

SH 39

Ymgynghoriad ar ail gartrefi  
Consultation on second homes  
Ymateb gan: Generation Rent  
Response from: Generation Rent

## **Generation Rent**

### **Submission to the Local Government and Housing Committee**

#### **Inquiry into Second Homes**

##### **Introduction**

Generation Rent welcomes the invitation to respond to this inquiry. We represent the 5 million private renter households in the UK, including the 200,000 such households in Wales, and campaign for safe, secure and affordable homes in the private rented sector.

While we note the focus of the inquiry is on second homes, we are particularly interested in the related area of holiday lets and how both types of property use are making it harder for people to find a home they can live in.

We will set out our thoughts on the policy objectives in this regard, share the evidence we have collated through our work and then evaluate the policies under consideration by the Welsh Government.

##### **Policy objectives**

For Generation Rent, homes must be affordable, which we consider to involve a person spending no more than 30% of their income on rent for a home that is decent, suitable, and in a place they want to live.

If there are fewer homes available to live in, then more people will pay unaffordable rents or face living in non-decent, unsuitable homes, or in places they don't want to live. The Welsh Government's policy objective should therefore be to increase the number of homes available to live in. One way to assess this is using the rent to income ratio.

We acknowledge the desire to support the Welsh language, but this is not in our organisation's field of expertise so we will not comment on it.

In many parts of Great Britain, including parts of Wales, the number of homes available to live in has fallen as a result of increasing numbers of people buying second homes or homes to let to tourists. There are two reasons for this: increased wealth and incentives created by policy.

First, many people have got richer in recent years and have used their wealth to buy a second home, or to take more holidays, which creates demand for self-catering accommodation. That being the case, some of the trend in holiday accommodation is bound up in wider questions of economic distribution. There are two options to address this driver: to build more homes to meet that demand or reduce that demand by redistributing wealth.

Second, some policies make it more attractive for people who want to buy a second home or let to tourists to do so, so we are seeing more such activity than we would expect otherwise. These policies include the lack of regulation of holiday lets, the ability of landlords to deduct mortgage interest payments from their income tax liability for furnished holiday lets but not residential tenancies, and the favourable tax treatment of property ownership.

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In our view landlords of holiday lets are more likely to make their homes available to live in as a result of changes to these policies than second home owners, on the basis that the former are more sensitive to economic incentives as they are currently running a business. Some second home owners may be encouraged to make their properties available to live in, but what may be more important is to build new homes that are unavailable to second home buyers, to prevent further rises in their numbers, particularly if those homes are available on below market prices or rents. This provision of new homes could be funded, at least in part, by second home owners.

In setting policy, the Welsh Government should consider holiday lets side by side with second homes.

### **Evidence base for holiday lets**

#### ***Number of holiday lets***

HM Revenue and Customs holds the number of individuals declaring rental income and categorises them as people with furnished holiday lets (FHLs) and people without FHLs. The most recent data, broken down by local authority, was published in response to a parliamentary question. This is where the landlords reside, not necessarily where their properties are located. The numbers also do not include landlords that are limited companies, though it may be possible to identify these through Companies House, for England and Wales.

In Wales, there are 112,600 individuals declaring property income, including 8,750 individuals declaring income from FHLs. This is 1% of the total, but more than half of the latter are in six councils where more than 10% of the landlords have FHLs: on this measure Gwynedd is most dominated by holiday lets, with 21% of landlords declaring such income – second in Great Britain only to Highland. The others are Pembrokeshire, Anglesey, Ceredigion, Powys and Conwy. We have collected data for these six “hotspot” councils, which are presented in a table below.

The Valuation Office Agency records the number of properties that are registered as holiday lets for the purpose of council tax/rates in Wales as 9,500 in April 2021. An article in the Times suggested that the number of these in England had increased by as much as 20% in 2021, to 66,000.

Councils in Wales are able to levy a council tax premium on second homes so also hold these numbers. This is available on the recent consultation. Simon Brooks also used these two sets of data to estimate the number of holiday homes, which produced a similar list of hotspots.

AirDNA can be used to find the number of properties being advertised on AirBnB. The geographies are inconsistent, available at local authority level for much of Great Britain, but only ward level in Cornwall.

We found the number of holiday lets in each of the six hotspots in Wales in July 2021. Again Gwynedd led the field with 4,007, and there were a total of 14,265 in those areas. This is substantially more than the total registered as such for tax purposes in Wales – though it is possible that many such properties are still liable for council tax, and indeed may be registered as second homes for council tax purposes.

