas.*'

Poorly timed transactions not only led to regret for those who had lost money, but also for those who had not made enough by selling too early or buying too late in a rising market:

> '*As far as I'm aware, we were just going into an upturn in prices. I wish I'd done it maybe a year earlier. Maybe a year and a half earlier.*' (John)

The second respect in which market timing can be considered is from a micro perspective, in which landlords would be expected to make optimal investment decisions in line with local economic conditions. This could include for example, purchasing property in an 'up and coming' area that is attracting high-levels of inward investment. Though not a core focus within the interviews, there was some evidence of landlords thinking in these terms within the sample and in an example provided by Colin (Letting Agent), although he noted that such approaches were rare:

> '*I dealt with a chap, probably, about ten years ago now, who worked out where the Edinburgh tram route was going and started buying properties close to the stops, and he certainly made, you know, I'd say a right investment choice there, and so you will get people who will, you know, think ahead, who will think longer term, but again I would say these guys are probably in the minority when it comes to landlords when they're doing their investment choices.*'

8.2.5 Acquisition

Having considered a range of factors to create a simplified search frame; undertaken a search based upon that search frame in order to create a shortlist of properties; analysed those properties according to the extent to which landlords maximise or satisfice and in consideration of a variety of financial and property appraisal techniques, landlords arrive at the selection of a property/properties that best meet their requirements. There is no guarantee however, that having been through this fairly laborious process, that landlords will be able to secure the selected property. In fact, there are a number of reasons why they might not, including legal issues and the availability of funding. However, market demand emerged from the interviews as a key determinant. In times of strong demand, landlords must not only compete with other landlords, but also aspiring/current owner occupiers:

> '*… most of the ones that I bought recently… I've turned up and there's 10 people looking to buy it, plus a first-time buyer, plus a student's mum and dad that want an investment, that type of thing.*' (James)

Strong demand inevitably leads to closing dates being set by the seller's estate agent. This creates price uncertainty, which could dramatically alter the return profile of the property selected. Bidding against other landlords was not perceived to be overly problematic as they should have a '*line*' that they don't go over (James). Jack agreed and pointed to the larger challenge in competing against potential owner occupiers:

> '*If I'm bidding against other landlords, I can guess at their financial ceiling. I've no chance of doing that for someone who has found their forever home.*'

Both of these positions assume that landlord's act rationally during the bidding process, which is not always the case. James's response to this potential uncertainty was to avoid competing altogether, which differed from his approach in the 2000's:

> '*I just have a value in mind. I don't go into closing dates, it's not worth my while, if there's that level of interest it's not worth it for me. I'm looking at getting in early, getting a discount off the valuation.*'

However, he also acknowledged that some landlords still get caught up in the bidding process:

> '*… they [prospective landlords] might have looked at 10 flats to buy their first buy-to-let, every one they miss, they will become more desperate, and they will become further and further from the reality of what they should be doing. They might start by saying, "£65,000 on this", and they'd be like, "no, no, that's no good enough." Before they know, they've paid £75,000, but it's only worth £65,000, because they've looked at 11, they don't want to miss another one.*'

8.2.5.1 A note on circumstantial landlords

For circumstantial landlords, decisions around the return profile, property location, market served and property type were vastly restricted and in some cases were fait accompli. However, from a normative perspective, these factors should still be considered, the appraisal process undertaken and the property sold and the capital redeployed elsewhere if the investment is suboptimal or skews the risk/return characteristics of the investor's existing portfolio. While it is acknowledged that in some cases, trades offs are inevitable, say for example, in the case of a landlord that rents out their home during a temporary relocation, this is not always necessarily the case, for example, where a property is inherited (7% of landlords).

However, circumstantial landlords did not always consider these factors. This is partially explained by the biases and instances of sentimentality previously discussed, but also by the proverb 'a bird in the hand is worth two in the bush' which is evident in Patrick's general observation that the '*income stream you've got*' is better '*than the one you don't know about in the future*'. Patrick went on to note:

> '*Because we've ended up in this as accidental landlords, it's beneficial to us to just keep going or it has been… we may as well take some income off it because at the end of the day we've still got the capital.*'

Jane had a similar story:

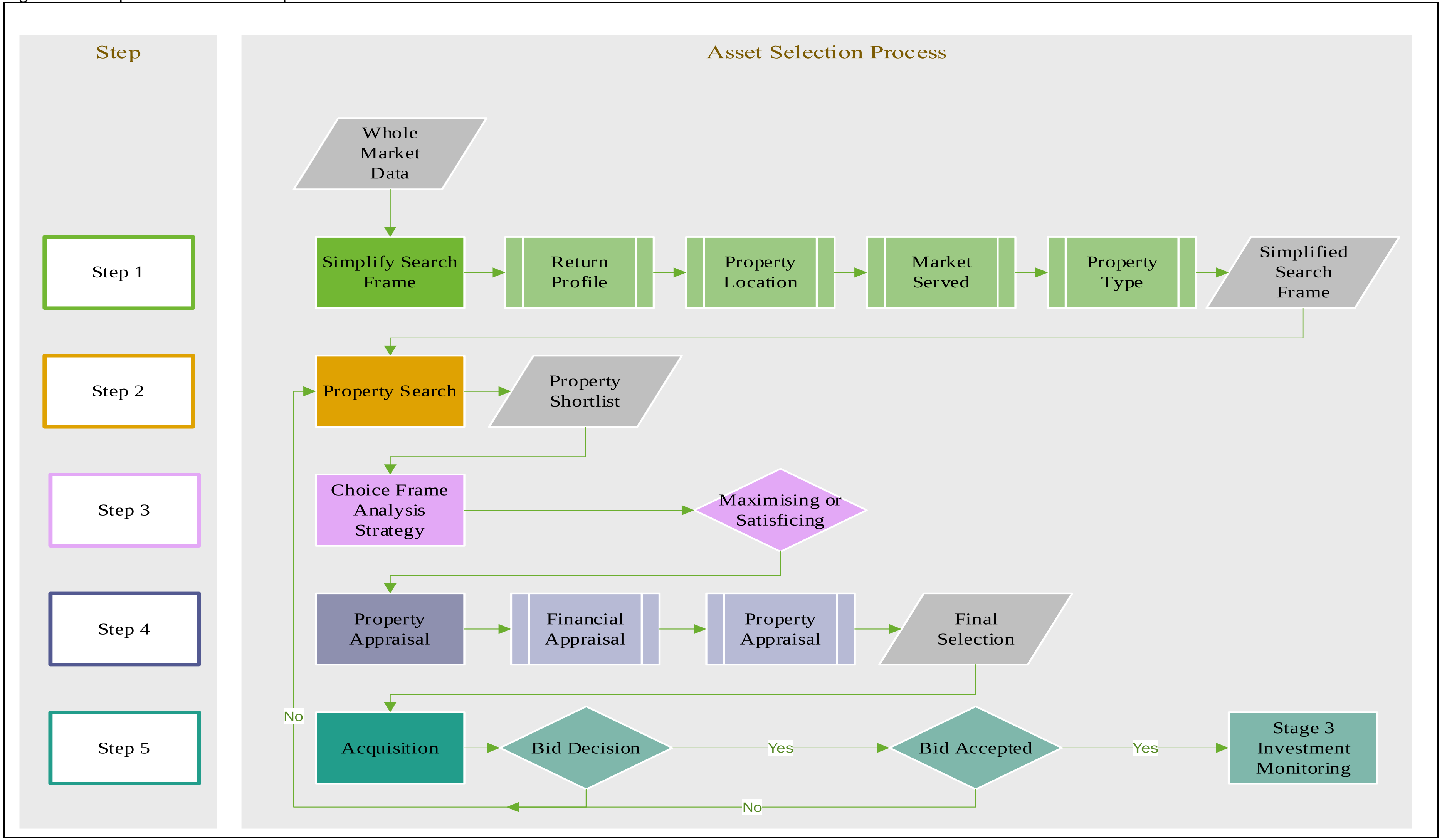
> '*It's just because we've got an asset that we tend to let it out. It wasn't something that we'd bought as an investment to earn an income from. It's just something that we needed to have at the time and we're now making use of it as best we can at the present time.*'

For some circumstantial landlords, the perceived hassle and transactions costs associated with selling property, were more substantial than the arguably equally expensive and more difficult task of entering a property into the SPRS. By way of example, Patrick acknowledged that he may not have been '*making the most against capital*' that he '*could have done*' but was put off selling by '*the legal fees*'. As a result, it is likely that many circumstantial landlords own SPRS investments in which the property type, property location, target market and returns are not optimal in relation to normative investment theory.

8.2.5.2 Asset selection process model

The asset selection process identified in this section has been modelled in Figure 8.7.

Figure 8.7. Simplified asset selection process



8.3 Stage 2- Summary Discussion

To summarise with regards to asset allocation;

- less than half of landlords agreed that they owned an investment portfolio despite 97% doing so;
- less than half (47%) directly held stocks and shares;
- 88% are owner occupiers resulting in some portfolios being skewed towards property;
- just 39% of landlords considered alternative asset classes before acquiring in the SPRS;
- just 39% considered how the acquisition of SPRS property would complement their existing investments; and
- just 30% had specifically acquired SPRS property in order to diversify their existing investments.

Portfolios tended to result from circumstance or naïve diversification, not from an informed process based upon the assumptions of MPT.

Landlords failed to adhere to the asset allocation stage of the normative investment process for a number of reasons (themes) including a preference for tangible assets, a fear of alternatives and low levels of financial literacy amongst others. These themes are informed by a range of biases and heuristics discussed throughout and which cumulatively undergird a clear bias for SPRS investment amongst landlords. In support of this conclusion, the majority (57%) of landlords openly admitted to holding this bias.

In comparison to their approach to asset allocation, landlords applied significantly more focus to the process of asset selection, though the approach varied. Given the scale of the asset selection challenge, landlords sought to dramatically simplify their choice frame via a range of factors including return profile, property location, target market served and property type. Landlords assigned differing priorities and levels of attention to each according their preferences and biases, leading to heterogeneity in the shortlists created by different landlords, but generally homogeneity within individual shortlists. It is important to recognise, with some exceptions, that these preferences and biases were not driven by experience or calculation. As such, the initial shortlists of properties generated by landlords may represent their preference, but they are unlikely to represent their optimal choice set.

The property appraisal process adopted varied but generally consisted of a financial component and a property component. Landlords tended to use basic calculations and methods during the financial appraisal of shortlisted properties, although 47% did not calculate expected returns at all. The reasons for not calculating the expected return mirrored earlier findings pertaining to deviations in the investment criteria and asset allocation stages of the normative investment process, including the perceived 'relevance' of the analysis and the 'financial literacy' of landlords.

Landlords did not follow a common procedure with regards the property component of the appraisal, although overlaps in behaviours were observed. Most were concerned with practical considerations surrounding compliance and maintenance, particularly in the short term. However, the appraisal was also informed by biases, themes and non-financial considerations identified earlier in the chapter, such as the extent to which the property represented a 'project', gut instinct and the need for properties to be personally appealing to them. Don (Sales and Letting Agent) mimicked some of these non-financial and highly subjective drivers:

> ‘*I'm not interested in that property, because I wouldn’t live in it myself, and I want to make sure that, I would want to put tenants into a property that I would like to live in myself. And I'm going to buy furniture that I would furnish my own property with.*’

It emerged that landlords are aware of market timing, and that for most, market peaks acted as a break on investment, as opposed to the property cycle being considered as part of the landlord’s investment horizon. More often than not, investment timing was driven by life events and the availability of capital (a significant investment constraint). As such, landlords can miss opportunities for maximisation and risk exposure to capital losses.

Overall, the failure of many landlords to fully adhere to the requirements of Stage 2 of the normative investment process and in particular; the failure to adopt a portfolio approach or consider diversification during the asset allocation stage; the generation of biased choice frames; a lack of detailed financial appraisal; and a property appraisal process partly informed by non-financial factors during asset selection stage, has obvious implications for landlord risk profiles and the optimality of returns.

The focus of this thesis now turns to the stage 3 of the normative investment process and specifically, SPRS investment performance management and SPRS investment divestment.

9 CHAPTER 9- DEVIATIONS FROM STAGE 3

The third stage in the normative investment process is concerned with investment monitoring, investment management and divestment. These are addressed in Sections 9.1, 9.2 and 9.3 respectively.

9.1 Stage 3- Investment Monitoring

During the investment monitoring component of stage 3 of the normative investment process, investors monitor, review and compare the performance of their investments against their objectives and against the returns of alternative investments. As it has been found that most SPRS investments are not driven by detailed investment objectives and that landlords tend not to consider alternative investments, this section seeks to shed new light on how landlords approach investment monitoring.

9.1.1 Performance Monitoring and Review Approach

The majority of landlords interviewed equated performance monitoring with the monitoring of ‘*cash flows*’ (Rodney) and ‘*profit and loss*’ (James). Most regularly checked that rent had been paid. For example, Joanne kept ‘*a very close eye*’ on her bank statements, James checked his bank account ‘*every day a payment’s due’*, and Deepika checked her bank account monthly:

> ‘*I'll check once a month to see if the money's coming into the bank. If it's there it's there and if it's not there then I'll inquire about it.*’

Jack checked on an ad hoc basis:

> ‘*I check the banking app to make sure the rent is in and that’s about it really. I don’t even check every month. The agent should call if there is a payment behind.*’

Costs tended to be reviewed as they arose or in James's case at the end of a financial year:

> '*If they've got factors' bills coming in… you'll pay them and at the end of the year I would look at them and say, 'Hold on a minute I've paid a hell of a lot to that factor this year. I must have a look at that and see what it is.*'

Beyond these checks, the majority of landlords undertook some form of '*bookkeeping*' (Brian) in order to tally rental income and costs, with around a quarter supporting the process with '*a nice Excel spreadsheet*' (Patrick). However, as will be discussed in more detail later, only around one in five (19%) of those surveyed, created a budget to help manage and monitor returns. Furthermore, whilst bookkeeping presented the opportunity for investment performance monitoring and review, it was in fact, largely undertaken in order to meet the legal requirement to submit a tax return:

> '*I've got to do a tax return because I've got a property that I rent. You're forced into tracking everything. You've got to keep your receipts for things. You've got to put everything in a spreadsheet. You've got to have the evidence there for your tax return.*' (Lorna)

For Robert and a few others, performance monitoring and review occurred annually in tandem with the completion of a tax return:

> '*I tend to only really look at the overview of it [performance] once a year when I'm doing my tax return. That's only when I get a sort of overview of what's happened in the past year.'*

However, others including Patrick and Stuart had a more continuous process. As Stuart described:

> '*I've actually got a detailed spreadsheet because for tax purposes… I have to, obviously, declare my profits to the Inland Revenue… as soon as I pay for something, it goes onto the spreadsheet. Or I'll look at my bank account every two or three months and I will update the spreadsheet. I put the exact date that I paid for repairs, which property was being repaired, what repair it was, which company repaired it, how much the repair was…*'

Frank (Social Enterprise Letting Agent) suggested that an approach such as Stuart's was more common for larger scale landlords with a '*property investment company'* who tended to be '*very detailed*' in their approach.

9.1.2 Performance Comparison Approach

The survey identified which measures landlords compared the performance of their investment against. Landlords reported utilising their objectives, budget, and forecast yields and returns in just 31%, 25% and 20% of cases respectively (Table 9.1). Strikingly, in 45% of cases, landlords reported that they did not compare financial performance at all. Interestingly, in 20% of cases, landlords compared returns with other properties they owned, but were less likely to compare with the returns of landlords they knew (5% of cases) or from yield data provided by letting agents (7% of cases) or industry organisations (3% of cases). Very few compared data with returns from alternative investment types.

Table 9.1. What landlords compare SPRS investment performance against

Measure	% of landlords (cases)
Your objectives.	31
Your budget.	25
Your forecast yields and returns.	20
The performance of other SPRS properties you own.	20
The performance of the SPRS properties of friends, family or colleagues.	5
Yield data from estate and lettings agents.	7
Statistics published by industry organisations (e.g., ARLA, Paragon, MSCI etc.).	3
Statistics from alternative investment types.	6
I do not compare financial performance.	45
Other.	1
Total.	163

(N=1054)

A few of those who participated in the interviews did in fact keep up to date with alternative investment returns, although this was largely to allow them to track the performance of investment types that they already owned. Jack however, undertook analysis of some alternatives to allow for comparison against his PRS investment:

> '*I do occasionally google best ISA or best savings rates. I'm just not scientific about it, and I don't compare properties, they're all too different. If it turned out that banks were paying 7% instead of 0.25%, I'd be tempted to sell up*[43].'

The reasons landlords posited during interview for not comparing the performance of their investments largely reflected earlier themes, such as relevance and time. By way of example, Deepika stated:

> '*To be honest, I probably just wouldn't bother because that's a job in itself. If you've got your money tied in, in a property, you've got your rent coming in, you're*

[43] Selling up would incur transaction costs and potentially give rise to capital gains charges but may be a viable option for many landlords as interest rates rise.

getting your certain yield. You know it's a long-term investment. I'm a busy, busy person. It's passive income coming in that way. I don't have time for every year sitting and seeing, "Oh, would it be better elsewhere?"'

James agreed and Patrick quipped:

'*Why do something when something you're doing is working reasonably well? You only change if it becomes a disaster [laughs].*'

However, he suspected that most landlords did not compare performance as:

'*… it's only useful if you've got something to compare it against. If you don't know what the yield could possibly be from an alternative source of investment, then the information is, to a certain extent irrelevant.*'

Rodney also felt that the availability of comparable data was a problem when he wondered how he would obtain measures that were '*equivalent for shares*'. These observations were unexpected as return rates for many alternative investments are freely available and thus raises further concerns regarding levels of financial literacy amongst landlords.

One possible measure for comparison which was overlooked by the survey, was the opportunity to compare the current investment performance of an SPRS property with its performance in earlier years. Brian was one of only a few to mention formally doing so:

'*I've got this spreadsheet which has my predicted-- my budget, and I've graphed my return on investment. I can look at my graph and I keep it for all the years that we've been investing. I can look at that and say, "oh yes, the trajectory is good." Yes, I get pleasure out of it and even though it's more time than I thought it would take, it's what I said I would do. I don't resent the time and I like a spreadsheet.*' (Brian)

The literature review did not identify any prescribed periods for comparing the performance of PRS investments in general. In light of this, the survey asked landlords how often they did so in relation to any of the methods listed in Table 9.1. The most popular monitoring frequency for those who did monitor performance was annually at 36% (Table 9.2). Interestingly, more frequent review periods had decreasingly levels of popularity. For example, just 8% reviewed performance every 6 months and just 1% reviewed performance weekly. Notably, 39% of landlords reported that they never compared performance.

Table 9.2. How often financial performance is compared

Frequency	% of landlords
Weekly	1
Monthly	7
Quarterly	7
6 monthly	8
Annually	36
Never	39
Other	2
Total	100

(N=1054)

Landlords were given the opportunity to note on the survey which 'other' frequencies they used. Though a variety of frequencies were identified including- '*every few days*' and '*intermittent*', most frequencies reported were event driven such as the '*change of a tenancy*' or a '*market crisis*'.

9.2 Stage 3- Investment Management

During the investment management component of stage 3, investors respond to the data produced via investment monitoring by taking any corrective actions required to ensure their objectives are met. For investors in the stock market, corrective action largely involves buying and selling shares to ensure that risk return characteristics are maintained.

Within the SPRS, such actions are possible, although property characteristics including illiquidity and high transaction costs make frequent trading of rental properties uneconomical.

