

**The Senedd's Local Government and Housing Committee inquiry into second homes****Response from Propertymark****January 2022****Background**

1. Propertymark is the leading professional body for estate and letting agents, commercial agents, inventory providers, auctioneers and valuers, comprising nearly 18,000 members across the UK. We are member-led, with a Board which is made up of practising 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.

**Summary**

2. Upon examination of Dr Simon Brooks' recommendations<sup>1</sup> and the Welsh Government's response to those proposals, Propertymark have the following overarching considerations to share with the Committee:
  - i. We are in no doubt that higher numbers of second homes chargeable for Council Tax as a proportion of total chargeable dwellings is a localised phenomenon which will require a combination of evidence informed national and local policy measures.
  - ii. There is a significant gap in the data available to help inform an accurate picture of the true scale and impact of second homeownership in Wales as there is currently no reliable information about the number of properties being let on the short-term letting market.
  - iii. Until a robust typology is developed for defining the different categories of second homes, we will lack reliable data upon which to based policy developments in this area.
  - iv. To prevent vital residential housing supply being reallocated to the commercial tourism market, on a damaging scale, the Welsh Government should carefully consider measures that will help level the playing field between a more tax favourable and unregulated short-term letting industry and the less tax favourable and intensely regulated private rented sector (long-term letting industry). Below we set out our reasoning across these four considerations.

**First consideration: Higher concentrations of second homes is a localised phenomenon requiring a combination of evidence informed national and local policy solutions.**

3. Propertymark believes that local authorities in Wales already have a potentially powerful mechanism, via Sections 12A and 12B of the Local Government Finance Act 1992 (as amended by the Housing (Wales) Act 2014),<sup>2</sup> to help regulate concentrations of second homes via the council tax system, but this does not extend to homes that are registered for business rates. On this basis the Welsh Government should examine ways to enable localised responses via changes to the business rates system. Alongside these local approaches, a national approach

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<sup>1</sup> <https://gov.wales/sites/default/files/publications/2021-03/second-homes-developing-new-policies-in-wales.pdf>

<sup>2</sup> <https://www.legislation.gov.uk/en/ukpga/1992/14/section/12A>

will be needed to significantly increase new housing supply while also levelling the playing field between the short- and long-term letting industries. The evidence supports our concerns about a reduction in homes available to rent in the long term residential private rented sector in areas experiencing higher concentrations of homes being let on the short-term commercial market.<sup>3</sup>

4. Based on our analysis of the data for dwellings chargeable for council tax in Wales,<sup>4</sup> there is no doubt that large concentrations of chargeable second homes as a proportion of all chargeable dwellings are a very local phenomenon. In 2021 there were a total 1,397,387 registered dwellings chargeable for council tax, of which 25,995 were chargeable second homes – 1.86 per cent of the total - meaning almost two in every 100 properties in Wales was a second home that was chargeable for council tax purposes in 2021.<sup>5</sup> In contrast, in Gwynedd, almost one in ten properties was a chargeable second home in 2021, and almost one in twelve in Isle of Anglesey. Due to the localised nature of the issue, it will be important to exercise extreme caution against taking large scale national measures which may impact on the wider housing market when local responses may be able to achieve more targeted results.
5. As noted in our response to the Welsh Government's consultation on Local Taxes for Second Homes and Self-catering Accommodation,<sup>6</sup> there is very little evidence to demonstrate the efficacy of utilising the local council tax system to effect change in the rates of second homeownership at the local level because of the difficulty in drawing any reliable conclusions based on its limited uptake. Only nine out of 22 local authorities exercised their powers to apply a council tax premium to owners of chargeable second homes in 2021 – one applied the full 100 per cent (Swansea), five applied a 50 per cent premium (Gwynedd, Flintshire, Denbighshire, Pembrokeshire and Powys) one charged an additional 35 per cent (Isle of Anglesey) and two charged an extra 25 per cent (Ceredigion and Conwy). None of the top five areas experiencing the highest concentrations of chargeable second homes in 2021 applied more than a 50 per cent council tax premium. We believe no further localised measures should be implemented until the Welsh Government investigates why local authorities have largely chosen not to use the powers available via the council tax system. Crucially, the Welsh Government must also ensure that any changes to the local tax system do not prejudice private landlords. Private landlords provide homes, and without incentives to sustain investment, the loss of stock in the private rented sector will have costly consequences for the Welsh Government and for local authorities, who may see housing waiting lists grow. Through tax relief or rebates, the Welsh Government could encourage investment in the private rented sector – not only in supply terms but in elevating the quality of stock through VAT exemption on refurbishment and making funding available to improve energy efficiency.
6. We believe that genuine businesses should be liable for business rates, but we are concerned by the loss of investment in the private rented sector as private landlords seek to capitalise on higher potential revenues, greater flexibility and less prescriptive regulation by opting to let their properties on the short-term market, influenced in large part by the attraction of

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<sup>3</sup> <https://www.tandfonline.com/doi/full/10.1080/02673037.2021.1988063>

<sup>4</sup> Available on request.

