

THE FUTURE OF PRIVATE RENTING IN WALES

A Shadow White Paper from the National Residential Landlords Association



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Foreword

2022 marks a time of considerable change for the private rented sector in Wales.

The implementation of the Renting Homes Act represents some of the most significant changes the rental market in Wales has ever seen. At the same time, as the country recovers from the COVID pandemic, the supply of homes for long term rent is failing to meet strong demand. As the sector grapples with these twin challenges, the Welsh Government has pledged, in its Cooperation Agreement with Plaid Cymru, to publish a White Paper that would include proposals for rent controls.

We share the same goal as the Welsh Government on private rented housing – we want a sector that is affordable, accessible and that works for both tenants and the vast majority of landlords who are fair and responsible. Ultimately, however, the drawbacks that will come from rent controls will significantly outweigh any possible short term gains that might be delivered by such a policy, as evidence from both the UK and internationally shows clearly. The best way to improve the affordability of private rented housing is to address the fact that supply of private rented housing is failing to match increasing demand.

In this, our Shadow White Paper, we call also for reforms to Rent Smart Wales to improve enforcement against rogue and criminal landlords along with the development of a Welsh Housing Survey to ensure better informed, evidence driven, policy. With the Government focused on improving the energy efficiency of the rental housing stock, we also propose ways to support the sector to help meet the country's net zero targets.

The proposals in our paper are fair and sensible, striking a balance between the needs of both tenants and responsible landlords. Our mission is a rental market that works for tenants and landlords. This paper makes clear how that can happen.

We look forward to engaging with the Welsh Government, the Senedd and with other stakeholders on our proposals.



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I.O EXECUTIVE SUMMARY

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1.0 Executive Summary

- 1.1 The **National Residential Landlords Association (NRLA)** is the national voice for private residential landlords in England and Wales. With over 95,000 members we are the largest organisation for such landlords. We want to see a sector that works for both tenants and the vast majority of responsible landlords, whilst rooting out the criminal and rogue minority who bring the sector into disrepute.
- 1.2 The Welsh Government has set out the possibility of rent controls being developed as part of its Co-operation Agreement with Plaid Cymru.
- 1.3 Rather than treat the symptom of a lack of supply, It is vital instead that the Government works to tackle the real issue that determines affordability in the sector: the fact that supply of private rented housing is failing to keep match the increasing demand.
- 1.4 Alongside this, the Welsh Government should use a White Paper on the private rented sector to develop measures that:
 - improve the enforcement of regulation of the PRS
 - improve access to the sector
 - develop a better understanding of the market
 - improve the energy efficiency of private rented housing.
- 1.5 In this shadow White Paper, the NRLA proposes that the Welsh Government:
 - **Allow time for the Renting Homes (Wales) Act to be properly and fully implemented** before embarking on a further round of changes to the sector.
 - **Develops a Welsh Housing Survey**, similar to that which is carried out by the UK Government in England to help inform good policymaking. An annual survey of this kind would give ministers detailed information on housing costs, the quality of housing in Wales, the size of the PRS and the make-up of those living in the Welsh private rented sector along with other useful information.
 - **Continues to lobby the UK Government to reverse its decision to freeze the Local Housing Allowance.** The NRLA is calling on the UK Government to return LHA rates so they are tied to the 30th percentile of local rents. In addition, we are concerned about the impact of the decision to cut Universal Credit payments by £20 a week. A recent survey for the NRLA found that of those private renters in Wales in receipt of Universal Credit, 54.6% said the cut had had an impact on their ability to cover their rents.

- **Introduces an exemption from the 4% Land Transaction Levy on the purchase of additional homes to boost the supply of properties for longer term rent.** Research has pointed to the importance of off-plan house purchases, which private landlords have traditionally been good at providing. To be eligible landlords would need to prove that the property is for long-term rent.
- **Provide additional support to landlords upgrading the energy efficiency of their properties,** including:
 - Providing additional funding in the form of low interest loans from the Development Bank of Wales for properties that are likely to face prohibitive costs when making energy efficiency improvements. This should be administered by Rent Smart Wales.
 - **We welcome the ECO Flex scheme but are concerned that its ability to support energy improvements in the private rented sector is not being fully utilised** because of councils across Wales having insufficient resources and personnel to monitor and evaluate funding. We are calling for this to be rectified.
 - The development by the Welsh Government of a specific training budget to help small businesses upskill their workforce and ensure that Wales has the skills base necessary to conduct a mass retrofit of its housing stock.

