

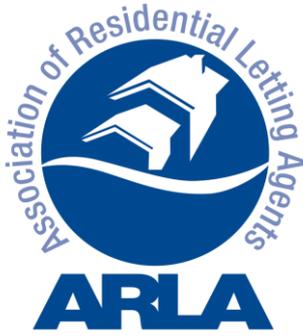
**Response to House of Lords Select Committee on Economic Affairs Inquiry
into the Economics of the United Kingdom Housing Market
From National Association of Estate Agents (NAEA) and Association of
Residential Letting Agents (ARLA)
December 2015**

Background

1. Association of Residential Letting Agents (ARLA) - As the UK's foremost professional body for letting agents ARLA represents 8,000 members including 3,000 Principals, Partners and Directors of letting agencies. ARLA campaigns in the best interests of consumers – for mandatory regulation, client money protection, independent redress and professional indemnity insurance. Using an ARLA member provides landlords and tenants with higher professional standards and financial safeguards than the law demands.
2. National Association of Estate Agents (NAEA) - Membership of professional body NAEA provides consumers with high professional standards and integrity in all property transactions. NAEA has a high media profile, analysing market trends and speaking on property issues on behalf of more than 7,000 estate agents including 3,500 Principals, Partners and Directors from across the UK property sector.

1. Private Ownership: What measures can be taken to increase the supply of reasonably priced housing in the UK?

3. To increase the supply of reasonably priced housing in the UK we need finance, suitable land, time and skill. We need to stop thinking of housing policy in five year election cycles and adopt a long term approach to this critical issue.
4. For instance, bricks and other materials must be ordered a year before a home can be built and the UK needs skilled workers to ensure that properties are built to a high standard. Consequently, there must be a continued partnership with industry and the education sector to boost apprentice numbers in order to attract more people into the construction industry. Funding must also be provided to support their training. This is particularly important to increase the number of brick layers and carpenters who are desperately needed.
5. Local authorities must ensure that homes are built on suitable land that is located along existing transport corridors. These developments must provide schools, hospitals, local shops and green spaces for communities to use and enjoy. These



developments must also include cycle ways and good bus routes connecting local towns, villages and cities. Local authorities should also identify and bring back into residential use empty housing, buildings and where appropriate converting empty shops into flats to help regenerate town and city centres.

6. It is also imperative that the supply of reasonably priced housing coincides with infrastructure improvements. The opening of new train lines, dual carriageways and bypasses will not only help to increase the supply of housing but reduce traffic levels as well as noise and air pollution. They can also link centres of employment for people to work and build communities.
7. Unused public sector land should be released for residential developments in towns and cities across the UK. This is particularly relevant in London where demand for housing is extremely high. The Greater London Authority, Transport for London and the National Health Service could all release land for development.
8. The cost of materials to build homes must be reasonable and regulations must not be so onerous that they result in unaffordable housing as an unintended consequence.
9. Those able to access reasonably priced housing still require large sums of money to pay for deposits and solicitors' fees. With house prices still outstripping wages people need support in accessing finance to purchase property once they are built.

A. Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of Housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?

10. Since the start of the economic downturn, we have consistently called on the Government and the banks to look at more comprehensive ways to improve access to funding for prospective homeowners, especially for the important first time buyer market.
11. When Help to Buy was first announced in the March 2013 Budget we welcomed the unveiling of the scheme. Following the launch of the equity loan the NAEA Housing Market Report published in June 2013 showed that the average number of house hunters increased in April, reversing the downward trend seen in the previous two months.



