

Paragon Bank response to the Senedd's Local Government and Housing Committee's inquiry, 'Private rented sector'

Background to Paragon Bank

Paragon Bank is a specialist lending and savings bank authorised in February 2014. The bank is the principal entity of the Paragon Banking Group PLC, which has been trading since 1985. The business is managed through two lending divisions: Mortgage Lending, including buy-to-let, and Commercial Lending, which includes Development Finance, SME Lending, Motor Finance and Structured Finance. These are primarily funded through our retail deposit base, supplemented with wholesale and central bank borrowings.

Paragon is a leading independent provider of mortgages to landlords in the UK's private rented sector. Paragon pioneered buy-to-let (BTL) lending in the UK, launching the first products in 1995, and we have consistently led the development of socially responsible BTL lending policies over the last two decades. Today, we specialise in portfolio landlords, a group that provides the majority of PRS housing supply.

We provide BTL mortgages across all regions of the UK, including Wales where we operate in cities and rural communities. Here, we provide over £250 million of lending across nearly 2,000 accounts.

Given our experience, we are very aware of the importance of the private rented sector (PRS) to the housing sector and UK more broadly. The PRS and portfolio landlords who provide high-quality homes act as a key economic enabler, with tenants appreciating the model which allows them to move frequently and easily to areas they could not afford to buy. The PRS is the tenure of the working person and provides the housing market fluidity required for people to easily move to seek work.

We are therefore pleased with the opportunity to submit evidence to the Senedd's Local Government and Housing Committee's inquiry into the PRS. We hope our submission is of use and we would be pleased to provide further information on its contents should that be helpful.

Executive Summary

- The PRS has grown rapidly over the last three decades with more people entering the tenure, more staying in the sector for longer, and families and older people representing an increasing proportion of tenants. In Wales, the PRS accounts for 17.1% of all tenures.
- For many tenants, the PRS is the most suitable housing option for their needs, while the majority of renters are happy with their current property and their landlord.

- Despite the growing popularity and proportion of tenants entering and staying in the PRS, there is a mismatch between supply and demand, with more landlords choosing to exit the sector because of previous policy decisions and tax changes, which has led to significant price inflation and a reduction in choice and availability for tenants. Reducing availability has been compounded in some regions of Wales with the growing popularity of short term lets and significant student populations. Paragon therefore encourages the Committee to consider how supply pressures could be alleviated with a greater focus on housing delivery.
- Whilst we support the Welsh Government's measures to improve the PRS market for both tenants and landlords, we suggest the Committee consider how new regulations could be optimally introduced in a manner that consolidates existing rules and regulations, rather than layering additional disparate obligations on landlords. Moreover, we suggest the Committee consider the benefits of a comprehensive review of existing PRS regulations to ensure they are delivering the desired results.
- We support the principle of raising the required EPC standards in the PRS but have concerns regarding the achievability of current timelines. We suggest the Governments in the UK and Wales consider the domestic retrofitting industry more broadly and cost effective steps that could be taken to develop industrial capacity and an upskilled workforce in order to deliver retrofitting targets.

The PRS in context

The UK's PRS has grown rapidly over the last three decades and today one in five households rely on the tenure for a home, compared to one in ten in the year 2000¹. In Wales, the PRS accounts for 17.1% of all tenures². Population growth, wider participation in higher education and labour mobility have all impacted demand for rental accommodation. Layered on top of this has been lower investment in social housing, insufficient house-building and tighter mortgage affordability which, along with the significant growth in house prices over the last ten years, mean more people are entering the PRS, more are staying in the sector for longer, and more families are relying on the PRS for a long-term home.