Makes changes to how Rent Smart Wales operates, including:

Ensuring it is subject to an independent final evaluation by Audit Wales to establish if it is meeting its objectives and delivering value for money.

Ensuring it publishes annual performance statistics that focus on property conditions in Wales, improvements in energy efficiency, the number of landlords in Wales and tenure data among others. This would help give a clearer picture of how RSW is performing, inform policy making more widely and tie in with our recommendations around the development of a Welsh Housing Survey.

Rent Smart Wales to use some of the surplus it currently has to better facilitate and oversee training and/or enhanced enforcement capacity for local authorities through the development of dedicated RSW environmental health officers, who can attend any local authority in Wales.

The development of a Scrutiny Board, comprised of figures from across the sector including tenant and landlord representative bodies, to have oversight Smart Wales with the power to prepare reports and make recommendations to the responsible minister accordingly.

An aerial photograph of a densely packed residential neighborhood. The houses are mostly two or three stories high, with red-tiled roofs and light-colored facades. Some houses have dormer windows. In the foreground, there's a row of dark brick terraced houses with white window frames. A red car is parked on the street in front of them. The overall scene is a typical suburban or urban housing estate.

2.0 MAKING A PRIVATE RENTED SECTOR ACCESSIBLE FOR EVERYONE

2.0 Making a Private Rented Sector Accessible for Everyone

- 2.1 In the Co-operation Agreement signed by the Welsh Government and Plaid Cymru a commitment was included to publish a White Paper which would explore how “fair rents” might be able to make the private rented sector affordable for local people on local incomes¹. No further details have been published at this stage, but this appears to set the ground for the introduction of some form of rent controls in Wales.
- 2.2 Rent controls, in one form or another, were included in both Welsh Labour’s and Plaid Cymru’s manifestos for the 2021 Senedd election. Welsh Labour proposed a national scheme that would restrict rents to local housing allowance levels for families, young people and those who are homeless, or at risk of homelessness, and who are priced out of private renting². At present it is not immediately clear how such a policy would work when LHA rates have been frozen by the UK Government. Plaid Cymru committed to introducing legislation requiring that all rents are assessed as “fair” with a cap for rent increases³. Its manifesto also pledged that such a Bill would give local authorities the power to set a Living Rent rule to cap rents in rental pressure zones at a maximum of one third of local average income.
- 2.3 The NRLA have long held the view that rent controls of any kind simply do not work and do not have the intended effect of addressing affordability in the private rented sector. We agree with the Welsh Government’s own Finance Minister, Rebecca Evans MS, who argued when she was Housing Minister⁴:

“If we reduce the returns landlords can receive, we risk incentivising them to sell rather than rent their properties, and this might benefit middle earners who would like to see more homes available to buy, but for those who can't afford to buy, the unintended consequence might be greater homelessness as a result of the private rented supply shrinking.”

¹ Welsh Government, *Co-operation Agreement*, November 2021, available at: <https://gov.wales/sites/default/files/publications/2021-11/cooperation-agreement-2021.pdf>.

² Welsh Labour, *Moving Wales Forward*, 2021, page 60, available at: https://movingforward.wales/documents/WEB-14542_21-Welsh-Labour-Manifesto_A5.pdf.

³ Plaid Cymru, *Let Us Face the Future Together - Vote for Wales*, 2021, page 74, available at: https://d3n8a8pro7vhm.cloudfront.net/plaid2016/pages/10962/attachments/original/1618308502/Plaid_Cymru_Manifesto_2021_ENGLISH.pdf?1618308502.

⁴ Senedd debate, *Rent stability—Why we need rent controls to ensure private renters get a fair deal*, 16th May 2018, available at: <https://record.assembly.wales/Plenary/4984#A43514>.

- 2.4 We want the private rented sector to be accessible and affordable for everyone but ultimately this can only happen by ensuring there is sufficient supply of rental housing to meet demand. Rent controls are not the answer, any more than controls on deposits or house prices would be in the owner-occupied sector. As the respected Resolution Foundation has noted: *“holding down the true market price of private housing via enduring rent controls rather than increasing housing supply and reducing demand is unlikely to succeed.”*⁵
- 2.5 There is a considerable body of independent evidence which demonstrates that rent controls simply do not work in achieving their desired result.
- 2.6 A report published by the Treasury under the last UK Labour government in February 2010 noted that when rent controls were introduced during the First World War artificially low rents reduced investment in the sector. It added later that little new PRS stock entered the market and that the stock that remained in the sector was older and of a poorer quality. Landlords who remained in the sector lacked funds and incentives to make adequate repairs and improvements to properties⁶.
- 2.7 The drawbacks of rent controls have been observed internationally as well. Last year, Alfred Kammer, Director for the European Department at the International Monetary Fund used an appearance before the European Parliament to caution against the development of rent controls. As he noted: *“they only tend to protect current renters and are associated with lower housing supply.”*⁷

