propertymark

HM Treasury - Spring Budget 2023
Representation from Propertymark
January 2023

Background

1. Propertymark is the UK's leading professional body of property agents, with over 17,000 members. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry leading training programme and mandatory Continuing Professional Development.

Representation

Support for low-income households in the private rented sector

2. The UK Government should take advantage of the upcoming budget to support low-income households in the Private Rented Sector (PRS) and reform the way the benefits system functions in three key areas:

   - Suspension of the Shared Accommodation Rate.
   - Raise the level of the Local Housing Allowance.
   - Turn the Universal Credit Advance into a grant from the start of claim.

Suspension of the Shared Accommodation Rate

3. **Policy rationale** – For many single private renters under 35, the Shared Accommodation Rate (SAR) places a cap on the amount of housing assistance that can be provided through the benefits system. With a few exceptions, these claimants are eligible to receive money to cover the cost of a single room in a shared home with a shared kitchen and bathroom.

4. **Cost and Benefits** – In terms of economic activity and work opportunities, young people were adversely impacted by lockdowns and the Covid pandemic. According to research from the Intergeneration Foundation, young people aged under 35 continue to be adversely impacted by the Cost-of-Living Crisis. In their report supported by the Yorkshire Building Society, under-35s households spend close to two thirds (63 per cent) of their weekly expenditure on essentials and under-35 households in the bottom income quintile must devote over 70 per cent of their weekly expenditure budget on essentials.[1]

[1] https://www.if.org.uk/research-posts/all-consuming-pressures-the-cost-of-living-crisis-facing-younger-generations/

5. **Deliverability of proposals –** Young people have been adversely impacted by the Covid-19 pandemic with young people's employment rate saw a large decline in 2020 compared with 2019, while their unemployment and economic inactivity rates increased.[2] An estimated 121,000 young people in the UK asked the council for help with homelessness in 2019-20, based on figures provided by local authorities and devolved administrations. However, it is worth bearing in mind that not everyone reaches the council for help and many more 16–24-year-olds are hidden homeless[3]. The impact of homelessness particularly young unemployment is dramatic in terms of costs for the government. Temporary accommodation cost English local authorities £1.1bn and £663m alone is spent in London[4]. This does not consider the indirect financial impact on other services such as the NHS and prison services.

Uplift of Local Housing Allowance Rate (LHA)

6. **Policy rationale** – The UK Government's decision to increase Local Housing Allowance (LHA) to the 30th percentile was a positive intervention during the pandemic, when many tenants struggled to pay their rents. As the rising costs of energy and essentials impacts many low-income renters, the UK Government need to go further during these unprecedented times and consider increasing the LHA level to the 50th percentile. This will ensure that tenants have wider access to housing options and those in tenancies have security to cover rents.

7. **Cost and Benefits** - There are two main benefits to raising the Local Housing Allowance. Firstly, it will more accurately reflect the cost of renting. Secondly, it will improve recipient's ability to obtain good quality and well managed accommodation. Many people lose their homes when the rising pressure from high rents and low incomes becomes too much. By increasing Local Housing Allowance, it will provide a greater safety net for anyone who loses a job or falls ill. It will also mean that for most private renters who are reliant on housing benefit to pay their rent, there will be more properties in their area that they can afford.

8. **Deliverability of proposals** - The UK Government can deliver these proposals by committing to keep rates at the thirtieth percentile before raising further to the fiftieth percentile. It is imperative that as a minimum the rates continue to reflect the bottom thirty percent of rents in each rental area. By only maintaining the rates 'in cash terms' this means that the Local Housing Allowance rates will not hold their value against rental inflation and consequently this will mean a cut to many household budgets to ensure they can keep up with rent payments.

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[2] Coronavirus and changing young people's labour market outcomes in the UK - Office for National Statistics (ons.gov.uk)
[3] How many young people are homeless in the UK? | Centrepoint
[4] Page template with branding (ctfassets.net)

Reform of Universal Credit (UC)

9. **Policy rationale** – To sustain tenancies and support renters, the UK Government must do two things to ensure Universal Credit is adequate and more effective:
    1. All claimants should be able to choose whether to have Universal Credit paid monthly or twice monthly to assist with budgeting.
    2. To tackle rent arrears the Universal Credit advance should be turned into a non-repayable grant from the first day of the claim.

10. **Cost and benefits** - The rollout of Universal Credit has drastically impacted on private landlords' willingness to let to those in receipt of the benefit and in many cases the five-week wait for the first Universal Credit payment is the main cause of insecurity for claimants. Under the current arrangements, paying awards monthly does not reflect the lived experiences of many claimants. It forces people to fit to the rigid requirements of the system and causes unnecessary budget and cashflow problems both for those out of work and for those who are used to receiving wages more frequently. By making improvements to how Universal Credit works, and ensuring it is more flexible, and accommodates a diverse range of personal circumstances, the UK Government can provide stronger support to those that need it the most as well as ensuring that Universal Credit works for the private rented sector.

