Senedd Cymru

Local Government and Housing Committee

Consultation: The Private Rented Sector

Submission of Written Evidence

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Introduction

Thank you for the opportunity to submit evidence to the Committee's Inquiry into the Private Rented Sector. Please note that I am writing in a personal capacity and that my views do not necessarily reflect those of Cardiff University or the UK collaborative Centre for Housing Evidence (CaCHE).

My focus in this written evidence is to address the issues raised by the Committee in their consultation, but it is also important to consider the PRS as part of a wider housing system, in which there are interactions between the different tenures (owner occupation, social housing etc.) and between changes in the wider economy. The topic of inquiry is also a very broad one and whilst seeking to cover many of the issues raised by the Committee I have inevitably (given the word constraints) elected to emphasise some issues at the expense of others and a couple of issuers (collaborative/ partnership working and barriers to access) where, due to word constraints, I have not offered comments.

Setting the Context

The private rented sector (PRS) is a complex part of the UK housing market, with a number of different submarkets, different demand pressures and a wide range of suppliers, from small landlords to larger investors with multiple properties. It's a diverse tenure with significant differences in scale and make-up at a local level.

CaCHE published an overview of the PRS in the UK in July 2019, highlighting how it has grown and evolved over the last 20 years or so (Marsh and Gibb, 2019). The sector is now playing a more central role in housing policy across each of the UK nations, and issues of standards, regulation and rents have become more important concerns for policy makers. Many of the broad arguments made in this report are applicable in a Welsh context. In addition, Gibb (2023) has recently published a paper on the continued evolution of the PRS across the UK and differences and innovations across the devolved administrations in terms of policy frameworks, developments, and regulation, from which the different jurisdictions may learn.

As in other parts of the UK the scale of the private renting in Wales has grown considerably. over the last two decades. In March 2001 there were an estimated 90,445 dwellings in this sector (7.1% of the dwelling stock) By March 2020 the estimated number of dwellings in the private rented sector in Wales stood at almost 205,000 (14.3% of the stock, Stats Wales). Of course, the number and proportion of dwellings in the private rented sector varies across Wales, by local authority and below local authority level. Early published data from the 2021 reports 17% of Welsh households were resident in the PRS at the time of the census (a slightly higher proportion of households than those living in the social rented sector), with above average proportions of households living in the PRS in local authorities such as Cardiff, Ceredigion, and Denbighshire.

Supply, Quality and Affordability

In 2015 the then Welsh Minister for Communities and Tackling Poverty asked the Public Policy Institute for Wales (now the Wales Centre for Public Policy) to analyse the growth of the private rented sector in Wales. Their report (Whitehead and Scanlon, 2015) concluded that the growth of the private rented sector was the most significant structural change in the Welsh housing market for at least two generations. The authors argued that this had considerable significance for government policies in terms of new housing provision, the allocation of subsidies, the role of social and intermediate housing (the other part of the rental market) and rent determination. The report also noted that, although diverse in terms of its profile of both tenants and landlords, initial analysis of those living in the sector suggested areas where there were concentrations of unemployment, low incomes, and poor-quality housing. It argued further data collection and analysis was required. This is an issue I will return to throughout this paper.

The growth of the private rented sector reverses a long-term decline of the tenure dating back to before the First World War and can be explained by several factors. Many households over the last two decades and more have experienced problems in accessing both the owner-occupied and social rented sectors. Over this period there has also been a significant growth in housing requirements in Wales, fuelled by increasing population, falling average household size and net in-migration. On the supply side, the growth of the sector has been prompted by a number of factors encouraging new investment in the sector, including the growth of buy-to-let mortgages. However, there have also been recent changes in legislation, regulation, taxation and wider economic forces (including increasing interest rates) which may be having negative effects on landlord investment. I would also reiterate the point I made at the outset. What happens in the PRS will not only be affected by policy developments specific to the sector but also by policies in relation to the other main housing tenures and wider economic, fiscal, and social policies.

Supply (and demand)

In the context section of this evidence, I provided the data on the number of dwellings and proportion of households living in the PRS in Wales. In the later section on regulation, I outline the latest cross-sectional evidence on the numbers of landlords and agents operating in the sector in Wales, as well as suggesting that the Rent Smart Wales (RSW) database might offer the potential for more detailed analysis of the changing supply of accommodation in the sector in Wales.