12. The number of sales during April also increased, with nine sales recorded per branch, which was up slightly from eight in March (this was the highest number of average sales recorded since June 2011). The percentage of overall sales to first time buyers also increased from 19% in March to 23% in April. In addition, for the third consecutive month, the supply of homes increased marginally, with the average number of properties per branch increasing from 60 in March to 61 in April. However, these figures shouldn't be taken in isolation and there is insufficient evidence to conclude that this increase was just due to Help to Buy. This is because at the time lending rates were low and there were also a wide variety of mortgage products on offer.
13. The Help to Buy ISA announced during the Chancellor's March 2015 Budget is another strong initiative from the Government, allowing first time buyers to raise a deposit. It especially benefits couples who are buying for the first time as both are eligible to open a Help to Buy ISA, which potentially means a £6,000 bonus from the Government towards owning a new home. However, in the long term, in order to help first time buyers find their feet in the market the issue of supply needs to be addressed and more houses need to be built.
14. In October 2015 we were pleased when the Communities Secretary, Greg Clark announced that the 1.3million housing association homes made available for purchase under the Right to Buy will be replaced on a one-for-one basis, which will help increase supply in the housing market. However, it is important that these replacement homes are built within the same local authority boundaries where the original home was sold. As a result the Government shouldn't look at major cities across the UK as whole entities. The Government must ensure that housing stock is retained and grown evenly across city regions.
15. We believe that Shared Ownership can, in the right circumstances, offer a way of avoiding the high costs associated with buying a property. By splitting the deposit, maintenance fees and mortgage repayments, it can make owning a home a more realistic aim for many would-be first time buyers. However, it's important to remember, that this option requires a lot of trust, transparency and good planning between all parties involved.
16. Due to a drop in the number of first time buyers back in January 2013 we encouraged first time buyers to consider shared ownership. However, we believe that when highlighting this option it's important that people are aware that there are mortgages



that exist specifically for this type of purchase and should shop around for the best deal.

17. In December 2015 we welcomed the news that the Government would put the proposed plans for the expansion of shared ownership into action. Without the loosening of existing restrictions, a potential 175,000 aspiring homeowners would not have the opportunity to own their own home. Furthermore, without the changes this would also restrict existing shared ownership homeowners the opportunity to move up the housing ladder.

B. Taxation: Are there tax measures that would improve housing supply and affordability?

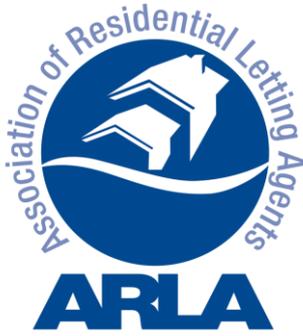
18. Because of the extent of housing demand in London we think that the Stamp Duty raised from London property sales should be kept in London to invest in more housing. This is an idea that if successful could be rolled out to other major cities throughout the UK where demand is at its highest.
19. It's also vital that the Government works closely with mortgage lenders to ensure that lending criteria are appropriate and that sufficient lending is available to those who are looking to buy a home.

i. Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on 'downsizing' or housing supply in general?

20. We fear that the Chancellors' decision to raise the inheritance tax relief threshold to property worth less than £1million could have unintended consequences on helping buyers move up the housing ladder. This is largely because increasing the threshold will create tax incentives for home owners to stay in property for longer periods of time, which will have a knock-on effect lower down the property chain.

ii. Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

21. In December 2014 we were very pleased that the Chancellor decided to abolish the cumulative slab tax and introduce a graduated band tax. In January 2015 the NAEA Housing Market Report showed that the Stamp Duty reforms announced at the start of December had helped to boost the middle market and encourage prospective home buyers. NAEA member agents recorded the highest level of registered home buyers per branch in December for 10 years, while agents reported a rise in the number of properties sold in the bands of up to £250,000 and £251,000 to £925,000.



22. NAEA members also reported that the number of house buyers registered in December was on average 360 per branch, the highest level for that time of year recorded in the last 10 years. The last time the number of house buyers registered per NAEA member branch was this high for December was in 2004, in which 360 house hunters were similarly recorded. The seasonally high figures suggest the changes made to Stamp Duty announced in December 2014 helped to encourage prospective buyers in a typically quieter month for the housing market.
23. Another promising sign was the slight increase in percentage of sales made by first time buyers in December. NAEA member agents reported that the percentage of sales made by first time buyers increased by 2%, from 24% of total sales in November 2014 to 26% in December. Out of those sales made by first time buyers in the month, almost half (48%) were aged 18 to 30, suggesting a higher proportion of younger first time buyers had been encouraged onto the market than the previous month, when just 38% of sales were made by first time buyers aged 18 to 30.
24. However, the number of houses available per NAEA branch was seasonally low at just 45 properties per branch, compared to 50 in the previous month and 47 the year before in December 2013. The lack of supply, and ultimately lack of choice for prospective buyers saw NAEA members' record on average just 5 sales per branch in December compared to eight in November (the previous month).
25. The Committee may also be interested to know that sales figures provided to us from members in Scotland allowed us to examine the operation of Scotland's new Land and Buildings Tax since 1 April 2015. Figures from our members showed that whilst we expected the new rules to help first-time buyers and the lower end of the market, the figures we obtained showed that fewer properties costing up to £145,000 were sold in 2015 (since the new rules came in) compared to the same period in the previous two years.

