# 2017 BUDGET SUBMISSION FROM THE RESIDENTIAL LANDLORDS ASSOCIATION

## 1.0 ABOUT THE RESIDENTIAL LANDLORDS ASSOCIATION

1.1 The Residential Landlords Association represents the interests of landlords in the private rented sector (PRS) across England and Wales. With over 20,000 members, and an additional 20,000 registered guests who engage regularly with the Association, the RLA is the leading voice of private landlords. Combined, they manage over a quarter of a million properties.

1.2 The RLA provides support and advice to members and seeks to raise standards in the PRS through its code of conduct, training and accreditation, and the provision of guidance and updates on legislation affecting the sector. Many of the RLA's resources are available free to non-member landlords and tenants.

1.3 The Association campaigns to improve the PRS for both landlords and tenants, engaging with policymakers at all levels of Government to support the aim of a private rented sector that is first choice, not second best.

## 2.0 EXECUTIVE SUMMARY

2.1 All evidence shows that the demand for homes in the private rented sector will continue to increase, due to a combination of continued difficulities for many in raising the deposit needed for a home of their own and, a preference for the flexibility that the sector provides.

2.2 The Government has encouraged greater institutional investment in the private rented sector but evidence shows that this is not achieving the desired results. The market will continue to be dominated by individuals and small firms renting out a few properties.

2.3 It is important to support these smaller landlords, to encourage them to invest in the new rental properties needed and, thereby, support local house builders.

2.4 The RLA believes that this could be achieved by:

- Following the example of Ireland by scrapping planned changes to mortgage interest relief or, at the very least, applying it only to new borrowing for new purchases in the sector.
- Not applying the new three percentage point stamp duty levy where a landlord is investing in a new property or refurbishing an empty or converted property that is adding to the housing stock.
- Removing the anomaly that means that VAT can be reclaimed on goods and services in connection with the construction of a new dwelling when it is a intended for owner occupation, but not when it is constructed to rent out.
- To support the Government's home ownership ambitions, landlords could be encouraged to sell properties to sitting tenants by applying the new 20% rate of Capital Gains Tax in such circumstances. Measures could be put in place to prevent abuse.
- Encouraging local authorities and public bodies, such as the Ministry of Defence and the NHS, to identify and sell off small plots (suitable for up to five units of accommodation) of unused public sector and local authority controlled land for development by the PRS.

2.5 Following the decision to end the Green Deal, a review is needed to consider the financial capabilities of landlords to meet the new energy efficency requirments coming into force from 2018 within the context of recent changes to the way that they will be taxed. We also believe that improvements that landlords make to a property that are recommended on an Energy Performance Certificate should be tax deductible. This provides a degree of policing of the deduction while also incentivising landlords to make improvements.

2.6 We are also supporting calls made by Crisis for modest funding to improve access to the private rented sector for the homeless.

## 3.0 NEED FOR MORE HOMES FOR PRIVATE RENT

3.1 According to the English Housing Survey, 19% of all households were in the private rented sector in 2014-15, up from the low of 9.1% in 1988[1]. According to the Royal Institution of Chartered Surveyors, 1.8 million new homes to rent will be needed by 2025 to meet growing demand[2].

3.2 The reasons for the growing demand are numerous, including:

- Flexibility – as the Government has previously noted, rented housing is important to support a flexible labour market.

- Choice – contrary to popular belief, many tenants prefer the option of renting to buying a house of their own. Recent research by OnePoll, for the property investment company Knight Knox, found that 60.6% of tenants in private rented housing said that they are content with renting, citing factors such as "not willing to be tied down to a mortgage" and "renting better suiting their lifestyle"[3].

- Affordability – many people in the private rented sector need it because of the increasing difficult in affording buying a home of their own. Recent research by Halifax[4] has found that the average first-time buyer deposit has more than doubled over the past decade from £15,168 in 2006 to £32,321 in 2016 – an increase of 113%. In London the average deposit by new entrants to the housing market has grown four-fold in the past decade, from £26,701 to £100,445 – an increase of 276%.

3.3 There has been a growing argument that landlords are generally abusing the increasing demand for homes to rent, but this is not borne out by facts that show that:

- 82% of private sector tenants were satisfied with their accommodation in 2014-15, compared with 80% in the social rented sector[5].