<sup>5</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/counciltaxchargeablesecondhomesinwales>

<sup>6</sup> <https://www.propertymark.co.uk/resource/consultation-welsh-government-consultation-local-taxes-second-homes-self-catering-accommodation.html>

Small Business Rates Relief (SBRR). Currently, businesses whose premises have a rateable value of up to £6,000 are eligible for one hundred per cent relief on NDRs, with relief applied on a tapered basis thereafter. This incentivises letting in the short-term rather than the long-term private rented sector and we would therefore encourage the Welsh Government to assess the SBRR to ensure that it does not have perverse consequences for the private rented sector, those that it houses and that the loss of NDR revenue as a result of short-term let businesses accessing the SBRR does not outweigh the benefits generated by those businesses. The Welsh Government may wish to consider whether increasing the thresholds such that a property must be available for at least 180 days and commercially let for at least 90 days would be more effective in ensuring that only legitimate businesses are captured by the definition for NDR purposes. Those engaging in short-term let activity that do not meet this threshold would then be subject to council tax and the relevant premium as applied by the local authority. Such an intervention would remove the risk of exploitation of SBRR and help mitigate the erosion of stock from the private rented sector. The Welsh Government might also consider whether short-term lettings businesses that meet the criteria and thresholds for non-domestic rates (NDRs) liability should be excluded from SBRR, to help level the playing field and make investment in the private rented sector relatively more attractive.

7. We acknowledge that from January 2022 a Welsh Government funded pilot is being carried out by Gwynedd Council to test using the planning system to regulate the number of second homes and short-term holiday lets in an area. While we recognise the pilot will provide helpful insight, we remain sceptical about the ability of such an approach as it would be extremely difficult to monitor and enforce, a view that is backed up by the evidence to date.<sup>7</sup> Furthermore, we would not support this approach because it would introduce restrictions on property owners' rights to choose what they do with their asset and would add an additional complication to the conveyancing process which could hinder the functioning of the sales market. Instead, we believe the Welsh Government will see more favourable results from ramping up delivery of new supply across the full range of tenure types in the areas they are most needed, and levelling the regulatory playing field to balance the effect of changes to taxation affecting portfolio landlords that have made short-term rentals more tax favourable and profitable than the long-term residential market.<sup>8</sup> Furthermore, we would urge the Welsh Government to avoid restricting purchases of second homes based on emerging evidence that this can undermine policy objectives by inadvertently reinforcing wealth inequality in targeted areas.<sup>9</sup>

**Second consideration: There is a significant gap in the data available to help inform an accurate picture of the true scale and impact of second homeownership in Wales.**

8. Our analysis<sup>10</sup> of available Welsh Government data indicates that areas with higher concentrations of chargeable second homes relative to their overall domestic dwelling stock in Wales are witnessing a contemporaneous net loss of residential housing once total new

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<sup>7</sup> <https://www.tandfonline.com/doi/full/10.1080/02673037.2021.1988063>

<sup>8</sup> <https://www.tandfonline.com/doi/full/10.1080/02673037.2021.1988063>

<sup>9</sup> [https://personal.lse.ac.uk/hilber/hilber\\_wp/hilber\\_schoeni\\_2020\\_05\\_forthcoming\\_JUE.pdf](https://personal.lse.ac.uk/hilber/hilber_wp/hilber_schoeni_2020_05_forthcoming_JUE.pdf)

<sup>10</sup> Further details available on request.

supply is accounted for. We have illustrated this point below, with reference to relevant data for the three areas with the highest concentrations of dwellings registered as chargeable for council tax in Wales for the years 2017-21.<sup>11</sup>

