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Rent Pressure Zone Improvement Costs Guidance for Landlords & Requirements for Local Authorities

Introduction

The Scottish Property Federation (SPF) is a voice for the property industry in Scotland. We include among our members: property investors including major institutional funds, developers, landlords of commercial and residential property, and professional property consultants and advisers. We are happy for our comments to be published and shared within the public sector.

Key Issues

- The SPF remains firmly of the view that the greatest problem in today's housing market is directly linked to lack of supply. Build to Rent (BTR) can make a significant difference to the number of new homes provided in Scotland as capital can be deployed quickly and delivery is not as constrained by absorption rates as build-to-sell.
- Much of new housing delivery will be through large regeneration sites, where BTR can provide early place-making and help to form the community that makes regeneration schemes successful. It is vital that RPZs do not deter the potential investment opportunities of Build to Rent within Scotland's cities and regions and the PRS sector in general.
- The Scottish Government has also consulted on a potential Rental Income Guarantee Scheme however, clarity is required as to how this will dovetail with the potential for areas to be designated as rent pressure zones as developments in these areas of regeneration return to market values.
- It should be recognised that the designation of a RPZ should be viewed as failure on part of local authorities in meeting local housing need and demand and therefore, they should only be applied for in extreme circumstances and not, as indicated within the document, as a part of a local authority's wider housing strategy.
- Rent increase/revised rent post improvement works should be based on the market rent of the properties in that area that the newly improved property would be deemed comparable to following the improvements

Questions on Drafts

There is some considerable evidence required for local authorities to provide sufficient evidence of mounting pressure on rents and the guidance provided on giving correct evidence is helpful for the LA's to follow. We note that the guidance stipulates the importance of obtaining rent data from existing tenants via tenants themselves or landlords, ideally requesting face to face interviews – as these can be different from advertised rents. We have addressed the specific questions on the drafts as follows:

- **Draft RPZ Requirements for Local Authorities - Annex A**
- **Draft RPZ Cost Guidance for Landlords - Annex B**

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ANNEX A

1. Do you think this document clearly outlines the requirements that must be met for a local authority's rent pressure zone application to be valid?

- Yes
 No – please tell us how you think we could make it clearer
 Unsure

Our members have expressed concern that a Local Authority could apply for a Rent Pressure Zone (RPZ) which covers its whole area. For example, the entire City of Edinburgh. They are concerned that the basis for the decision would be made on information at a base level at the lower end of the market rather than the city as a whole and have questioned whether that reflects the spirit of what was intended in the legislation. The designation of an RPZ should be driven solely by a robust statistical evidence base and an understanding of the impact the use of such regulatory interventions will have on the wider market. It should also be clear in the guidance that RPZs should not be used in a blanket fashion, instead targeted to specific rental 'hot-spots'.

There appears to be no definition or parameters set for undue hardship and members have asked if there will be a standard test.

We also note that there appears to be no baseline data for measuring whether an authority is coming under increasing pressure. For example, will there be a set of data as at 1 January 2018 that will be used to assess whether they are coming under pressure? There is a risk that the decision will be made arbitrarily by looking at existing lists at a time when we are aware that due to lack of supply, there is a housing shortage and therefore upwards pressure on rental values in areas of high demand.

In paragraph 15 of the guidance it would be helpful to have a description of the nature and size of the businesses given in the detailed overview. Presumably this is 6 private landlord businesses but there is also a risk that the sample selected may not be representative of the whole area. It is important that larger landlords are also included if possible.

There appears to be a typo in the rent increase calculations contained in Figure 1 the new maximum rent should read £854.80

While our members appreciate that the evidence to support the application should be a mixture of qualitative and quantitative data as suggested at paragraph 16 they have expressed concern at the use of the term 'a likely mixture of qualitative and quantitative' data. They are of the view that the minimum amount of documentation required should be made clear. Members have also expressed concern that a sampling population/frame for private rented dwellings referred to at Annex 3 has been developed based on 2011 Census data and have questioned whether there is more recent information available that would form a more up-to-date picture.

At paragraph 18 there is reference to "general requirements". Our members are of the view that there should be a "minimum requirement".

Annex 4 sets out affordability ratios. Our members have questioned whether there is any benchmarking in LA areas as to the pre-existing “affordability Ratios”?

Our members are firmly of the view that the guidance should place a requirement, on a local authority wishing to designate a RPZ, to evidence what steps they have previously undertaken to resolve local housing pressure as well as put forward an action plan to resolve pressures that would be taken forward throughout the duration of a RPZ.