- 65% of private sector tenants were satisfied with their tenure in 2014-15, up from 48% in 2004-05[6].

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[1] Department for Communities and Local Government, *English housing survey headline report 2014 to 2015: section 1 household tables,* available at https://www.gov.uk/government/statistics/english-housing-survey-2014-to-2015-headline-report.

[2] Royal Institution of Chartered Surveyors, *Get out your hard hat Theresa: UK facing a 1.8m shortage of rental properties*, 4th October 2016, available at http://www.rics.org/uk/news/news-insight/press-releases/get-out-your-hard-hat-theresa/.

[3] Knight Knox, *More than 60% of renters are happy to rent*, 3rd January 2017, available at https://www.knightknox.com/news/article/more-than-60-of-renters-are-happy-to-rent.

[4] Halifax, *Number of first-time buyers reaches 10-year high*, 13th January 2017, available at http://static.halifax.co.uk/assets/pdf/mortgages/pdf/halifax-first-time%20buyer%20review-13-january-2017-housing-release.pdf.

[5] Department for Communities and Local Government, *English housing survey 2014 to 2015: private rented sector report, Chapter 2: figures and annex tables*, available at https://www.gov.uk/government/statistics/english-housing-survey-2014-to-2015-private-rented-sector-report.

- The average length that a private sector tenant has been in their current home for is now 4 years, and *"in general, those who had lived in their home for longer paid less rent."*[7]

- The most recently available comparable data shows that private sector rents are increasing by much less than house prices. According to the Office for National Statistics, average house prices in the UK increased by 6.7% in the year to November 2016[8]. In comparison, the ONS' index of private housing rental prices reported that private sector rents paid by tenants in Great Britain rose by 2.3% in the 12 months to November 2016[9].

3.4 Given the growing need for homes to rent, we welcome the Government's acknowledgment of the importance of developing new homes of all tenures.

3.5 To date, the Government has focused on encouraging institutional investors to develop new rental properties using mechanisms such as loan guarantees and the Build to Rent Fund. Whilst we welcome all efforts to boost housing supply, it is becoming increasingly clear that institutional investors are simply not providing the homes at the pace and scale that the Government had hoped.

3.6 In a report earlier this year, commissioned by Paragon Mortgages, the London School of Economics noted that *"even if institutional investors enthusiastically enter the market, individual landlords will remain dominant – as they are across Europe."*[10] The House of Lords Economic Affairs Committee has gone even further, arguing in its recent report[11] on the housing market that *"efforts to bring large institutional investors into the sector have so far achieved little"*. It concluded that such institutions have *"largely focused on building for sale and is not providing for the rental sector which is over a third of the market."*

3.7 The only way to secure the homes to rent that the country needs in the short term is to support the majority of individuals who make up the country's landlord population to invest in and develop new properties to rent, with the same focus as that being given to institutional investment.

3.8 Boosting the supply of homes to rent would not only be good for tenants, but would also be good for Treasury revenue. A study for the RLA by Michael Ball, Professor of Urban and Property Economics at Reading University, has estimated that every private rented home provides the Treasury with an average of £1,000 in tax take – more than either home owner or social rented properties[12].

## 4.0 RECENT AND FORTHCOMING TAX CHANGES WILL HARM TENANTS

4.1 Over recent years, buy-to-let landlords have come under increasing pressure as a consequence of tax changes that have included:

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[6] Department for Communities and Local Government, English housing survey 2014 to 2015: private rented sector report, Chapter 2: figures and annex tables, available at https://www.gov.uk/government/statistics/english-housing-survey-2014-to-2015-private-rented-sector-report.

[7] Department for Communities and Local Government, English Housing Survey Headline Report 2014-15, page 18, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/501065/EHS_Headline_report_2014-15.pdf.

[8] Office for National Statistics, *UK House Price Index: Nov 2016*, available at https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/nov2016.

[9] Office for National Statistics, *Index of private housing rental prices (IPHRP) in Great Britain: Nov 2016*, available at https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/nov2016.

[10] Scanlon, K et al – London School of Economics, *Taking Stock - Understanding the effects of recent policy measures on the private rented sector and Buy-to-Let*, 11th May 2016, Page 8, available at http://lselondonhousing.org/wp-content/uploads/2016/05/GRP12392-LSE-report-design-WEB.pdf.

