

Committee Response

# Inquiry into second homes

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 the committee for the invitation to give evidence at the inquiry into second homes.

Established in 1868, RICS is the largest organisation of its kind in Wales, with over 2,300 professionals supporting the property, land and rural sectors in Wales – providing expert-led, independent advice on a range of matters including valuations and home surveys.

RICS appreciates the sensitivities and challenges communities face with second homes and holiday lets, and in constructing our response, will provide statistical evidence and expert opinion to create a holistic picture of the issues in Wales.

## Summary

It is important to understand what objectives the Committee, and indeed Welsh Government are looking to achieve in seeking to review and reform policy making regarding second homes. As seen from the recommendations by Dr Simon Brooks, they cover a diverse policy spectrum, including reforms to planning, taxation and cultural protection.

It is important we appreciate what the overall objectives are before looking at the specific recommendations – this is something RICS believes has not been clearly defined, or even if it could be to begin with. For example, based on the recommendations by Dr Brooks and the Welsh Government response, would the below be a suitable summary of objectives?

- To free up existing housing stock for local residents and create new homes.
- To lower property values to affordable levels.
- To seek revenue generation from second homes.
- To protect the Welsh language and the culture and heritage of communities.

The reason RICS raise this is that while many of the recommendations are good in principle, we are keen to avoid unintended consequences and ensure that future policy decisions best serve the communities it intends.

## Data

One aspect to the inquiry the Committee will be interested in is the correlation second homes have on property values and market access. As the Committee may be aware, RICS produce the monthly [UK Residential Market Survey](#), with data on housing stock levels on the market versus buyer demand. This allows RICS to monitor trends and support anecdotal evidence with market data.

A common challenge associated with second home ownership is its relationship with housing levels, and ultimately, property values i.e., as fewer homes are available for sale, and buyer demand outstrips stock, house prices will rise.

This is not a new phenomenon, or indeed restricted to communities with high proportions of second homes.

With UK house prices at a record high, this narrowing of demand versus stock has been building up for years, even decades – outdating the challenges presented by Brexit and Covid-19.

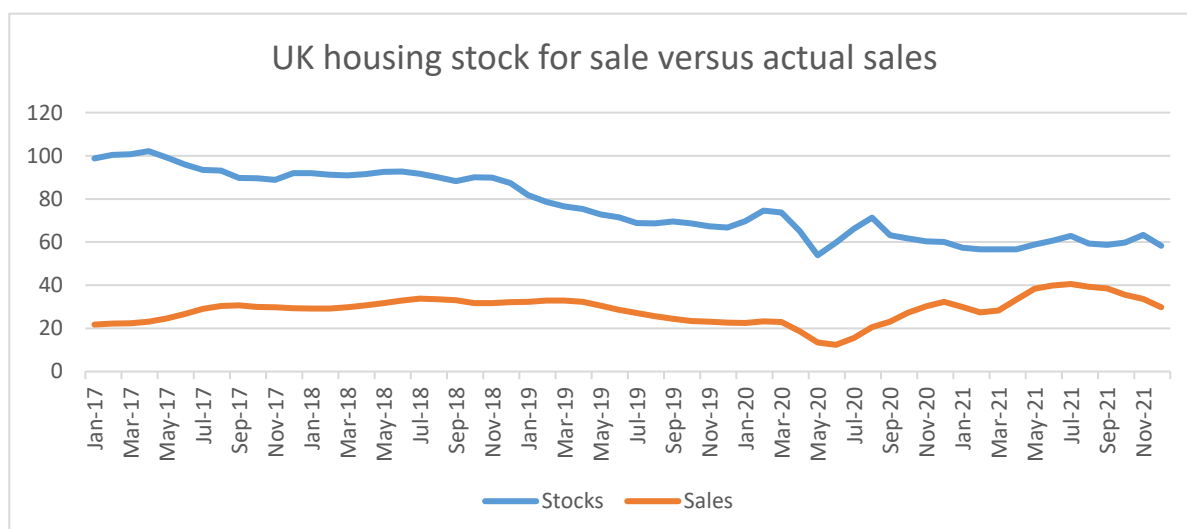


Figure 1

The above graph demonstrates one part of the wider challenge facing the Welsh and UK's housing market – simply put, as the gap between stock levels and sales interest narrows, house prices increase and the number of completed purchases stalls.

