

PRS 22

Ymgynghoriad ar y sector rhentu preifat

Consultation on the private rented sector

Ymateb gan: Royal Institution of Chartered Surveyors (RICS)

Response from: Royal Institution of Chartered Surveyors (RICS)



Committee Response

Inquiry into private rented sector

Response by the Royal Institution of Chartered Surveyors (RICS) to the Senedd Cymru Local Government and Housing Committee



Introduction

On behalf of the Royal Institution of Chartered Surveyors (RICS), can we first begin by thanking you for the opportunity to respond to this important inquiry into the private rental sector (PRS) in Wales.

Established in 1868, RICS is the largest organisation of its kind in Wales for professionals in property, construction, land and related environmental issues. With 2,500 members in Wales, our professionals work daily to drive up standards in housing and communities and have helped to shape our response to this inquiry.

Hundreds of thousands of people in Wales rely on the PRS to provide not simply a house, but a home – somewhere we should feel safe, secure and enjoy being in.

It is a part of the market that has seen significant pressures in recent years, which has seen stock diminish and rents rise. Following the introduction of Rent Smart Wales, and subsequently, the Renting Homes (Wales) Act, this inquiry is timely and allows for a holistic review of the pressures in the sector, and wider housing market implications.

Summary of recommendations

1. The Welsh Government must urgently work with the sector to undertake a holistic review of the challenges in meeting its 20,000 affordable homes target which will soften pressure on the PRS, and wider house stock strategy.
2. Explore options for a temporary reduction in the Land Transaction Tax higher residential tax rate to encourage the creation of more PRS homes – which would coincide with recent market surveys showing a small decline in owner-occupier buyer demand.
3. Rent Smart Wales should encourage the use and benefits of professional body membership by landlords by recognising the role of CPD offered by bodies including RICS and NRLA in its licence training requirements.
4. Following the upcoming deadline for contract conversions, the government and Rent Smart Wales should undertake an analysis to evaluate its effectiveness in supporting tenants in knowing their rights and obligations. The government should also work with professional bodies who have previously produced shorter, and more ‘user-friendly’ contracts which would benefit both landlords and tenants.
5. New regulations and standards must have a realistic compliance date. Current proposals in England to deliver the Decent Homes Standard to the PRS in 18 months are already of concern to landlords who will struggle to find the supply chain and labour to undertake the improvements within the timeframe. If similar proposals were considered for Wales, there are concerns this could further drive landlords out of the market due to risks of missing the deadline.

6. While reforms to the court system are proposed to support the issuing of notice periods and evictions, the Welsh Government should work with the UK Government to review, alongside the industry, the effectiveness of these changes.
7. Develop the Welsh Housing Survey to collect more frequent and detailed feedback on housing conditions and behaviour, building on the previous Welsh Housing Condition Survey and the English Housing Survey.
8. Call on the UK Government to confirm new MEES regulation compliance dates in legislation urgently and explore options within the devolved settlement to set their Welsh-specific targets. The Welsh Government should use any new energy standards as a catalyst to encourage social and PRS landlords to work together through the Optimised Retrofit Programme to assist with improvements.

The supply, quality and affordability of accommodation in the private rented sector

- The supply of high-quality, energy-efficient and affordable homes is a significant challenge across all tenures in Wales, and this is not a new phenomenon. The Welsh Government set a target of 20,000 new affordable homes during this Senedd term, which would free up stock for the PRS – at present this target is falling short of its delivery.
- The most recent census data has shown a growth in renters from 399,000 in 2011, to 451,000 in 2021 – a growth of 3% to 33.5% of the population.
- The last few years have seen significant pressure on the housing sector in Wales, with demand far outstripping supply across tenures. In the owner-occupier sector, the monthly RICS UK Residential Market Survey has recently shown a softening in buyer demand, although the stock remains below historic market levels. In the PRS however, rental demand remains at an all-time high.
- The same market survey has consistently shown Wales as having the largest, or second largest growth in renter demand month-on-month of all UK devolved nations and English regions in the last year.