It’s perhaps worth highlighting that (using data from England) there have been attempts to develop a typology of smaller landlords supplying private rented accommodation. Rugg and Wallace (2021) have suggested four categories of smaller landlords:

- Accidental or incidental landlords
- Investment landlords (rental income augments income)
- Portfolio landlords (sole income from letting property)
- Business landlords (where letting property is one of a number of business interests)

Whilst this is a useful classification, there is little information available about the nature of the supply by landlords in Wales, or what shapes the behaviour of different landlords and the models which may explain the investment decisions of different landlords .

Our knowledge of who lives in the PRS (and why they do so) is also very limited. The English Housing Survey (no equivalent for Wales) segments private renters into six broad groups.

- Comfortable renters (44%)
- Older renters (3%)
- Families getting by (17%)
- Struggling families (11%)
- Low-income savers (16%)
- Vulnerable singles (10%)

In some instances, the demand for private renting is a positive choice at a particular time in life (although such households may have longer-term aspirations for other housing options – e.g., home ownership). For some households' accommodation demand is linked to their current work or studies. However, in other cases the demand for private renting reflects the lack of supply (and choice) of social rented housing or an inability to access owner-occupation.

It is unclear to me that in Wales that we have either the quantitative or qualitative evidence in relation to supply (and the factors shaping it) or the demand for accommodation in the PRS.

The Quality of the Private Rented Sector

Our knowledge of the quality of the PRS in Wales (at least at a national level) is a little better.

Wales has the oldest housing stock in the UK, and evidence from the 2017/18 Welsh Housing Conditions Survey indicates that the PRS has the oldest housing stock (over 40% built pre-1919). The lowest average SAP (Standard Assessment Procedures) ratings are also in the PRS, although there have been significant improvements over time. The available evidence also suggests that under the Housing Health and Safety Rating System (HHSRS) that the PRS in Wales has a significant proportion of homes with identifiable category 1 hazards and (in 2017-18) the highest proportion of homes with problems of damp, mould, and condensation. Changes introduced through the Renting Homes (Wales) Act 2016 do offer the prospect of further improvements of standards in the sector.

There is not the space in this submission to explore the issues of quality in the PRS in more detail. However, I would wish to make the point that there remain particular problems in certain parts of the sector (e.g., Houses in Multiple Occupation – HMOs). It is also worth highlighting, given some of the problems of poor-quality housing in the PRS and the fact that it performs relatively poorly in terms of energy efficiency (compared with other tenures), there are major challenges in tackling the retrofitting of many homes in the sector to meet climate change targets. Much of the PRS stock will require considerable investment to improve the quality of homes, although it is unclear to me what strategies Welsh government may have to address these issues or to provide support and incentives to private landlords to encourage this investment.

Affordability in the Private Rented Sector

It is generally recognised that private sector rents have increased significantly over the last couple of years, and this has occurred alongside significant general cost of living inflation. The ONS private rent index (which includes the non-traded stock of private tenancies) indicates rents in the sector have been more stable than is suggested from other evidence (e.g., data based on advertisements, which focus on flows of new lettings in the sector). This strongly suggests that it is rents on new dwellings in the PRS which have been rising at a faster rate than rents for existing private tenancies. It appears that the most significant rent increases may be in relation to those local markets where there is a scarcity of new letting opportunities (and rising demand and/or landlords withdrawing from the sector).

In terms of rent data, Welsh Government published an analysis of private sector rents for 2019 in May 2020 (Welsh Government, 2020) This paper provides an analysis of average private sector rents across Wales (for each local authority), by property type (number of bedrooms). It also provides information on the spread of rents within individual authorities (including upper and lower quartile averages). However, the paper makes clear that private rented properties in Wales are by no means evenly spread, being concentrated in the more urban areas and scattered unevenly in more rural localities. Whilst I understand the data on actual private sector rents is still being collected, I am not aware of any intention to continue the publication of this information.