The data below shows the comparison between UK averages and Wales when looking at the average number of monthly properties listed by any given agent:

	Q4 2019	Q4 2021
UK	67.6	60.4
Wales	64.6	57.6

Figure 2

Data shown in Figure 2 highlights that while parts of Wales have a higher proportion of second homes and holiday lets than other parts of the UK, there is no significant discrepancy in market data. Unfortunately, RICS are unable to break this data down to local/regional levels of Wales where we could well see some divergence, but if it interests the Committee, we will be able to adapt future market surveys to monitor specific geographic differences.

## Recommendation feedback

### Recommendation 1 – develop regional and local variation in public policy

Yes, we agree with the principle that lenders should publicly disclose the energy performance of their portfolio as one mechanism for encouraging home improvements. Lenders can drive forward behavioural change in consumers and stimulate a green revolution in the housing market.

Consideration needs to be applied that requiring all lenders to participate may disenfranchise smaller, more niche lenders who specialise in specific property type lending which naturally may have a poorer EPC rating such as rural homes or listed buildings.

### Recommendation 2 – control of the numbers of second homes

RICS welcomes discussions that public policy should ensure stability on the number of second homes (and for that matter the inclusion of holiday lets as well).

As highlighted in Recommendation #1, if control over the number of second homes is set, then clear guidance on when this can be introduced/removed should be set out.

It is also important to acknowledge exactly what could and could not happen by controlling the number of second homes. Simply controlling existing homes and new build homes from

becoming classed as second homes will likely only have a minimal impact on communities already witnessing significant levels of second home ownership today.

Assumption 3 about reducing house prices also needs to be taken into the context of the current housing market across Wales. Even in communities with minimal second home ownerships, values have significantly increased in recent years – especially since early 2020. The current lack of significant stock versus buyer demand, even if it would

### **Recommendation 3 – the definition of second homes**

Creating a consistent approach to defining second homes is imperative to any successful public policy-making decisions. This will not only create market consistency but also allow for greater regulation of regional and local policy variations to ensure communities fairly diverge from national policy frameworks.

While there are varying definitions available already, including several highlighted during this inquiry, any legal definition should consider and give protection to properties that may inadvertently become classed as second homes including:

Those inherited but may lay dormant for a reasonable period.

At what stage during a point of sale would the definition of a home be classed as its primary residence e.g., the sale processes of an existing homeowner's property falling through (when we consider some chain purchases can take more than six months to complete).

A definition for holiday lets should also be included within this recommendation and RICS would argue that holiday lets, and second homes have an almost equal influence on housing market conditions from a stock and value perspective.

The Mandatory Licensing Scheme introduction is one potential solution and could support with taxation policy. If such a scheme is introduced for holiday lets, further detail would be needed on what regulatory role this would have, if any.

### **Recommendation 4 – responding to Brexit and Covid-19**

RICS agrees that Covid-19 has had a seismic impact on the housing market in Wales, with Brexit playing a lesser role.

The pandemic has seen a shift not just in areas of high second homes, but across all parts of Wales to move into properties with large outdoor spaces and extra rooms for home working. In addition, Land Transaction Tax (LTT) relief and pent-up demand through lockdowns

witnessed a dramatic increase in house sales – with RICS professionals commenting that late 2020 and 2021 was some of the busiest periods on record, regardless of geography.

As a particular result of Brexit and Covid-19, the cost and time of house building have increased. Both factors combined has meant that labour has left the market and material costs have increased. This will naturally have an impact on house building targets and development costs.

It is difficult to say at this stage what impact Covid-19 has had on the places we wish to live – and whilst there will naturally have been a rise in second home interest, there has also been a strong resurgence in holiday let properties because of staycation interest.

### Recommendation 5 – the need for policy intervention across a range of policy areas

RICS agrees that planning and taxation policy intervention can have a positive effect in addressing the challenges presented by second homes. While taxation and planning are addressed in other recommendations of this inquiry, RICS would also like to draw the Committees' attention to several other policy intervention opportunities:

1. A significant portion of the recommendations is focused on second homes, and those who will occupy them. However, there are limited recommendations to support existing local residents. RICS recommends that further research is required to look at incentives to support local homeowners (you can also argue that potentially anyone looking for a primary residence within areas with the highest proportion of second homes should be included).

Two examples of incentivised support are tax reliefs (such as higher LTT thresholds) and similar schemes to the London 'first dibs' – which give a presumption in favour to residents (with London's example being extreme as non-local was defined as overseas). It might also interest the Committee to learn that in mainland Europe, several city-level authorities with high levels of second-home owners or international investors also offer financial support and subsidies to local residents who would otherwise be priced out.