11. **Deliverability of the proposal** - To deliver a Universal Credit system which is adequate and more effective, the UK Government should give claimants the choice as to whether they want to their have the benefit paid monthly or twice monthly. Whilst being paid weekly for many workers has declined there are still many workers who have no experience of monthly pay cycles. In the lowest decile of weekly earnings, 17% of employees are still paid weekly. This policy is in operation in Scotland and allows greater flexibility for claimants. However, it is important to note that although the Scottish system makes it easier for claimants to budget on an ongoing basis according to their needs, it does not mitigate the fact that the initial waiting period is still long, as claimants can only make their choice after they have received their first payment. Consequently, the UK Government must recognise that there are people who would benefit from a more flexible and frequent payment structure than the current system allows.

12. The quickest and simplest solution to rent arrears would be to turn the Universal Credit advance into a non-repayable grant from day one, removing the five-week waiting period. It is estimated that this would cost the Department for Work and Pensions between £1-2 billion a year. The five-week wait is the reason that claimants find themselves with an income that is less than their outgoings for essential bills, because requesting an advance payment means that deductions are taken (at a very high rate) for the next 12 months. Many tenants in the private rented sector have very limited savings and the UK Government must introduce measures that ensure they can access support straight away.

13. **Costs** – According to data from Crisis[5], the annual cost of restoring the Local Housing Allowance Level (LHA) to the thirtieth percentile would be £1.1 billion. However, as this would lift 32,000 people out of poverty and prevent a further 6,000 people from homelessness, producing savings of £5.6 billion including £5.5 billion on homelessness services and a further £124 million saved on temporary accommodation. Over a three-year period, after costs are deducted this would save the UK Government £2.1 billion.

Support for renters and owner-occupiers with the energy efficiency of homes

14. Propertymark wants to see more energy-efficient homes, but new rules and requirements must be realistic and achievable. Without providing landlords and homeowners with incentives and access to sustained funding, it is unlikely that energy efficiency targets for the private rented sector and a reduction in emissions across the property sector will be met. The UK Government must provide a combination of grants, loans and help with survey costs to incentivise landlords and homeowners.

15. **Policy rationale** – Following the closure of the Green Homes Grant scheme there needs to be a long-term financial plan to support homeowners and landlords with energy efficiency and combating climate change. The UK housing stock is amongst the least energy efficient in Europe and the Committee on Climate Change says that energy use in homes accounts for about 14 per cent of UK greenhouse gas emissions.[6]

16. **Costs and Benefits** - Energy efficient homes can reduce overall costs for the UK Government by improving health and reducing household bills. The benefits mean the UK Government can improve the country's housing stock, tackle fuel poverty, and reduce carbon emissions. Towards the end of 2022, the Department for Business, Energy and Industrial Strategy (BEIS) invested £1.5 billion to decarbonise 130,000 homes in the social housing sector[7]. However, the greatest need to decarbonise stock and tackle fuel poverty is in the Private Rented Sector (PRS) with around two thirds of stock fall below an Energy Performance Certificate (EPC) rating of C[8]. For England, the UK Government has already allocated £4 billion of funding for decarbonisation of housing from 2022-25. However, much of this has been in the social sector and this is much less than the £9.2 billion highlighted in the Conservative election manifesto[9]. This is also a fraction of the UK Government's estimate that £35-65 billion of investment is needed by 2035. Using the unallocated funds from the remaining £5.2 billion, the UK Government should learn from the lessons of the implementation of the Green Homes Grant and allocate a scheme for landlords and homeowners to make energy efficiency improvements to their properties. The Green Homes Grant was designed to improve 600,000 homes from a £1.5 billion budget. However, progress from the scheme was hampered by

[5] crisis-cover-the-cost-solutions-report.pdf
[6] https://www.theccc.org.uk/2019/02/21/uk-homes-unfit-for-the-challenges-of-climate-change-ccc-says/
[7] £1.5 billion to improve energy efficiency and slash bills - GOV.UK (www.gov.uk)
[8] English Housing Survey, 2020 to 2021: private rented sector - GOV.UK (www.gov.uk)
[9] Conservative Party Manifesto 2019 (conservatives.com)

bureaucracy and difficult to achieve requirements. 47,500 homes were improved costing £256 million.[10]

17. **Deliverability of proposals** - The UK Government should set out a plan for energy efficiency improvements that are linked to the recommendations on an EPC. This would provide a clear plan of action for landlords and homeowners, which demonstrate the most suitable route to a warmer home, regulatory compliance and zero carbon, in an appropriately staged way.