Unlike stocks and shares investments, SPRS investment necessitates the direct management[44] of the underlying vested asset and its associated risks. As noted in the literature review, these risks are diverse and include a range of financial, business and property-based risks. The effective management of these risks allows landlords to maintain investment risk return characteristics and is therefore a key requirement of SPRS investment management. To be affective in this task, landlords require a fairly sophisticated grasp of risk and differing risk management approaches. In light of the lack of detailed coverage of risk and risk management within the extant literature, the primary goal of this section is to identify how landlords approach risk management, to understand key risk outcomes and to examine the extent to which landlord behaviours align with stage 3 of the normative investment model.

9.2.1 Landlord Risk Knowledge

Before identifying how landlords manage risk, it is necessary to identify the extent to which landlords understand how key individual risks can affect their investments. Given the findings to date, it was anticipated that awareness levels would be low, however, as in Watson (2022), the results were mixed. The majority of landlords (93%) claimed that they understood how 'default and arrears risk' and 'damage risk' (91%) could affect their investment, although just 61% understood the potential impact of 'void risk' (Table 9.3). Given that these can be viewed as the principal operational risks faced by landlords, it

[44] Elements can be outsourced; however, legal and decision-making responsibility is retained by the landlord.

was anticipated that these figures would be higher, particularly with regards the latter. Whilst it is possible that in some cases landlords were not familiar with the terminology used, it is not clear that this should be the case for principal risks.

Table 9.3. The extent to which landlords understand key risks

Risk category	I understand how this risk can affect me		
	Yes	No	Unsure
Default and arrears risk	93%	2%	5%
Void risk	61%	16%	23%
Damage risk	91%	4%	5%
Capital risk	80%	9%	11%
Market risk	82%	9%	10%
Political risk	53%	27%	20%
Location risk	84%	9%	7%
Regulation and compliance risk	81%	10%	9%
Property risk	67%	13%	20%

(N=1054)

When asked during interview if she had a good understanding of the risks she faced, Susan stated that she didn't '*really understand that sort of stuff*'. However, most of the landlords interviewed reported that they had some level of understanding. Jack was one of a few who was confident that they fully understood the risks that they faced. He enthused:

> '*Absolutely, yes. I could do a PESTEL for you (laughs).*'

However, many were less confident:

> '*I think so. I think I know what things can go wrong.*' (Deepika)

And many caveated their level of understanding:

> '*In a fairly simplistic way, yes… I've browsed some of the papers that came out from the seminars and such like I've done. I think we know; we can see the physical risks; we can see some of the financial ones. On a fairly simplistic level, yes, but on the deeper level of how does this impact the future and actually doing the analysis*

of income versus capital and the outlays on a day-to-day basis we haven't gone into…' (Patrick)

Frank (Social Enterprise Letting Agent) however, noted that some landlords were '*aware of some risks more than others*', and suggested that some were not aware that '*the buck kind of stops with them*'.

9.2.2 Risk Perception

Having identified the extent to which landlords understand how individual risks can affect their investments, it is necessary to grasp how they generally perceived such risks. When asked what the biggest risks they faced were, most interviewees focused on the principal risks, that is the possibility of '*void periods and tenants not paying rent*' (Deepika) and/or '*a tenant destroying the property*' (Jack). In discussion, several displayed behavioural biases in that they were pre-occupied by and anchored to, risks which they currently faced or had faced in the past. Perhaps reasonably, landlords who had been exposed to risk in the past tended to be more risk focused in general. This is illustrated by Deepika whose brush with risk, led her to question the safety of her SPRS investments:

> '*There's always that niggling feeling, that niggling thing in the back of your mind. "What if something went horribly wrong?" … for example, we've just gone through COVID and people have not been paying rent. I thought my insurance policy would cover areas like that, but then to find out, "actually no, a pandemic is not included in your insurance, it's not covered." There's fights going on at the moment with insurers and the insurance companies. Maybe they'll cover it, maybe they won't, we're still waiting to find out. I think this, in particular, has really made me wonder as to is it [SPRS investment] the safest option? I'm not sure, but it does raise a few concerns.*' (Deepika)

Conversely, and displaying further signs of behavioural biases, many of those who had not been subject to significant risk exposure assumed that this would continue to be the case, and subsequently, they tended not to be overly concerned about risk per se. As Patrick succinctly proffered:

> '*You live on the history of what you've experienced, I think.*'

John, was an exemplar of this behaviour. He clearly had a relatively good grasp of some of the risks he faced:

> '*I'm aware of risk. Interest rates are our biggest risk, but that's nothing to do with government legislation. When it comes to government, the risks are rent controls, yeah, changing the eviction laws so you can't evict people so easily, which Scotland did. I don't see them as a risk to me, but they are risks. The other risk that's in the back of my head all the time is Scottish independence. It's quite a big risk for me at the moment. I don't understand how that's going. I don't know what will happen because of all my borrowings are from England.*'

However, he concluded that there was '*not a huge amount of risk*' in investing in the SPRS, partly because he had '*never had anything*' go '*particularly wrong*'.

Some landlords simply could not envisage specific risks ever coming to fruition. For example, Lyndsay was not concerned by void risk, because she believed that significant void periods were unlikely due to the location of her property:

> '*I couldn't envisage any circumstances under which that would actually happen [significant void periods] in a nice flat in the [nice part of a Scottish city].*'[45]

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[45] Whilst both John and Lyndsay have clearly used the asset selection process to minimise risk, there is an element of self-attribution bias at play here also.

Generally speaking, and returning to earlier themes, landlords were not concerned with risks that they perceived they had no control over, or which were felt were not relevant to them. By way of illustration, Deepika did not '*consciously think about*' the risk presented by a lightning strikes and Joanne wasn't concerned about '*sea levels*' rising, though these are clearly exaggerated examples. Jack effectively summarised this viewpoint:

> '*There are loads of them [risks], but I can't do anything about most of them. Take COVID, it's a 100-year event. I can't account for that. I'm more concerned with risks like void periods and arears... I can't be worrying about the next pandemic or government, I'd be paralysed and never invest...*'

On the whole, landlords appeared to be less concerned about risks that were insurable. As Patrick mused:

> '*We've got landlord's insurance on it that would cover major trauma or disastrous accident, I hope.*'

Lyndsay shared this view:

> '*I suppose, what would have been the risk? Building fell down, well that's insured [laughs].*'

John concurred:

> '*I can't think of anything less risky than property. I mean, it's insured.*'

However, Deepika's earlier observation suggests that landlord attitudes shift when risks they believed to be insurable, turn out not to be.

Whilst some landlords were genuinely concerned about the risks they faced, the pervasive feeling, was that SPRS investment was not overly risky (as found earlier), that risks were unlikely to occur and that if they did, their impact would be manageable.

9.2.3 Risk Management Approach

Before exploring the individual risk mitigation measures adopted by landlords, it is worthwhile understanding their overall risk management approach.

In terms of risk identification and analysis, the survey identified that landlords tended not to use formal risk management tools. For example, in just 10% of cases landlords undertook a formal general risk assessment. In terms of risk monitoring, landlords created a risk register in just 1.3% of cases. The reasons for this were explored during the interviews and the findings reflected earlier themes including a lack of time (Lorna), a lack of relevance (Linda) and a lack of awareness/knowledge:

> '*I have absolutely no idea what these tools are so I couldn't really comment on that. I have very little understanding of the money world and how money works in terms of investment or investment risk. I can't imagine what… how a tool would work to help you assess your level of risk.*' (Jane)

When asked more broadly about her risk management approach. Lyndsay described it as '*kind of informal'*. This was by far the most common approach amongst the interviewees. For example, as Paul explained:

> '*I've never written them [risks] down… When it comes to property. I don't do the formal risk assessment. I think it comes out in conversations with my wife, and with my father… The risk assessment is not a formal process, but it tends to come out through those discussions. I think I'm lucky in fact, that I have that; those people*

that I can use as sounding boards to talk through a project, and without the need for any sort of formal process. I'm well aware of the formal process. It's there in the back of my head because I've done it as a project manager. I just don't do it here because I don't feel I need to.'

Like Paul, Jack did not feel the need for a formal approach, despite strong levels of awareness he preferred to rely upon his intuition:

'*I've gone through more models than a photographer. Management models, financial models, risk models, change models, but not within the PRS. They're not really packaged for that and I'd bet that most people haven't a clue about them. When I use them at work, it's because I have to justify or communicate actions. But I don't have to do that with my personal investments and I don't have the time anyway… intuition plays a bigger role. The same with risk, a risk register would ground you to a halt.*'

Given that the literature review pointed to the absence of bespoke PRS risk management models, it is not surprising that Jack points to shortfalls in the models available.

When asked how she went about the identification and consideration of risks, Deepika's approach was also informal, though it recognised the role of experience:

'*I think it's just experience and reading up and stuff, and just years of experience I've had being a landlord myself, and then my parents being landlords and taking an interest as well. Just taking an interest in the rental property sector.'*

Mark's direction however, was slightly more formalised:

'*I've done a number of, "let's get a blank sheet of A4, sit down and go through the options" type things in my time. I've done it long and weary.*'

Several of those in relationships noted a combined approach. For example, Robert and his wife combined their differing '*intuitive*' and '*analytical*' approaches.

9.2.4 Risk Mitigation Measures

Risk mitigation measures are managerial actions which landlords can undertake in an attempt to safeguard their risk return characteristics. During the online survey, landlords were asked to select the risk mitigation measures they had adopted from a broad list of common strategies available to landlords (Table 9.4). Landlords adhering to the normative investment process would be expected to adopt the majority of these measures where rational to do so.

Table 9.4. Risk mitigation measures undertaken by landlords

Risk mitigation measures	% of landlords
Use a letting agent to source tenants.	41
Use a letting agent to manage the property.	24
Avoid certain tenant types.	56
Reference tenants.	73
Require the appointment of a guarantor.	26
Increase rent every 12 months.	7
Obtain buildings insurance.	88
Obtain rent guarantee insurance.	12
Create a budget to help manage and monitor returns and/or costs.	19
Budget for the impact of risks (e.g., void risk).	23
Carry out regular property inspections.	66
Have maintenance contracts in place.	24
Have a replacement plan for windows, roofs etc.	10
Chosen SPRS property close to your home or work.	41
Chosen SPRS properties in various locations and markets.	13
Keep up to date with changes in legislation.	77
Keep up to date with changes in the housing & letting markets.	49
Obtain a property survey.	28
None of these.	2
Other.	2

(N=1054)

In 41% of cases landlords had used letting agents to source tenants and in 24% of cases, to manage the property. This latter is slightly lower than the third (approximately) reported by

Crook et al. (2009) in Scotland and Scanlon and Whitehead (2016) in the UK, and less than half of the '*50 per cent*' estimated by Colin (Letting Agent). During interview, landlords reported effective screening as a key benefit of using letting agents to source tenants, though not all welcomed the costs:

> '*Tenant find is a rip off and you have no comeback, but it saves you the hassle.*' (Jack)

Landlords also reported a series of benefits associated with using agents to manage the property. For example, Deepika mentioned compliance assurance, access to contractors and the provision of out of hours services. Robert provided a further illustration:

> '*The service I've received from [letting agent] has been fantastic. It's been really, really good. They'll tell me every step of the way, if they're going to do something, or if something needs done, and they'll keep me up to date with the legislation. The other thing is I don't really have too much time to keep myself updated on legislation, which is constantly changing. I rely on them to let me know what I'm supposed to be doing. For me, it's more time-saving perhaps, than anything else.*'

Landlords passing responsibility for compliance to letting agents was also reported in Watson and Bailey (2021), however as Frank (Social Enterprise Letting Agent) counselled, landlords generally remain legally responsible for most compliance issues and are the ones who '*could go to jail*' for non-compliance.

Given earlier reports of landlords facing time constraints, it is little wonder that '*time-saving*' was reported as a benefit of using an agent by Robert. Frank (Social Enterprise Letting Agent) also recognised this as a key driver:

‘*… there’s probably a lot of capable landlords we have who just don’t have the time to manage it themselves…*’

While many landlords wanted to know their tenants and in fact saw this a risk mitigation measure, an important consideration for a few, was that using a letting agent allowed for the creation of a buffer between the tenant and the landlord. As Jack noted:

‘*I think the management bit is money well spent… or it can be. I use it as a buffer. I don’t really want to know my tenants. It’s transactional for me.*’

Despite these reported benefits, more than half of those interviewed self-managed. In addition to the nonfinancial benefits derived by those who had a hobbyist approach to their investment, landlords offered a variety of reasons for doing so. Stuart for example, was suspicious about the service provided by letting agents:

‘*I think the estate agents are only interested in getting their hands on money. They're not interested necessarily in building a long-term relationship with the landlord or with the tenants. They're just doing their 9:00 until 5:00 job.*’

Jane was one of several who didn’t want to incur the additional cost of a management fee and believed that they were capable of managing the property on their own:

‘*I think perhaps I’m being a bit mean-minded but I think that I could do the job and not spend the fee basically.*’

James was concerned about the call out costs associated with using letting agents:

‘*I know a lot of people say just hand it over to a letting agent. Let them take all the stress of it. I cannot handle that. £150 to send out a plumber. Jesus Christ Almighty. That's not on. I just couldn't handle that. I'd still be, “No, no, I'm going* *to have a look at it myself." Nine out of ten landlord problems can be fixed by switching the thing on and off. I've learned that over the years.*'

Whereas Lyndsay more broadly questioned whether the management workload justified the fee:

'*I know a lot of people use a letting agent to do the whole management thing, that to me is a waste of money. Why are you paying somebody to basically do nothing, most of the time?*'

Patrick concurred:

'*We paid him [his former letting agent] to do, virtually nothing apart from pass the rent into our bank account and arrange the PAT testing for about seven years.*'

However, Deepika noted that though she often felt this way, that risk events had made her appreciate the benefits of having an agent:

'*It can be expensive. Quite often I think, "Oh, there's just no point, let me just take it back from the agent", but then something will happen in which you realise, "Oh God, I'm really glad that I've got an agent and I'm not having to deal with this myself.*"'

This point was reinforced by Frank (Social Enterprise Letting Agent) who reported that he gained clients who had had previously been exposed to risk impacts:

'*I think we see a lot of landlords who have maybe been managing a property in the past and had a difficult tenant, and they've not known the processes or maybe they've had to go to the tribunal and their lease hasn't stood up, or they haven't applied for it correctly, and they've seen the benefit of having an agent.*'

Sarah (letting Agent) also reported this:

> '*We see it all the time where landlords have come to us. They've dealt with it before and then it's just all blown up in their face and they have to come to us to get somebody else to do it.*'

Others were put off using agents due to previous bad experiences. Lorna's experiences led her to conclude that agents '*just didn't care*' and to avoid using them again. Joanne felt let down by omissions in the service she had received and noted:

> *'… the quality of the rental agents I employed up there [central belt of Scotland] was just shocking, absolutely shocking, awful.*'

Even amongst those who used agents there were some concerns regarding the quality of the service and the value for money provided. Jack illustrates this point well:

> '*The quality of the management is hit and miss though. I got an email about a shower repair; the tenant's original email was attached. It said 'further to email in June' or whatever. No one sent me an email in June, so I had a tenant with a leaky shower for months. That's not ideal. Then I got a quote for £450*[46] *to replace the shower. That really peed me off. It's a 10.5kw triton shower. I wanted the same model to save problems with the wet wall. But the plumber told the letting agent it was discontinued and a crappy model. He was quoting for a 'better' shower which was nonsense. It was a popular shower that was being replaced with a new model. I found the old model on the Triton website, and got my plumber to fix it. The total*

[46] It is worth noting that £450 represented almost an entire month's rent.

cost was about £150. That really annoyed me. Where is the value added? They should be interrogating nonsense like that.'

These findings are despite the Scottish Government introducing a code of practice for letting agents in 2018, and will be of interest to those who advocate for the use of letting agents.

In line with earlier findings regarding preferences, many landlords (41% of cases) selected that they choose an SPRS property close to their home or work as a risk mitigation measure. It is clear from earlier sections that many landlords intuitively seek to mitigate risk through selection of the property type and target market serviced. Here, many reported avoiding certain tenant types (56% of cases). Whilst this approach may reduce some elements of risk, reliance on a single market segment can also be problematic. Take for example the student market, prior to COVID-19, this was seen as robust and reliable, but Frank (Social Enterprise Letting agent) observed:

'*… it's an interesting thing to look at in COVID, because a lot of landlords who have been impacted are, you know, in the west end, where students were going to move into, but they decided not to come, or they've… had an unexpected end to a tenancy.*'

Of the more common measures selected, some of the adoption rates remained low. For example, just 73% of landlords sought tenant references, although this may be explained by some concerns over the validity of the process. Stuart advised that:

'*You've got to be very, very careful with these things [credit checks and references], because some people can pass a credit check, but they're still not a good tenant because they have an attitude problem, and that comes through when you have a WhatsApp video call, or a phone call with them.*'

Joanne highlighted that '*you just don't know who you're getting*' regardless of the checks carried out.

Worryingly, just 88% of those surveyed had building insurance. Though it is possible that in some cases insurance was procured by factors, Colin (letting agent) provided an example where a landlord had simply chosen not to insure the property in order to save money:

> '*I've seen a landlord who didn't see the value in insuring their property until the tenant caused a fire, and, ultimately the landlord didn't have the funds to repair the damage cost. You know, so that's an extreme. That is very much an extreme, but, you know, for that to happen, for somebody to think, you know what, I'm going to save myself 250 quid a year by not paying the insurance was... it was just startling.*'

More broadly, and as indicated earlier, many relied upon insurance policies to mitigate risk:

> '*We've got landlord's insurance on it that would cover major trauma or disastrous accident, I hope.*' (Patrick)

> '*The risk that the tenant destroys the place. Well, then hopefully your insurance will cover that.*' (Linda)

However, the use of the words '*hope*' and '*hopefully*' in the prior two quotations suggest that some landlords are not entirely confident in their insurance provision, and as Deepika highlighted earlier, insurance cover did not always meet expectations.

Colin (Letting Agent) made an interesting observation regarding general levels of understanding pertaining to insurance:

> ‘*I used to work with, very closely, an insurance guy and he said… “you’d be surprised, people don’t value insurance.”* He said, you know, *“we’re sold insurance by puppets and opera singers, and most people will buy the cheapest bit of paper that says you are insured, until they read the small print”, and it’s the small print that catches you out.*’

Just 77% kept up to date with changes in legislation although this mirrors concerns raised in previous studies. The shortfall appears to be at least partially explained by the volume and frequency of legislation changes making it difficult to keep up to date. As Deepika summarised:

> ‘*I think it's like just a bit of a moving feast really with PRS. Things are changing all the time, legislations are changing all the time, tenants’ rights are changing all the time. Landlord obligations are changing and it's just, I find it can be a bit tricky keeping on top of everything and keeping in touch with where you stand at any given month.*’

However, reflecting earlier themes, Robert suggested that he did not have time to keep up to date:

> ‘*I don't really have too much time to keep myself updated on legislation, which is constantly changing.*’ (Robert)

Though it was not clear from the quantitative data, Colin (letting agent) suggested that ‘*accidental landlords*’ were more likely to be ‘*a couple of steps behind in terms of understanding the legislation*’ than ‘*professional*’ landlords.