*“In the rental market, **national tenant demand increased in the three months to April according to a net balance of +40% of respondents.** On the same basis, a **fall in landlord instructions was noted by a net balance of -31% of survey participants.** With demand continuing to outstrip supply, rental prices are anticipated to be driven higher over the near term, with the latest net balance coming in at +56% (more or less aligned with a figure of +59% in the previous quarter)” - [RICS UK Residential Market Survey, April 2023.](#)*

- The nature of the PRS allows for greater regulation to drive forward quality and standards. This has already been demonstrated through regulations such as Minimum Energy Efficiency Standards (MEES) that set minimum EPC ratings for lets. This ability for greater

regulation can support the improvement in quality.

- Landlords have commented to RICS that while improvements in standards and quality benefit all parties, any regulation which mandates improvements must be supported by sufficient timing to allow landlords to act. This is part of the reason the proposed EPC C MEES regulation for new lets from 2025 has been pushed to 2028 due to a lack of certainty.
- UK Government recently published its Renters Reform Bill that extends the Decent Homes Standard, which is already enforced in the social housing sector, to the PRS. In Wales, similar regulations through the Welsh Housing Quality Standard apply to the social housing sector – if similar regulations were extended to the PRS, the nature of the housing stock in Wales would mean landlords will require significant lead in time to implement and fund – not least because the supply chain has a lack of resource and landlords may only be able to undertake works during vacant periods between tenancies.
- In a recent meeting between the Scottish Government and landlord and tenant representatives on proposed rent control reforms, several landlords said it was not in their interest to raise rents by a significant margin. Higher rents could force out good tenants, increase the risk of arrears or see tenants cut back in other areas such as energy usage – which in turn could lead to health and wellbeing implications. This is a message landlords in Wales have repeated in recent times.
- One RICS member consulted as part of this response highlighted a particular challenge with the new contracts concerning victims of domestic abuse who have secured short-term, private rental accommodation. The nature of the reforms in Wales means victims have a fixed-term period of accommodation which offers extra protection and support. However, there are cases where this makes it difficult to immediately move an individual being supported into longer-term housing when another victim comes forward and needs urgent accommodation.

The challenges currently facing private sector landlords

- Recent regulatory and market pressures have presented landlords with significant challenges – many of which on their own would not be of too much concern but compounded together made for very difficult conditions.
- Most landlords only own one or two properties apart from their main home. These are mostly investments for retirement or properties inherited where the owners have become ‘accidental landlords’. Since the Covid-19 pandemic, house prices have risen significantly in Wales, so much so that many landlords saw this as an opportunity to sell and take the additional equity available.
- Changes brought on through the Renting Homes (Wales) Act concerned many landlords, especially new notice period requirements. This introduction coincided with record-high property prices, alongside a significant jump in interest rates (almost all landlords with mortgages are on variable rates). As such, for many landlords, this created an appealing

environment to sell.

- Several landlords and a representative of tenants told RICS during our response to this inquiry about their experience with contract changes:
 - Landlords explained that once the initial burden of the converted contracts was overcome, the process is relatively easy to follow, especially where agents were employed.
 - Others commented that communication from Rent Smart Wales and the Welsh Government between the Renting Homes (Wales) Act being in effect and the date for the completion of converted contracts could have been clearer – with several landlords now having to reissue contracts within six months.
 - It was noted that the occupation contract template is now 44 pages, significantly longer than similar contracts developed by organisations including RICS and the NRLA for previous contracts. This could put tenants at a disadvantage as many will simply sign without reading such a lengthy document in detail.
- Landlords are acutely aware of the need to create energy-efficient homes. Current and proposed MEES requirements are a major factor here to act, and so too has the recent energy crisis which has seen tenants struggle with rising costs. It is in a landlord's interest to ensure a home is energy efficient to ensure tenant health and wellbeing remain a priority.
- Current MEES regulation for properties to meet EPC E (or as close to it as possible in some circumstances) was relatively easy to achieve, as the costs of improvement works to meet such a rating are relatively low, or the property can demonstrate reaching an E is not feasible due to technical constraints e.g., conservation properties. Proposed changes to meet EPC C are proving to be a greater challenge – as the cost of moving from EPC E to C could be several thousand pounds due to the nature of such works e.g., new windows, greater insulation, upgraded heating systems.