C. Mortgages: Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?

26. The new rules that came in under the Mortgage Market Review introduced stricter guidelines for lenders and led to two thirds (65%) of NAEA member estate agents reporting a decrease in the number of buyers. This was the direct result of a slow-down in acceptance of mortgages, with it now taking an average of 50 days to receive a mortgage offer. This increases the risk that sales will collapse and puts unnecessary pressure on all transactions within a chain.

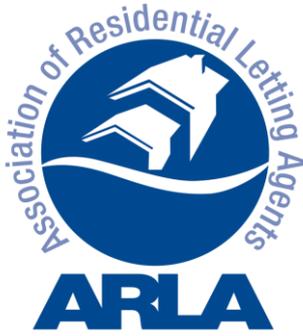


D. Planning: Are any further changes to the planning system necessary to increase the availability of low cost housing?

27. The planning system has for a long time suffered from a lack of consistency. The Government's decision to deregulate planning laws to force through construction in local communities will help in the short term but in the longer term the Government needs to introduce a national house building plan.
28. The Government must also ensure a level of consultation with residents is retained in the planning process to ensure houses are built that meet the need of the local community.

2. Privately Rented Accommodation: What measures can be taken to increase the supply of low cost private rental properties in the UK?

29. In order to increase the supply of low cost private rental properties in the UK more homes must be built and institutional investors should be encouraged into the residential property sector.
30. The private rented sector should be treated as an 'entrepreneurial business activity' for Capital Gains Tax purposes. This would allow landlords to take advantage of the same level of roll-over relief available to other businesses when reinvesting in the sector and limiting Capital Gains Tax to gains released from a business as profit.
31. Local authorities need to be empowered to be able to effectively fine home owners who leave properties sitting empty, such as by raising the severity of penalties the longer the property stays empty.
32. Home owners and landlords should be incentivised to maintain and make improvements in their properties, thus improving the quality of housing stock in general. The Government's decision to end funding to the Green Deal Finance Company is disappointing and could mean that the Minimum Energy Performance Standard (MEPS) regulations may become impossible to implement. This is largely because the Green Deal allowed landlords to make their properties energy efficient at no upfront cost. Furthermore, maintenance costs are lower in energy efficient properties and tenants that do not have to pay significant sums of money to keep their homes at a comfortable temperature generally stay in properties longer, thus void periods are reduced.
33. ARLA believes that full mandatory government regulation of sales and letting agents is the quickest and most effective method to eliminate unprofessional, unqualified



and unethical agents from the rental market. We think increasing supply of rental properties and raising standards across the industry must go hand-in-hand.

A. Will the reduction of tax relief available to landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?

34. After the Chancellor's announcement in July we said that at a time when the supply of rental property is already struggling to meet demand, it is dangerous to try and reduce growth in the rental market.

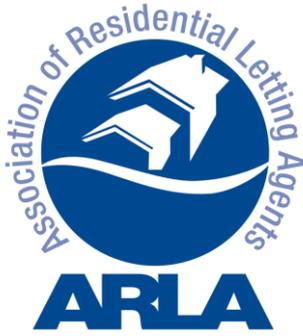
35. The Chancellor has also replaced the Wear and Tear Allowance costs with a new system of Tax Relief, which means that landlords can only deduct the exact amount they incur. The unintended consequence of this, combined with the reduction in income tax relief, is that landlords will seek to recoup their costs by putting up rents. Consequently, tenants will have to save for longer to be able to afford a deposit for a house because more and more of their income will be spent on rent. Therefore these policy changes will have the opposite effect of the Government's stated policy aim of more owner occupiers.

B. Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long term rental culture?

36. ARLA's Private Rented Sector Report from October 2015 showed that the number of letting agents reporting rent increases for tenants fell to a quarter (25%), compared to 32% in September. This meant that the number of rent hikes in October was the lowest reported this year. However, as typical at this time of year demand dropped, but we expect demand to pick up again after Christmas.

37. Next year we hope to see the number of tenants experiencing rent hikes remain low with supply and demand levelling out. However, a lot rests on the economic and political agenda. We're still waiting for new houses previously announced by the Prime Minister, whilst changes to landlord tax proposed under the Finance Bill are very likely to discourage new landlords from entering the market.

38. The announcement in the Chancellor's most recent Autumn Statement for stamp duty tax on buy to let properties to be increased by 3% from April 2016 is catastrophic news for the private rental sector. To make owning a buy to let property financially viable, landlords will need to pass on the increased stamp-duty costs to tenants, who will in turn see less spent on maintaining their property and see increased rents. The changes will also deter new landlords from entering the market, pushing the gap



between dwindling supply of available property and growing demand even further apart, which will also – in turn – push up rental costs.

39. In order to encourage a stable long term rental culture the Government must build more houses to bring down the cost of renting. It's also important that existing landlords who want to expand their property portfolios have new investment channels to tap into and there is a more flexible tax regime putting private landlords on a level playing field with the social rented sector and owner-occupiers.
40. It's essential that Housing Enforcement teams are properly resourced to remove rogue landlords and agents from the sector. Figures from Shelter show that only 428 landlords from across all of England were prosecuted last year for housing offences. Therefore, it is essential that prosecuting bodies are given the powers to become revenue generators for local authorities rather than revenue drains. The fines collected should be kept by the enforcing body and ring-fenced with the money going towards further enforcement.
41. The Government should promote the benefits of being a better landlord and encourage consumers to use trained and qualified landlords and agents. ARLA has long campaigned for more appropriate regulation of the letting industry. To improve the sector and provide a better service to both landlords and tenants, we believe that all letting agents should be professionally qualified and required to undertake regular Continued Professional Development. A scheme akin to the London Rental Standard should be placed on the statute books and made mandatory for every agency. Such regulation will ensure fairness, a level playing field and, we believe, the removal of those agents who bring the industry into disrepute.

C. What are the advantages and disadvantages of restricting rent increases in the private sector?

42. We don't see any advantages in restricting rent increases or introducing any rent stabilisation measures, such as longer minimum fixed term tenancies in the private sector. This is because flexible tenancies and rent prices driven by market forces have led to the success of the private rented sector across the UK.
43. In addition, we know from our members that landlords appreciate good tenants and would avoid raising rents to retain them. ARLA's Private Rented Sector Report in March 2015 showed that the average time tenants stayed in a property is 17 months and a third (31%) of agents reported that they had successfully negotiated a rent reduction for tenants. Therefore, if, for example, rent controls were introduced to



rise only with inflation, instead of tenants getting a potential reduction they may be more vulnerable to automatic increases.

44. Furthermore, institutional investors who are crucial for building new homes could be deterred from investing in the private rented sector, which could lead to a slowdown in the construction of new apartment blocks. As a consequence property may switch towards other uses such as offices.
45. It is estimated that there are around 100,000 remaining tenancies in the UK still subject to 'rent control' which applied to landlords before the introduction of the Housing Act 1988. Whilst the gap between the rent charges on these properties compared with similar unregulated property near to them underlines just how much private rents have overtaken prices and earnings since the 1980s, the fact that many of these properties are in very poor condition, as it is not in either the landlords or the tenants interest to maintain them, clearly highlights the problems with rent control.
46. If restrictions on increases to rent were introduced it's likely that landlords would start new tenancies with higher rents to prevent losses later in the tenancy. Higher rents would be essential to ensure mortgage payments and maintenance costs could be met.
47. The only way we are going to get rents and houses prices under control across the UK is by a massive house building programme.