The Office of National Statistics (ONS) publishes an index of private housing rental prices. Earlier this year it reported that private rents paid by tenants had increased on average by 4.4% in the 12 months up to March 2023 (4.9% across the UK). This is the highest annual percentage change in Wales since ONS commenced this data exercise in 2010 (ONS, 2023). Savills research has forecast an annual rental growth in Wales for 2023 of 5.5%, although it projects lower annual growth rates for the subsequent 4 years (Savills, 2023). Savills also report rental growth in Wales in the year to February 2023 of 10.2% (using Zoopla data), although this is based entirely on newly agreed rents, unlike the ONS data.

Current Challenges and Issues

In the sections above I have already highlighted some of the pressing challenges facing the PRS in Wales. However, below I have detailed some of the other current issues which the Committee may wish to consider.

Implementing The Renting Homes (Wales) Act, 2016

The implementation of many of the provisions of this legislation represent the most significant changes to housing law in Wales for decades. This affects all social and private landlords and tenants in Wales, in terms of contracts, maintenance requirements and the ways in which landlords communicate with tenants. It provides greater protection for tenants (e.g., increasing the no fault eviction period from 2 to 6 months) and places additional responsibilities on all landlords in terms of issuing occupation contracts, undertaking training and carrying out work to ensure properties have hard-wired smoke alarms. The intention underpinning the legislation is to provide greater security of tenure and protection for tenants.

Although it is little more than six months since much of the legislation was implemented it will be critical to ensure there are appropriate mechanisms in place to monitor the impacts of theses changes over the longer-term, not least in terms of the impacts which the legislative changes may have on the supply of privately rented accommodation.

Short-term and Holiday Lets

In recent years there has been a growing recognition of the interrelationships between the PRS and the issues of second homes and holiday and short-term lets (particularly, although not exclusively in coastal communities and parts of rural Wales). I am aware that this is an issue which the Senedd Housing and

Local Government has already investigated and where Welsh Government have published research and introduced policy changes.

Recent research from the Bevan Foundation has revealed that, in parts of Wales, the number of properties used for holiday lets is having a detrimental effect on the availability of property for rent in the private sector in Wales (Bevan Foundation, 2022a). Welsh Government have also been taking action to tackle the problems of “second homes” which are significant in some parts of Wales.

Subsidising Rental costs and the Local Housing Allowance

A further issue relates to the assistance available to support low-income households to meet their rent payments. This is not a devolved issue. Payments are made through the Department of Work and Pensions (DWP) through the local housing allowance (LHA). LHA rates are set within the boundaries of broad Rental Market Areas (RMAs) and in theory should reflect the thirtieth percentile rent. However, LHA rates have been subject to various caps and freezes, irrespective of what has happening to rent levels locally. This has created a serious dislocation between local market rents and LHA rates.

In Wales the Bevan Foundation have done excellent work highlighting this issue and the challenges posed. In a report published last year (Bevan Foundation,2022b) they reported that between May and December 2021 the LHA rate only covered 3.8% of available properties across 10 Welsh local authorities, pushing low-income renters into poor quality accommodation and financial hardship.

Rent Control

Given concerns around affordability in parts of the PRS it is not surprising that there has been a renewed interest in the potential for introducing rent restrictions. In Wales Labour and Plaid Cymru, in their Co-operation Agreement, have indicated a commitment to consider what they have termed “fair rents”, which might lead to legislative proposals for rent controls in some form or other. I understand that Welsh Government may consult on this (and other housing issues) in the Spring/early Summer of this year.

CaCHE has published widely on rent control over the last two years (Gibb and marsh, 2022; Gibb et al, 2022a; Gibb et al, 2022b, Marsh et al, 2022). Drawing on this research, CaCHE has also provided a confidential briefing paper for

Welsh Government on this issue, which we understand will be published later this year (Gibb and Smith, forthcoming). The question of rent control is a controversial one, and generally very unpopular with landlords and their representatives. Nevertheless, it remains an issue where the evidence and options need to be given proper consideration by policy makers.

Regulating the Private Rented Sector

The PRS is subject to a range of regulatory interventions: by Welsh Government, by UK government departments (e.g., Department of Work and Pensions, the Exchequer, HM Revenue and Customs etc.) and by local authorities. Sometimes, different interventions are piecemeal, seeking to address particular problems, and not necessarily part of an overarching coherent strategy towards the PRS.