[11] House of Lords Economic Affairs Committee, *Building More Homes*, First Report of Session 2016-17 (HL Paper 20), available at http://www.publications.parliament.uk/pa/ld201617/ldselect/ldeconaf/20/20.pdf.

[12] Ball, Michael, *Investing in private renting*, November 2011, page 11, available at http://www.iut.nu/Literature/PrivateRental/Investing-in-private-rental-housing_2011.pdf.

- The 2015 Budget decision to charge income tax on a landlord's income instead of their profit.

- Only allowing relief on mortgage interest for landlords to be claimed at the basic rate, in a change to be phased in over four years from April this year.

- Adding a 3 percentage point levy to Stamp Duty for the purchase of homes to rent, since April 2016.

- Specifically excluding residential landlords from the new Capital Gains Tax rate of 20% announced in the 2016 Budget.

4.2 The RLA continues to be deeply concerned that the measures announced have been based on a perception of problems that do not really exist, as outlined below.

*Assertion 1* – Landlords enjoy a substantial advantage in the tax system compared to home owners. These changes rectify this.

*Response* – This is not correct. As Paul Johnson, Director of the Institute for Fiscal Studies, has observed: *"If you buy to let, you pay income tax on the return and capital gains on what comes out when you sell it at the end, which is not the case for owner-occupiers. The current system is clearly more tax favourable towards buyers and owner-occupiers than it is towards buy-to-let landlords and renters. The tax system is not, and was not, even before the recent changes, more generous to people buying to let."*[13]

*Assertion 2* – Landlords are squeezing aspiring home owners out the market. These changes will make things easier for first time buyers.

*Response* – There has been almost no clear evidence to support the argument that landlords are 'crowding out' aspiring home owners from the market. On the contrary, a report by the London School of Economics has noted: *"The (very limited) research into direct competition between investors and private owner-occupiers has found that nationwide only a minority of sales to landlords involved bids from both types of buyer."* In June 2016, the then DCLG Minister, Baroness Williams noted in response to a written question that *"the types and locations of properties that they [private landlords] prefer will not always be identical to owner occupiers."*[14] This policy appears to be London-centric and ignores substantial parts of the country where there is no shortage of properties and landlord investment is actively sought to regenerate older empty property and bring it back into productive use.

*Assertion 3* – The tax changes are needed to prevent a dangerous buy-to-let mortgage bubble developing that could threaten the wider economy.

*Response* – Research by the Council of Mortgage Lenders[15] has revealed that, of the 2,500 landlord surveyed, 49% owned all their property outright, with no mortgage debt at all, and just 47% of the rented properties in the survey were backed by a buy-to-let mortgage. Among buy-to-let landlords, 56% had loan-to-value ratios on their total portfolio of below 60%, substantially lower than many home owners.

*Assertion 4* – The mortgage interest relief changes will only affect 1 in 5 landlords, according to HM Revenue and Customs.

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[13] Evidence to House of Lords Economic Affairs Committee inquiry on the housing market, 8th March 2016, available at http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/economic-affairs-committee/economics-of-the-united-kingdom-housing-market/oral/30359.html.

[14] See http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Lords/2016-06-09/HL581/.

[15] Council of Mortgage Lenders, *CML research on largest ever survey of UK landlords reveals what makes them tick*, 13th December 2016, available at https://www.cml.org.uk/news/press-releases/cml-research-survey-of-uk-landlords/.

*Response* – Measuring the number of landlords affected should not be the focus of concern. What matters is the number of properties affected, given that it is against these, not individual landlords, that mortgages are granted.

4.3 The RLA has been monitoring closely the response of its members to these tax changes. The most recent survey, to which 2,883 landlords responded, found that:

- A majority do not plan on purchasing any additional properties for their portfolio (66%).
- 70% think Budget changes announced in 2015 and 2016 will negatively impact on their rental income.
- 36% think that restricting mortgage interest relief to the basic rate of income tax will result in them making a loss on their rental properties.
- 31% are considering leaving the sector altogether.
- 58% are considering further reducing investment in their rental properties because of finance changes.
- 70% think there will be further government policies aimed at landlords in the near future.
- 66% feel the tax changes will place upwards pressure on market rents.

These figures undoubtedly underestimate the issue as many landlords will not become fully aware of the reduction in mortgage interest relief until they come to complete their tax return for the 2016-17 tax year in January 2018.