2.8 Research suggests that rent controls in San Francisco led to a 15% decline in the supply of properties to rent⁸.

- 2.9 In Berlin, which last year saw its rent freeze policy ruled unconstitutional, the German think tank Ifo noted that the policy has meant that the supply of apartments to rent has *“become scarce.”*⁹

⁵ Resolution Foundation, *Streets apart - An analysis of manifesto commitments on housing*, December 2019, available at: <https://www.resolutionfoundation.org/publications/streets-apart/>.

⁶ HM Treasury, *Investment in the UK private rented sector*, February 2010, page 11, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/81460/consult_investment_ukprivaterentedsector.pdf.

⁷ Alfred Kammer, *Introductory remarks for the European Parliament Committee on Employment and Social Affairs*, May 2021, available at: <https://www.imf.org/en/News/Articles/2021/05/26/sp052621-affordable-rental-housing-making-it-part-of-europes-recovery>.

⁸ Brookings, *What does economic evidence tell us about the effects of rent control?*, October 2018, available at: <https://www.brookings.edu/research/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/>.

⁹ Bloomberg, *Berlin’s Rent Freeze Failure Puts Housing on Election Agenda*, April 2021, available at: <https://www.bloomberg.com/news/articles/2021-04-15/berlin-s-rent-freeze-toppled-by-germany-s-constitutional-court>.

- 2.10 In Sweden the OECD has highlighted strict rent controls as having been a barrier to residential mobility and has suggested a reduction in these rent controls to the same level as the European average could increase residential mobility by about 4 percentage points¹⁰. The OECD has also found a correlation between the countries with the strictest rent controls having a poorer quality of housing, with tenants in Sweden more likely to have a shortage of space than in countries with looser rent controls, such as Germany and Norway¹¹.
- 2.11 Aside from evidence of the damage caused elsewhere and in history by rent controls, the dearth of quality data on the private rented sector in Wales means also that such a policy would be a leap into the unknown.
- 2.12 The 2019-20 English Housing Survey showed that 76.3% of private renters who left their accommodation in that year did so because they wanted to move. Of the remainder, 9.3% left because their tenancy was for a fixed period and 8.1% moved because they were asked to leave by their landlord. Just 1.5% left their accommodation because of rent increases imposed by the landlord¹². If this were the same in Wales, then it would be clear that rent increases account for only a tiny proportion of private tenants moving property.
- 2.13 The most recent English Private Landlord Survey shows that landlords were more likely to have kept rent the same than to have increased it when extending or renewing a tenancy. Landlords were also more likely to do this than agents, with 70% of landlords keeping the rent the same compared to 63% of agents¹³. As with point 2.13, if this was the same in Wales then rent controls would amount to government sanctioned rent increases, which might otherwise not have happened, thereby leaving tenants worse off.
- 2.14 The problem in Wales is a lack of data to fully understand why private renters leave their accommodation or whether landlords typically freeze rents to keep tenants in situ. Not knowing this means that if rent controls were introduced, the Government would be developing a policy for which it could not possibly know the impact on tenants. It makes the case for the development of an annual Welsh housing survey all the more important (see section 6.0).
- 2.15 In addition, the Government is set to implement the Renting Homes (Wales) Act imminently. This legislation introduces some of the most significant reforms to the Welsh housing market we have seen, introducing a system whereby tenants and licencees become contract-holders and receive a written contract as part of their tenancy. Alongside this, the notice period required for repossessions is being extended to six months and changes are being made to succession rights, electrical safety and smoke alarm testing and abandoned property repossessions.

¹⁰ Organisation for Economic Co-operation and Development,

¹¹ Organisation for Economic Co-operation and Development, *Housing and the Economy: Policies for Renovation*, page 19, available at: <https://www.oecd.org/economy/growth/46901936.pdf>.

¹² MHCLG, *English Housing Survey, 2019 to 2020: private rented sector*, July 2021, Annex Table 3.7, available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000057/EHS_19-20_PRS_Ch_3_tables.ods.

¹³ MHCLG, *English Private Landlord Survey 2018 - Main report*, January 2019, page 7, available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775002/EPLS_main_report.pdf.