This lack of awareness is a significant challenge with financial implications as Debbie (letting agent) pointed out:

> ‘*Some landlords can be-- They either don't understand or they don't really care about tenants' rights. They'll just phone them and say, “I'm coming in an hour to do an inspection”, or, “I'm coming in an hour with the gas engineer because we want to service the boiler or do a gas safety.”... The tenant can be in arrears, and the landlord will say, “I'm going to that property. I'll open that door and I'll chuck them out, I'll throw their stuff into the garden.” I'm like, “You need to take my advice, do not do that. You'll get done for”, what's it called? “Unlawful eviction and fined £20,000 in court.*”’

With regards controlling costs, landlords created a budget to help manage and monitor costs in just 19% of cases, and reflecting earlier findings, they budgeted for the impact of risks in just 23% of cases. Those interviewed had differing approaches to the latter, though more often than not, landlords framed budget discussions narrowly, mainly focusing on void risk, default and arrears risk, and property risk. Jane’s approach was to build up a ‘*savings cushion for covering any emergencies*’, whereas Joanne would simply absorb minor impacts from her general finances, and had access to alternative savings and investments to support larger impacts. Lorna had a different approach and tried to ensure that:

> ‘*… the rent is enough, not just to cover our expenses, but that we've got enough to cover maybe five or six big things. We'll put aside, I don't know, an amount for just doing things on an annual basis, and doing it up. I'd say if the properties had somebody in it for a year or two, then we'll maybe put aside a £1,000 to do it up.*’

But she also had a ‘*savings account*’, she could dip into ‘*if something really went wrong*’. Rodney pointed out that in most instances of maintenance and small repair, that he did not need direct funds as his letting agent would net off the charge against his rental income.

This simply meant that he ‘*would, in effect, go a month without any rental income’*. Of course, this is only possible if the letting agent holds sufficient landlord funds and the landlord can live without some or all of the income. Debbie (letting agent) suggested that this was a fairly common practice (subject to client money protection regulations), but pointed out (somewhat alarmingly) that in some cases, it was a necessity as landlords had no alternative sources of capital they could access to deal with risk impacts:

> ‘*… they're just using that rental income as a bit of income every month. Then, a big repair comes along, and they get themselves a bit stressed and upset about that. Sometimes, we can actually be quite nervous about phoning a landlord to say, “look, such and such has been reported. They need a new washing machine”, or, “there's a roof repair.” They can get a bit upset and stressed about that as if it's us who has caused it. Sometimes, we get a bit nervous phoning them and telling them. They don't have the capital there, so we will, depending on the amount of invoice, we'll settle some invoices out the next incoming rent payment.*’

Brian formally allocated an annual budget of ‘*£500 for each property for unexpected maintenance’.* James set the same amount aside, but on a monthly basis, and Mark similarly, put around £40 per month per property ‘*in a separate pot for maintenance repair’*. Mark added:

> ‘*Across 17 flats that's, 700, 800 quid a month. If I have no maintenance and repair issues that month then that pot grows by £800. If I have no maintenance and repair issues for four months, there's £3,200 in that pot.*’

Sometimes these ‘pots’ were tangible and held in a separate account as was the case with Mark above. Other times the ‘pots’ were notional. For example, Jack allowed for one void period and one period of arrears per year per property, and a further £20 a month for damage. However, he explained:

> '*It's purely a notional figure I work out at the start. I don't have pots sitting about for each property and each purpose. At any given time, I've enough working capital in the limited company, and at least £10k in emergency funds, that's not all for the PRS, but it gives me a good overall slush fund.'*

Although both types of 'pot' warrant regular review, not all were. As Brian opined, '*it's not as if, if I don't spend it, I've got to give it back to somebody*'. Jack explained that he was generally comfortable with the status quo:

> '*No, it's pretty much set, it's a big allowance. I mean, if there was a material change, like I added on ten properties or something, then I'd look at it. But I'm covered for most stuff.*'

Paul had never fully spent his 10% budget, but hadn't gotten around to updating his spreadsheet, which he would do on a '*a periodic ad hoc; when I feel like it, when I can be bothered, rather than anything structured'* basis.

Given the specific nature of the 'pot's' created by some landlords, it might be expected that the size of the 'pot' is informed by data. However, as John noted:

> '*That [20 to 25% a month] came of the top of my head. I don't know if that will vary as the years go by when I see how much I actually need. I just picked that off the top of my head.*'

And Deepika, who '*put in £20 a month for a wee slush fund*', acknowledged:

> '*I could probably do with formalizing it slightly better and really considering, 'Well actually, how much does it cost to re-carpet this whole property?' or to re-*

> *paint it, or whatever, and then allocate a fund monthly to make sure that that would be covered.*'

Inevitably, this loose approach led to some under budgeting. For example, Vicky had a 'pot' of £2,000, but events (the replacement of a kitchen), led her to conclude that it '*probably should be closer to four*'.

In terms of maintenance, landlords had maintenance contracts in place in just 24% of cases, although not a legal requirement, they can be beneficial as Patrick reported:

> '*... so both the boilers are on maintenance contracts. The tenants can phone Scottish Gas. We don't need to get involved. If the boiler stops in one of the houses and we're away on holiday for a week… they can pick up the phone and phone Scottish Gas, they'll be there within a couple of days' time. It lets us off the hook, in a way…*'

It was noted earlier that the whole '*notion of lifespan seems like a new concept'* to landlords (Frank, letting agent). It is therefore unsurprising that just 10% of landlords had a replacement plan for capital works such as kitchens, windows, roofs etc., though it is concerning as capital works are not only costly endeavours, but also play a role in maintaining the rentability and value of a residential property. They can also be seen as a form of risk mitigation in their own right as aptly illustrated by James:

> '*Because all my flats have new central heating systems, mostly rewired, new kitchens, bathrooms. I don't get a lot of maintenance issues now.*'

During the interviews, it became clear that most landlords were aware of the condition of their properties and understood that capital works would be required at some juncture.

However, not all of those interviewed had a planned timescale for capital works or had made separate provisions for the associated costs. As Ben noted:

> '*Apart from the certification which is in the diary, I don't work by dates. More it's work by what I think is getting a bit tired and needs to be upgraded.*'

In some cases, landlords hoped to be able to avoid the need for capital works. For example, Joanne noted:

> '*I mean, another thing is the windows, so one of the bedroom windows needed some attention this year. I'd spoken to [a builder] who did the work and he said that the windows could one day need replacing... Hopefully, that won't happen in my life time [laughs]... I'll just wait and see. I can't worry about that. Too many other things going [chuckles] on. I've got the money there. Hopefully, I won't have to.*'

James took more drastic action to avoid capital works:

> '*Well, sometimes because I look at some of them and I think, "I know the long-term projection for that housing association", as they want to do the roof, and they want to do this. I know they are doing that in five years. I'll bail out in three years, and that's not something that I have to make aware on the property questionnaire, because it's not within a set period.*'

It should be noted however that the need for a new roof should be reflected in the home report valuation achieved. Letting agents noted that some landlords put off incurring large scale costs for as long as possible, for example by continuously patching a roof in a poor state of repair or by allowing carpets to become threadbare.

Lorna and a few others, relied on the factor to manage the timing and costing of some portion of the capital works on their behalf:

> '*… you usually have a good idea from the factors [regarding capital works]. I've got all the records from way back. You can see the pattern, every five years they do the stairs, every 10 years they do the windows. I think that's different in a lot of other rented properties, because the factor will just have a plan of work, which you can predict, and they don't wait for things to go wrong, and fall apart. I think that's quite predictable.*'

More generally, landlords did not plan capital works according to a lifecycle plan, but instead adopted a pragmatic, yet subjective condition-based approach, which could also include an opportunistic element. For example, Mark hadn't '*done a capital project in it in a wee while'* because his properties were *'probably mostly in reasonable nick*'. Patrick replaced a kitchen which was old and outdated, but had also taken the opportunity to complete some unplanned upgrades facilitated by the works:

> '*Last year when we did the kitchen at [a property], the guy who was going to do the sparks work on the cooker looked at it and said, "you realise you've got an issue?" I said, "fuse board"—he went "yes, it's the old rewireables." He said, "just stick a sub-board on it, and do an EICR on that bit." I said, "No. Throw the whole thing in the bin and start again", because in two years' time, or if the tenant moves out, we're going to have to start again anyway.*'

Often the trigger for such works (and ideal time to carry to them out) was during void periods:

> '*If one of my properties comes empty, I put in a new kitchen in it.'* (James)

Mark elucidated the important role of market demand in triggering capital investment:

> '*It becomes obvious that people are coming through the property and saying, "Not today. Thanks" and it's lying on the market for a while, I won't take too long of a decision to say, "listen I know what this needs, a capital investment."*'

Debbie (letting agent) suggested that like the landlords interviewed, most of her customers were aware of the need for capital works. However, she also noted that some had a hard time realising that certain works were their responsibility:

> '*A tenant's maybe been in a property for years, I'm talking years and years, and paid thousands and thousands in rent, and we'll bring up the subject of there's maybe a new carpet needed, and they want to argue about that. We're having to say to them, "look, everyone, even your property you're living in at the moment, there's ongoing maintenance over the years. Every few years you might give the place a coat of paint every so often, you might have to renew a carpet, there's ongoing maintenance when you live in a house. That applies to your rental property as well, it's not your tenant's responsibility. It's your responsibility."'*

Sarika (letting agent) reported that '*a lot of the time*' the need for capital works takes landlords *'by surprise*'. Similarly, Colin (letting agent) believed that '*individual landlords*' were '*not going to be thinking, you know, about the condition of the roof*' and he added that he would be '*very surprised*' if landlords were setting aside a capital works contingency fund. Sarah (letting Agent) noted that one of her clients had in fact recently replaced a roof, but suggested that not all of her customers would be in a financial position to do so:

> '*… that was an individual who was quite property conscious, you know… I would say 99 per cent of the other landlords if I'd approached them and said, you're*

needing a new roof at five thousand pounds, they would have probably just, you know, ran away to the hills kind of thing screaming.'

Supporting earlier findings, Debbie (letting agent) noted that some landlords were '*completely reliant*' upon rental income, resulting in them chasing her to transfer the rent. On one such occasion a landlord needed the money to go '*shopping*'. Sarah (letting agent) further suggested that some landlords '*…want to decorate their own living room before they go and do something*' at their rental property. Both of these insights point to competing demands for finite funds.

Despite these concerns and observations, a few of the landlords interviewed did have specific budgets for capital works. For example, Mark had a separate '*capital pot*', Brian had set aside *'£5,000, which is not allocated to a property*', but was to be used for things like glazing and kitchen renewals. James had a combined 'pot', which he maintained at a level between '*£5,000 to £10,000*'. As before several intended to fund such works from their income, property or otherwise, whereas others viewed credit as a legitimate source of funding for capital works. As Rodney noted:

'*I think as long as there is availability of credit, then that has to become the option.*'

However, Debbie (letting agent) reported instances of credit being a solution of last resort for landlords with no other source of capital:

'*I've had a landlord owning a property, pretty run down, desperately needing new living room windows in it. The wind was just howling through, the tenants in the property with a new baby. She's literally, phoned in by credit card, and paid for a new living room window because she just didn't have the capital there.*'

In terms of rents, few appeared to be keeping up with inflation. In fact, in just 7% of cases did landlords select that they increased rent every 12 months. Further analysis revealed that while a small number believed that they were charging over the market rate, the vast majority reported charging under that, with a mean shortfall close to £60 (median=£30). However, over one in five landlords (23%) reported a market rent shortfall of £100 a month or more (N=912). Despite earlier reports that landlords do not engage in robust performance comparison, it would appear that most believed that they were aware of current market rent levels.

Colin (letting agent) reported that although '*there's a lot made of landlords just going out and randomly, you know, increasing the rent at every opportunity they can*', that his experience differed significantly:

> '*Now, my experience was that most landlords, if they have a good tenant, are, kind of, happy, you know, with that. They're happy to have that rent coming in, and if we suggest a rent increase, they are like, "oh no, no, I don't want to rock the, you know, he's a good tenant, let's just keep that rent as it is."'*

Debbie suggested that during initial rental valuations '*everyone wants to get as much rent as possible*', but that many of her clients did not want to '*rock the boat*' once a tenancy had started. Interestingly, there was evidence of SPRS professionals not doing so themselves:

> '*I've got one just now that I know my rental is really, really low because they've been in for so many years and I've just never done it, but I'm just going to sit with it because I know they'll be moving out soon, so I wouldn't rock the boat.*' (Sarah, letting agent)

The landlord interviews revealed that many viewed holding back rents as a risk mitigation measure in its own right. For example, Ben felt that by not taking a '*meanly financial view*' he had '*achieved more or less continuous occupancy*'. Deepika expanded on this approach:

> '*If you have a good tenant and it's a long-term tenant, there's a lot to be said about just keeping them happy because they might stay for a bit longer. If you're going to up the rent, they might end up not being able to afford it and might leave and then you have to go through the expense of then doing a whole redecoration of your property again. The estate agent has to market it. You've got marketing fees, you've got new tenant setup fees. You've got all of these things which actually can probably be more expensive doing that than it would increasing your rent £10 a month, £20 a month. It really depends how long the person is staying there as well. They might only stay there for a couple of years. In which case, it's not really worth rocking the boat at all.*'

Patrick, and Stuart presented similar examples. However, whilst James often adopted a low rent approach, he recognised the downside:

> *'... you think, "oh, what's another £25 a month off him", but if you did that for 10 properties, you're talking £3,000 extra a year, and that's pure profit.*'

In what could be described as a cautionary tale, Lyndsay had not increased the rent for eight years and now felt unable to do so:

> '*I think it's always just been at the back of my mind that tenants move like every year or every two years, so you just put the rent up in-between them, you know? Except that didn't happen. These ones that stayed for eight years-- I probably shouldn't tell you this, but that flat-- The girls that stayed there for eight years... After a few years, I realised, 'They're not going to move on, and I haven't increased*

> *their rent. I can't really start increasing it now when I haven't increased it before this*'.

Jack had a completely different view and regularly reviewed and increased his rents. He asserted:

> '*You'd need to put the rent up massively for a tenant to justify the hassle and cost of moving. I don't think you'd get away with that anyway. That seems nuts to me [not putting rent up]. The cost of everything rises. Or at least that's what RPI suggests.*'

Several landlords revealed during interview that they viewed setting property conditions at or beyond a self-prescribed standard as a risk mitigation factor. Doing so was said to be particularly important in either attracting or retaining tenants. This was confirmed to be the case by Colin (letting agent) who noted:

> '*If you're maintaining your property, you're putting in, you know, a decent furnishing level, you're going to attract a tenant who will, probably, look after your property a bit more, but also, you know, you'll be able to look to achieve a higher rent.*'

A few landlords once again positioned themselves as arbiters of property standards, by setting conditions to a level at which would be acceptable to them. As James noted:

> '*I would not let them out to someone if I wouldn't stay in them myself.*'

Some felt that it was necessary to provide enhanced standards to mitigate against risk, but also because it was the right thing to do. In one example, John reported upgrading a broken electric hob with an induction hob as it is '*so much nicer cooking on an induction hob*'.

He went on to make an interesting point regarding the evolution of standards and tenant requirements over time:

> '*A good landlord instantly fixes anything that needs fixed and upgrades anything that breaks to a better model. There we go. Constantly but slowly improves where people live because everybody's housing improves over time. The way we used to live in the '70s, nobody would live like that now, it's ridiculous, and the '80s and the '90s. We're all starting to have walk-in showers and central heating and induction hobs and island kitchens. Everything gets nicer all the time. Just because you have a tenant with you for six or seven years, or however long it is, two years, doesn't mean you can't make everything better as times goes by. We didn't use to have fitted carpets, and fitted carpets were fantastic. Now, of course, people want wooden flooring. When it comes time to change a carpet, it's cheaper to buy a carpet, a cheap carpet but wooden flooring's nicer, that's what people want.*'

Inevitably, there is a cost associated with achieving self-prescribed standards or in providing enhanced standards with Stuart noting that '*you have to spend money to make money*'. While several reported taking steps to mitigate against such costs in an attempt to prevent against largesse, some had fallen fowl of spending too much. However, as Jack found, differing markets and tenants have differing standards and these do not necessarily align with a landlord's own:

> '*When I started out [at the bottom end of the market], it was new carpets, freshly painted wall and all mod cons. But stuff got absolutely trashed. Literally muck and food on the walls, crayon everywhere, burns all over carpets. People all have very different standards and levels of acceptability. If a TV crew had gone in, I'd have been labelled a rogue landlord. I didn't put it in that state. You get jaded and think*

> *why bother. What do I do, spend thousands renovating the flat to allow the same to happen again? No, you set your standards lower and it becomes a downward spiral. I didn’t like it, that’s why I came away from it [the bottom end of the market].*’

Obviously, there are pros and cons to each measure discussed and there may be mitigating circumstances for adoption in some case and not others. However, the overall picture emerging from this novel data, is that landlords are falling short in the range of measures they adopt to mitigate against known risks within the sector and are therefore more financially exposed than they should be. This matters as risk can and does have a financial impact as will be explored in the next section. When discussing why landlords might not always adopt appropriate risk mitigation strategies. Linda sagely posited:

> ‘*Either they [landlords] hope it's never going to happen or they probably really just don't think about it. I think the hope it isn't going to happen has got an awful lot to do with it. We all do that in our lives all the time, don't we?*’

9.2.5 Risk Impacts

The financial impact of the principal risks has never been fully quantified. Furthermore, due to relatively small portfolios sizes, most landlords lack the volume of data required to meaningfully forecast risk likelihood or financial impact by themselves. In any event, most interviewed did not have the desire to undertake such an analysis.

To address this data shortfall, the survey asked landlords to estimate, for the 12 months prior to COVID-19 lockdown, the financial impact resulting from void risk, default and arrears risk and property risk (the principal risks) for their most recently acquired property. The questions were not mandatory and the number of responses were N=921, N=921 and N=929 respectively. The findings are novel and interesting. With regards void risk, 66% of those who responded reported no impact. However, the remaining 34% (just over one in three landlords) reported revenue losses ranging from £100 to £15,000, though the mean loss for those affected, was just over £1,900.00 and the median was £1,300. By the dividing Scotland's average weekly rent of £159.92[47] by the mean, it is possible to estimate the average void period at 12 weeks. Though skewed by a small number of substantial void periods, this is far higher than the 3 weeks reported by (Arla Propertymark, 2020), though the latter's time period and geographical coverage differ.

A smaller percentage of landlords (15%) reported a loss in revenue from default and arrears risk. The scale of the impact was also lower with a mean of nearly £1,700 and a median of £1,000. Using the same method as before, this equates to nearly 11 weeks of arrears. Arrear's data is generally thin on the ground, but this number is far higher than that reported in the English Housing Survey, which in 2019/20 equated to 2.6% of private renters at the time of the survey (Ministry of Housing Communities and Local Government, 2020). It is also not far off the perceived high of 18% of landlords who reported '*current tenancies in arrears*' during the pandemic (Watson & Bailey, 2021, p. 7). However, in both of these examples, the methods used differ.

Finally, a much larger proportion of landlords (almost 60%) reported a cost impact resulting from property risk (e.g., roof leaks, heating system breakdown etc.). The mean cost impact was just over £1,250 and the median was £500. Again, using the same method as before, this equates to nearly 8 weeks of rent. Unfortunately, there is no robust data in which to locate these findings.

[47] The average monthly rent for a 2 bedroom flat (the most popular SPRS accommodation configuration) in Scotland is £693 per month (Scottish Government, 2021c), which equates to £159.92 per week.

Most of the landlords interviewed had been impacted by these and/or other risks to some extent, and it was common for landlords to have been affected by more than one risk type, albeit over a longer period of time. More concerningly, the survey revealed that in some cases (8%), landlords had been impacted by all three of these risks over the 12-month period.

These financial impacts are significant and problematic, especially considering that some landlords rely on the income for consumption and that many do not account for risk.