4.4 Such results demonstrate clearly that ultimately it is tenants themselves that will lose out. This is because:

- The prospect of upwards pressure being placed on market rents will make it more difficult for those tenants wanting to rent in order to save for a deposit for a home of their own.
- It will reduce choice for tenants looking for a place to rent.
- Ultimately, it is likely to impact more vulnerable tenants most, especially those in receipt of universal credit, who will find it most difficult to cope with potential rent rises or a reduction in the availability of homes to rent.

4.5 Aside from the lost revenue to the Treasury from a reduction in the supply of homes to rent, as noted in Professor Ball's report mentioned earlier in this submission, the Treasury Select Committee, in its report on the Autumn Statement/Spending Review 2015, warned that *"were the measures taken to curb buy-to-let to have a substantial effect, they would come at a cost to the wider economy. Access to a well-functioning, affordable housing market, including for private rented properties, has been widely recognised to be crucial to labour mobility, and hence the overall efficiency of the labour market."*[16]

4.6 In light of these concerns, the RLA is proposing a number of measures to address the difficulties that many of these tax changes will cause.

[16] Treasury Select Committee, *Spending Review and Autumn Statement 2015*, Sixth Report of Session 2015–16 (HC638), page 32, available at http://www.publications.parliament.uk/pa/cm201516/cmselect/cmtreasy/638/638.pdf.

### 4.7 Mortgage Interest Relief

4.7.1 It is clear from many pieces of research, from both the RLA and other bodies, that the biggest factor that will place upwards pressure on rents and stifle investment in the sector is the changes made to mortgage interest relief.

4.7.2 As a result of tax now being applied to turnover rather than profit, many landlords on the basic rate of income tax are finding themselves being pushed into a higher rate band despite their income not having increased.

4.7.3 Additionally, the changes mean that landlords with fewer properties are less likely to be affected. The change therefore encourages landlords to have smaller portfolios or pass properties on to their family leaving a more fragmented and amateur sector, directly contrary to the stated policy of increasing professionalisation of the sector and potentially reducing the quality of property management to the detriment of tenants.

4.7.4 In an RLA survey of almost 1,200 landlords, over 60% said that the changes would put them in the situation outlined in paragraph 4.7.2. Some will find they are renting at a loss and this will encourage them to leave the market. This will likely result in landlords seeking to regain possession of their properties so that they can sell the houses concerned whilst vacant. Even if these properties are bought by first time buyers the prior inevitable eviction of a family to make way for them will see no net improvement in the number of families housed.

4.7.5 Mortgage interest changes, similar to those being introduced in the UK, were implemented in Ireland between 1998 and 2001. Over this period, average monthly rents increased from €600 to €900. In October 2016 Ireland's Finance Minister, Michael Noonan, announced that the Irish Government would restore full interest deductibility as it was not helping to tackle what he described as Ireland's "housing crisis."[17]

4.7.6 It is clear from the experience in Ireland that mortgage interest changes of the kind that the Government is introducing in the UK serve only to exacerbate rather than help alleviate the housing crisis. As the Irish Times noted in 2015[18]: *"without landlords there are no rental properties, and more than 70 per cent of private landlords with mortgages say that the rents don't cover their repayments."*

**4.7.7 Given the seriousness of the housing crisis we now face, the RLA believes that the best approach to adopt in the forthcoming Budget would be to scrap the mortgage interest changes altogether.**

**4.7.8 At the very least, the changes should apply only to new borrowing for new purchases in the rented sector. It cannot be right to alter the terms of existing mortgages. This would mean that anyone wanting to invest in new property would be clear about the tax liabilities they will face from the outset.**

**4.7.9 Given the phased nature of the mortgage interest changes we also call for the Treasury to convene a working group of industry figures to monitor closely the impact of the changes as they are phased in and be ready to make changes as they are needed, rather than waiting for full implementation by 2020-21.**

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[17] Irish Times, *Budget 2017: Full text of Michael Noonan's speech*, 11th October 2016, available at http://www.irishtimes.com/business/economy/budget-2017-full-text-of-michael-noonan-s-speech-1.2825311.

[18] The Irish Times, *10 reasons Irish rents are so high*, 13th November 2015, available at http://www.irishtimes.com/news/social-affairs/rent/10-reasons-irish-rents-are-so-high-1.2428638.