- 2.16 Given the extent of the changes, as the Government and rental market prepare to implement this legislation, it is vital to ensure a period of stability without further major changes to allow this to be properly and fully implemented.
- 2.17 In order to ensure properties to rent are affordable two solutions are required:
- Boosting supply to meet growing demand (see section 3.0 for further details); and
 - Ensuring housing benefit rates properly reflect market rents in any given area.
- 2.18 According to data published by the Department for Work and Pensions, as of August 2021, 63,102 households in the private rented sector in Wales were in receipt of Universal Credit with a housing cost support element (Local Housing Allowance) included in their payment. Of this group, 42,891 (68%) households had a gap between the LHA award and their rents.
- 2.19 The NRLA is calling on the UK Government to reverse its decision to freeze the LHA rate based on rents in April 2020. The Institute for Fiscal Studies has described the policy as “*arbitrary and unfair*”¹⁴. It notes that the decision to freeze the rates will have two consequences:
1. As time goes by the fraction of housing that private renters can afford will “*steadily dwindle.*”
 2. The support that low-income renters get to help with housing will be related not to the current level of rents in their area, but to rents in 2019. It continues: “*That will look decidedly odd in, say, 2025. A similar policy over the past eight years resulted in those in some high rent areas getting less support than those in some low rent ones.*”

2.20 In view of the above, we are calling on the Welsh Government to join with the NRLA and others in urging the UK Government to return to a situation where the LHA is linked to the 30th percentile of private rents in any given area based on today’s rents. This is a policy that is supported by many tenants groups. In addition, as Ruth Ehrlich, Policy Manager at Shelter has observed, Shelter has “not found any significant relationship between the proportion of people claiming LHA in a given area and rent inflation.”¹⁵

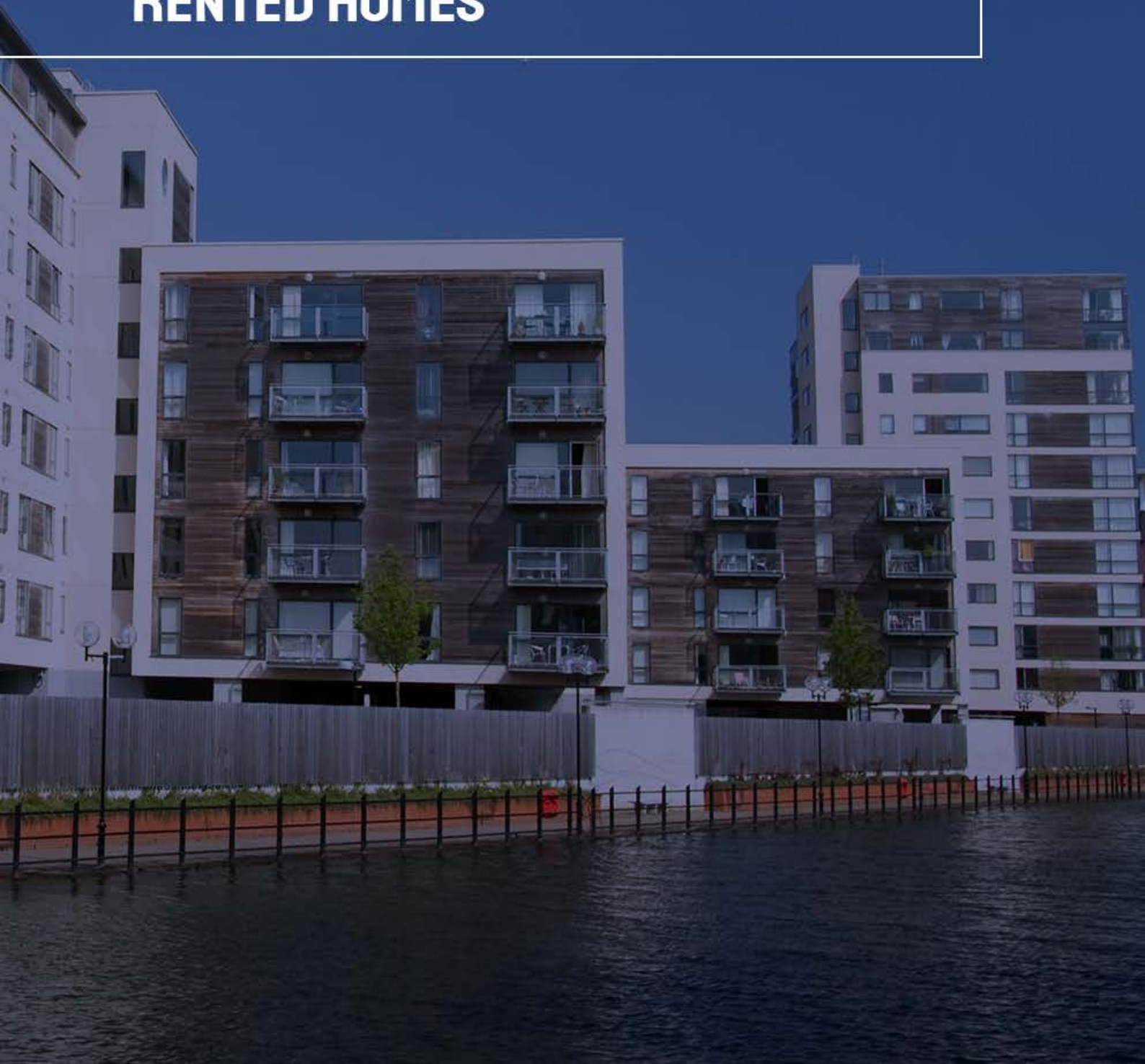
2.21 In addition, we are concerned about the impact of the decision to cut Universal Credit payments by £20 week. A recent survey for the NRLA by the research consultancy Dynata of private renters in England and Wales found that, of those in Wales in receipt of Universal Credit, 54.6% said the cut had had an impact on their ability to cover their rents¹⁶.