The interviews provided many insightful and often colourful examples of risk impacts, though the cumulative experiences of Joanne and James are illustrative of the challenges faced by landlords overall. In Joanne's case, the capital value of her property dropped '*substantially*' due to the closure of a major local employer; the developer of her flat went '*bust*', resulting in '*poor workmanship*', including an incorrectly fitted bath and flue, which caused later issues; tenancy related problems arose including '*every stick of furniture*' being stolen over time, instances of wilful property damage including '*a hole in the bedroom door*' and a tenant who '*lied*' to her and '*walked out owing rent*'; and unforeseen repairs were required to the building fabric including window repairs. Joanne concluded by noting '*it's been through the mill a bit, that poor flat'.*

James, whose target market when he started out as a landlord, consisted primarily of vulnerable groups, described a wide range of risk impacts that he had been subject to:

> '*… let me tell you about the amount of mattresses that have been pissed on and other things that I've replaced over the years. Let me tell you about the times I've been bitten with fleas. Let me tell you about the times there's been rodents and rats. The police have broken doors down to get at tenants, or tenants have sold the contents of the flat to a house clearance company for their next fix, or a bank*

manager has not paid me for six months because he's an internet gambler. I could go on and on and on and on and on… I had the police phoning me a lot to say, "we've raided your property, you need to come and secure the door." The flats getting broken into… people selling the contents of the flats, setting fire to them… I've had death threats, I've had people sending me anonymous letters, saying they're going to attack me and my wife. I was under police protection for a while, because a lot of the people you deal with in that end of the spectrum have got mental health issues, and they've got developmental issues as well, addiction issues, so they're not rational individuals… I've had people phoning me from [Scottish prisons], people saying "you've sent collection notices to my wife. Any chance I can just pay you, my mate will meet you in the Springburn McDonald's and he'll pay you in iPhones, new iPhones", and I'm like that, "no that's not working for me."'

Indeed, James had started to wear a '*a GoPro [camera] and say to people, "this is being recorded"',* after a lone female tenant intimated paying the rent via a '*payment in kind*' and being swung at '*with a bloody baseball bat*' by a tenant's neighbour.

Whilst some of Joanne's and James's travails could be viewed as bad luck, many appear to result directly from their investment choices. Having identified how landlords approach investment management, the next section examines how landlords approach divestment.

9.3 Stage 3- Divestment

Simply put, divestment is the process of selling an investment in order to realise capital, which may include gains or losses. The normative investment process assumes that landlords will conceive a divestment plan in tandem with the investment objective and as a result, divestment will ordinarily result from an investment reaching its objective. For example, a landlord may plan to divest of their property portfolio when they reach the age of 65 and use the capital for either consumption or subsequent investment in an annuity or other alternative investment.

The plan should allow for the optimal return to be achieved in relation to factors such as taxation. Furthermore, recognising that plans can and do change over time in response to personal, economic and legislative factors (amongst others), the plan should continue to be monitored and re-aligned, if necessary, throughout the investment process. As a result, divestment decisions can arise on an ad hoc basis where this results from the investment monitoring and investment management process.

However, very little is known about how landlords approach divestment planning, the extent to which landlords consider the administrative and tax implications of their investment plans, or how those who divest of their properties intend to redeploy the resultant capital. This section seeks to remedy this knowledge shortfall.

9.3.1 Approaches to Divestment Planning

Despite the absence of objectives leading to concerns that landlords are unlikely to have robust divestment plans, the fact that many landlords have an established holding period for their investment, inherently suggests some form of planning. During the interviews, it became clear that most landlords were cognisant that they would ultimately need a divestment plan, and many had initial thoughts or intentions in this regard. However, for most, detailed divestment plans were not pre-determined at the point of acquisition and instead informal plans emerged over time or in response to specific triggers.

9.3.1.1 The role of ageing

Age played a key role in triggering the need for divestment planning, with those under the age 50 tending to have the least developed divestment plans. Rodney for example, acknowledged that '*there's got to be an endpoint*' and a '*strategy*' to get there, but he hadn't yet finalised what this was. Robert, also under fifty, had a divestment plan that '*changes from time to time*', though he viewed his SPRS property as an income producing '*retirement fund*' in the short term. However, while he hadn't '*really thought about it too much yet*', he had different ideas for the long-term:

> *'I'd like to be able to sell the property, and then use that as part of my mortgage settlement or to supplement my pension.*'

When asked at what point he would start to provide more detail around his plans, he noted:

> '*I guess it depends when you're coming up to retirement, how much you've got in the bank, how much you can sustain yourself, or if there's any plans that you want to do in the future. I'd say 60s, I'd start seriously thinking about it.*'

However, it is interesting to note that there was a noticeable difference in the approach of landlords aged fifty or over, which appeared to be an informal threshold age beyond which some landlords gave more consideration to divestment planning. Brian illustrates this point below:

> '*At the age of 50, oddly, my pension, my retirement became quite important to me, that I needed to put things in order because things aren't going to change, or the way things are going to change, are a bit more predictable as you get older.*'

Mark and James had also become increasingly focused on investment planning at the age of fifty. For James this meant a change of plans:

> '*... myself and my wife have already changed the strategy now and we will get rid of them all, probably within the next 10 years. Instead of having-- the initial idea was to have 10 properties, and that's my retirement income, I think I'll just sell them all, and put the money in the bank, and that's my retirement income.*'

In most of these cases, landlords intended to have taken affirmative action by the time they reached 60. However, these emergent plans, were far from defined or finalised.

9.3.1.2 Specific triggers

Whilst it might be expected that specific triggers would arise from performance monitoring insights, none did, with triggers instead arising in other ways. For example, Patrick felt he was getting '*too tired, too old, too weary [chuckles] to deal with it [the SPRS]*' and as a result, his trigger for selling his properties was when '*either of the tenants move out*'. Lyndsay had purchased one of her investment properties with funds obtained by re-mortgaging her own home and did not intend to keep the property '*in perpetuity*', but to sell it to clear that mortgage at '*some point*'. As the mortgage repayment neared, this '*sharpened*' her mind and '*set the timescale*' for divestment. When her tenants of 8 years elected to move, she thought, '*I'll just sell it when they've moved out, rather than try and get a tenant for a year or something*'.

9.3.1.3 Divestment by death

Several landlords did not intend to divest of the property in their lifetime, but instead intended to keep their SPRS property until death, when it would be left as a legacy in their will to friends, family members or charities. Again, the level of planning varied. John noted:

‘*I don't have children, but my nieces and things and my brother will get it… I don't see any exit plan apart from death or selling them all off when I'm older. I don't see the point of that because I can continuously borrow against them if I need extra cash.*’

Jane stated:

‘*… it will be passed on to our children when we die sort of thing.*’

Joanne mused:

‘*I'm hoping I won't have to sell, that my children will sell and then they'll get the benefit of it.*’

Vicky however, hoped to somehow transfer the properties to her children before death. Lorna had a similar idea but wondered how she could pass the mantel without impacting her children’s work ethic:

‘*I think the idea is that at one point to rent them the flat, and you know even keep that money aside for them for when they're older, and a bit more responsible. I'm not letting them live rent-free, and worry-free [chuckles]. That ain't happening.*’

9.3.2 Administrative and Tax Implications of Divestment Plans

Regardless of the approach, the act of divestment raises administrative and tax implications. In terms of administrative requirements, bequeathing properties via a will creates workload for the executors and the beneficiaries of the deceased’s estate. For example, mortgages on encumbered properties need to be settled and non-encumbered properties need to be transferred and managed unless sold. This observation formed part of Lyndsay’s rationale for selling assets before her death:

> ‘*I feel sorry for my executors if I pop off. I mean, to sort out this lot, so it's easier to simplify it all. It was never the intention to keep these properties forever and let somebody else deal with them.*’

A couple of landlords who wished to bequeath property in their will, volunteered that they did not have a will in place to ensure that this wish was fulfilled. As Stuart mused:

> ‘*I really need to get my estate in order because -- I suppose in a way I'm really reasonably wealthy, and I don't have a will, and death can happen at any time.*’

June (accountant) observed with some frustration, that this was relatively common:

> ‘*Yesterday; sorry Friday, I was talking to a couple in their late 60s, still didn’t have wills, that, look, that blows my mind. Phenomenally blows my mind every single time I ask the question.*’

Taxation is an important investment consideration throughout the lifespan of an investment, although it has particular salience in a divestment context due to capital gains tax and potentially inheritance tax. There was some sporadic evidence that landlords had considered the tax implications of their SPRS investments. In terms of inheritance tax, Joanne was aware that her estate didn’t ‘*fall into the inheritance tax bracket*’ as it stood. Ben had no dependents and so didn’t require ‘*tax planning in terms of inheritance*’. Brian was aware that his estate ‘*would fall into inheritance tax*’ and Linda noted that her current home was ‘*worth more than the inheritance tax levels*’. In terms of capital gains tax, Sarah (letting agent) suspected that a lot of her landlords wouldn’t have thought about it. However, Patrick believed that ‘*there would be no capital gains on*’ one of his properties ‘*probably*’, but wasn’t completely sure about the other. Furthermore, Vicky’s intention (mentioned earlier) of transferring the properties to her kids was based on the assumption that this would result in ‘*no capital gains tax’*. More generally speaking, Rodney noted that his divestment strategy would be '*tax driven*' and Jack intended *'to look at tax efficient ways of getting them [his SPRS properties] to the kids nearer the time*'.

However, though not a central focus of the interviews, there were indications that some landlords did not fully understand the current tax system. Furthermore, despite the instances above, landlords did not appear to have carried out detailed tax planning. Paul was in the minority as one of two landlords who was actively '*going through the process of ensuring that they [his SPRS properties] can be passed on [to his kids] without a huge inheritance tax bill*'. He went on to explain:

> *'… we are in the process of setting up a property partnership. A family property partnership, a Limited Liability Partnership, for the purposes of inheritance tax. By doing that and by setting up a trust as well, using the capital tax benefits of the trust, which I don't fully understand, but it's been explained to me by the people that do understand the tax side of stuff, that we set up a partnership myself, my wife, our two kids, all as partners, so that when I die, when my wife dies, it passes down to our children who remain as partners in business.*'

Paul's efforts may also have been part influenced by the earlier experience of a large and unanticipated capital gains bill, which led him to advise that landlords '*need to know*' if they are '*going to sell or keep it forever*'. If the latter they should '*plan to sell it*'.

As an interesting aside, it is worth noting that a few landlords were concerned about what would happen to their tenants following their demise. Joanne mused whether her property should be offered for sale to the existing tenants initially. Stuart intended to include instructions in his will (yet to be written) to retain the existing tenants:

> '*What I would like to do is have a will which states, "do not kick the tenants out." I don't want someone coming along and saying, "oh, what are these people doing*

in these properties? We want to sell these properties, and we have to kick the tenants out." I would say, "don't kick the tenants out, you have to wait until the tenant resiliates the contract."'

9.3.3 Re-Investment of Capital

In order to completely understand the lifecycle of SPRS investments, it is necessary to understand how landlords intend to re-deploy their capital following divestment. To do so, the survey asked landlords to indicate their intentions from a list of possible post divestment actions.

In total, 17% of landlords did not know what they would do with the funds (Table 9.5). There was a fairly even spread of responses amongst the remaining intentions which were selected in between 6% and 10% of cases, with the exception of the other category (4% of cases). The observation that in just 6% cases, landlords intended to reinvest the funds into a pension product and that in 9% of cases, they intend to acquire alternative investments was unexpectedly low.

Table 9.5. Landlord intentions regarding divested capital

Intentions	% of Cases
I do not intend to sell the property.	43%
Reinvest the funds in a pension product.	6%
Pay down other SPRS property mortgages/loans.	9%
Pay down the mortgage for my home.	9%
Purchase a property for my family or relatives to live in.	10%
Fulfil a specific objective (e.g., a wedding, house improvements, holiday home etc.).	7%
Reinvest the funds in SPRS property.	7%
Reinvest the funds in an alternative investment type (e.g., stock and shares).	9%
Gift the funds.	8%
Don't know.	17%
Other.	4%

(N=1054)

Though overlooked in the survey design, the qualitative data revealed that some landlords intended to use the divested capital for consumption throughout the course of their remaining lifespan:

> '*As I said, all of it is collectively in my head in the sense of when I get to, I don't know, sixty, cash it all in and just sit with a pile in the bank and if I have to spend two grand of that a month for the next 30 years, so be it. I'm not that bothered, and just take it from there. Once the state pension and the private pensions kick in at sixty-five or sixty-seven then I am not going to be under any financial pressures.*'

Patrick had a similar thought process:

> '*If we look at my wife's one (property) and take it to be at £180,000 or something at the moment, we've got 20 years to live. Divide into 180, that's 9k, it's more than we're getting out of it in the rent. We can set it in the bank account, take the money to zero over 20 years, ignoring inflation, which we all do anyway*.'

Such an approach is broadly in line with the lifecycle hypothesis of wealth discussed earlier.

9.4 Stage 3- Summary Discussion

This section exposes a number of deviations in stage 3 in relation to investment monitoring, investment management and divestment.

To begin with, the interviews revealed that landlords largely equated performance monitoring with the monitoring of rental income and operational costs via some form of bookkeeping. However, this was principally driven by the requirement to complete a tax return as opposed to a desire to monitor returns per se. In a large minority of cases (45%), landlords reported that they did not seek to subsequently benchmark or compare the financial performance of their SPRS investment(s). Those who did, tended to focus comparisons on self-selected measures such as objectives and budgets, eschewing external measures such as returns from alterative investment types. As a result, at any given time, there is a significant cohort of landlords who would be unable to provide a fully accurate and detailed appraisal of their SPRS investment performance, or the optimality of their returns in relation to alternatives. It is therefore entirely possible, likely even, that some landlords will hold non-optimal SPRS investments.

The section on investment management revealed that the majority of landlords surveyed, reported that they understood the risks that they faced, although levels of understanding were lower than might be expected overall, particularly in relation to void risk and property risk. The interviews revealed that landlord risk perception itself, was often driven by personal experience and bias, with several landlords optimistically appraising the likelihood of risk impacts. Few landlords actively spent time or used established tools to formally identify and analyse risk for the same reasons espoused in earlier deviations of the normative investment process. Instead, landlords mainly relied upon an informal risk management approach underpinned by experience and intuition. While in the majority of cases (98%) landlords adopted some risk mitigation measures, not all selected all measures all of the time, with several being undersubscribed. While not all risk measures are appropriate to all landlords in all circumstances, it is clear that landlords are not doing all that they can to identify and minimise investment risk, even when the cost (time and money) of doing so is minimal, such as in the case of appointing a guarantor to safeguard rental payments. Though several areas raise concerns, the failure to account for risk, the failure to plan for capital works and the failure to regularly increase rents could be viewed as particularly problematic.

The fact that the majority of landlords did not budget for risks (landlords selected that they did so in 23% of cases) is remarkable, particularly as in the 12 months prior to the emergence of COVID-19, 34% of landlords were financially impacted by void risk, 15% by default and arrears risk, and 60% from property risk. Sometimes, landlords would be impacted by all three, for example where a tenancy in default results in damage and a subsequent void period. This finding is particularly concerning given that so many landlords rely on their SPRS income for consumption. While some of those interviewed could absorb risk impacts, others appeared less able to do so although in some cases landlords were able to rely upon insurance. These findings mirror those of Watson and Bailey (2021), who identified differing financial resilience levels amongst landlords. Those who did budget for risk, adopted differing approaches and budgeted differing amounts, which in some cases were lower than might be expected.

Concerningly, this flawed approach to budgeting extended to capital works with very few landlords possessing a lifecycle replacement plan or budget for capital works. Instead, these works were driven by crisis events or a subjective condition-based approach, with some landlords actively attempting to avoid lifecycle works where possible.

Despite some qualitative evidence that landlords do not regularly 'put up' the rent in the extant literature, the extent of the findings are remarkable and were not expected. In just 7% of cases, landlords selected that they put up rent every 12 months and over one in five landlords (23%) reported a market rent shortfall of £100 a month or more. This considerable shortfall provides a clear indication that many landlords do not seek to maximise their investment returns.

Landlords also deviated from the normative process with regards investment divestment. During interview, most landlords were cognizant that they would ultimately need a divestment plan, and many had initial thoughts or intentions in this regard. However, for most, detailed divestment plans were not pre-determined at the point of acquisition and instead, informal plans emerged over time or in response to triggers such as an awareness of entering old age or the requirement to pay down a mortgage. In several cases, landlords intended the investment to survive them and for it to be passed to their families, although not all landlords with this intention had written a will thus reinforcing the lack of forward planning. In light of the lack of investment planning, it was not surprising that few had considered the salience of divestment tax planning, particularly in relation to capital gains tax and potentially inheritance tax. When asked what they would do with funds realised by divestment of their SPRS investment, landlords had a wide variety of intentions ranging from re-investing the funds in a pension product (6% of cases) to paying down the mortgage of their primary residence (9% of cases), although in 17% of cases, they did not know.

Overall, the investment behaviours of landlords deviated substantially from those anticipated by stage 3 of the normative investment process, with landlords adopting approaches and making decisions that could result in sub-optimal investment outcomes. In the main, landlords failed to adequately monitor and compare the performance their SPRS investments, failed to adopt a broad range of risk mitigation measures, failed to adequately account for risk, and failed to create robust divestment plans to the extents necessitated by the normative investment process. Instead, landlords appeared to rely on informal processes, intuition, and biases and heuristics to navigate stage 3. At the point of deviation, landlord behaviours often closely mirrored those attributed to biases and heuristics in other investment domains. For example, instances of overconfidence bias, anchoring and adjustment bias, availability bias, hindsight bias, illusion of control bias, optimism bias, familiarity bias, affect bias, herd behaviour and home bias all appeared to be evident in the investment behaviours of landlords. However, the attribution of these biases and heuristics from one investment domain to another is largely a subjective undertaking, which will be addressed in the chapter that follows.

10 CHAPTER 10- THE SUSCEPTIBILITY OF LANDLORDS TO BIASES AND HEURISTICS

This short chapter addresses the subjective nature of attributing biases and heuristics identified in other domains to landlord behaviours (discussed above), by focusing on RQ3 (‘*To what extent are landlord investment behaviours subject to biases and heuristics?*’).

The principal challenge here is that the pre-existing question sets used in experimental economics and the financial services industry are not relevant for use in an SPRS context. To rectify this, a new question set was created with reference to generic questions designed by Pompian (2012) and included within the online survey. The biases to be tested were selected on the basis that they were most regularly cited in the wider investment literature and amongst those most likely to have specific salience to SPRS investment. The resultant question set is detailed in Table 10.1 along with the findings.

Table 10.1. Landlord susceptibility to biases and heuristics

Bias	Question	Strongly agree (%)	Agree (%)	Neither agree or disagree (%)	Strongly disagree (%)	Disagree (%)
-	I am aware that we all have personal biases which can impact our investment decisions.	40	51	8	0	0
-	I thought carefully about the potential impact of my personal biases when making the decision to buy or retain my most recent SPRS property.	16	36	28	15	4
Hindsight bias	The collapse of the housing bubble in 2008 was easily predictable.	5	19	46	26	5
Herd bias	I was attracted to the SPRS in part because 'everyone else was doing it'.	2	9	22	43	23
Overconfidence	I believe that my skills as a landlord allow me to achieve above average returns.	8	24	48	16	4
Endowment bias	I would find it difficult to sell an SPRS property that I had inherited from a loved one, even if it was performing poorly.	5	11	22	38	24
Anchoring	If the agent who valued a property I was selling, called to say the market had dropped by 15% due to the town's main employer going bankrupt, I would immediately reduce my asking price by 15%.	2	7	38	40	13

(N=1054)

It should be noted that this represents a first attempt at adapting/creating a question set for application in an SPRS investment context and, in hindsight, some improvements could be made. These are now discussed along with the findings.