## 4.8 Stamp Duty Needs to Encourage The Supply of Homes to Rent

**4.8.1 The Government should not apply the three percentage point stamp duty levy on properties that add to the overall net supply of housing.**

4.8.2 The decision to impose the levy on the purchase of properties to rent will serve only to stifle investment. This will add to the existing shortage in some areas and consequently increase rents and reduce choice.

4.8.3 The Treasury Select Committee has previously noted that *"the stamp duty surcharge is likely to reduce the supply of privately rented properties, and hence result in higher rents."*[19]

4.8.4 It is totally counter-productive to tax investment in new housing. Instead it should not apply where landlords are: creating new homes through new builds; refurbishing units that have been empty for over a set number of years; or converting a property into residential units. 39% of landlords have reported to the RLA that they would be more likely to invest in new rented housing if the levy did not apply.

4.8.5 We believe that this could be part funded by the £3.1 billion additional revenue that the Office for Budget Responsibility suggests will be raised by 2021 as a result of the Stamp Duty levy.[20]

4.8.6 Research published by Stanford University last year found that, in the UK, a 1% cut in Stamp Duty would result in a 20% increase in housing market activity[21].

4.8.7 Simply making it more difficult and expensive for landlords to purchase does nothing to increase the overall supply of property, whereas removing the disincentive of the levy will stimulate more investment.

4.8.8 This policy also seems to be seeking to fulfil the same objective as the changes to relief on mortgage interest payments. There is no purpose in two taxes on landlords and the effects of such double taxation will discourage new investment into the sector.

## 4.9 Capital Gains Tax

4.9.1 The 2016 Budget cut the 28% rate of Capital Gains Tax to 20% for everything other than residential property. As the Red Book at the time noted, this was about incentivising investment in companies rather than property. Given the pressing need for housing, we would argue that investment in homes is equally, if not more, important. There is no need or justification to apply artificial pressure to individuals to alter their investment decisions. In addition, it is impracticable for those who have substantial property investment to simply move that into investment in stocks or bonds given the longer period of time needed to remove tenants and sell property. The two investments are not options between which individuals can casually re-allocate funds.

4.9.2 As the RLA's survey found, 31% of landlords are now considering leaving the sector altogether. This could be for a variety of reasons, including age and landlords finding the business of renting more difficult owing to increasing cost and regulatory pressures.

4.9.3 In light of this, and given the Government's objective to support home ownership, we believe that changes to the Capital Gains Tax regime could encourage landlords to dispose of their properties in a way that meets the Government's policy objective.

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[19] Treasury Select Committee, Spending Review and Autumn Statement 2015, Sixth Report of Session 2015–16 (HC638), page 33, available at http://www.publications.parliament.uk/pa/cm201516/cmselect/cmtreasy/638/638.pdf.

[20] Office for Budget Responsibility, *Economic and fiscal outlook – November 2016*, 23rd November 2016, page 236, available at http://cdn.budgetresponsibility.org.uk/Nov2016EFO.pdf.

[21] Michael Carlos Best and Henrik Jacobsen Kleven, Housing Market Responses to Transaction Taxes: Evidence From Notches and Stimulus in the UK, February 2016, available at https://web.stanford.edu/~mbest/best-kleven_landnotches_feb2016.pdf.

4.9.4 **The RLA believes that where a landlord is prepared to sell a property to a sitting tenant the 20% rate of Capital Gains Tax should be applied.**

4.9.5 DJS Research findings for the RLA report that 77% of private landlords would consider selling their property to tenants if the tax liability was waived. This would suggest that many might be encouraged if the tax liability was reduced and, the waiving of CGT in such circumstance is supported by the Royal Institution of Chartered Surveyors and the Association of Residential Letting Agents. If the government is desirous of some landlords leaving the sector encouraging them to sell to tenants rather than to other investors or first time buyers provides a route for those tenants into home ownership.

4.9.6 Protections could include a condition that the tenant purchasing the property has been in occupation for at least a year. This would prevent false tenancies being granted to prospective purchasers on the day before completion. A requirement could also be included that the transaction would have to be for a market value. This would help to ensure that the transaction is real and is not being used to reduce CGT on some other taxable transaction.