Reversal of Section 24 of the Finance Act and incentivise more investment in housing

18. We are calling for the UK Government to look as landlords as a small business and to allow them to claim 100 per cent of their mortgage interest when filling their tax returns. The phasing out of Mortgage Interest Relief (MIR) and other tax-deductible costs such as arrangement fees has significantly increased costs for landlords and disincentivised others from joining the market. Propertymark gave evidence to the government and drew caution to the possible impact of phasing out tax deductible savings if interest rates were to increase. Propertymark has also completed research on the level of supply in the PRS. 53% of buy-to-let properties sold in March 2022 left the PRS. 84% of respondents told us that the number of new investors in the PRS has decreased over the past three years and there was a 49% reduction in properties available to rent per branch in March 2022 compared to March 2019.[11] The decision to phase out costs such as Mortgage Interest Relief from deductible tax may have been the correct decision at the time of implementation in 2016. However, the economic climate is remarkably different in the present day with record high interest rates. At the time of implementation, interests' rates were close to zero. Although the policy was reviewed in 2019, interest rates remained low.

19. **Policy rationale** – Supply of properties to rent is the main concern for property agents and is a major challenge facing the private rented sector. Section 24 is often referred to as the 'Tenant Tax'. This is because higher tax on landlords will impact on their profit levels, increases their cost and results in higher rents for tenants. While many landlords have largely been able to keep rents down, the increased costs from current interest rates have led to many landlords being forced to increase rents simply to cover costs. This has resulted in rising rents across the country. When the UK Government introduced the phasing out of Mortgage Interest Relief through Section 24, the levels of interest for mortgages were low. According to the Bank of England, the level of interest on mortgage rates was largely static and unchanged at 2.1%. However, current rates have risen exponentially resulting in many landlords being forced to leave the sector.

[10] Green homes grant voucher programme (parliament.uk)
[11] https://www.propertymark.co.uk/resource/a-shrinking-private-renter-sector.html

20. **Cost and Benefits -** At the time of the 2017 Spring Budget, it was estimated the implementation of Section 24 and the removal of Mortgage Interest Relief would raise £225m in 2018/19 rising to £940m by 2021/22. [12] Therefore, given that many landlords have left the sector and some of which are unlikely to return, a generous estimation of the cost of reintroducing Mortgage Interest Relief for buy to let landlords would be £1 billion. However, the cost-based savings of incentivising landlords to join the market and effectively increasing supply would reduce rents. This would be a medium-term commitment in reducing the £30 billion spent annually on housing benefit, which is between £8 and 10 billion more than the Office for Budget Responsibility forecast.[13]

21. Furthermore, while increasing homeownership is important for economic growth a well-functioning Private Rented Sector is equally important to support contract workers, students, those still unable to get on the property ladder and simply those who do not want to be tied down to mortgage payments. To stop the supply of PRS accommodation further contracting and on top of reintroducing tax relief for landlords, the UK Government must also reduce the 3 per cent levy on second home purchases or to make it payable on sale of a property to further disincentivise landlords exiting the market. This will increase the supply of properties, bring rents down and end any argument in favour of rent controls.

22. Additionally, the UK Government made £14.3billion in Capital Gains Tax (CGT) in the 2020/21 tax year, taking contributions from a total of 323,000 taxpayers with the current rate set at 28% for Buy to Let properties.[14] This is money the UK Government can no longer call upon and we believe the government must look to more sustainable and long-term ways of raising income. Accordingly, we recommend the UK Government further disincentives landlords from leaving the market and further reducing supply by increasing the rate of CGT on the sale of Buy to Let properties to 38%.

23. **Deliverability of proposals** - To reverse Section 24 of the Finance Act the UK Government would essentially need to do three things. Firstly, reinstate the ability of landlords to set the total amount of mortgage interest against rental income before tax is calculated. Secondly, this would remove the basic rate reduction of 20% and allow landlords to claim the full interest on their mortgages which is one of the largest costings for landlords. Thirdly, landlords who rent out properties in their name are subject to the tax changes. However, landlords can set up a limited company and buy a property using that company, or transfer ownership of an existing property. Those who set up as a limited company can offset Mortgage Interest Relief as a business expense. By reintroducing Mortgage Interest Relief and other landlord tax deductible expenses, the UK Government can level the playing field between landlords who operate in name and as a business creating a fairer tax system.

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[12] Spring Budget 2017 (publishing.service.gov.uk)
[13] LATEST: Government's annual housing benefit bill rises to £30 billion – LandlordZONE
[14] Average buy-to-let landlord will lose £2,600 extra to Hunt's CGT hike | This is Money

24. The money reintroduced by reinstating Section 24 was traditionally used by landlords to maintain and improve standards. If landlords could make these tax-deductible savings, they would be in stronger position to improve standards or keep rents as low as possible. Tenants will have more disposable income which could be used to save up for a deposit to help renters become homeowners.