Modelling by the Social Market Foundation³, based on English Housing Survey data, shows that even if Government policy leads to an increase in levels of home

¹ National Statistics, 2022. *English Housing Survey, Private rented sector 2020-21*. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1088486/EHS_20-21_PRS_Report.pdf

² Office for National Statistics, 2021. *Housing, England and Wales: Census 2021*. <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingenglandandwales/census2021#tenure>

³ Social Market Foundation, 2022. *Where next for the private rented sector?*. <https://www.smf.co.uk/wp-content/uploads/2022/03/Where-next-for-the-private-rented-sector-March-2022.pdf>

ownership, the PRS will be home to millions of people in 2035. By 2035, over half of households in the private rented sector will be headed by someone over 45, up from around a third today. Couples and house shares will also account for a growing proportion of private renting households, up from 29% today to 36% in a decade and a half. Half of today's tenants expect to be renting a home in 15 years. This is driven by a range of factors, primarily based on affordability. However, challenging the perception of all tenants as 'frustrated first-time buyers' (although these make up a significant proportion), the age profile of the PRS is changing and many renters are content to remain in the sector or see it as suitable for their needs, with one in five tenants not wishing to buy a property, increasing with age to just under half of those aged 55 and older.

While policy and social attention has rightly focused on the minority of private renters that have had bad experiences, this can create a misleading impression. Polling suggests that 81% of tenants are happy with their current property and 85% are satisfied with their landlord, while private renters particularly value not having to pay for repairs or insurance and other costs⁴. Others see it as a way to afford to live in areas in which they couldn't afford to buy or live flexibly.

Nonetheless, there are clear disadvantages that come with renting. Given the growth in the proportion of the population who are spending longer in the PRS, and the importance of the PRS in providing housing for families who would otherwise be unable to afford a property, it is right that the Welsh Government is seeking to strengthen the sector. New legislation can promote the continued vibrancy of the sector, provide tenants and landlords with more rights and protections that enable people to live in the home they want for the duration of time that suits them best, and ensure that housing stock in the PRS is safe, modern, comfortable and energy efficient.

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

The UK's PRS is currently experiencing both high levels of demand and a shortage of homes available to renters. Data from Zoopla⁵ reveals that rental demand is 51% higher compared to the relative five year average, whereas stock of homes available to rent is 33% lower in comparison to the same average. The combination of strong demand and a shortage of homes is causing rent prices to increase, with the average annual rental inflation for new lets in the UK increasing by 11.1%.

The impact of high demand and the lack of homes to rent is also present in the PRS in Wales. Zoopla data reveals there has been a 10.3% annual increase in rent prices

⁴ Ibid.

⁵ Zoopla, 2023. *Rental market report: what's happening to rents?*.

<https://www.zoopla.co.uk/discover/property-news/rental-market-report-march-2023/>

in Wales. The same data also shows that the affordability in the Welsh PRS for a single earner stands at 29.5% with the average monthly rent reaching £812.

Whilst supply issues in the Welsh PRS are not isolated to either cities or rural areas, the market is not homogenous and Paragon's experience indicates a range of factors across the regions impact on the availability of homes and their quality. For example, North West Wales is a growing tourist area and this squeezes supply in the rental tenure as more properties are repurposed as short-term lets to meet the increased demand from temporary holidaymakers.

North Wales more broadly is a region that faces particularly acute issues, both in terms of lack of supply of rental properties and for experiencing a lower standard of property than elsewhere in the country. This is partly driven by the lower density of property in the region reducing supply but also by the relatively low capital appreciation of properties reducing the attractiveness of the area as a location in which to invest.

Demand and availability in the South of Wales is predominately focused in the major cities and, within them, the universities and their large student populations. There are also local factors that impact on supply and demand. For example, the removal of toll bridge between Bristol and Newport led to an influx of relocation to the area and inflated prices within the Newport PRS.

Given the impact of shortages in the PRS, which can also be found in the wider housing market, Paragon encourages the Committee to consider how pressures could be alleviated with a greater focus on housing delivery. Build-to-rent developments are welcome but they alone cannot deliver the additional number of tenancies necessary to meet demand. We suggest the Committee also consider how housing delivery can be targeted at the areas in which demand is most acute.

The challenges currently facing private sector landlords

Most landlords seek to provide a high quality of services to their tenants however there are several challenges associated with the profession in Wales. For example, the perception and rhetoric pertaining to landlords from the Welsh Government and the media is persistently negative and generalises a certain stereotype which conflates all landlords with the rogue few. This has real consequences in terms of the introduction of burdensome, ill-designed regulation and the vilification also discourages investment from the market, perpetuating the shortage of homes available to rent and pushing up prices even higher.

A practical challenge that landlords in Wales face is that of property maintenance. There is a lack of good quality managing agents available throughout the country and as a result landlords can struggle to maintain their property to the standards they and tenants would expect in a timely fashion.