9. In 2021, Gwynedd had the highest concentration of chargeable second homes with 9.73 per cent of all chargeable dwellings registered as second homes for council tax purposes, amounting to almost 1 in 10 properties. It is worth noting that the number of second homes as a proportion of total chargeable dwellings in Gwynedd has been largely unchanged over the five years to 2021 - in fact there were 91 fewer chargeable second homes in Gwynedd in 2021 compared with 2017, suggesting that the issue is not a new one - at the local authority level at least. Furthermore, Gwynedd saw a notable decrease of 876 (-1.52 percent) total chargeable dwellings over the same five-year period revealing a net loss of 1,602 units of potential residential housing once the additional 726 new housing starts for the year are accounted for.<sup>12</sup> Isle of Anglesey had the second highest concentration of chargeable second homes in 2021, with 8.10 per cent of total chargeable dwelling registered as second homes. In contrast with Gwynedd, the number of second homes as a proportion of total chargeable dwellings in Isle of Anglesey increased by 3.75 per cent between 2017 and 2021, an increase of 1,284 dwellings over the period. The total number of chargeable second homes has increased by 82 per cent while the total number of chargeable dwellings has only increased by 0.56 per cent – 190 dwellings - despite 472 new starts of additional housing supply. The area with the third highest concentration of chargeable second homes as a proportion of all chargeable dwellings in 2021 was Pembrokeshire with 6.76 per cent, an increase of 2.06 per cent on the proportion in 2017. As with Isle of Anglesey, Pembrokeshire had a large increase of 45.23 per cent in the number of chargeable second homes over the five years to 2021 (an additional 1,267 units) while there was only a slight increase of 0.92 per cent (540 units) in the total number of chargeable dwellings, despite an additional 1330 new housing starts for the year.
10. We acknowledge there can be overlaps in how second homes are used, across both the short- and long-term markets and for owners' private use, but the above discrepancies reveal a vitally important gap in the data since there is no way to definitively track where these 'lost' units are ending up or what they are being used for. It can be logically assumed, however, that they are registered for non-domestic business rates (as opposed to domestic council tax rates), and are therefore being let on a commercial basis, mostly in the short-term letting industry. Building on this point, we are concerned about the extent to which investment in the private rented sector appears to be retracting in areas where an unregulated short-term letting industry presents as a more attractive investment for second homeowners but due to the lack of data, we are prevented from articulating the true scale and impacts of the issue. This calls into question how the Welsh Government can justify introducing substantial new policy interventions when there is so much we do not yet understand. Where a dwelling is being used for commercial reasons and the owner therefore registers for Business Rates

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<sup>11</sup> <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Dwellings>, <https://statswales.gov.wales/Catalogue/Housing/New-House-Building/newdwellingsstarted-by-area-dwellingtype> & <https://statswales.gov.wales/Catalogue/Housing/Dwelling-Stock-Estimates/dwellingstockestimates-by-localauthority-tenure>

<sup>12</sup> <https://statswales.gov.wales/Catalogue/Housing/New-House-Building/newdwellingsstarted-by-area-dwellingtype>

instead, there is no requirement for local authorities to collect and report this data in a consistent manner, although local authorities will have this data in some form at the local level. The Welsh Government could require local authorities to collect a nationally prescribed dataset to inform an understanding of how many homes, including which types and in which areas, are registered for business rates. In addition, they could introduce and scale the proposals made by Airbnb in their White Paper,<sup>13</sup> through a national registration system to help with the regulation of short-term rentals, helping to capture vital data and also level the playing field with its approach to regulating the long-term private rented sector.

**Third consideration: We need a robust typology that sets out the definition of each category of second home so that we have reliable data upon which to base all policy developments in this area.**

11. Developing evidence informed policy in relation to second homes in Wales requires a reliable typology that sets out definitions of each type of second home based on use. By defining each type of second home the Welsh Government can ensure its data provides a more reliable picture of housing use at both a national and local level. If, as the evidence to date suggests, buy-to-let homes are not included when referring to the second homes challenge, there is a recognition that they are not part of the problem. In fact, the fundamental issue is the lack of homes to rent as part of a wider supply/availability challenge in the general housing stock (homes available for local people to buy or rent and live in themselves as their main and principal home). On this basis, there is little sense in applying the same rules to buy-to-let landlords that aim to help tackle the second homes issue in Wales. We propose that property use can be broadly categorised across the following three types to help differentiate primary homes from the two main types of second homes:

- **Primary homes** are occupied by the owner or let to tenants as their main and principal homes – these are ‘homes’. This includes homes being let in the privately rented sector and whose landlords are required to register with Rent Smart Wales. Buy-to-let properties provide rented accommodation to be occupied as a main residence, so they are primary homes for that reason.
- **Second homes** are properties that are not lived in by their owners as their main and principal abode but are used by the owners on an ad-hoc basis for private enjoyment of the property throughout the year i.e., they are not occupied full time by someone who lives there permanently.
- **Short term or holiday lets** are properties that are used for commercial purpose through letting to people on a short-term basis throughout the year – they are properties registered for non-domestic business rates.