¹⁴ Institute for Fiscal Studies, *Initial reaction from IFS researchers on Spending Review 2020 and OBR forecasts*, November 2020, available at: <https://ifs.org.uk/publications/15203>.

¹⁵ HCLG Select Committee, *Oral evidence: Impact of Covid-19 on Homelessness and the Private Rented Sector*, HC 309, June 2020, available at: <https://committees.parliament.uk/oralevidence/605/html/>.

¹⁶ 2,048 private sector tenants in England and Wales were questioned by Dynata between 1st and 21st November 2021. 144 of these renters were in Wales, of which 33 said they were in receipt of Universal Credit or other unemployment benefits.

3.0 BOOSTING THE SUPPLY OF PRIVATE RENTED HOMES



3.0 Boosting the Supply of Private Rented Homes

3.1 The most effective way to ensure the affordability of all types of housing, including that for private rent, is to ensure supply meets demand.

3.2 At present demand for private rented housing in Wales, like everywhere in the UK, is outstripping supply. The Royal Institution of Chartered Surveyors' (RICS) latest UK residential market survey showed that in the third quarter of 2021, the demand for private rented housing in Wales increased by over 20%. In contrast, the number of new landlord instructions fell by almost 20%.¹⁷

3.3 A survey of NRLA members by BVA-BDRC echoes these findings showing that in Wales 79% of landlords reported tenant demand having increased in the third quarter of 2021. Despite this rising demand, whilst 16% of Welsh landlords said they were likely to expand their portfolios, a larger proportion (19%) said they were planning to cut theirs.¹⁸ A majority of Welsh landlords (54%) said they were expecting their portfolio to remain the same size.

3.4 The impact of insufficient supply is that tenants have less choice about where they live, rents increase and as a result tenants find it more difficult to save for a home of their own.

3.5 What is more, there is evidence that a larger private rented sector provides significant economic benefits, including:

- Private rented housing provides more for the Treasury in taxation than owner occupied properties. In 2015, responding to changes announced by the then Chancellor, George Osborne, to changes to Mortgage Interest Relief for landlords, Paul Johnson, Director of the Institute for Fiscal Studies noted that: *“Rental property is taxed more heavily than owner occupied property.”*¹⁹ Most notably, landlords pay Capital Gains Tax on properties which homeowners do not.

¹⁷ Royal Institute of Chartered Surveyors, *UK Residential Market Survey*, October 2021, available at: <https://www.rics.org/globalassets/rics-website/media/knowledge/research/market-surveys/uk-residential-market-survey-october-2021.pdf>.

¹⁸ BVA-BDRC, *Landlords Panel: Syndicated Research Report Q3 2021*, October 2021

¹⁹ Institute for Fiscal Studies, *Summer post-Budget briefing 2105 - Paul Johnson's opening remarks*, 9th July 2015, available at: https://ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/opening_remarks.pdf.