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### **Impact of holiday lets**

Rents data is patchy:

- The ONS publishes regional rent indices each month for the UK, but these are designed to track the entire private rented sector, including rent changes within tenancies – not current market rent levels. As a result the indices change slowly, and don't pick up large movement in the lettings market.
- The Valuation Office Agency publishes local rent data for local authorities in England around six months after it is collected. They warn that their sampling does not support the use of their data to make comparisons over time. There is no equivalent dataset for Wales
- Zoopla has a live table of rental data covering the number of listings and average (mean) weekly rent for each region. GR has tracked this every month during the pandemic, and Wayback Machine allows analysis stretching back further.

In Wales, rental listings on Zoopla fell from 7,237 properties in February 2020 to 4,240 by October – a 40% drop – before rising to 5,805 by the end of 2020. During that year the average advertised rent was relatively static, rising briefly in the final quarter from £155 to £175 per week but dropping back down to £164 by February 2021. In 2021, listings started falling from the start of the year until a low of 2,087 in October, 71% down on February 2020. Rents remained static until June, then started surging and ended up at £212 per week in November. Between September 2020 and September 2021, the average rent increased by 24%.

There was a similar pattern in other parts of Great Britain with a large tourist industry: Scotland and South West England, where listings fell by nearly 60% and rents rose by 20% between February 2020 and autumn 2021.

By summer 2021, most international travel had been suspended so many Britons were booking holidays in the UK, and very often seeking out self-catering accommodation. Generation Rent heard from people in Wales, Cornwall, the Lake District and south coast who had been struggling to find a new home during this time, or had even been asked to move out as the landlord had decided to let out their home to tourists instead. We believe that many landlords at this time were switching their properties to holiday lets given the very low barriers and attractive tax incentives to do so.

At a local level, it is also possible to find the number of listings through a regular search through Zoopla or its main competitor, Rightmove.

In our six hotspots in July 2021, while thousands of properties were being advertised to holidaymakers, according to AirDNA, Zoopla and Rightmove revealed that the number of properties to live in were in the double digits at best. In Anglesey, with homes to let represented just 0.5% of the AirBnB listings, with 3.9% in Ceredigion. The nature of each market means that we would expect to see more holiday lets available at any one time, but it would be galling for someone who was simply seeking a place to live to see such an extreme contrast in the relative supply.

Selected local authorities	Individuals with Furnished Holiday Let income	Individuals with property income excluding FHL	% of landlords with Furnished Holiday Lets	Listings on AirDNA	For rent on Zoopla	Zoopla/AirDNA ratio	For rent on Rightmove	Rightmove/AirDNA ratio
Gwynedd	1280	4920	21%	4007	14	0.3%	85	2.1%
Pembrokeshire	1260	5500	19%	3571	24	0.7%	6	0.2%
Isle of Anglesey	550	2660	17%	1604	7	0.4%	2	0.1%
Ceredigion	560	3910	13%	1427	40	2.8%	15	1.1%
Powys	900	7720	10%	2218	18	0.8%	16	0.7%
Conwy	590	5210	10%	1438	23	1.6%	11	0.8%

### Policy proposals

#### *Higher Land Transaction Tax rates for second homes*

One way of reducing the number of properties becoming second homes is by making it harder to buy them, so increasing the higher LTT rates could make an impact here. The government should consider allowing councils to set an element of these. This move would primarily favour owner occupiers and disadvantage all people who already owned property, including those who planned to let out their purchase – so second home purchasers would not be the only people affected.

#### *Council tax premium for second homes*

One way of bringing second homes back into the residential market is to make it more costly to own one. As there are few ongoing costs to owning a property, the council tax premium is one of the few ways of doing this and it does target homes that are not being lived in more efficiently than the LTT. The government should consider devolving the size of the premium (100% of council tax or more) to councils themselves, who could then make a decision based on local need for the level of tax second home owners must bear. These funds would go to the local council, but the government should consider requiring them to be spent on new affordable homes.

#### *Non-domestic rates and relief for holiday lets*

Holiday lets are much more lucrative than residential tenancies; anecdotally we hear that what a property might make from a tenant in a year could be brought in over three months or less from holidaymakers.