There is a risk that RPZs could be misused for political reasons. For the sake of accountability and transparency our members have also suggested that there should be a clear requirement for a local authority to make both their application and the evidence used to justify an application publicly available. It would be helpful for RPZ applicants to publish their application as well as supporting evidence, in full, as well as give evidence to a Scottish Parliamentary Committee to support their findings along with scrutiny from wider industry representatives.

It should be recognised that the designation of a RPZ should be viewed as failure on part of local authorities in meeting local housing need and demand and therefore, they should only be applied for in extreme circumstances and not, as indicated within the document, as a part of a local authority’s wider housing strategy.

The guidance also notes the LA’s have the responsibility to communicate the introduction of a RPZ to those affected. Our members have asked for clarification as to whether prior warning is given to those affected of an application having been submitted by the LA?

2. Do you think this document is easy to understand?

- Yes
- No – please set out why you think the document is not easy to understand
- Unsure

As stated above understanding would be improved by setting out clear minimum requirements for documentation. Some members have suggested that terms that are subject to interpretation from the various stakeholders involved should be avoided.

3. Do you think this document should have additional content?

- Yes – please tell us what that content should be and explain why you think it is required
- No
- Unsure

Please see our response to question 1

4. Do you think anything in this document should be removed?

X Yes – please tell us what you think should be removed and explain why you think it is unnecessary

No

Unsure

As stated at question 1 it should be recognised that the designation of a RPZ should be viewed as failure on part of local authorities in meeting local housing need and demand. RPZs should therefore only be applied for in extreme circumstances. The reference to using them as part of a wider housing strategy should therefore be removed.

5. Do you think this document is fit for purpose?

Yes

X No - please set out why you think the document is not fit for purpose

Unsure

Please see our response to question 1

1. Do you think this document accurately captures the common types of improvements a landlord is likely to make?

Yes

No – please tell us what other type of improvement(s) should be included and suggest an average cost for each of the property sizes.

Unsure

Members have suggested that there is very little scope within the guidance to accommodate decorative improvements that take a dwelling from a low specification unit to a high specification unit. Decorative improvements may include significant investments made in flooring (sanding, carpet, laminate), electrical, plumbing, lighting etc. all of which can improve the quality and experience of a tenant. These should be recognised within the cost guidance

2. Do you think the range of property sizes included in this guidance is adequate?

Yes

No – please tell us what other property sizes should be included and why you think it should be included

Unsure

Our members are of the view that property sizes should be segmented further to accommodate the impact of improvement costs on a wider range and varying size of property. For example there would be a different impact on costs from a one bedroom studio flat compared to a one bedroom flat with a hall separate kitchen and public room.

3. Do you think the average costs allocated to each of the improvements are reasonable?

Yes

No – please tell us which cost is unreasonable and why you think it is unreasonable

Unsure

We do not believe that the costs associated with each of the improvements currently identified are reasonable. There is no cognisance of the differences in the standard of finish/specifications which would have a direct impact on the rental level. Some members have suggested that there should be a high, medium and low specification improvements.

The values provided across the identified improvements do not factor in any labour costs and therefore should be explored further to incorporate labour costs for each of the improvements.

4. Do you think this document should have additional content?

Yes – please tell us what that content should be and explain why you think it is required

No

Unsure

Please see our response to question 1

5. Do you think anything in this document should be removed?

Yes – please tell us what you think should be removed and explain why you think it is unnecessary

No

Unsure

Our members are firmly of the view that the rent increase/revised rent post improvement works should be based on the market rent of the properties in that area that the newly improved property would be deemed comparable to following the improvements. This may or may not reflect the investment made/cost incurred by the landlord, but many improvements, such as new windows, will also increase the capital value of the property and improve both rentability and saleability.

The SPF has strong concerns about the groundless focus on the actual cost of improvements and our members question the practicalities of this suggested approach. Our members would like clarity on how this could be taken forward for example how many months/years of rent would be considered?

Any improvement works of the nature set out in the guidance are more likely to be carried out between lets, in which case, the rate could be readjusted to reflect market rates. If a property is within a RPZ, it would certainly discourage any improvement works being done where there are sitting tenants (unless there's some compulsion), to avoid any challenge from the tenant.

6. Do you think this document is fit for purpose?

Yes

No - please set out why you think the document is not fit for purpose

Unsure

Please see our response to question 5