- The private rented sector costs the public less than other housing tenures. A paper for the Chartered Institute of Housing has noted that: *“A very crude estimate suggests that homeownership is the most ‘subsidised’ tenure, followed by social housing and then the private rented sector.”*²⁰
- Private landlords play an important role in supporting local economies. Research by Aldermore suggests that £3.61bn is being injected into local businesses across the UK every year from landlords as a result of them making use of local tradespeople and other services to maintain properties²¹.

3.6 To help boost the supply of private rented housing the Welsh Government should exempt from the 4% Land Transaction Levy the purchase of additional homes for long term rent. Such scheme would play an important role in assisting off plan purchases which private landlords have traditionally been involved with and as such play an important role in getting developments off the ground. According to Hamptons International²² securing off-plan sales are “fundamental” to the health of most new developments. Its analysis of data in 2020 suggested that 33% of new home completions in England and Wales were sold off-plan, equating to 49,000 new homes.

3.7 To be eligible for an exemption a landlord would have to prove that the property was for long term rent with safeguards including a possible later imposition of the levy if this turns out not to be the case.

²⁰ CIH, *Dreams and Reality? - Government finance, taxation and the private housing market*, September 2018, page 4, available at: <https://thinkhouse.org.uk/site/assets/files/1526/cihnov18.pdf>.

²¹ Aldermore, *Landlords inject £3.61bn annually into local economies across the UK*, Aldermore research shows, 3rd February 2020, available at: <https://www.aldermore.co.uk/about-us/newsroom/2020/02/landlords-inject-361bn-annually-into-local-economies-across-the-uk-aldermore-research-shows/>.

²² Hamptons International, *Off-Plan Sales Index: 2020*, available at: <https://www.hamptons.co.uk/research/articles/off-plan-sales-index-2020#/>.

A man with a beard, wearing a white long-sleeved shirt and blue overalls, is shown in profile from the waist up. He is holding a clipboard with a pen in his right hand and looking down at it. To his right is a white boiler unit with two pressure gauges and copper pipes connected to it. The background is a plain, light-colored wall.

4.0 IMPROVING STANDARDS IN THE PRIVATE RENTED SECTOR

4.0 Improving Standards in the Private Rented Sector

- 4.1 Established under the Housing (Wales) Act 2014, Rent Smart Wales was created as a national licensing scheme for private landlords to ensure compliance with legislation affecting the sector.
- 4.2 The NRLA has never adopted a position of opposing regulation for opposition's sake and we support effective regulation that improves the private rented sector for both tenants and good, responsible landlords. We continue to want to work collaboratively with the Welsh Government and Rent Smart Wales to support regulations that root out the small number of criminal and rogue landlords who bring the sector into disrepute, whilst supporting the compliant majority.
- 4.3 However, with many of the first licences obtained from Rent Smart Wales now up for renewal, it provides an important opportunity to consider how it has performed and how it could be improved.

4.4 **Despite the existence of the scheme, the number of inspections carried out by local authorities in Wales under the Housing Health and Safety Rating System (HHSRS) is falling. In 2018-19, 5,652 assessments were carried out across Wales, a fall of 10% on the previous year and the lowest total since 2011-12²³.**

- 4.5 Further to this, publicly available information on property standards in the private rented sector in Wales remains limited, despite the fact that Rent Smart Wales should in theory have a considerable amount of data to draw on that could help inform policy making.
- 4.6 Whilst an evaluation of Rent Smart Wales has been carried out by the Welsh Government²⁴, it is difficult to understand how a final evaluation of the scheme could have been conducted just a few years after it began. That said, the report did show the following:
 - A large proportion (42%) of tenants said they were unaware of the existence of Rent Smart Wales.
 - Many local authority representatives questioned for the report said that they *“did not have detailed plans specific for Rent Smart Wales enforcement activities.”*

²³ Welsh Government, *Housing Hazards and Licences, 2018-19*, March 2020, available at: <https://gov.wales/sites/default/files/statistics-and-research/2020-03/housing-hazards-and-licences-april-2018-march-2019-649.pdf>.

²⁴ Welsh Government, *Evaluation of Rent Smart Wales Implementation and Delivery Final Evaluation Report*, June 2018, available at: <https://gov.wales/sites/default/files/statistics-and-research/2019-05/evaluation-of-rent-smart-wales-implementation-and-delivery-final-report.pdf>.