The vast majority (91%) of landlords agreed that they were aware of the existence of personal biases which could impact upon investment decisions. However, it could be argued that this question was leading and therefore likely to elicit a positive response. Mark argued this forthrightly during interview:

> '*To be honest I think it may be the way that you phrased the question [regarding awareness of personal bias]. If you ask someone if they're aware that bias can happen, then everybody is aware of human behaviour and nobody is infallible and they will probably say, "Yes I get that."*'

Landlords were subsequently asked the extent to which they agreed with the following statement:

> '*I thought carefully about the potential impact of my personal biases when making the decision to buy or retain my most recent PRS property.*'

The majority (52%) of landlords agreed that to some extent, they had considered these biases when making SPRS investment decisions. However, it is possible that the opening question acted as a primer for an increased positive response here. Regardless, a further 28% neither agreed nor disagreed and 19% (almost one in five) disagreed to some extent. The latter is concerning given the general findings to date and, in particular, the clear bias many landlords have for property.

When discussing biases and heuristics during interviews, it became apparent that most landlords were in fact unfamiliar with investment biases (and heuristics) in general and were not at all familiar with their implications for investment decision-making. Initial responses to questions in this area included '*I'm really not sure. My mind's gone blank*' (Deepika) and '*what do you mean about bias? I'm not quite sure what you mean*' (Lorna). This of course raises questions as to the manner in which the researcher framed the question. Whilst this was a difficult concept to convey, a typical interaction is detailed below:

> '*You agreed with the statement [in the online survey] that you were "aware that everyone has personal biases which can impact upon investment decisions", but you noted that you "didn't think carefully about the potential impact of those biases." Why didn't you*?' (Researcher)
>
> '*What was the question? What was my answer?*' (John)
>
> '"*I am aware that we all have personal biases which can impact our investment decisions." You agreed with that.*' (Researcher)
>
> '*It's a tricky one. I am trying to think what the question means actually.*' (John)

Fortunately, testing the susceptibility of landlords to specific biases and heuristics does not require landlords to hold specific knowledge of them. For example, to test for the existence of hindsight bias, landlords were asked if the collapse of the housing bubble of 2008 was easily predictable. This collapse, which was at the heart of the global financial crisis, came as a surprise to the great majority at the time of its occurrence. In fact, several of the survey and interview participants still owned properties that were in negative equity as a result of the collapse. Despite this, almost one quarter of landlords (24%) believed that the event was easily predictable and many more (46%) sat on the fence, noting that they neither agreed nor disagreed. This is concerning as hindsight bias can lead '*people to exaggerate the quality of their foresight*' and '*prevent learning from mistakes*'. (Pompian, 2012, p. 107). This could result in affected landlords failing to comprehend the scale and unpredictability of the risks they face thereby supporting the illusion that SPRS investment is 'as safe as houses'. It also suggests that improving financial literacy levels amongst landlords with hindsight bias will be challenging.

To test for herd bias, landlords were asked if they were attracted to the SPRS in part because ‘everyone else was doing it’. Over two thirds (67%) disagreed. It is possible that this figure is inflated due to a reluctance by landlords to admit that they followed the crowd. Regardless, over 1 in 10 landlords (11%) agreed to some extent that they had invested in the SPRS partly because others were doing so and several landlords admitted their susceptibility to herd bias during interview, for example:

> ‘*That first one [Lyndsay’s first rental property], it was just because it was what people were doing at that time. Everybody was buying to let. It was just a thing round about 20 years ago, that was what you did.*’ (Lyndsay)

One implication of susceptibility to herd behaviour is that it is predicated on the observation of others, meaning that landlords, particularly those who are time poor and lack financial literacy, may enter the market unprepared, as was the case for several of those interviewed.

The earlier findings chapters are littered with examples of overconfidence. However, to specifically probe for overconfidence, landlords were asked if their skill as a landlord allowed them to achieve above average returns. Nearly one third of landlords (32%) reported that it did whereas one in five (20%) reported that it did not. These levels of overconfidence are remarkable given the deviations in the investment behaviours observed in this thesis. However, as overconfidence bias makes investors ‘*blind to any negative information that might normally indicate a warning sign*’ (Pompian, 2012, p. 201), they are not particularly surprising.

The presence of endowment bias was tested by asking landlords if they would have difficulty in selling a poorly-performing property that was inherited from a loved one. Although the majority of landlords (62%) adopted a rational response and disagreed, 16%

agreed. This suggests that some landlords would hold onto a loss-making investment for sentimental reasons, a premise that was confirmed during the interviews. Whilst these landlords clearly drive some form of value from this attachment, from a financial perspective, such decisions are sub-optimal.

To test for anchoring bias, landlords were asked if they would alter the desired sale price of a property following advice from an SPRS professional that would result in a price reduction. The majority (53%) disagreed, suggesting that they had anchored to the original price, but perhaps also that they were reluctant to listen to expert advice. In total, 38% neither agreed nor disagreed and just 9% agreed. By perceiving '*new information through an essentially warped lens*' (Pompian, 2012, p. 135), those subject to anchoring bias can make irrational decisions, including some of those observed in the preceding chapters. It should be noted however, that in some instances landlords may wish to hedge their bets by delaying a decision in order to monitor the market. Future iterations of the question set should take cognisance of this possibility.

Despite improvements being required for future iterations of the question set, this initial attempt to identify the susceptibility of landlords to key biases and heuristics supports suggestions in the previous chapters that landlords are prone to personal biases and use heuristics in their SPRS financial decision-making. The implications are numerous but principally that such behaviour appears detrimental to levels of adherence to the normative investment process.

This concludes the presentation of the findings from the quantitative and qualitative stages of the research and the thesis now progresses to the discussion chapter.

11 CHAPTER 11- DISCUSSION

11.1 Introduction

This chapter draws upon the literature review and preceding findings chapters to answer the research questions and identify associated implications. It is followed by the final chapter, which presents the research conclusions.

11.2 RQ1- Who are landlords and what are the characteristics of their SPRS investments?

The purpose of RQ1 was to understand the current structure of the SPRS by refreshing and expanding upon the extant literature, particularly the works of Kemp and Rhodes (1994) and Crook et al. (2009), to identify any changes in the composition of the sector.

11.2.1 Answering the Question

The SPRS remains dominated by private individuals who tend to be over the age of 35, white, married, well educated, and either employed or retired with higher gross incomes than the Scottish median. The majority continue to own a smattering of properties (four or fewer), which are primarily viewed as an investment and which are managed on a part-time basis. These insights are in keeping with extant academic knowledge (Crook et al., 2009; Watson & Bailey, 2021). However, it should be noted that the Scottish Government report that 94% of all registered landlords own just one property (Scottish Parliamentary Corporate Body, 2020b). Since landlord registers underpin all of these figures, it is not clear how this discrepancy arises although it may point to selection bias. For example, one possible explanation is that both this sample and those in other Scottish studies over-represent landlords with more properties, because they are more likely to respond to survey requests as they have a greater stake in the sector. This would be a useful area for future research to examine since it might have a significant impact on findings.

Though there was an increase in the number of landlords who view the SPRS as an investment between 1994 and 2009, this appears to have stabilised in the intervening years. In general, therefore, the composition of landlords in the SPRS has changed little over the last two decades with two notable exceptions: this research identifies both a higher proportion of female landlords and an ageing landlord cohort.

The research further adds to the established canon of work by not only confirming that most landlords select properties close to their own home (Crook et al., 2012), but specifically that they select properties within their immediate local authority area or alternatively, within their nearest major city region.

As well as refreshing the extant data, novel insights were made, such as the identification that a small majority of landlords use SPRS profits to fund their general day to day consumption.

11.2.2 Implications

Despite considerable changes in the sector, including changes in demographics, the legislative environment and investment fundamentals, the popularity of the PRS persists amongst small scale investors. The lack of real change in the composition of the SPRS perpetuates the status quo. In essence, the sector has grown but the landlords are the same. This has a number of far-reaching implications. For landlords, around 5% of the population, it means a continued (at least partial) reliance on housing, a risky and management-intensive investment, for their welfare provision. Specific findings, such as the ageing of landlords also raises number of questions. For example, how will ageing affect the ability of landlords to self-manage properties?

For tenants, it means a lack of standardisation and certainty resulting from the potentially differing approaches of around 250,000 heterogenous landlords. The implications for service providers and support services are too numerous to mention but clearly historical challenges and business opportunities persist. For policymakers, these findings are likely to be disappointing, as it points to a continuing failure to engender a new class of professional landlords which has been a shibboleth of SPRS advocates from the outset of the sector's re-growth. Specifically, the lack of compositional change points to a clear failure to grow the build-to-rent sector, which has attracted significant policy attention and preferred consideration in policy outputs. Whilst it would be far simpler for policymakers if the SPRS was managed by a small number of more-easily governed high volume suppliers, this composition is not likely to occur in the short, mid and potentially long-term, given the current direction of travel.

As such, it could be argued that the true value in this data refresh, is that it acts as a prompt for policymakers to work more closely with the landlords who currently comprise the sector. To do so requires a better understanding of landlord investment behaviours, as discussed in the sections that follow.

11.3 RQ2- What are the investment behaviours of landlords in relation to the normative investment process and where/why do deviations occur?

To answer RQ2, it was necessary to develop a theoretical framework and conceptual framework suitable for the study of landlord investment behaviour. This was because little is written about these behaviours in the SPRS and PRS literatures, which are completely devoid of models or frameworks appropriate to the task. This subsequently allowed for the selection and synthesis of the normative investment process for this purpose is entirely novel in a PRS context and broaches a significant theoretical gap in the extant literature. The subsequent application of this framework within the SPRS via first, the normative investment process, and thereafter, the introduction of a question set designed to identify the susceptibility of landlords to biases and heuristics, has produced insights that address a clear shortfall in our understanding of landlords and allows RQ2 to be answered below.

11.3.1 Answering the Question

11.3.2 Stage 1

It is clear from the data that overall, the investment behaviours of landlords deviate significantly from the normative investment process. For example, in reference to stage one of the process, 64% of landlords had set some form of investment objective, though only 5% had set the type of detailed objectives it could be argued were warranted by their SPRS investments and 32% set no objectives at all. This reflects broader observations that objective setting receives little attention from investors (Laopodis, 2013). The reasons ascribed for these failings were varied but relevance, control, hassle/time and wealth emerged as key themes. A further constraint in setting objectives was the fact that 20% of landlords were unaware of their investment time horizon (an investment constraint) and 46% were unable to correctly categorise how risky the SPRS was in comparison to alternatives. The former further points to a clear lack of investment planning and the latter to low levels of financial literacy. As a result of falling at the first normative hurdle, many landlords commence the investment process having pre-selected the SPRS and by implication, bypass not only objective setting, but also the asset allocation stage. One inherent danger with this approach is that the investment becomes the objective and not the means to meet an objective. Put differently, the notion and opportunity to invest in property drives the investment as opposed to objectives driving the selection of property through asset allocation and asset selection processes. Without an immediate sense of what the investment is for, it is perhaps not surprising that many landlords who are not retired are using SPRS surpluses to support current consumption rather than to support a longer-term goal.

11.3.3 Stage 2

Further deviations were identified with reference to asset allocation (stage 2 of the normative investment process). Despite 97% of landlords owning at least two investments thereby constituting an investment portfolio, less than half of landlords regarded themselves as owning a portfolio. It is therefore not surprising that just 39% considered how their SPRS investment would complement their existing investments through diversification and just 30% had specifically acquired an SPRS property in order to diversify their portfolio. A lack of financial literacy would appear to be a key factor here, with landlords, like many small private investors, being under diversified. In total, 40% disagreed when asked if they had considered the pros and cons of other investments before deciding to acquire/retain their most recent SPRS property. Some did not consider alternatives due to a preference for bricks-and-mortar (39% of landlords) driven by the tangibility of property. For some, this tangibility equated to the perceived safety and robustness of the investment derived in part by the bricks-and-mortar aspect of housing and in part by a sense of familiarity accumulated via home ownership, for others, this tangibility afforded the opportunity to apply existing skills and knowledge in a hobby like manner, which also afforded a sense of control over investment outcomes. Ironically, given the largely part-time nature of the investment, this meant that some landlords spent considerably more time on their SRS investment than return levels alone would dictate. These justifications are overlooked in the wider PRS literature and receive differing levels of attention in the extant investment literature, with the preference for tangible assets appearing novel to landlords. However, reflecting findings in the wider investment literature, their residential investment bias had often been reinforced by exposure to the media and the investment behaviours of friends and family members (Barber & Odean, 2013; Zhao, 2021).

Many landlords did not consider alternative investments due to a fear of those alternatives based upon previous negative experiences (Andersen et al., 2019), a perceived lack of control over investment outcomes and general performance concerns. Others still, did not appear to possess sufficient levels of financial literacy to be able to effectively consider a full range of alternative investment types.

Landlords who did build portfolios tended do so opportunistically, adopting a naïve approach in which they sought to avoid putting '*all the eggs in one basket*' as opposed to adopting a more formal approach such as Markowitz's (1952) MPT. In some cases, resultant portfolios were heavily skewed towards residential property holdings meaning that many landlords are overly exposed to residential property risks. Overall, landlords failed to adopt robust asset allocation processes making it unlikely that they would be able to construct optimum diversified portfolios.

The findings also suggest that in some cases, asset allocation/SPRS investment decision-making was analogous to home buying. Although the home buying decision is skewed towards consumption considerations, it is both a decision relating to consumption and investment (Goetzmann, 1993). Whereas SPRS investment, from a normative investment perspective, should be a decision relating purely to investment, the findings suggest that for some, consumption, via the satisfaction of a myriad of non-financial components, plays a role. It should also be noted that the decision to buy a home is informed by the individual's '*idiosyncratic characteristics…feelings, experience*' and '*subconscious* *factors*' (Koklic & Vida, 2009, p. 75) and that home buying behaviours are subject to a myriad of biases and heuristics (Salzman & Zwinkels, 2017). Examples of each were observed in the asset allocation behaviours of landlords. Lastly, home ownership is known to have an impact on portfolio choice specifically limiting investment in '*risky financial assets*' (Kullmann & Siegel, 2003, p. 22). It is clear that home ownership amongst landlords (88% of landlords) has to some extent influenced the decision of landlords to invest in the SPRS over riskier alternatives via 'Familiarity Bias'.

With reference to asset selection, landlords' behaviours again appeared to deviate from normative expectations although landlords applied significantly more focus to the process of asset selection. Though the efficient market hypothesis points to asset allocation being the most important element of Stage 2 (in the context of stock and share investments), it is not surprising that landlords prioritise asset selection. Especially, in light of the high unit costs and enhanced management requirements associated with SPRS investment.

The analysis of return profile, property location, target market and property type were identified as important parameters in asset selection, which helped landlords to successfully narrow their choice frame, often dramatically. However, landlords had different starting points and different priorities amongst these due to preferences and biases, which were not necessarily rooted in personal experience. They did not result from actual comparisons of, for example, churn rates between tenant types, analysis of the lifespan of carpets in single households vs. family households, knowledge of the lifecycle costs of pitched vs flat roofs, or an understanding of the likely capital growth levels in different towns etc[48], and are therefore error prone. As a result, property shortlists

[48] Whilst not all of this data may be readily available, landlords could make assumptions in these areas to aid comparison.

represented landlord preference but were not sufficiently detailed to represent optimal investment choice sets.

The extent of the subsequent appraisal process undertaken by landlords was influenced by their tendency to maximise or satisfice. When appraising shortlisted properties, landlords tended to adopt a simplistic approach to financial appraisal focused on single period methods (such as the net yield) which measure income return rather than capital growth or total return. Though presaged by the wider investment literature (Francis & Dongcheol, 2013), it remains astonishing that 47% did not calculate the expected return of investments at this stage. The reasons for landlords not utilising alternative calculations/methods were multifaceted, but largely replicated the themes identified earlier in stage 1 and stage 2 (e.g., relevance control, hassle/time, wealth, financial literacy). As in other investment domains, they found it too difficult (Pástor, 2002). The failure of some landlords to calculate expected returns and the general failure of landlords to take account of the value and timing of the capital outflows (offered by more advanced appraisal methods) could result in errors in property comparison and property selection, ultimately leading to sub-optimal investment outcomes. It also has implications for Stage 3 of the investment process and in particular the ability of landlords to monitor returns.

The physical appraisal of shortlisted properties tended to receive more attention with most landlords visiting and inspecting shortlisted properties. Landlords were generally concerned with Home Report and EPC findings, although very few were interested in an enhanced survey being carried out. Landlords were also interested in the property condition and the likely short-term maintenance and refurbishment requirements but not necessarily the long-term requirements. Although landlords expended more time on asset selection than asset allocation, the approaches adopted were heavily influenced by intuition and non-financial factors with biases and heuristics appearing to play a key role in the investment decision-making process. One such example, the observation that some landlords had a '*need for properties to be ones they personally liked*', was also reported by (Crook et al., 2009, p. 73). Such an approach is highly subjective, particularly given the heterogeneity of landlords, and it positions the landlord as the arbiter of housing standards and taste. This may be a suitable approach where the landlord's target market is people like themselves, but more generally it could be argued that investment decisions should reflect the market requirement and not landlords' tastes.

The SPRS investments ultimately selected by landlords are diverse due to property selection shortlisting factors. One indicator of this diversity is the spread in SPRS property capital values evidenced earlier. These values are certainly more diverse than might be expected if landlords were purely focused on maximisation via a combination of rental income and/or capital growth (73% of landlords). The role of biases and heuristics is evident throughout the asset selection process, and whilst they can support the expedient simplification of choice frames, they also restrict the opportunity for landlords to meaningfully compare returns across differing property locations, target markets served and property types, and thereby they limit the potential to optimise returns. Given the significant amount of capital required to invest in the SPRS, it is perhaps surprising that landlords do not spend more time on the asset selection process and more particularly, in challenging their own biases pertaining to it. Some of the findings pertaining to asset selection, reflect and refresh earlier findings within the wider PRS literature. However, the identification of the overall asset selection process followed by landlords, including appraisal elements and the role of biases and heuristics is entirely novel.

11.3.4 Stage 3

Moving on to stage 3, landlord behaviours were again found to be wanting in relation to the normative investment process. In terms of performance monitoring, most landlords interviewed reported undertaking some form of bookkeeping to allow for the completion of a tax return. However, 45% of landlords did not compare the financial performance of their investments with either their objectives or other benchmarks. As a result, there was a significant cohort of landlords who were unable to provide a fully accurate and detailed appraisal of their SPRS investment performance, or to benchmark their returns in relation to alternative investments. Simply put, some landlords do not know what their returns are and among those who do, many do not know if their investments are optimal.

With regards to investment management, the majority of landlords reported that they understood the risks they faced, although levels of understanding, as in Watson (2022), were mixed and in fact lower than might be expected overall. Furthermore, landlord risk perceptions were highly influenced by previous experience and bias rather than a detached assessment of the likely risk. Landlords tended not to rely on formal risk management tools, again due to the themes of time, relevance and financial literacy, and instead often relied on informal methods and intuition. Landlords did not adopt all of the risk mitigation measures available to them all of the time and had differing views to the efficacy of the measures. Many of the individual findings were surprising, but the fact that landlords increased the rent every 12 months in just 7% of cases and the observation that one in five landlords (23%) reported a market rent shortfall of £100 a month or more is astounding from the perspective of rational maximisation, although many viewed this approach as a tenant retention strategy. However, by foregoing around £1,200 a year in rent landlords potentially miss out on around £30k of revenue over the lifespan of an

SPRS investment[49]. For landlords with multiple properties, this could equate to a significant amount of money[50]. These funds could of course be utilised to improve property conditions and build resilience.