4.9.7 This change also opens up the possibility of smaller landlords seeking to emulate the rent to buy models currently being offered by some institutional landlords. Landlords could purchase property and rent it to tenants with the intention of ultimately selling to them and benefitting from a reduced CGT liability if they did so.

### 4.10 VAT

4.10.1 The RLA is calling for an end to an anomaly in the VAT system which acts as a barrier to the development of new homes to rent.

4.10.2 At present, VAT can be reclaimed on goods and services in connection with the construction of a new dwelling where it is for owner occupation. This also applies to the conversion of a non-residential building into a dwelling. VAT cannot be re-claimed if the building is to be let.

4.10.3 Work undertaken by DJS Research for the RLA has found that 69% of landlords were put off from building new properties to rent because they are unable to re-claim VAT on the building costs associated with such work.

4.10.4 **VAT should be re-claimable on any building work creating a new home irrespective of the tenure. It is essential that we encourage the supply of new homes across all tenures and not seek to favour one over the other.**

## 5.0 ENERGY EFFICIENCY

5.1 Under the terms of the Energy Act 2011 and subsequent secondary legislation, as of the 1st April 2018, there will be a new legal requirement for all newly let properties and tenancies that are renewed in the private rented sector to have an energy performance rating of 'E' or above on an Energy Performance Certificate (EPC). All existing tenancies will need to meet these standards by 1st April 2020.

5.2 According to the English Housing Survey for 2014/15[22], 7.5% of all private rented properties are rated on an EPC as either an 'F' or 'G', down from 28.1% in 2004.

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[22] Department for Communities and Local Government, *English Housing Survey Headline Report 2014-15*, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/501065/EHS_Headline_report_2014-15.pdf.

5.3 In 2014, the UK Green Building Council estimated that it would cost an average of £1,500 to bring rented properties rated F or G to the required standards[23]. It noted also that bringing a rented property up to a band E would save tenants an average of over £400 a year.

5.4 The private rented sector faces a unique challenge in meeting the energy efficiency requirements given how old much of its stock is. The English Housing Survey notes that 33% of all homes in the sector were built before 1919, representing a higher proportion than both the owner occupied and social rented sectors[24]. Properties that are this old tend not to have solid walls, making insulation much more difficult. The Federation of Master Builders has noted[25]:

> *"When it comes to working on a typical Victorian house or home built before 1919 - when cavity walls started to be popular – there are many amazing things builders can do with these properties. There are also some nightmares you can easily inflict on your clients.*
>
> *"Many builders do not realise the consequences of using modern materials and techniques on older brick-built, solid-wall houses – sometimes called 'traditional' buildings.*
>
> *"Traditional buildings perform very differently to modern housing. This means that treating a traditional building the same way you would treat a modern building can be a big mistake."*

### 5.5 Inaccurate Energy Performance Certificates

5.5.1 In order to meet the Government's targets it is crucial that landlords can have confidence in the ratings provided for a given property on their energy performance certificates. It is therefore, worrying that the Building Research Establishment has warned that 100,000 properties have been given incorrect F and G classifications as a result of understating the energy efficiency of homes with solid walls and uninsulated cavity walls[26].

5.5.2 The problem was acknowledged by the then Minister responsible for this policy, Baroness Neville-Rolfe, who, in a letter to the RLA dated 22nd October, wrote:

> *"I note also your question regarding the accuracy of EPC and the work to ensure that properties are correctly rated. I agree that this is crucial, and we are hoping to be able to consult shortly on proposed amendments to the methodology which underpins the EPC ratings, taking account of the recent BRE findings. Although there is no final timetable at this stage, it is our intention that the changes to the EPC methodology will be in place before the minimum standards take effect from April 2018."*

5.5.3 We are concerned that the process of consulting on changes to the methodology, followed by a response from the Government, will not give sufficient time for landlords to get their houses re-assessed before the April 2018 deadline.

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[23] UK Green Building Council, *Minimum energy standards will cost landlords less than £1,500 per home - and save tenants £400 a year on energy bills*, 10th June 2014 available at http://www.ukgbc.org/news/minimum-energy-standards-will-cost-landlords-less-%C2%A31500-home-and-save-tenants-%C2%A3400-year-energy.

[24] Department for Communities and Local Government, *English Housing Survey Headline Report 2014-15*, page 40, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/501065/EHS_Headline_report_2014-15.pdf.