- Councils reported a lack of capacity to undertake prosecution and enforcement action. The report goes on to note: *“Local authority interviewees suggested that enforcement was not being carried out to its fullest extent due to a lack of capacity. This was cited in relation to both the capacity of the local authorities as well as Rent Smart Wales.”*

4.7 Going forward, the NRLA is calling for:

- Rent Smart Wales to be subject to an independent final evaluation by Audit Wales to establish if it is meeting its objectives and delivering value for money.
- Rent Smart Wales to publish annual performance statistics that focus on property conditions in Wales, energy efficiency data, the number of landlords in Wales and other key tenure data. This would help give a clearer picture of how RSW is performing and inform policy making more widely and tie in with our recommendations concerning the development of a Welsh Housing Survey.
- Rent Smart Wales to use some of the surplus it currently has to better facilitate and oversee training and/or enhanced enforcement capacity for local authorities through the development of dedicated RSW environmental health officers who can attend any local authority in Wales.
- The development of a Scrutiny Board, comprised of figures from across the sector including tenant and landlord representative bodies, to have oversight of the work of Rent Smart Wales with the power to prepare reports and make recommendations accordingly. This Board would report directly to the Welsh Government – specifically the minister with responsibility for housing, currently the Climate Change Minister.
- Rent Smart Wales to review their website with a view to improving navigation and increasing the content available. Improving access to information will help landlords in Wales comply with their licensing obligations and reduce frustrations when using the service.
- Clearly set out service standards for responses to applications and queries. Landlords and agents should have confidence they can contact Rent Smart Wales and receive updates in a timely fashion.

An aerial photograph of a coastal town in Wales. The foreground shows a dense residential area with white and light-colored houses, many with grey tiled roofs. A road curves through the town. In the middle ground, a bay with several boats is visible. The background features rolling green hills under a cloudy sky. A white rectangular box with a thin border is overlaid on the left side of the image, containing the text '5.0 ACHIEVING WALES' NET ZERO TARGETS'.

5.0 ACHIEVING WALES' NET ZERO TARGETS

5.0 Achieving Wales' Net Zero Targets

- 5.1 It is well understood that if Wales is to achieve its target of net zero carbon emissions by 2050, the Welsh Government will need to ensure that homes are both energy efficient and do not emit excess carbon. The Welsh Government-commissioned Decarbonising Welsh Homes report from 2018 calculated that approximately 21% of the nation's carbon emissions came from housing²⁵.
- 5.2 Key to achieving the target is of course improving the energy efficiency of the private rented sector. According to the Welsh Housing Conditions Survey 2017-18, 25% of private rented housing had an Energy Performance Certificate (EPC) of C or better²⁶. Whilst 21% of PRS housing was in the lowest energy efficiency bands (E, F or G), this had fallen significantly from 64% in 2008, a larger reduction than for any other tenure.
- 5.3 One of the biggest challenges facing the private rented sector is the age of the housing stock in it. The most recent Welsh Housing Conditions Survey²⁷ noted that the private rented sector has the oldest stock with 43% of dwellings in it built prior to 1919. These are properties which typically have solid walls making insulation measures extremely difficult and expensive.
- 5.4 As a result of legislation passed by the UK Parliament there is currently a requirement on private landlords to ensure rental properties have an EPC rating of at least an E, with the cap on the amount they are expected to contribute to meeting this target of £3,500 (including VAT) before being able to register an 'all improvements made' exemption.
- 5.5 In January 2021 the UK Government consulted on proposals to require all new tenancies in the private rented sector in England and Wales to be in houses with an EPC rating of C or better by 2025. This would apply to existing tenancies from 2028. As part of this the Government has suggested that, in meeting these targets, landlords should be expected to pay up to £10,000 to make the necessary improvements, an increase from £3,500 at present. We are still awaiting the Government's response to the consultation.
- 5.6 In many areas in Wales, the proposed new national cost cap could represent a significant proportion of the value of the average property and this varies widely across the country. For example, in Blaenau Gwent, which in the year to March 2021 saw the average (median) price paid for a property being £96,500, a cost cap of £10,000 would amount to just over 10% of the value of the average property, compared to nearby Monmouthshire (average price paid being £279,450) where it would come to just over 3.5%²⁸. For some landlords in Wales, the new cost cap would be uneconomical and it is possible that, even with this substantial

²⁵ Cardiff University, *Homes of Today for Tomorrow: Decarbonising Welsh Homes*, October 2018, available at: <https://gov.wales/sites/default/files/publications/2019-07/decarbonising-welsh-homes-stage-1-report.pdf>.

²⁶ Welsh Government, *Welsh Housing Conditions Survey 2017-18: Energy Efficiency of Dwellings*, October 2019, available at: <https://gov.wales/sites/default/files/statistics-and-research/2019-10/welsh-housing-conditions-survey-energy-efficiency-dwellings-april-2017-march-2018-795.pdf>.