Perhaps even more surprising, and concerning was a lack of budgeting for the impacts of risk, which was selected as risk mitigation measure in just 23% of cases. The incidence and impact of the principal risks (void risk, default and arrears risk and property risk) in the 12 months preceding COVID-19 were lower than in a recent study focused on the bottom end of the SPRS (Watson, 2018). However, they remain significant with 34% of landlords impacted by void risk, 15% by default and arrears risk and 60% by property risk. The odds therefor, of landlords being impacted by a principal risk over the course of their SPRS investment, is relatively high, warranting a robust defence. The resulting financial impacts equated to mean losses in the period of around £1,900, £1,700 and £1,250 respectively for those affected. Amongst interviewees who had budgeted for risk, not all had budgeted to this degree. Amongst landlords who had not specifically budgeted for risk, some could rely on general savings or alternative sources of wealth if required, whereas others were '*completely reliant*' upon their rental income and would struggle to cope with risk impacts. However, the observation by Debbie (letting agent) that some landlords did not have capital available to effect repairs (or carry out capital works), and instead had to rely in offsetting rental income and utilising credit cards to pay bills, is particularly concerning. The findings again mirror those of Watson and Bailey (2021), who identified very differing financial resilience levels amongst landlords. The implications for landlords in this latter category and their tenants are obvious.

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[49] Assuming a 20-year investment holding period and the reinvestment of the shortfall at a nominal interest rate.
[50] It should be noted that rents will generally revert to market rents at the change of tenancy, which would reduce this quantum.

In tandem, very few landlords had a replacement plan for capital works or specifically set aside funds for them and some actively sought to avoid lifecycle works where possible. Furthermore, where budgets had been set, they did not appear to reflect the true cost of asset depreciation. This was unexpected given that capital works mediate property condition, capital value, the lived experience of tenants, reactive maintenance requirements and more besides. Interviews revealed that in place of a coherent plan, landlords tended to undertake capital works in response to crises or based upon a subjective condition-based approach. However, it is not clear that landlords are always best placed to make such judgements due to a lack of technical knowledge/awareness, a tendency amongst some to put off or avoid large scale works, and competing demands for sometimes limited funds. These observations are concerning as the capital works decisions of landlords have implications for the quality of housing stock within the SPRS. In particular these decisions can result in houses of the same type, the same age, the same location and even in the same block, having different standards (so far as legislation allows) in terms of general condition, maintainability, safety and energy efficiency amongst others. In addition, landlords were also found to have differing approaches to maintaining and improving their properties in general. The cumulative impact of these findings is that SPRS tenants face a lottery regarding the quality and the condition of the properties available to them.

The findings with regards divestment planning are interesting. Whilst divestment action takes place at stage 3, the divestment strategy should in fact be conceived as part of the objective setting process that takes place at stage 1. To borrow from Covey (2004, p. 97), landlords should '*begin with the end in mind*'. However, the qualitative data suggests that many do not, with most not formalising a divestment plan until much later in life or in response to a specific event. The sense that too little effort is expended on divestment planning too late in a landlord's lifespan reflects findings within the pension's literature, which has resonance as many landlords view the SPRS specifically as a source of pension provision. The overall approach of landlords means that some of those who intend to divest could miss out on opportunities to optimise their investment at exit, for example, in relation to tax planning or market timing.

Several landlords did not intend to divest the property in their lifetime, which will result in significant wealth transfers to friends, family members and charities. Some also noted their intention to pass properties directly to their children prior to death although few with this intention had written a will thus reinforcing the lack of forward planning. The transfer of properties from landlords to their children either before or after death results in the creation of small-scale property dynasties. This has several implications, in the first instance, these actions will drive intergenerational wealth transfers further contributing to household inequality and widening the wealth gap within society. In the second instance, properties may remain trapped within the SPRS for generations (a dynastic trap) affecting the composition of neighbourhoods and the condition of properties. In the third instance, the gift of property may in some cases represent an unwanted burden in practical terms leading to divestment by the beneficiaries and potentially tenant evictions.

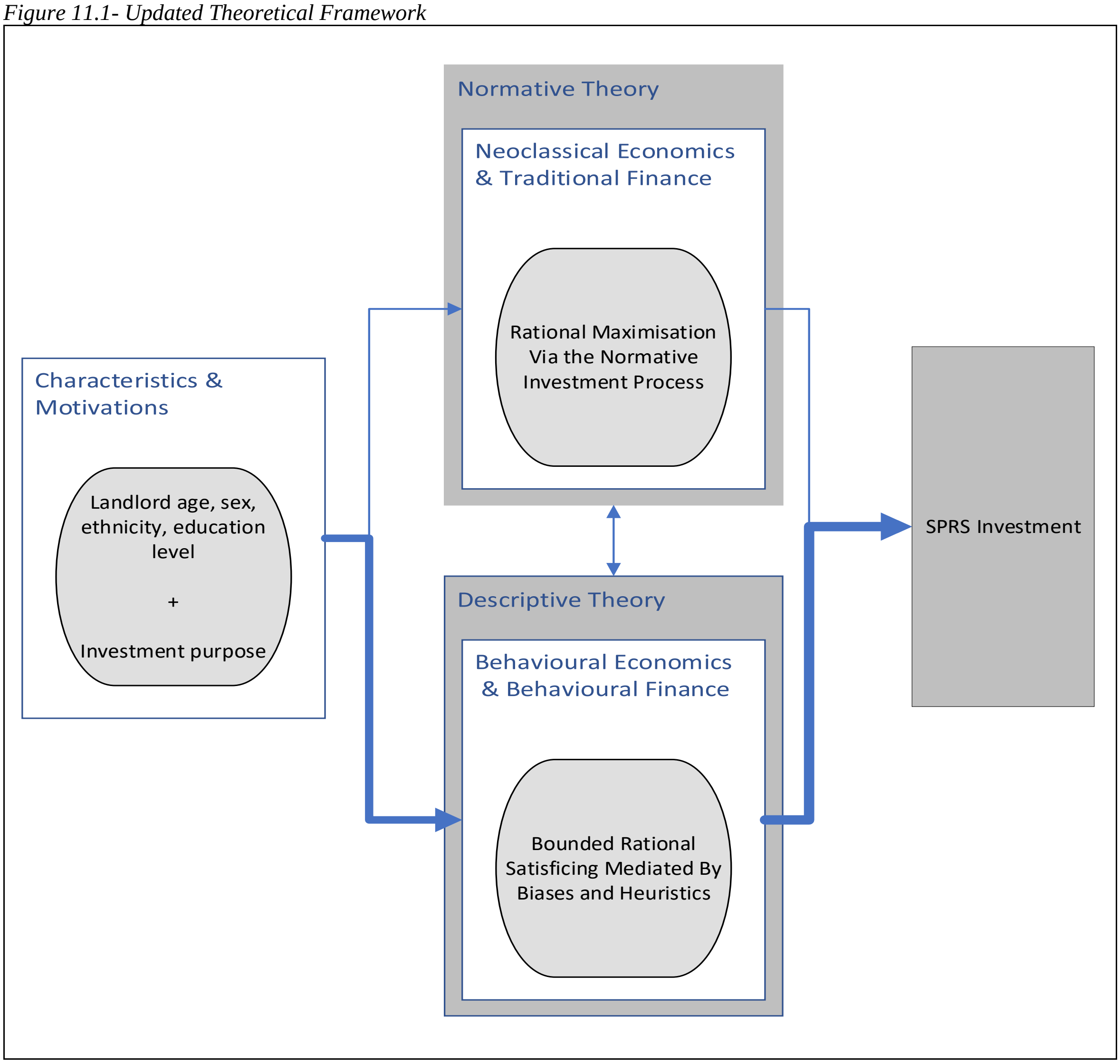
Overall, 17% of landlords did not know what they would do with funds upon divestment of their SPRS property, and that most interviewed did not have a detailed understanding of the tax implications associated with their notional divestment plans. The former once again raises questions regarding the original justification for the investment and the latter raises further concerns around investment and financial literacy.

As with stage 1 and 2, the investment behaviours of landlord deviate from those expected by stage 3 of the normative investment process. Whilst the literature review (see Chapter 3) makes it clear that the process may be unrealistic in some regards, the extent to which landlords deviate from its core stages and its seemingly common-sense guidance, is genuinely surprising.

11.3.5 Revisiting the Theoretical Framework

To recap, normative theory suggests that landlords should be rational maximisers who allocate sufficient time and resource to optimising their investments, whereas descriptive theory suggests that landlords are more likely to be bounded rational satisficers who are unwilling, or unable to allocate the time and resources required to optimise. On completion of the literature review, the theoretical framework was updated and has been reproduced below (Figure 11.1).

Figure 11.1- Updated Theoretical Framework



Drawing on the framework, it was proposed that a small proportion of landlords would display investment behaviours characterised by rational maximisation, or would oscillate between maximising and satisficing behaviours at different stages of the PRS investment process. However, recognising the small scale, part-time nature of the investment, combined with evidence from other private investment domains, it was hypothesised that the bulk of landlord investment behaviours would be categorised by bounded rational satisficing. This was recognised in the framework by a more prominent line emphasising the pathway from landlord characteristics to SPRS investment via descriptive theories.

The empirical evidence collected in answering RQ2 (and to an extent, RQ3) points to these predictions being broadly in line with the investment behaviours of SPRS landlords. In turn, this not only provides some assurances regarding the robustness of the theoretical framework and the conceptual framework, but also regarding the adoption of the synthesised normative investment process used to apply the framework within the SPRS.

11.3.6 Key Dimensions

This section has summarised a number of reasons, which describe why landlords do not allocate sufficient time and resources in selecting and managing optimum SPRS investment(s) as part of broader investment portfolio. However, of these, time constraints, the tangibility of housing as an asset class and the familiarity of housing conferred by owner occupation, are important and warrant further attention.

The vast majority of landlords view landlordism as a part time pursuit, and most do not have the time to allocate to maximisation either because they remain active in the workforce or are supposed to be retired. Landlords very much perceive their SPRS investments as part-time or even passive investments, and any workload or hassle that detracts from this perception, appears to result in cognitive dissonance and frustration. The issue here is that in comparison to other investment types, SPRS investment is associated with relatively intensive selection procedures, complex and lengthy acquisition processes and high levels of management intensity, and as such. cannot be considered a passive investment. This is true even in cases where the services of a letting agent are engaged to support management intensity. Furthermore, whilst the small portfolios owned by the bulk of landlords do lend themselves to part-time investment management, there are some inherent problems with the definition. In employment, a part-time role is any number of hours of work under what is considered to be full-time. Whilst some landlords were happy to devote considerable hours to their PRS investment, many were frustrated at having to deal with even the smallest workload generated by it. It would appear that, in the main, landlords view part-time work in a PRS context as constituting very few hours. This makes it unlikely that landlords will volunteer considerable time to improving investment outcomes, even where it is in their best interests to do so.

A further reason that landlords do not more closely adhere to normative expectations relates to the tangibility of property. Whereas most investment transactions yield little more than a piece of paper or some digits on a screen, the SPRS transaction yields a tangible product that can be seen, touched and even lived in, should the need arise. This psychological component has a powerful bearing on the investment behaviours of landlords, which overrides the rational and dispassionate approach expected of the normative model.

The familiarity of property, conveyed via home ownership has a similar effect, with many landlords equating their knowledge of owning a home with the knowledge necessitated by SPRS property. However, while the experience of home ownership and the skills it may foster are likely to be of some benefit to landlords, owning a home is not equivalent to owning an SPRS investment. SPRS investment requires an additional skill set, which it would appear that some landlords either do not possess or choose not to apply. In both cases, the time constraints discussed earlier play a role. Overall, the familiarity of home ownership appears to have a disproportionate role in influencing the selection of the SPRS as an investment.

Each of the factors discussed are entrenched in the behaviours of landlords and represent both a conundrum and a barrier to improving landlord investment behaviours.

11.3.7 Implications

The failure of landlords to adhere to the normative investment process has implications not only for landlords, but also for tenants, policymakers and more broadly, the housing sector and the Scottish economy. These are now explored in more detail.

For landlords, SPRS income plays an important role in both consumption (Watson & Bailey, 2021) and welfare planning (Soaita et al., 2016). It is therefore of the utmost importance that their SPRS investments perform. The context that investors evoke has been shown to have a profound impact upon investment decision-making (Sevdalis & Harvey, 2007). However, the failure to adhere to stage 1 of the normative investment process renders them with '*no appropriate context in which to make decisions*' (Alexander et al., 2001, p. 11) resulting in open ended uninformed investment strategies. Failures at stage 2 result in investment portfolios which are heavily skewed towards residential property holdings and are unlikely to minimise risk for their given level of return (Omisore, 2012). This failure is compounded in some instances by asset selection processes that do not take account of the full cost of SPRS ownership, nor prioritise selection on the basis of financial considerations and, thereby, risk contributing to sub-optimal investment outcomes. Their subsequent failure to effectively monitor investments in stage 3 means that they have no way of knowing if their SPRS investments are suitable or sufficient for their needs. Further failures in investment management, and particularly risk mitigation, mean that landlords are susceptible to higher levels of risk than they need to be. The lack of budgeting for risk impacts is very concerning, especially amongst those landlords with low levels of financial resilience. It put landlords at financial risk, but also potentially legislative risk in cases where they are unable to meet their obligations. The lack of budgeting for capital works is also problematic and could impact both upon the desirability of their investment properties and their capital value. Finally, failures in divestment planning further increase investment risk.

It is feasible that the investment behaviours identified in this thesis could result in significantly lower life-time consumption levels for landlords and raises questions as to the suitability of existing SPRS investments as welfare strategies for landlords, particularly with regards pension provision and later life care. Given this context, it is believed that most landlords would benefit to some extent from adopting the structured approach to investment offered by the normative investment process. At the very least adherents would be in a position to make more informed and considered investment decisions.

The implications for tenants are profound. In short, tenants are subjected to the vagaries of unstructured and seemingly sub-optimal landlord investment behaviours that have the potential to impact negatively upon their tenancies. For example, the failure of landlords to appropriately plan and budget for capital works and risk impacts could result in tenants living in sub-standard, energy inefficient and potentially unsafe properties. It could also result in a landlord choosing to increase rents levels or prematurely sell a property thereby potentially impacting upon the security of the tenancy.

The implications for policymakers are multifaceted. It is clear that landlords can no longer be treated as a financially literate, financially resilient homogenous mass subject to the goal of rational maximisation and this will necessitate a more nuanced approach to policy creation. It is apparent that if policymakers want to improve outcomes for the SPRS in general, then they will have to improve outcomes for landlords and this will require support throughout the investment process. It is apparent that landlords would benefit from training to improve their financial literacy although this presents something of a double-edged sword in that landlords with improved financial literacy may leave the sector in pursuit of more appropriate investments. In other times, this may have been welcomed by policymakers seeking to halt the sector's re-growth. However, in a context of dwindling supply, this may be problematic.

In addition, policy impact assessments will need to take cognizance of landlord's heterogeneity in terms of financial literacy and resilience and policymakers will need to more fully consider the cost implications of future legislation designed to improve SPRS conditions and security of tenure. This analysis may necessitate supporting landlords via grant and loan funding.

Advocating this policy shift could be viewed by some as an espousal of government intervention to improve landlord profits. This could be particularly problematic for Scotland's centre-left government in an environment where the debate has become increasingly driven by rhetoric. However, such a view would be reductive and ignores the complex and interconnected role the SPRS plays within the Scottish housing mix, the Scottish economy, and the welfare plans of landlords. Landlords also present a significant barrier to change, this research has shown that landlords are often time poor and adverse to anything perceived as a 'hassle'. It is also been long known that many landlords are not particularly interested in receiving support such as SPRS focused training (Crook et al., 2009). However, this could be addressed by making such training mandatory. It is worth noting that several of the landlords interviewed initially appeared to be content with their satisficing-based investment behaviours, but later concluded that participation in the research had forced them to further consider their investment behaviours.

Moreover, as the research identifies hitherto unknown challenges associated with the investment behaviours of landlords, it also gives rise to the opportunity for policymakers to make novel prescriptions, some of which may be more appealing to policymakers. For example, insights into the lack of landlord financial resilience could lead to policy that creates minimum standards or barriers to entry such as financial resilience tests for landlords or measures such as landlord insurance deposit schemes to protect against landlord financial failure. Similarly, the observation that many landlords fail to budget for capital works presents the option of government backed sinking funds to safeguard the condition of Scotland's housing stock and potentially leverage improvements in energy performance ratings.

The failure of landlords to adhere to the normative investment process, also has broad and significant implications for Scotland's housing system and specifically with regards the stability and robustness of investment patterns which informs the availability, location, and operation of the sector and the conditions and lived experience of tenants therein. It could be reasoned that a more professional investment approach could lead to improved returns/risk reduction, which could in turn lead to further inward investment and therefore supply. It could also be argued that when coupled with a more proactive approach to risk management, this could lead to improvements in the condition of SPRS stock rendering negative comparisons with other tenures obsolete.

More broadly, it should be recognised that landlord deviations from the normative investment process strongly suggest that investment assets worth in excess of £30bn[51] are not being effectively managed within Scotland. This is astounding and has far reaching implications for the Scottish economy which also potentially exposes the banking sector to avoidable risks.

11.4 RQ3- To what extent are landlord investment behaviours subject to biases and heuristics?

The underlying purpose of RQ3 was to offer an account of landlord investment behaviours in light of their apparent rejection of normative investment behaviours.

11.4.1 Answering the Question

Whilst the extant investment literature is replete with examples of investor behaviour being subject to biases and heuristics (Baker & Ricciardi, 2014; Madaan & Singh, 2019), there is no account of their occurrence within an SPRS/PRS context. The findings associated with this RQ are therefore novel and address a clear shortfall in our understanding of landlord investment behaviours.

At the point of deviation from the normative investment process, landlord behaviours often closely mirrored those attributed to biases and heuristics in other investment domains. For example, instances of overconfidence bias, anchoring and adjustment bias, availability bias, hindsight bias, illusion of control bias, optimism bias, familiarity bias, affect bias, herd behaviour and home bias all appeared to be evident in the investment behaviours of landlords. Drawing on the works of Pompian (2012) the online survey included a section to

[51] An indicative value calculated by multiplying the mean capital value of the most recent SPRS property owned by the number of SPRS landlords registered in Scotland (250,000)

more formally test the susceptibility of landlords to specific biases and heuristics, and although improvements are required for future iterations of the question set, it was confirmed that at least some landlords were susceptible. For example, the survey data revealed that almost a quarter of landlords (24%) believed that the global financial crisis was entirely predictable pointing to the existing of hindsight bias. Over 1 in 10 landlords (11%) agreed to some extent that they had invested in the SPRS partly because others were doing so (herd bias) and several landlords admitted their susceptibility to herd bias during interview. Nearly one third (32%) of landlords displayed overconfidence bias in the presumption that their skill as a landlord allowed them to achieve above average returns. In addition, sixteen percent of landlords showed evidence of susceptibility to endowment bias and 53% were susceptible to anchoring bias. Concerningly, 19% of landlords did not agree that they had thought carefully about the potential impact of biases when making the decision to buy or retain their most recent SPRS property, and 28% neither agreed nor disagreed. This is not surprising given that during interview, many landlords did not appear to have a strong grasp of the concept of biases and heuristics, which in itself is not unexpected given concerns surrounding the level of financial literacy possessed by landlords.

11.4.2 Implications

The literature review established that biases and heuristics are viewed by some as capable of generating optimal decisions (Thuraisingham & Lehmacher, 2013) and by others as inferior decision-making techniques (Albar & Jetter, 2009), which could lead to judgments that are not sufficiently reasoned or in the decision makers long-term best interests and may lead to sub-optimal investment decisions. Given that the SPRS investment decision is concerned with the long-term deployment of relatively large quantities of capital in conditions of risk and uncertainty, landlords should be aware of the limitations of relying upon biases and heuristics. Again, this will require educational intervention and the provision of support which enables more comprehensive decision-making practices.