2. Housebuilding itself is a contentious issue to consider. The Welsh Government have set a target for the creation of an additional 20,000 low-carbon, social/affordable homes. Under proposals, these will not be allowed to transfer into second-home ownership unless significant class-use and planning changes occur. Given the nature of many of these impacted communities (typically in rural and/or protected locations), mass housebuilding is simply not possible.

RICS supports the decision to protect new homes but is cautious that given the limited number of new build properties expected in these communities, this might shift second-home buyer and holiday-let interest into an even smaller market – resulting in increased competition and values. An unintended consequence could mean that without reform to planning and class use to stop existing homes from being turned into second homes, existing residents may be priced-out of future purchases and into new social/affordable homes.

3. Another policy intervention to consider is embedding the need to create more sustainable, environmentally friendly homes into the process. RICS is working closely with the Welsh Government on several sustainability initiatives involving housing, and this may be an opportunity to make a positive, albeit small, environmental impact.

The government should consider what levers are available to require second home purchasers to meet a minimum energy standard for that property (as already required within social housing and the PRS). This would be a good opportunity to ensure that those who purchase a second home, contribute to the reduction in carbon emissions and the creation of more energy-efficient homes.

#### **Recommendation 6 – Local Council Tax Premium**

#### **Recommendation 7 – Short-term holiday accommodation and business rates**

#### **Recommendation 8 – Land transaction tax**

RICS have grouped taxation recommendations under one response as it is important to understand exactly what the objective is here. Is it to simply price out some potential second home buyers, or is intended as a source of revenue generation – and if so, will such revenues generated by such a tax be ring-fenced for migration works?

RICS understands why initiatives such as a Council Tax Premium or increased LTT may seem appealing, but the objective of such schemes has still not been clarified. Simply introducing a Council Tax Premium or an increase in LTT would generate additional revenue, but the extent to which it would limit second-home ownership will likely be minimal. Such taxation may price out some second-home owners, but given the current market competition, it is almost certain that another purchaser with an even high level of disposable income will make an offer.

It is also important to acknowledge that setting higher LTT rates at a local government ward, would also impact long-existing residents should they wish to move. While the number of residents moving homes within one ward may seem minimal, this could price out first-time buyers looking to stay close to where they were raised – which would have an unintended impact on the heritage of communities.

It is important to highlight to the Committee that the RICS Valuation – Global Standards 2017: UK national supplement considers certain taxation issues when assessing a properties valuation. However, the proposed changes to council tax, LTT and business rates will likely require additional review by RICS to fully assess what, if any, influence this may have on property values to create a consistent, fair approach to property valuations in these communities.

### **Recommendation 9 – Gwynedd and Anglesey Councils’ ‘Local Market Housing’ Scheme**

The introduction of ‘Local Market Housing’ can certainly be deemed as an extreme intervention by modern UK planning decisions.

With schemes already underway in Wales, it is a radical approach to ensuring that only local residents can secure any new home. The government should investigate what long-term consequences such policies may have. In many of these communities, it is not uncommon to witness younger generations move out in search of jobs and livelihoods in larger towns and cities.

Given the relatively young age of many of these schemes, there is a lack of data to properly model what future trends may look like and whether the definition of a ‘local resident’ may need to be reviewed in the future.

### **Recommendation 10 – the creation of a new use class for short-term holiday accommodation** **Recommendation 11 – trialling a new use class for second homes**

RICS welcomes the opportunity to explore the introduction of new class uses. This will certainly help support developments of Recommendations 2 & 3, and as we have seen in recent times, it is not uncommon to see changes in class use even Permitted Development Rights (PDR) to react to sudden shifts in demand.

As with previous proposals for the introduction of new class use and PDR reform that RICS have commented on, it is important to ensure quality and safety are not compromised by enabling unsatisfactory accommodation from being created.



RICS also appreciates the potential for the use of trials on new schemes. Given planning reform has long been on the agenda for the government and little movement has occurred in recent years, the use of a trial period may well be one solution that can be implemented relatively quickly and analysed.

### **Recommendation 12 – establish a Commission to make recommendations regarding the future of the Welsh language as a community language**

While this sits outside of the technical remit of RICS, we appreciate the role the Welsh language has in placemaking and preserving a community's rich heritage. Although RICS cannot comment on the use of Welsh language spoken within communities, we are pleased to see some simple, but effective measures can be implemented to preserve an element of its heritage – such as the preservation of street and house names from being changed into the English language.