²⁷ Welsh Government, *Welsh Housing Conditions Survey 2017-18: headline report (updated)*, February 2020, available at: <https://gov.wales/sites/default/files/statistics-and-research/2020-02/welsh-housing-conditions-survey-headline-results-april-2017-march-2018-update-570.pdf>.

²⁸ Office for National Statistics, *Median house prices for administrative geographies: HPSSA dataset 9*, November 2021, available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/medianhousepriceformationalandsubnationalgeographiesquarterlyrollingyearhpssadataset09>.

investment, the property may not be upgraded to EPC band C or better before the cost cap is hit.

5.7 As an organisation we want to see every private rented home as energy efficient as possible. However, it is simply unrealistic to expect landlords, the vast majority of whom are individuals renting out just one or two properties to shoulder the entire cost of upgrading the energy efficiency of the Welsh private rented housing stock in the same way owner-occupiers are unlikely to be asked to do the same for their properties. Doing so could lead to landlords leaving the market if they do not have the finances to fund upgrades of their properties, especially as our research shows that private landlords make an average net annual income from property of less than £4,500 a year²⁹. This represents a UK wide figure which is likely to be considerably lower in Wales due to generally lower rents and property values than in areas such as London and the South East of England.

5.8 At a UK level, the NRLA is calling for³⁰:

- The amount that landlords should be expected to contribute to be linked to average market rents in any given area (known as broad rental market areas) as calculated by the Valuation Office Agency. Under the NRLA's proposals this would mean the amount a landlord would need to contribute would gradually taper from £5,000 to £10,000, taking into account different rental values (and by implication, property values) across the country.
- A package of fiscal measures to support investment. This should include the development of a decarbonisation tax allowance, no longer applying VAT to energy efficiency and low carbon work and not charging council tax where energy improvements are being made to rental properties when they are empty.

²⁹ NRLA, *Energy efficiency support failing to help most in need*, July 2021, available at: <https://www.nrla.org.uk/news/energy-efficiency-support-failing-to-help-most-in-need>.

³⁰ NRLA, *Energy efficiency – financing and funding for the road to Net Zero*, December 2021, available at: <https://www.nrla.org.uk/download?document=1372>.

5.9 It is clear that properties in Wales will likely need significant amounts spent on them to bring them up to minimum energy efficiency standards. Welsh landlords are also likely to find it more challenging to meet the costs of bringing these properties up to standard given the relatively low property and rental values. The NRLA is therefore proposing the following to ensure a retrofit of the Welsh housing stock is successful:

- The Development Bank of Wales should provide additional funding, in the form of low interest loans, up to the cost cap for properties where landlords are likely to face prohibitive costs when making energy efficiency improvements.
- Given Rent Smart Wales' knowledge of existing PRS properties they would be ideally placed to administer the above scheme. It should use the data it holds, and the already publicly accessible EPC register, to determine which properties in the PRS are without an EPC rating of C or better and use this to both inform landlords about their responsibilities and the availability of further funding.
- Despite the unique challenges the private rented sector faces in upgrading the housing stock in it, just 14% of all measures undertaken under the Energy Company Obligation (ECO) scheme have been in private rented sector households. In view of this, we welcome the ECO Flex scheme which provides local authorities with more discretion about who can access funding. However, we are concerned that its ability to support energy improvements in the private rented sector are not being fully utilised because of councils across Wales having insufficient resources and personnel to monitor and evaluate funding. We are calling for this to be rectified.
- A specific training budget should be established by the Welsh Government to help small businesses upskill their workforce and ensure that Wales has the skills base necessary to conduct a mass retrofit of its housing stock.

6.0 DEVELOPMENT OF A WELSH HOUSING SURVEY



6.0 Development of a Welsh Housing Survey

- 6.1 As policy is developed concerning the private rented sector it needs to be rooted in evidence based on what works. At present, the NRLA fears that much policy is developed based on anecdotal evidence.
- 6.2 To address this we are calling for the development of an annual Welsh Housing Survey similar to that conducted in England.
- 6.3 Our proposal is already backed by several organisations, among them Homes for All Cymru, an alliance including Shelter and Crisis. It is a proposal which also enjoys cross party support in the Senedd.
- 6.4 We welcome the Minister for Climate Change's letter to the Chair of the Local Government and Housing Committee of the 10th January in which she committed officials to developing a business case for a future housing survey this year. The NRLA looks forward to engaging constructively on this important work.