11.5 RQ4- How can landlord typologies and landlord investment behaviours be improved for the betterment of the sector?

To answer RQ4, this section draws upon the finding's chapters to present a revised typology of landlords and a series of recommendations for both landlords and policymakers.

11.5.1 Improving Landlord Typologies

As noted earlier, existing landlord typologies based upon the landlord characteristics and motivations literature are of limited use and can be considered one-dimensional even in the context of the extant data. It is suspected that during their creation, authors were being parsimonious in their design whilst also recognising that '*analysis of landlord behaviour becomes more problematic as subgroupings multiply*' (Rugg & Rhodes, 2018, p. 30).

Whilst existing designs could be improved by discounting elements that have been found to have little or no bearing on landlord investment behaviours and adding those which do, it was more expedient to create a new typology. The most parsimonious typology would simply categorise landlords as either rational maximisers or bounded rational satisficers. However, to more fully reflect the key dimensions of this thesis, the typology in Table 11.1 has been created. It includes optimal investor, quasi-optimal investor, quasi sub-optimal investor and sub-optimal investor categories, which vary primarily in relation to the rationality of landlords, their desire to maximise or satisfice, their levels of adherence to the normative investment process and their susceptibility to biases and heuristics. It should be noted that the typology applies to all landlords regardless of whether their SPRS holding stems from a decision to acquire or a decision to retain an SPRS investment.

Table 11.1. A revised landlord typology

The optimal investor (OI) Rational financial maximisers with optimal landlord characteristics, optimal adherence to the normative investment process and low levels of susceptibility to biases and heuristics. OIs are few, purposeful, have high-levels of financial literacy and are willing to spend time and effort to maximise their investment returns.	*The quasi-optimal investor (QOI)* Rational financial maximiser intentions with varying landlord characteristics, who adhere to some elements of the normative investment process and have moderate susceptibility to biases and heuristics. QOIs have mixed levels of financial literacy and are willing to spend some time and effort on their SPRS investment activities but not enough to truly maximise their investment returns.
The quasi sub-optimal investor (QSOI) Likely to be bounded rational satisficers, may however seek maximisation in non-financial domains (hobbyism, altruism etc.), have varying landlord characteristics, low levels of adherence to the normative investment process and moderate susceptibility to biases and heuristics. QSOIs have mixed levels of financial literacy, are unwilling to expend significant time or effort on their SPRS investment in order to maximise returns.	*The sub-optimal investor (SOI)* Bounded rational satisficers, with varying landlord characteristics, sub-optimal adherence to the normative investment process and high-levels of susceptibility to biases and heuristics. SOIs tend to have low levels of financial literacy and are unwilling or unable to spend the time and effort required to maximise their investment returns.

When reviewed in tandem without the wider findings of this thesis, the typology offers academics and policy-makers a behaviourally grounded reference point for better understanding landlords.

11.5.2 Improving Landlord Investment Behaviours

This thesis has revealed a plethora of areas in which landlord investment behaviours can be improved. Key recommendations for landlords, which flow from these observations have been summarised in Table 11.2.

Table 11.2. Recommendations for landlords

Heading	Recommendation
Financial literacy	Consider improving levels of financial literacy in general and make specific efforts to more fully understand the normative investment process.
Financial resilience	Build financial resilience to cope with global and local economic shocks (particularly relevant for those who rely on the SPRS for daily consumption
Investment objectives & constraints	Set clear detailed objectives after careful consideration of investment constraints, do so retrospectively if required.
Asset allocation	Consider investments on a portfolio basis and seek to rebalance portfolios where positively skewed towards residential property holdings.
Asset selection	Adopt a standardised approach for property selection such as the one detailed in this thesis.
Asset selection	Ensure that interrelated asset selection factors such as return profile, location, and market served are considered holistically.
Asset selection	Forecast the expected return during property appraisal and a adopt a method that allows the value and timing of the capital outflows to be considered.
Investment management	Seek to improve risk and risk management knowledge both holistically and with regards SPRS investments.
Investment management	Review the risk mitigation strategies identified in this thesis (insurance, property inspection etc.,) and implement them where appropriate to do so.
Investment management	Budget appropriately for potential risk outcomes.
Investment management	Formalise a maintenance and lifecycle replacement plan and budget for it appropriately.
Investment management	Regularly check the Scottish Government website and other sources in order keep up to date with legislation.
Investment monitoring	Review investment performance at least annually or as dictated by economic events. Particular attention should be paid to the performance of alternative investments.
Divestment	Create a clear divestment plan aligned to investment objectives and which takes account of tax measures and where possible business and property market cycles.
Biases and heuristics	At every stage of the investment process, seek to understand/audit investment bias, identifying how it effects investment decisions and adjust decision-making strategies to account for these biases where necessary.

It has not only been demonstrated that landlord investment behaviours have a clear role in shaping the SPRS, but that these behaviours are often sub-optimal to the detriment of landlords and tenants alike. There is therefore a clear requirement for policymakers to move beyond existing practices and engage with landlords at the behavioural level. Key recommendations for policy-makers can be found in Table 11.3.

Table 11.3. Recommendations for policy-makers

Heading	Recommendation
Landlord typology	Trial and adopt the revised landlord typology to assist with policy creation.
Professionalising behaviours	Define the professional behaviours expected of landlords and bake these into policy interventions.
Landlord engagement	Create a landlord panel to mirror the proposed tenant panel (Scottish Government, 2021a) in order to ensure greater engagement with landlords.
Financial literacy	Introduce online resources including training materials to support the improvement of landlord financial literacy levels[52].
Financial resilience	Set minimum landlord financial resilience levels to respond to the risk outcomes identified by this thesis.
Financial resilience	Consider establishing a mandatory landlord insurance or deposit scheme (particularly for those receiving rent in the form of housing allowance) in which funds are held/invested in order to protect against property and compliance risks and landlord financial failure.
Financial resilience	Consider establishing a government backed sinking fund to support the ongoing requirement for SPRS capital/lifecycle works.
Stability of investment patterns	Monitor the stability of investment patterns within the sector by requiring annual confirmation of landlord activity via the landlord registration scheme.
Housing lifecycle knowledge	Introduce online resources to help landlords plan and account for lifecycle works. Data should include the life expectancy of key housing elements such as roofs and windows, kitchens and bathrooms, as well as decor, carpets, and appliances.
Lifecycle works	Consideration to be given to offering low interest loans for the completion of capital/lifecycle works.
Profit levels	Policy-makers should consider setting local housing allowance levels in relation to the risk-return characteristics of SPRS investments.

Despite landlord tenant power imbalances, it is believed that tenants can also have a positive impact on the investment behaviours of landlords by auditing the condition of potential rental properties and asking specific questions of landlords prior to agreeing a tenancy. For example, tenants could ask when worn carpets will be replaced, how often decoration will be refreshed and when kitchen or bathroom refurbishments will be undertaken. Questions around response times for repairs may also be beneficial.

[52] It is accepted that some landlords may be reluctant to embark on such training. It may therefore be worthwhile incorporating some of these aspects into the landlord registration process.

12 CHAPTER 12- CONCLUSIONS

12.1 Meeting the Research Aims and Objectives

This thesis is the first major piece of research into landlord investment behaviours. Its overall aims- to develop a theoretical framework and conceptual framework suitable for the study of landlord investment behaviour and to apply it, via a synthesised normative investment process, to the SPRS in order to better understand investment practices, has been met. Furthermore, by robustly answering the research questions, the project's specific objectives have also been achieved.

The overriding conclusion of this research is that SPRS landlords are not 'canny investors' in that their investment behaviours do not typically demonstrate the financial shrewdness and good judgement that the term implies. Instead, landlords demonstrate a fairly unsophisticated and laissez-faire approach to their investment behaviour which is characterised by bounded rational satisficing as opposed to rational maximisation. As a direct result, investment assets worth in excess of £30bn[53] are not being effectively manged with clear implications for the Scottish economy, the housing sector, the welfare plans of landlords and the lived experience of tenants.

12.2 Contribution to Knowledge

This thesis has identified and addressed substantial deficits in the extant literature pertaining to landlord investment behaviours. It has done so by refreshing aged data and by creating new insights via the generation of novel quantitative and qualitative primary data. The former has been achieved by building upon the studies of Kemp and Rhodes (1997)

[53] An indicative value calculated by multiplying the mean capital value of the most recent SPRS property owned by the number of SPRS landlords registered in Scotland (250,000)

and Crook et al. (2009). The latter has been achieved by channelling Kemeny (1992) and drawing upon key theories, debates, frameworks and models from economics to develop a synthesised theoretical framework and conceptual framework suitable for the study of landlord investment behaviour. This framework was then deployed within the SPRS investment setting via a synthesised normative investment process in order to identity the investment behaviours and practices of SPRS landlords.

Specific research outputs include the creation of this framework, the definition of investment in the context of the SPRS, the identification of biases and heuristics that are likely to impact upon SPRS investors, the introduction of a conceptual framework which amalgamates extant knowledge with new insights from the primary research, the creation of a new typology of landlords that will be of use to researchers embarking on further research, the generation of a list of the SPRS professionals involved in the SPRS investment process and a process detailing the landlord asset selection process.

In addition to providing a test of landlord's behaviours against the normative investment process, the thesis can also be viewed as a major test of normative theory. As presaged by the literature, the theory has been found to be wanting as evidenced by the high number of deviations observed. Similarly, the findings provide some credence to the power of descriptive theories of investment behaviours and in particular the critical role of biases and heuristics in investment decision-making.

12.3 Contribution to Policy and Practice

The insights provided by this research will be of interest to policymakers whose current knowledge of landlords is based upon a limited one-dimensional understanding of landlord characteristics and motivations. In particular, the creation of a new landlord typology will allow policymakers to more carefully consider the heterogeneity of landlords when designing policy interventions and to undertake more realistic impact assessments, which minimise unintended outcomes. Importantly and as noted earlier, the findings highlight the need for policies to support landlords, particularly in relation to levels of investment literacy, but they also offer the opportunity for policymakers to create new minimum standards and barriers to entry. Interestingly, the observation that landlords are heavily subject to biases and heuristics afford policy-makers with the opportunity to explore the introduction of behavioural ‘nudges’ within policy designs.

The findings also offer a wealth of insights for advocacy groups working within the SPRS and create an opportunity for these groups to reflect on the ramifications of this research for their policy work. For landlords, the findings offer a real opportunity to improve their investment behaviours and investment outcomes via the recommendations noted in the previous chapter.

The opportunity to improve policy design and landlord behaviours presents a tangible pathway for stabilising investment patterns within the SPRS and improving conditions for tenants.

12.4 Research Limitations and Areas for Further Research

As a first foray into the investigation of landlord investment behaviours, this thesis covers a lot of ground and is subject to a number of limitations. These have been discussed throughout this thesis and are now summarised. With regards to the online survey, a primary limitation centred on the potential for sample bias through self-selection (i.e., volunteering to take the survey). The reliance on tenancy protection providers to generate the sample also resulted in the exclusion of landlords who do not lodge their tenants’ deposits (believed to be the minority) meaning that the resulting sample may be biased towards more law-abiding landlords. Self-selection also resulted in a geographical bias although this was corrected via weighting.

Despite these limitations, analysis of the resultant sample demonstrated that it consisted of landlords with broadly similar characteristics in broadly similar quantities to those obtained via differing recruitment methods in other Scottish studies. It should be recognised however, that the Scottish Government report that 94% of all registered landlords own just one property (Scottish Parliamentary Corporate Body, 2020a). It is possible that the present study (and others like it) over-represents landlords with slightly more properties on average because their larger stake means they are more motivated to respond. Given this discrepancy, there is a clear requirement to identify which parts of the landlord population may be under-represented in current surveys. This could be achieved by using the landlord registration database as a platform for future research.

Although the data produced is uniquely Scottish, shared histories, housing contexts and landlord characteristics strongly suggest that the findings will have resonance in other parts of the UK and indeed in other geographies accustomed to neo-liberal housing policies where the PRS is dominated by individual small-portfolio landlords. Care should be taken however and it would be preferable to repeat the survey in other geographies to allow for a meaningful comparison.

A further specific limitation is the design of the questionnaire section on biases and heuristics, which represents a first attempt at studying this phenomenon in the context of landlords. Further work is required to improve upon the survey instrument. There are of course other areas that would benefit from improvement in subsequent iterations. For example, it would be useful to gain a more detailed understanding of landlord investment portfolios and in particular the percentage of their wealth allocated to each asset. It would also be valuable to understand more about divestment planning from the perspective of ex-landlords to understand more about the decisions of that group.

Finally, the findings suggest the need for further research in a number of areas. For example, work is required to identify how the knowledge obtained can be used to ‘nudge’ the investment behaviour of landlords for the benefit of the sector. It would also be helpful to continue to explore links between PRS research and economic theory, and in particular to review cutting-edge developments in decision theory such as those offered by neuroeconomics (Patel & Chakraborty, 2021). However, there is a more immediate need to understand how the characteristics, motivations and investment behaviours of landlords impact upon the returns they obtain. This would ultimately allow the conceptual framework to be updated to focus upon financial outcomes.

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14 APPENDICES

14.1 Appendix 1- Online Survey Questionnaire

University of Glasgow

Welcome & Research Overview

Welcome,

Thank you for taking part in our exciting research study. The main objective of the research is to understand landlord financial decision making and risk management practices, and to identify how these affect PRS outcomes. This information will then be used to create best practice guidance to support landlords.

The survey is for individuals, couples, families, companies, organisations and other entities who own one or more residential properties in Scotland's PRS, regardless of whether the property is viewed as a investment or whether rent is charged.

The survey is user friendly, however, some of the questions use technical language and you will be asked to provide some basic financial information about your PRS property. If you are unsure of an answer, it is important that you select 'unsure', 'don't know' etc., where you have the option. This will allow us to publish relevant guidance.

There are just over 40 questions and the survey should take around 20 minutes to complete. Your participation is completely anonymous, which you can find out more about here and here. If required, you can save your progress in order to have a break, and return to the survey later. On completion of the survey, you will be given the opportunity to register for a prize draw for **£200 of B&Q vouchers**. Please complete the survey and hit the 'Finish' button on the final page by the 17th of August 2020.

I am a PRS landlord myself and appreciate that your time is valuable. I'd therefore like to thank you in advance for joining other landlords across Scotland in taking the time to complete this survey.

Yours sincerely

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1. I/we or the company/organisation I/we work for, own at least one PRS property in Scotland. Having read and understood the above, I/we consent to taking part in this survey.

- Yes.
- No.

Landlord Characteristics & Motivations

About You As a Landlord

2. As a private landlord, are you a...

- ◌ Private Individual.
- ◌ Couple / Family (i.e. unincorporated).
- ◌ Private Limited Company (Ltd).
- ◌ Special Purpose Vehicle Limited Company (SPV).
- ◌ Public Limited Company (plc).
- ◌ Partnership (legal entity).
- ◌ Property Trust.
- ◌ Charity or charitable trust.
- ◌ University.
- ◌ Other.

2.a. If you selected Other, please specify:

Answering as a Company or Organisation

For ease, the questionnaire is written from the perspective of an individual landlord. As you are answering on behalf of a company or organisation, you should (where relevant) re-interpret terms accordingly. For example, **'I'** becomes **'my company or organisation'** and '**your**' becomes '**your company or organisation**'. Thank you.

About You

3. What age group do you belong to?

- Under 25.
- 25 to 34.
- 35 to 44.
- 45 to 54.
- 55 to 64.
- 65+.

4. What is your ethnicity?

- White Scottish.
- White other British.
- White Irish.
- Other white.
- Mixed ethnic.
- Asian or Asian Scottish or other Asian British.
- Black or Black Scottish or Black British.
- Chinese or Scottish Chinese or British Chinese.
- Other ethnic group.

5. What is your relationship status?

- Single.
- Married.
- Civil partnership.
- Divorced.
- Widowed.
- Co-habiting.
- Other.

6. What sex are you?

- Male.
- Female.
- Prefer not to say.

7. What is your employment status? (please select one)

- Employed full-time.
- Employed part-time.
- Self-employed full-time.
- Self-employed part-time.
- Company Director.
- Retired.
- Student (full or part-time).
- Carer (full or part-time).
- Homemaker.
- Unemployed.
- Other.

8. What is your highest level of qualification?

- Standard Grades, Highers or equivalent.
- SVQ or Equivalent.
- HNC, HND, Foundation Degree or equivalent.
- Undergraduate Degree.
- PgC, PgD or Masters Degree.
- Doctoral Degree.
- None of the above.
- Other.

8.a. If you selected Other, please specify:

9. What is your approximate gross household income (i.e. the combined income of all earners in your household from all sources, including wages, salaries, or rents and before tax deductions)?

- Under £5,000 per year.
- £5,000 to £9,999 per year.
- £10,000 to £14,999 per year.

- £15,000 to £19,999 per year.
- £20,000 to £24,999 per year.
- £25,000 to £29,999 per year.
- £30,000 to £34,999 per year.
- £35,000 to £39,999 per year.
- £40,000 to £44,999 per year.
- £45,000 to £49,999 per year.
- £50,000 to £59,999 per year.
- £60,000 to £69,999 per year.
- £70,000 to £99,999 per year.
- £100,000 to £149,999 per year.
- £150,000 and over.
- Don't know.
- Prefer not to say.

About You As a Landlord

10. In total, how many PRS properties (excluding holiday lets) do you own in Scotland? (Please enter a whole number without commas)

11. In what year did you first become a PRS landlord?

12. Would you describe yourself as a part-time or full-time landlord?

- Full-time landlord (i.e. a full-time job, or a company/organisation whose main business is letting residential property).
- Part-time landlord (i.e. not a full-time job, or not a company/organisation whose main business is letting residential property).

13. Approximately what proportion of your gross income (or your company's / your organisation's total income from all its activities) comes from letting or managing PRS property?

- None.
- Up to 24%.
- 25-49%.
- 50-74%.
- 75% or more.
- Don't know.
- Prefer not to say.

About Your Most Recent PRS Property

14. What is your main reason for deciding to buy or retain your most recent PRS property?

- As an investment to provide rental income.
- As an investment to provide capital growth (house price increase).
- As an investment to provide rental income and capital growth.
- To provide a future home for myself / my family.
- To provide a current or future home for a relative.
- A property I'd like to sell, but can't.
- To house an employee.
- To house someone in need.
- It's incidental to another activity.
- As a safety net whilst cohabiting with a partner.
- To cover costs during a temporary relocation.
- I have sentimental attachment to the property and don't want to sell it.
- Don't know.
- Other.

14.a. If you selected Other, please specify:

15. Which statement best describes how you obtained this property?

- Bought it with cash.
- Bought it with a loan / mortgage.
- Inherited it.
- Received it as a gift.
- Rent it from another landlord.
- Acquired it as part of another transaction.
- Built it.

- Acquired it some other way.

15.a. If you selected 'Acquired it some other way', please specify:

16. In what year did you first start letting this property?

17. In which Scottish council area is the property located?

Aberdeen City.	Aberdeenshire.	Angus.
Argyll and Bute.	City of Edinburgh.	Clackmannanshire.
Na h-Eileanan Siar.	Dumfries and Galloway.	Dundee City.
East Ayrshire.	East Dunbartonshire.	East Lothian.
East Renfrewshire.	Falkirk.	Fife.
Glasgow City.	Inverclyde.	Midlothian.
North Ayrshire.	North Lanarkshire.	Orkney Islands.
Perth and Kinross.	Renfrewshire.	Scottish Borders.
Shetland Islands.	South Ayrshire.	South Lanarkshire.
Stirling.	Highland.	Moray.
West Dunbartonshire.	West Lothian.	Prefer not to say.