12. As noted above, there is potential for properties to fit into any of these categories at any given point, punctuating the need to create a typology that can account for all possible nuances. We have merely proposed a solid foundation upon which the Welsh Government can build a framework for second homes policy development.

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<sup>13</sup> [https://news.airbnb.com/wp-content/uploads/sites/4/2021/06/UK\\_RegistrationWhitepaper\\_2021.pdf](https://news.airbnb.com/wp-content/uploads/sites/4/2021/06/UK_RegistrationWhitepaper_2021.pdf)

**Fourth consideration: Preventing vital residential housing supply being reallocated to the commercial tourism market, on a damaging scale.**

13. There is evidence that areas experiencing an increase in the availability of short-term rentals will see a contemporaneous decrease in supply of homes to rent on the longer-term market, basically reallocating housing supply from one part of the market to another, limiting the pool of homes to rent.<sup>14</sup> Our own research – conducted via a roundtable with Propertymark members - carried out in November 2021 in partnership with the Shadow Minister for Climate Change and MS for Aberconwy, Janet Finch-Saunders, highlighted that letting agents are concerned about losing long-term rental properties to the short-term rental sector. There is a notable loss of available homes to rent in the face of increasing demand with members highlighting the extent to which local authorities in Wales have been increasingly relying on the private rented sector to help tackle homelessness in recent years, leading to predictions that homelessness levels will rise if nothing is done to retain or attract new investment in the long-term private rented market.<sup>15</sup> Members told us that in areas of high short-term let demand, many landlords in the private rented sector are opting to let their properties as holiday lets, attracted by fewer regulatory burdens, the potential for less wear and tear due to the short-term nature of occupancy and higher returns, with potential revenue generated by a short-term let outweighing any increase in void periods. This is resulting in a loss of stock in the private rented sector which is exacerbating affordability issues as average rents rise with prospective long-term tenants competing for a limited number of properties. This increase in demand while supply is limited serves to push up prices in the areas affected leading to misguided calls for action to regulate rent levels when attention should instead be focused on addressing the cause of rising housing costs – a limited supply of the right types of homes, not properties being used on a purely short-term commercial basis - in the right places and at prices people can afford.
14. The Welsh Government must therefore take action to prevent a damaging loss of homes from the private rented sector to the more favourable short-term letting industry. The answer is not to restrict people’s ability to purchase additional homes but to ensure there is adequate affordable housing in areas most hit by increased second homeownership at the same time as levelling the playing field between a more tax favourable and unregulated short-term letting industry and the less tax favourable and intensely regulated private rented sector (long-term letting industry). We propose the following key measures to achieve this:
- Introducing a registration system to help regulate short-term rentals and ensure they comply with minimum standards across energy efficiency, health and safety and consumer rights.
  - Reviewing national Land Transaction Rates for buy-to-let purchases so that existing and potential landlords are not attracted by more favourable yields in the short-term market.

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<sup>14</sup> <https://www.tandfonline.com/doi/full/10.1080/02673037.2021.1988063>

<sup>15</sup> The last available data for 2017-18 and 2018-19 (<https://stats.wales.gov.wales/catalogue/housing/homelessness>) shows that use of the private rented sector to help people secure alternative accommodation when faced with homelessness is extremely important. More than one third (36 per cent) of all cases where homelessness was relieved by helping someone to secure alternative accommodation from 2017 to 2019 were helped to secure a home in the PRS. This is not too dissimilar to the proportion helped into the social rented sector – 38 per cent

We note that the Welsh Government are currently consulting on how local variations to land transaction tax rates may be best achieved,<sup>16</sup> but Local housing markets can be extremely sensitive to changes in the property transaction tax system, so we would caution the Welsh Government against applying LTT rates at a super-local level without first piloting the effects this may have on surrounding markets.

- Reviewing non-domestic business rates to ensure landlords are not encouraged to see the short-term market are more tax-favourable than the long-term private rented sector.
15. With our above considerations in mind, Propertymark would urge the Welsh Government to ensure any policies introduced to address the challenges created by an imbalance in levels of second homes at the local level have longevity. A careful assessment of the impact of potential interventions will help guard against introducing short-term fixes that may have a detrimental impact on the long-term future of housing for Wales and the economy.

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<sup>16</sup> <https://gov.wales/second-homes-local-variation-to-land-transaction-tax-rates>