The Housing (Wales) Act 2014 introduced specific measures for the regulation of private rented housing in Wales and in November 2015 Rent Smart Wales (RSW) was established, with a responsibility for registering private landlords and licensing managing agents across Wales (there was already a voluntary landlord accreditation scheme in place in Wales; the 2014 legislation provided for mandatory registration and accreditation). Wales has also legislated, under the Renting Homes (Fees etc.) (Wales) Act 2019 to limit the fees which can be charged to tenants.

RSW publishes a monthly statistical dashboard of private renting registrations/licenses in Wales (at a national level). According to the January 2023 data, 209,109 properties are registered with RSW. The January report indicates 100,750 landlords registered, 45,892 landlords licensed, and 4,545 agents licensed (with others being assessed). Whilst these figures appear to be fairly consistent with official Welsh Government statistics in terms of number of properties (referred to above), it is not clear how comprehensive a picture of landlords/agents this represents (although there are mandatory requirements). However, whilst the monthly dashboard is useful as a snapshot of registrations/licenses, there is no publicly available time series analysis, which might indicate how the number and profile of private landlords/agents is changing (is the sector now shrinking?) and no analysis of the data below an all-Wales level.

The PRS is covered by a wide range of laws and regulations relating to property condition and management as well as around landlord-tenant relationships. The introduction of the RSW scheme has been broadly welcomed and helps to identify non-compliant landlords/agents and helps to improve the levels of compliance and performance across the sector. RSW has recently published a dashboard of enforcement action (up to 1st March 2023). This is a useful addition to the evidence of actions being taken against landlords/agents failing to register or to be licensed (e.g., fixed penalty notices, convictions), with this being analysed by landlord location. It is to be hoped this will be developed and updated in the future.

However, in the light of reductions in local authority funding there may be questions over the resources and capacity at a local level necessary to enforce compliance. Once again, I would highlight recent research undertaken by colleagues in CaCHE which has shown significant differences in local philosophies, policies, and operational practices in relation to compliance, as well as the ways in which different local authorities work collaboratively with private landlords and their agents (Harris et al, 2020).

Finally, in this section I would wish to highlight the potential offered by RSW in terms of data analysis in relation to the PRS in Wales (notwithstanding questions over resources). I note that earlier this week, in response to an FOI request (17500) for the number of landlord registrations and deregistrations over the last five years, the Welsh Government indicated such data is held by RSW. The final paragraph of the initial independent evaluation of RSW (Welsh Government, 2018), argued that Welsh Government and RSW should consider how the data collected by RSW could be maximised to provide an accessible source of information on the PRS in Wales. The availability of data in Wales is an issue considered further below.

The availability of data on the PRS

In 2020 CaCHE identified and commentated on the main data sources available across the UK (and for the individual nations) in relation to the private rented sector (Orford and Harris, 2020). In recognising the heterogeneity of the sector (and the different experiences of those living in private rented accommodation) it noted that gaps in the evidence base, an absence of information on landlord behaviour and the lack or poor quality of low-level geographic data made regulating the sector very difficult. Such weaknesses also undermine the development and implementation of policies, particularly at the local level, often leading to unintended consequences or outcomes. Throughout this submission I have highlighted some of the significant gaps in the evidence base in relation to the PRS and would hope to see moves to address some of the more serious data gaps in Wales.

Concluding Comment

The PRS in Wales is a diverse one, which has grown and evolved in significant ways over the last 25 years. There are ongoing and often controversial debates as to whether there is an optimum size for the sector and what roles it should play in meeting housing needs and demand. I have attempted to highlight a number of issues which face the sector (and policy makers and practitioners) and to indicate some of the tensions which exist between the PRS and the wider housing system in Wales. It will be a difficult balance to strike in developing policies for the PRS in the context of a continuing significant shortfall in overall housing supply and ongoing problems of housing affordability (as well the wider cost of living crisis) faced by many households in Wales.

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NB: All CaCHE publications are freely available to download from their website.

https://housingevidence.ac.uk/publications/