18. In which Scottish council area do you live?

Aberdeen City.	Aberdeenshire.	Angus.
Argyll and Bute.	City of Edinburgh.	Clackmannanshire.

- Na h-Eileanan Siar.
- Dumfries and Galloway.
- Dundee City.
- East Ayrshire.
- East Dunbartonshire.
- East Lothian.
- East Renfrewshire.
- Falkirk.
- Fife.
- Glasgow City.
- Inverclyde.
- Midlothian.
- North Ayrshire.
- North Lanarkshire.
- Orkney Islands.
- Perth and Kinross.
- Renfrewshire.
- Scottish Borders.
- Shetland Islands.
- South Ayrshire.
- South Lanarkshire.
- Stirling.
- Highland.
- Moray.
- West Dunbartonshire
- West Lothian.
- I do not live in Scotland.
- Prefer not to say.

19. Please estimate the following values for the property: (Please enter a whole number without a pound sign e.g. 50000. If you don't know or prefer not to say, please select 'Next'.)

	Value (whole number).
The value of the property when you first rented it (£).	
The current value of the property (£).	
The monthly rent you currently charge (£).	
The maximum monthly rent you could charge if re-letting the property today (£).	

20. If your PRS rental income produces a surplus/profit after costs, what do you primarily use this income for?

- To support your day to day cost of living.
- To further pay down the property's mortgage/loan.
- To pay a regular bill (e.g. school fees, car loan).
- To pay for holidays and luxuries.
- To save for a specific objective (e.g. a wedding, a child's education etc.).
- To save for a deposit(s) to buy more property.

- To re-invest in another type of investment.
- I do not make a surplus/profit.
- Not applicable.
- Other.

20.a. If you selected Other, please specify:

About Your Mortgage / Loan

21. To what extent do you agree with each of the following statements about your loan/mortgage?

	Strongly agree.	Agree.	Neither agree nor disagree.	Disagree.	Strongly disagree.
I fully understand the recent changes made to mortgage interest rate relief.	☐	☐	☐	☐	☐
I have always been able to pay the loan/mortgage from the property's rental income.	☐	☐	☐	☐	☐
I was able to obtain a loan/mortgage/re-mortgage for my PRS property with relative ease.	☐	☐	☐	☐	☐

About Sources of Information

22. Which of the following sources have you used to obtain advice and guidance to support your PRS decisions? (Please select all that apply)

- ☐ Friends, family or colleagues.
- ☐ A solicitor or lawyer.
- ☐ An accountant or financial adviser.
- ☐ A bank or building society.
- ☐ Local Council or Scottish Government.
- ☐ Estate and letting agents.
- ☐ A surveyor, builder or architect.
- ☐ Property or investment seminars.
- ☐ Property or investment books.
- ☐ Advocacy groups (Shelter, SAL).
- ☐ Tenancy deposit scheme providers.
- ☐ None of the above.
- ☐ Other.

22.a. If you selected Other, please specify:

About Your Objectives & Risk Perception

You're halfway through! Thanks for your continued effort.

23. Which statements below, best describe your financial objectives for the most recent PRS property you obtained?

- I have set detailed financial objectives. (For example: to earn 6% net income return per year over 15 years and capital growth of 2% per annum).
- I have set specific, but non-detailed financial objectives. (For example: to supplement my/our private pension(s) in retirement).
- I have set general financial objectives (For example: to save for the future).
- I have not set financial objectives.
- I do not seek a financial return.
- Don't know.

24. Including the time you have already owned it; how long do you intend to keep the PRS property you most recently obtained?

Less than 1 year.	Between 1 and 3 years.	Between 4 and 6 years.
Between 7 and 9 years.	Between 10 and 15 years.	Between 16 and 20 years.
21 years and over.	Indefinitely.	Don't know.

25. When making the decision to buy or retain your most recent PRS property, what net yield did you forecast the property would achieve?

More info

0% (or less).	1%.	2%.
3%.	4%.	5%.

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- 6%.
- 7%.
- 8%.
- 9%.
- 10%.
- 11%.
- 12%.
- 13%.
- 14%.
- 15%.
- Over 15%.
- I did not forecast the net yield.
- Don't know.

26. When making the decision to buy or retain your most recent PRS property, what percentage did you forecast the property's value would grow by each year?

More info

- 0% or less.
- 1%
- 2%.
- 3%.
- 4%.
- 5%.
- 6%.
- 7%.
- 8%.
- 9%.
- 10%.
- 11%.
- 12%.
- 13%.
- 14%.
- 15%.
- Over 15%.
- I didn't forecast growth in the property's value.
- Don't know.

27. How do you rate your willingness to take financial risks?

- Extremely low risk taker.
- Very low risk taker.
- Low risk taker.
- Average risk taker.
- High risk taker.
- Very high risk taker.
- Extremely high risk taker

28. In your view, how risky are each of the following investments?

	Low risk.	Medium risk.	High risk.	Don't know.
PRS property.	☐	☐	☐	☐
Government bonds.	☐	☐	☐	☐
Commercial property.	☐	☐	☐	☐
Stocks and shares.	☐	☐	☐	☐

About Choosing the PRS

29. To what extent do you agree with the following statements?

	Strongly Agree.	Agree.	Neither Agree or Disagree.	Disagree.	Strongly Disagree.	Don't know.
I considered the pros and cons of other investments before deciding to buy or retain my most recent PRS property.	☐	☐	☐	☐	☐	☐
I prefer investing in property due to previous bad experiences with alternative investment types.	☐	☐	☐	☐	☐	☐
I prefer bricks and mortar investments to investments such as shares and bonds.	☐	☐	☐	☐	☐	☐

About Your Investment Portfolio

30. Diversification can be described as "*not putting all of your eggs into one basket*". To what extent do you agree with each of the following statements?

	Strongly agree.	Agree.	Neither agree or disagree.	Disagree.	Strongly disagree.	Don't know.
I would describe myself as owning an investment portfolio.	☐	☐	☐	☐	☐	☐
I obtained PRS property to diversify my existing investments.	☐	☐	☐	☐	☐	☐
I considered how obtaining a PRS property would complement my existing investments.	☐	☐	☐	☐	☐	☐
When buying multiple PRS properties, it is important to select properties in different geographical locations and different markets to diversify risk.	☐	☐	☐	☐	☐	☐

31. Which of the following investments do you own? (Please select all that apply)

- ☐ Bonds.
- ☐ Mutual funds.
- ☐ Private pension.
- ☐ Stocks and shares.
- ☐ Commodities (gold, silver etc.).

- Commercial Property.
- Real Estate Investment Trusts (REITs).
- Stocks and shares ISA.
- Cash ISA.
- Your own home (including if with a mortgage).
- None of the above.
- Other.

About Property Selection

32. Imagine that while searching Rightmove for a new PRS property, you identified 12 flats in your preferred location and price range. Which of the following statements most closely describe how you would go about selecting which property to buy?

- ○ I would analyse the properties one at time and end my search when I identified one that met my minimum requirements.
- ○ I would further shortlist three or four of the properties and analyse those to identify the best property from the shortlist.
- ○ I would analyse all 12 of the properties to identify the best property out of them all.

33. Which of the following calculations/methods did you use (if any) to forecast the expected return for the most recent PRS property you obtained? (Please select all that apply)

☐ The gross yield.	☐ The net yield.	☐ The return on investment (ROI).
☐ The net present value (NPV).	☐ The internal rate of return (IRR).	☐ The expected return via the Capital Asset Pricing Model (CAPM).
☐ I did not calculate the expected return.	☐ Don't know.	☐ Other.

33.a. If you selected Other, please specify:

34. The table below presents some of the PRS risks that can negatively impact your rental income or the value of your property. For each one, please identify (a) if you understand how it can affect you, and (b) if you considered the risk before deciding to buy or retain your most recent PRS property?

	(a) I understand this risk.	(b) I considered this risk.

	Yes.	No.	Unsure.	Yes.	No.
Default & arrears risk.	○	○	○	○	○
Void risk.	○	○	○	○	○
Damage risk.	○	○	○	○	○
Capital risk.	○	○	○	○	○
Market risk.	○	○	○	○	○
Political risk.	○	○	○	○	○
Location risk.	○	○	○	○	○
Regulation & compliance risk.	○	○	○	○	○
Property Risk.	○	○	○	○	○

35. Which of the following methods (if any) did you use to account for risk when deciding to buy or retain your most recent PRS property? (Please select all that apply)

- ☐ I did not account for risk.
- ☐ I made allowances in my forecast/budget (i.e. lowered predicted income and/or increased predicted costs).
- ☐ I added a contingency fund to my forecast/budget.
- ☐ I discounted expected cash flows at a rate which reflects the risk.
- ☐ I used the Value at Risk (VAR) method.
- ☐ I used the scenario analysis method.
- ☐ Other.

35.a. If you selected Other, please specify:

36. For the 12 months prior to the COVID-19 lockdown, please estimate the financial cost of

the following risks for the property you most recently obtained. (Please enter a whole number without a pound sign e.g. 0 or 350. If you don't know or prefer not to say, please select 'Next'.)

	Cost (whole number).
Lost rent due to void periods (£).	
Lost rent due to tenant default and arrears (£).	
Costs incurred due to property risk (e.g. roof leaks, heating system breakdown etc.) (£).	

About Your Actual Returns

Thank you for your attention so far. Only 7 questions to go!

37. For the 12 months prior to the COVID-19 lockdown, please estimate the actual net yield achieved by your most recently obtained property.

More info

- Less than 0% (i.e. negative).
- 0%.
- 1%.
- 2%.
- 3%.
- 4%.
- 5%.
- 6%.
- 7%.
- 8%.
- 9%.
- 10%.
- 11%.
- 12% or more.
- Don't know.
- Prefer not to say.

Questions About Risk Management

38. Have you ever used any of these tools to help you with PRS decision making or risk management? (Please select all that apply)

- [ ] Pros and cons list.
- [ ] PESTEL analysis (Political, Economic, Social, Technological, Environmental and Legal).
- [ ] SWOT analysis (Strengths, Weaknesses, Opportunities and Threats).
- [ ] Decision matrix.
- [ ] Decision trees.
- [ ] Risk reward analysis.
- [ ] Expected monetary value analysis
- [ ] Sensitivity analysis.
- [ ] RAG reporting (red, amber, green).
- [ ] Risk assessment.
- [ ] Risk register.
- [ ] None of these.
- [ ] Other.

38.a. If you selected Other, please specify:

39. Which of the following risk management measures have you adopted? (Please select all that apply)

- [ ] Use a letting agent to source tenants.
- [ ] Use a letting agent to manage the property.
- [ ] Avoid certain tenant types.
- [ ] Reference tenants.
- [ ] Require the appointment of a guarantor.

- ☐ Increase rent every 12 months.
- ☐ Obtain buildings insurance.
- ☐ Obtain rent guarantee insurance.
- ☐ Create a budget to help manage and monitor returns and/or costs.
- ☐ Budget for the impact of risks (e.g. void risk).
- ☐ Carry out regular property inspections.
- ☐ Have maintenance contracts in place .
- ☐ Have a replacement plan for windows, roofs etc.
- ☐ Chosen a PRS property close to your home or work.
- ☐ Chosen PRS properties in various locations and markets.
- ☐ Keep up to date with changes in legislation.
- ☐ Keep up to date with changes in the housing & letting markets.
- ☐ Obtain a property survey.
- ☐ None of these.
- ☐ Other.

39.a. If you selected Other, please specify:

Questions About Performance Management

40. Which of the following do you compare the financial performance of your PRS property against? (Please select all that apply)

- ☐ Your objectives.
- ☐ Your budget.
- ☐ Your forecast yields and returns.
- ☐ The performance of other PRS properties you own.
- ☐ The performance of the PRS properties of friends, family or colleagues.
- ☐ Yield data from estate and lettings agents.
- ☐ Statistics published by industry organisations (e.g. ARLA, Paragon etc.).
- ☐ Statistics from alternative investment types.
- ☐ I do not compare financial performance.
- ☐ Other.

40.a. If you selected Other, please specify:

41. On average, how often do you compare the financial performance of your PRS property?

- ○ Weekly.
- ○ Monthly.
- ○ Quarterly.
- ○ 6 monthly.
- ○ Annually.
- ○ Never.
- ○ Other.

41.a. If you selected Other, please specify:

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About Divestment

42. What will you do with the funds released when you sell your PRS property? (Please select all that apply)

- ☐ I do not intend to sell the property.
- ☐ Reinvest the funds in a pension product.
- ☐ Pay down other PRS property mortgages / loans.
- ☐ Pay down the mortgage for my home.
- ☐ Purchase a property for my family or relatives to live in.
- ☐ Fulfil a specific objective (e.g. a wedding, house improvements, holiday home etc.).
- ☐ Reinvest the funds in PRS property.
- ☐ Reinvest the funds in an alternative investment type (e.g. stock and shares).
- ☐ Gift the funds.
- ☐ Don't know.
- ☐ Other.

42.a. If you selected Other, please specify:

Final Question- About Personal Biases

43. To what extent do you agree with the following statements?

	Strongly agree.	Agree.	Neither agree or disagree.	Disagree.	Strongly disagree.
I am aware that we all have personal biases which can impact our investment decisions.	☐	☐	☐	☐	☐
I thought carefully about the potential impact of my personal biases when making the decision to buy or retain my most recent PRS property.	☐	☐	☐	☐	☐
The collapse of the housing bubble in 2008-2009 was easily predictable.	☐	☐	☐	☐	☐
I was attracted to the PRS in part because 'everyone else was doing it'.	☐	☐	☐	☐	☐
I believe that my skills as a landlord allow me to achieve above average returns.	☐	☐	☐	☐	☐

I would find it difficult to sell a PRS property that I had inherited from a loved one, even if it was performing poorly.	☐	☐	☐	☐	☐
If the agent who valued a property I was selling, called to say the market had dropped by 15% due to the town's main employer going bankrupt, I would immediately reduce my asking price by 15%.	☐	☐	☐	☐	☐

Prize Draw & Further Support

44. Before selecting 'Finish', please indicate if you would like to take part in the prize draw or in a short interview to further discuss your PRS activities. Please remember to provide your email address if appropriate.

	Would you like to take part?	Email address (if you have selected yes).
Take part in the prize draw.	Please select	
Take part in an interview.	Please select	

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Thank you

Thank you very much for completing this survey. Your help has been invaluable. If you would like to keep in touch with how the research is progressing, please check out:

https://www.assafeashouses.org/

Key for selection options

44.1.a - Would you like to take part?

Yes.

No.

44.2.a - Would you like to take part?

Yes.

No.

14.2 Appendix 2- Semi-structured Interview Template

Semi-structured Interview Template Sample

Pre-amble

Can you confirm that you read and understood the consent form and the invitation to participate, and that you are and are happy to proceed with the interview? Can I also ask if you are happy to happy to be asked questions based upon your survey responses?

I'd note that there are no right or wrong answers and you don't have to answer every question. If you feel a question is not relevant or you are unsure, we can move on. You also have the right to withdraw at any time.

Are you happy to get started?

1. About You
    a. Can you tell me a bit about yourself, your housing journey and how you became involved in the PRS?
2. About the normative Framework
    a. You noted that you **did not** consider the pros and cons of other investments before deciding to acquire your most recent property. Why was this? What other investments did you consider, to what level of detail, and why didn't you select them in the end?
    b. You identified as **not** owning an investment portfolio, though you later noted that you hold shares and other types of investment? What are there any barriers that prevent you from viewing your holdings as an investment portfolio?
    c. You noted that you **did not** obtain the property to diversify your existing investments and that you **did not** consider how buying a PRS property would complement/diversify your existing investments. Are you concerned that a lack of diversification could result in increased levels of risk?
    d. Do you have any plans to diversify your investments in the future?
    e. Do you have any concerns about holding a high percentage of your wealth in residential property?
    f. You said it **was** important to diversify between different geographical areas and tenant types? Why is that?
    g. You noted that you **agreed** when asked if you prefer bricks and mortar investments. Why do you have this preference? Can you tell me about positive and negative investment experiences you have had? What other factors drive this preference?
    h. Do you intend to buy more PRS properties?
    i. Can you tell me a bit more about your objectives for your PRS property...
        i. I note that your main reason for investing in the PRS is to provide a **rental income**. What is your view on capital growth?
        ii. I note that you **did not** set formal financial objectives. Why is this? Are there any barriers to you setting these?
        iii. How did you go about deciding to acquire your most recent PRS property?
    j. When deciding to **acquire** your most recent PRS property, you **did not** forecast the net yield or capital growth level. Why is that? How did you go about deciding whether the property was a good investment?
    k. You noted that you **did not** calculate the expected return. Why not?
    l. You said that you used the **return on investment (ROI)** to calculate returns. What was attractive about this method? Have you considered using any other methods?

m. You note that you **do not** compare the financial performance of your PRS with PRS data or other investments. Why not? How do you ensure that your PRS properties provide the optimum return?
n. You note that you intend to keep the property for **between 10 and 15 years** and thereafter **gift the funds**. When will you start to plan for this in more detail?
o. You self-identify as a **low-risk taker**. What in your eyes makes the PRS **low risk**.
p. I was interested that you view the PRS as low risk but commercial property as high, why do you think that commercial property is such a high risk comparatively?

3. About Management
    a. Day to day, what does management the property look like to you?
    b. Have the challenges you face grown as your portfolio has or has it become easier with economies of scale?
    c. How do you track payments, mortgage details etc?
    d. Why do you **use** letting agents for tenant find, but **not** management?
    e. Do you think it is important to identify if your customers/tenants are happy? How do you go about this?
    f. I notice that you use a **pros and cons list** to help with your management and risk management decision decisions. Can you tell me more about that process?
4. About Risk
    a. Do you feel that overall, you have a good understanding of the key risks you face by investing in the PRS?
    b. How do you go about identifying risks, their importance and deciding what to do about them?
    c. I note that there were some risks that you understood, but then **did not** consider as part of your decision-making process. For example, **capital risk**. Can you tell me why?
    d. What do you think are the biggest risks you face as a landlord?
    e. I note that you **did not** account for risk. Why not? How do you intend to cover risk borne costs such as emergency repairs?
    f. You incurred risk-based costs due to **tenant default and arears** and also **property risk**. Can you tell me a bit more about these?
    g. Do you ever think about the business or property cycle when it comes to buying or selling property?
5. About Risk Mitigation
    a. I note that you **did not** generally use business or risk management tools to assist with decision making and risk management. Why is this?
    b. I note that you do not live in Scotland. Does your geographical remoteness present any challenges?
    c. From a list of risk mitigation measures, you selected a number of measures such as **buildings insurance** and **maintenance contracts**. What other measures have you used? What measures have been the most effective for you?
    d. I see that you **don't** have a specific plan for the replacement of roofs windows etc. How do you plan to deal with these requirements?
6. About Behaviours
    a. You **agreed** with the statement "...I am aware that we all have personal biases which can impact out investment decisions" but you selected that you **did not** think about these when deciding to retain the property. Why not?

b. You **agreed** that your skills as a landlord allow you make above average returns. Can you tell me more about these skills and why you think they are important?
c. Do you seek to maximise returns by always seeking market rent and the cheapest costs? If not why not?
d. What do you think makes a good landlord?
e. What makes a good investment property?

7. About returns
    a. You estimated an actual net yield of around 4% for the 12 months prior to covid. Would you say that your PRS investment is working out as you thought it would? Are you happy with this return?
    b. If you found your property was underperforming or that alternative investment offered a much better return? What would you do?
8. Misc.
    a. If you were to look for another property, how would you go about it?
    b. If you could start over? Is there anything you would do differently?
    c. What are the three most important factors in selecting an investment property?
    d. Do you have any hacks or advice that have helped you that might help other landlords?