[25] Federation of Master Builders, *Why Builders Should Treat Older Houses Differently To Modern House*, 19th July 2016, available at http://www.fmb.org.uk/about-the-fmb/builders-blog/archive/why-builders-should-treat-older-houses-differently-to-modern-houses/.

[26] RLA News, *Fears over inaccurate energy efficiency ratings*, 11th January 2016 available at https://news.rla.org.uk/fears-over-inaccurate-energy-efficiency-ratings/.

## 5.6 Financing Energy Improvements

5.6.1 A key challenge ahead of 2018 is to establish the framework within which improvements should be paid for.

5.6.2 The Energy Act 2011 made clear that landlords would not have to spend more on energy efficiency improvements than the costs that could be covered for such work under the Green Deal. We are concerned about the potential for this principle to be abandoned as a result of the decision to end the Green Deal. This would sever the link between the amount of savings generated by the work that is required and the cost of that work. As noted, given that much of the PRS stock is hard to treat, this makes energy efficiency work expensive, with the pay back in energy savings taking many years, if at all.

5.6.3 The decision to end the Green Deal followed the decision in the March 2015 budget not to renew the Landlords Energy Saving Allowance. This was limited to £1,500 per dwelling and given to cover the cost of acquiring and installing certain energy-saving items.

5.6.4 Prior to it being abolished, officials at the Department for Energy and Climate Change had indicated that landlords might be expected to pay £5,000 up front for the cost of improvements. We are again concerned that, so close to the implementation date of the energy efficiency regulations, there remains no financial framework in which to achieve them. As Baroness Neville-Rolfe noted in her letter to the RLA:

> *"The minimum standard 'cost cap' option being explored by officials under the previous government, was proposed as an alternative mechanism to enable a reasonable number of improvements to be delivered to F and G rated properties in the absence of Green Deal finance. No decisions have yet been taken on this proposal and we are currently reviewing the material received over the summer from a range of stakeholders, including the RLA, relating to potential impacts on the rental sector."*

5.6.5 To support the delivery of the Government's energy efficiency targets, **we believe that any work that a landlord carries out to their properties as one of the recommendations on an Energy Performance Certificate, should be tax deductible**.

5.6.6 This would be self-policing, as the recommendations are made by a qualified energy performance assessor, and would also have a directly measurable cost-benefit, as each recommendation comes with an estimate of its contribution to any reduction in energy bills.

5.6.7 We believe that this could be part funded by the £3.1 billion additional revenue that the Office for Budget Responsibility suggests will be raised by 2021 as a result of the Stamp Duty levy on additional properties and homes to rent[27].

5.6.8 In September 2015, DJS Research carried out work for the RLA assessing the attitude of landlords to various policy suggestions. This survey comprised of 107 telephone interviews, acting as a control group, together with 1503 responses to an online survey. **It found that 88% of landlords would be more likely to invest in energy efficiency measures if they could be considered a tax deductible repair.**

## 6.0 DEVELOPING ON SMALL PLOTS OF UNUSED LAND

6.1 Landlords, whether as individuals or as small to medium sized companies, have a good record of investment in new buildings which includes on small plots of unused land. These plots are too small to be of interest to corporate developers and they are often left empty, becoming unsightly and magnets for anti-social behaviour in a community.

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[27] Office for Budget Responsibility, *Economic and fiscal outlook – November 2016*, 23rd November 2016, page 236, available at http://cdn.budgetresponsibility.org.uk/Nov2016EFO.pdf.

6.2 Smaller developments can often be more appropriate and accepted by local residents, while large developments are more likely to receive greater objections.

6.3 The need to focus on small plots of land in this way was highlighted most clearly in the recent joint report on the subject by the Local Government Information Unit and the Federation of Master Builders[28], which noted that *"we will not build the homes we need in the UK on large sites alone*."

6.4 As part of this report, a survey of local authority planning officers and elected members with a responsibility for planning and housing from England, Scotland and Wales was carried out. They reported that:

> *"Just over half of the respondents to the local authority survey said that less than 40 per cent of housing units would be delivered on small sites. Five per cent of respondents said that no units in their local plan would be delivered on small sites.*
>
> *"A fifth said that more than 40 per cent of homes would be built on those sites and 8 per cent said that over 80 per cent of their housing units in local plans would be.*
>
> *"However, ten per cent said they "cannot estimate" and 14 per cent did not have a local plan in place. The survey also showed that small sites often come forward as windfall developments, or based on applications that are not related to the local plan itself."*

6.5 The RLA proposes that local authorities and public bodies, such as the Ministry of Defence and the NHS, should be encouraged to identify small plots (suitable for up to five units of accommodation) of unused public sector land for development by the private rented sector.