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

The primary barrier facing young people in Wales's PRS is the lack of homes available for students. Wales is home to some of the UK's leading higher education institutions and each of these attracts a significant number of students from across the UK and abroad. For example, the universities of Aberystwyth and Bangor both have large student populations and as a result require a sizeable PRS to support them. This is manageable in some locations but the shortages seen in the wider PRS can be also found in the student market. We are therefore seeing price inflation in this market too, with young people consequently struggling to find affordable accommodation during their studies. This can be compounded with international students' willingness to pay higher rent prices.

How effectively the private rented sector is regulated

Paragon supports the Welsh Government's intentions to improve the PRS market for both tenants and landlords. The regulation and measures introduced so far should lead to better outcomes for all parties and a more equitable market. Most landlords comply with these regulations at a minimum and in many cases go over and above to ensure the property is at a high standard. Unfortunately, there is a small majority of rogue landlords that Paragon does not let against that do not comply with the regulations and damage the reputation of the many responsible actors in the market. Moreover, despite the new regulations, local authorities lack the sufficient powers to police these rogue landlords.

Whilst most landlords support the Welsh Government's intentions to improve the PRS, they have also expressed their concerns as to the sheer volume of regulation that has been introduced so far. It has been reported that the new requirements are challenging to understand and navigate, and are leading accidental landlords to exit the market. This feeds into the issue of too few properties in the PRS, with it being unclear as to who will replace those who leave the market and maintain sufficient levels of supply.

Similarly, there is waning enthusiasm amongst older landlords to rent out homes following the 2018 reform on Land Transaction Tax, which is more onerous than England's Stamp Duty Land Tax, and the introduction of further regulation in 2020. The view of many of these landlords is that participation in the market is becoming too costly, particularly given that Wales is only partway through the process of introducing the new PRS reforms, leading to a reluctance to continue with their investment.

The Welsh Government should therefore consider how to optimally introduce new PRS legislation in a manner that consolidates existing rules and regulations, rather than layering additional disparate obligations on landlords. Moreover, Paragon urge the Committee to consider the benefits of a comprehensive review of existing PRS regulations to ensure they are delivering the desired results. For example, Paragon

understand that many letting agents are not satisfied with Rent Smart Wales as they find it difficult to manage, expensive and cumbersome.

More broadly, Paragon supports the principle of raising the required EPC standards in the PRS from E to C in England and Wales as the UK Government first proposed in the 2020 consultation. However, we caution against the proposed timeline of apply this to all new tenancies from 2025 and all tenancies from 2028. We believe this will be unachievable due factors such as stock and labour limitations, and in the immediate term it may push landlords out of the market, reducing choice and accessibility for tenants and further driving up costs. To be achievable, clear and reasonable timeframes for carrying out the works together with a cohesive policy on rental properties are key. As the Government prepares to outline its final proposals, we suggest extending the implementation deadline for new tenancies to 2028 and all tenancies by 2030.

Paragon also encourages the Governments in the UK and Wales to consider the domestic retrofitting industry more broadly and cost effective steps that could be taken to support its development. Retrofitting the UK's housing stock could significantly reduce carbon emissions, improve energy efficiency and increase energy security, but these benefits cannot be delivered without industrial capacity and an upskilled workforce. Measures should therefore be taken to kick start a sufficient level of demand that can stimulate the growth in the sector, leading to reduced costs and greater accessibility for consumers in the medium-term. For example, more favourable tax incentives such as making any upgrade/improvement works tax deductible or reducing VAT on building materials for landlords and EPC improvements would provide a boost to this nascent sector.

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

Data availability for Wales's PRS varies and is particularly poor in rural areas. Rural Welsh communities are often data blind spots as it is common to advertise rental properties on social media, such as communities Facebook hubs, as opposed to official letting agents. Data availability can therefore depend on the culture of a given area, and Paragon does not lend in these locations as a result because they are not marketable. Moreover, the lack of data means there is no way to accurately understand the size of the market, availability of new tenures or the average rent price and whether it is increasing or decreasing. We urge the Committee to consider steps the Welsh Government could take to improve the availability of data in these areas, such as with the introduction of a property portal such as that proposed by the UK Government.