One incentive that encourages landlords to switch from residential letting to holiday lets is that the exemption from council tax and the small business rates relief resulting in a local tax bill of zero means they can break even on an even shorter period of letting during the year. Dr Brooks also notes that some second home owners are avoiding the council tax premium by registering their property as a holiday let.

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It is therefore important to ensure that holiday let operators pay enough tax, and, we would argue, enough to persuade as many as possible to switch to residential tenancies.

There are a few options including withdrawing small business rates relief from holiday lets, leaving them liable for full non-domestic rates, or withdrawing eligibility for non-domestic rates, leaving them to pay council tax. The government should do the latter and consider giving councils the ability to levy a premium they determine on holiday lets, particularly if this will already apply for second homes. Councils would have a calculation to make as to the differential in order to find the right mix of incentives to encourage second home owners to make accommodation available to holidaymakers and nudge existing holiday let operators to switch to residential tenancies.

#### *Mortgage interest relief for holiday lets*

Another advantage of switching from residential to holiday lets is that mortgage interest relief can be deducted from the rental income used to calculate income tax. The relief was withdrawn from residential landlords between 2017 and 2020 in order to give first time buyers an advantage in the sales market. But the relief remained in place for holiday lets creating a potent incentive to switch, where local conditions allow. As well as depriving renters of homes, this loophole means first time buyers in the areas affected are now competing not with landlords but with holiday let operators. This is a matter for HM Treasury, but we would urge the Committee and the Welsh Government to call for this loophole to be closed.

#### *Registration of second homes and holiday lets*

Without accurate data on the number of homes that are unavailable to live in, then further iterations of policy will continue to be made in the dark. It is essential for the Welsh Government to start a registration system of second homes and holiday lets, but we would recommend that it be integrated as far as possible with Rent Smart Wales. One outcome of this would be that someone checking a property on Rent Smart Wales would be able to find out if the property was registered as a holiday let or a private residential let.

This could be important if some landlords tried to register inaccurately in order to avoid certain obligations. For example, letting to a tenant may involve compliance with paperwork and safety checks that letting to a tourist does not. An unscrupulous landlord may register as a holiday let in order to appear to be above board while also collecting rent from someone who is living in their property and who is legally entitled to greater security of tenure. By being able to check how their landlord is registered and what their rights are, the tenant can more effectively exercise them. An integrated system is essential to avoid crooks slipping through gaps.

#### *Planning use classes*

The Welsh Government is considering requiring second homes and holiday lets to have certain planning permission. This would have the benefit of allowing the council to set a cap of the number of these properties there are permitted to be, and enforce this.

However, because planning permission is usually permanent and the system envisaged creates scarcity, one of the outcomes will be to make homes with special planning permission even more valuable. This may benefit people who already own second homes and holiday lets, who are more

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likely not to come from the community, and so would create resentment among local people who are less likely to benefit from artificially inflated property values. (Dr Brooks highlighted this for second homes but not as an outcome of doing something similar for holiday lets.) There is also an element of a lottery where the gains are in excess of what the owner has paid and could fuel corruption to secure planning permission, and less chance that those particular properties will come back to the residential market.

Instead, the Welsh Government should consider a system of time-limited licences for holiday lets, which, if they were limited in number, could be auctioned as a way of finding what price landlords are willing to put on the right to let to tourists, and raise funds for the council to put back into the community.

#### *Favouring homes to live in*

Whereas holiday let operators can be regulated as businesses, with incentives and caps to direct them into making favourable decisions, there are few levers available to bring second homes back into use. If some homes are essentially banned from being second homes, then the unquenched demand for second homes from Britain's wealthy will simply drive up the price of the few second homes there are left, making winners of a lucky few who sell properties with the right class to the highest bidder.

Simply allowing the market to build is also not the answer when we hear via Tim Farron MP that 80% of sales in the Lake District in 2021 were for second homes. There may be a good case to build homes specifically for the holiday market; indeed, without radical wealth redistribution the demand for holiday accommodation is not going to disappear. But allowing private developers to build and sell to whoever offers the most will only result in local people fighting over the scraps, more ghost towns and market prices and rents at the same high level. To ensure that new homes meet housing need and contribute to the community, they need to be targeted: built as affordable and then let to people on the waiting list or sold to first time buyers with a covenant that they are sold back into the community, such as on a community land trust basis. Those homes would never be available to second home owners so should secure greater political support. That requires funding and land from councils and the government – the former could be raised from owners of second homes.

For further information please contact Dan Wilson Craw, Deputy Director, Generation Rent.