Barriers to accessing the private rented sector including challenges facing young people and people with pets

- A shortage of suitable private rental properties in parts of Wales has seen a surge in rents and demand. There are multiple factors for this, not just the reduction in available stock, but changes in how we live and work, especially since the Covid-19 pandemic.
- Two separate agents representing the Cardiff region highlighted that in 2022, some rental properties saw between 100 to 150 viewing enquiries, with requests predominantly from young adults.
- The most recent rental price data available in Wales does not accurately account for the significant increase in demand seen in the sector between 2021 and 2022, but even then, it showed average rents in Wales accounted for around a quarter of monthly expenditure.

- Tenants have seen significant rent rises in recent months and years as well. Most landlords have a positive relationship with tenants and rent rises have historically been modest in size. In recent months landlords have seen their costs increase dramatically as the majority of buy-to-let mortgages are on variable interest rates which rose significantly in the latter half of 2022, combined with the energy crisis which further a strain on landlords where rents were inclusive of energy.
- A number of landlords own property in medium-to-high rise blocks, which have seen increases in costs associated with building safety, which many have had to see reflected in higher rents to offset.
- The challenge of pets in rental accommodation has been a long-standing issue. Pet ownership is important to many and can offer emotional support - so provisions for the inclusion of pets are welcomed. Several landlords gave feedback that for longer-term tenants they are more flexible and open to negotiation on allowing pets. Others noted that in shorter-term lets, 6-12 months, they have typically refused pets as future tenants may be put off.
- Landlords have previously been accommodating towards pets by increasing tenant deposits to pay for additional cleaning between tenancies. However, with deposits capped, this has restricted the ability to increase deposits without also increasing rents. Landlords do acknowledge though, that in most cases deposits are usually paid back in full or with minor deductions.

How effectively the private rented sector is regulated

- Rent Smart Wales provides a useful avenue for embedding greater regulation and professionalism within the PRS.
- Many RICS members reported that registering for the scheme is relatively simple and low-cost. For comparison, in several English local authorities, a new landlord licence can cost between £750 - £1000 per property, compared to Rent Smart Wales at £187.
- There have been concerns raised that while landlords are required to undertake CPD training as part of Rent Smart Wales, this does not fully recognise similar training provided by professional bodies such as RICS and NRLA. Members of these professional bodies and similar have to adhere to even higher standards and regulations than what is set out by Rent Smart Wales. Recognition of this requirement should be acknowledged by Rent Smart Wales which can help drive up standards and regulation and reduce administrative burdens for professional body members who are landlords.
- There are well-documented concerns around the enforcement of current regulations, especially with resource challenges in suitable officers across local authorities who are capable of undertaking inspections. Further research should be explored to better understand how shared services and existing inspection work (e.g., planning) could be employed to help with immediate compliance inspections.

- Any new regulations on standards, including energy performance and quality, must be developed with sufficient lead time to ensure effective compliance. Historically, we have seen that regulations introduced in haste or with insufficient lead-in time and support have resulted in landlords leaving the marketplace. In recent times, we have seen this taken into consideration, with the proposal for EPC C MEES regulations for new lets postponed from the planned 2025 introduction to 2028. This reflected concerns from landlords that the timeframe, cost and supply chain challenges for such a short window of compliance would force them to be left with no choice but to sell.
- Several PRS landlords were invited to become involved with the Optimised Retrofit Programme (ORP) to undertake simultaneous work with social landlords, helping to reduce costs if they undertook the work alone. However, very few PRS landlords engaged in the process, driven in part by the unexpected invitation to undertake significant CAPEX work to a property, and others simply planning on complying with the minimum regulations. If new MEES regulations are confirmed in legislation shortly, this creates a tangible business case for more PRS landlords to get involved with ORP.

The availability of data on the private rented sector and how it can be improved

- As highlighted already in our response, rental price data is several years old and does not fully account for the pressures we have seen in the PRS in recent years. In the absence of recent rental data from the government, the [RICS UK Residential Market Survey](#) provides a monthly rent analysis and expectations which the Committee may wish to consider in its analysis of the inquiry.
- It has previously been proposed that a Welsh Housing Survey be created which offers a holistic review of homeowners' and tenants' attitudes and experiences in housing, accounting for a range of tenures. This is similar to the annual English Housing Survey which provides vital data on the housing market and conditions. The Welsh Housing Condition Survey used to provide elements of this data, but elements were lost in the transition to Rent Smart Wales.

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