6.6 There could be various models for land transfer:

- The public owner of the land retains ownership of the land and receives a share of the rental income that reflects the land value as an overall proportion of the developed property.

- The land is transferred for payment once the building has been erected or converted and completed. This would mean that the landlord would not have to finance the land purchase up front, avoiding paying the holding costs.

- The land is held back on a longer lease for the covenanted private rental period. This would mean that the landlord would not have to finance the land purchase at the outset. This model would encourage the landlord to build new units and improve property standards, rather than buy older, cheaper stock. Leaseholds of 125 years would create equity for lenders.

6.7 Under these plans there would be a minimum 10-year requirement for renting out in the private rented sector. No affordable housing contribution would be required and there would be an exemption from Community Infrastructure Levy.

6.8 At the end of the 10-year period, the landlord would be expected to refinance, but equally they would be free at that point to sell and the user restriction would be lifted.

6.9 The overall intention of such a proposal would be:

- To create new rental units (new-build or conversion) to increase supply.

- To provide extra revenue for local authorities from the New Homes Bonus and council tax by bringing derelict land into use.

[28] LGiU and FMB, *Small is beautiful - Delivering more homes through small sites*, December 2016, available at http://www.lgiu.org.uk/wp-content/uploads/2016/12/Small-is-beautiful.pdf.

- To support small-scale, local builders.

6.8 Packages could be offered with outline planning permission for residential use to encourage rapid development.

6.9 The DJS Research for the RLA found that 46% of landlords would be interested in developing on small brownfield sites, of which 52% would be interested in developing up to 10 homes on a site.

## 7.0 SUPPORTING HOMELESS ACCESS TO PRIVATE RENTED HOUSING

7.1 Local authorities are increasingly relying on the private rented sector to meet their homelessness obligations. However research for the Department for Work and Pensions by Sheffield Hallam University has shown that that many landlords have concerns about the likelihood of arrears arising from such tenancies, whilst homeless people struggle to secure references and money for deposits. Recent tax changes are likely to make landlords even more reluctant to let to vulnerable or high risk groups.

7.2 **We support calls being made by Crisis for the Government to provide £23.6 million to fund a Help to Rent service in every English local authority area to support the homeless to access private rented housing.**

7.3 Help to Rent schemes match tenants with landlords and provide financial guarantees for deposits and rent, with ongoing support for both parties..

7.4 Under the Government funded Private Rented Sector Access Development Programme, Crisis was able to start 153 help-to-rent projects. The Programme ran from 2010 to 2014, cost £9.8 million, and supported 8,123 people into private rented housing. It ensured that 90% lasted beyond six months.

7.5 Despite the funding for the programme, the coverage of access schemes across the country was patchy given that it was not funded to provide a scheme in each local authority. Since the end of the programme in March 2016, some help-to-rent projects have been closing or reducing service provision across the country because of difficulties accessing funding.

7.6 Crisis has launched its own £150,000 funding Help-to-Rent Programme last year but were overwhelmed with demand, receiving over 120 applications from councils and the third sector but were only able to support five projects.

7.7 Crisis have since worked with WPI Economics and analysed the Treasury's Green book methodology to produce a model to work out the costs and benefits of providing Help to Rent schemes England wide. The modelling shows that a Private Rental Sector Access Scheme would cost around £23.6m annually. It reports that if access were available to all households approaching their local authority for homelessness assistance some 31,000 people could receive support annually. The model assumed that 60% of people will leave temporary accommodation as a result of the scheme being available, which would provide huge relieve to local authority budgets and is forecast to lead to savings from one year of the scheme amounting to between £172-584 million.

7.8 **We are also supporting calls from Crisis for the Government to provide £6.5 million to establish a national rent deposit guarantee scheme to support homeless people to rent in the private sector. WPI worked out that £6.5 million would be sufficient to underwrite guarantees of up to £20 million (the 3.5% set by HMT Green book), whilst also covering the cost of mediation and any necessary pay outs – modelled at a rate of 20%.**