



## **BUDGET 2020: A PRIVATE RENTED SECTOR THAT WORKS FOR ALL**

### **1.0 ABOUT US**

- 1.1 The Residential Landlords Association (RLA) and National Landlords Association (NLA) are the leading bodies representing private sector landlords.
- 1.2 The two organisations will shortly be merging to form the new National Residential Landlords Association (NRLA) representing the voice of 80,000 landlords, by far the largest organisation in the sector. The membership will own and manage around 10% of private rented housing in England and Wales, equating to half a million properties.
- 1.3 Aside from providing training and supporting landlords to ensure they fully understand their responsibilities and are equipped to provide good quality housing and enjoy positive relationships with their tenants, both organisations campaign for policies that seek to improve the private rented sector for the benefit of tenants and good landlords alike.

### **2.0 EXECUTIVE SUMMARY**

- 2.1 Our submission proposes a cohesive approach between fiscal levers and the realisation of policy objectives related to the private rented sector. The current disconnect between the two limits the impact of policy interventions, and in some cases, actively counteracts them.
- 2.2 The Government wants to encourage longer term lets but the tax system encourages short-term holiday lets. There needs to be a fundamental review of tax policy applying to the private rented sector to ensure that it supports government objectives and a thriving sector that supports long-term letting with an adequate supply of housing.
- 2.3 Tenants and prospective tenants are finding it harder to access the rental properties they need as a result of the demand for such homes outstripping supply. This is driving up rents and making it harder for tenants to save for a home of their own.
- 2.4 Given the need to boost the supply of all types of housing, we propose that the stamp duty levy on the purchase of additional properties should not be applied where landlords invest in homes adding to the net supply of housing. This could include new build, bringing empty properties back into use, changing use from commercial to residential, or converting large properties into smaller, more affordable units of accommodation.
- 2.5 There is a pressing need to create a market for the purchase of properties with tenants in situ thereby reducing the number of tenants who face eviction when landlords sell properties on. To support the development of demand for such properties, the stamp duty levy should not be applied where landlords purchase a rental property with tenants remaining in it.
- 2.6 To further boost this market and also assist the Government's efforts to support tenants into homeownership, a Capital Gains Tax exemption or reduction should be provided where a landlord sells a property to a sitting tenant(s).

- 2.7 We are fully aware of the need to ensure every rental property is as energy efficient as it can be. At present the tax system does not actively encourage this. We propose that any work a landlord carries out as recommended on an Energy Performance Certificate should be tax deductible. RLA research has found that this would be likely to lead to a large proportion of landlords investing in energy efficiency measures when there would not otherwise have done so.
- 2.8 Measures should be introduced to support landlords to make the necessary adaptations to future proof rental accommodation to meet the needs of disabled and older tenants. This should include looking at the availability of the Disabled Facilities Grant and also considering opportunities to use the tax system to support landlords to adapt properties that might be required to meet the needs of such tenants.
- 2.9 In order to improve access to rented housing for the most vulnerable and to ensure the housing allowance properly reflects local rents, the Local Housing Allowance should revert to being based on the 30th percentile level and therefore increase in line with market rents. A flat inflation rate-linked increase takes no account of significant variations in local rent levels and will cause distress to many renters in areas of high values and shortages.

### 3.0 ENDING TAX ANOMALIES

- 3.1 The Renters' Reform Bill, announced in the Queen's Speech, seeks at its heart to develop long tenancies for those living in the private rented sector.
- 3.2 Landlords generally want to keep good tenants long term but the reality is that the tax system is in many ways encouraging shorter term lets.
- 3.3 From April this year mortgage interest relief (MIR) for landlords will have been completely restricted to the basic rate of income tax, penalising those landlords who want to stay in the sector long term.
- 3.4 In stark contrast, the MIR changes do not apply where a property meets all the criteria to be a furnished holiday letting<sup>1</sup>. This includes Airbnb style properties. The table below outlines the savings that can now be made in the holiday let market compared to the traditional private rented sector.

Letting type	Rental income	Annual mortgage interest payments	Tax relief applied	Income tax paid (20%)	Income tax paid (40%)	Income tax paid (45%)
Private tenancy	£10,000	£9000	£1800	£200	£2200	£2700
Holiday let	£10,000	£9000	N/A	£200	£400	£450

- 3.5 However important holiday lets are to the economy, it is illogical to have designed a tax system that penalises landlords prepared to remain in the market long term whilst supporting those renting property on a short term basis as holiday lets. Research by the RLA in 2017 found that 7% of private landlords had started to offer properties as holiday/short term lets through Airbnb or a similar platform that they would have previously let in the longer term private rented sector<sup>2</sup>. The NLA found in 2018 that 24% of landlords had considered offering short terms lets.<sup>3</sup>

<sup>1</sup> HM Revenue and Customs, *Restricting finance cost relief for individual landlords*, 6<sup>th</sup> February 2017, available at: <https://www.gov.uk/government/publications/restricting-finance-cost-relief-for-individual-landlords/restricting-finance-cost-relief-for-individual-landlords>.

<sup>2</sup> RLA, *From Long-Term Lets to Short-Term Lets: Is Airbnb becoming the new buy-to-let?*, August 2017, page 10, available at: <https://research.rla.org.uk/wp-content/uploads/Is-Airbnb-becoming-the-new-buy-to-let-Residential-Landlords-Association-August-2017.pdf>.

<sup>3</sup> NLA Landlord Panel survey Q4 2018 (494 respondents)

- 3.6 In addition, in order to incentivise longer term letting, the Government should reintroduce the taper relief on Capital Gains Tax. This would mean that landlords who have invested in property to let for longer periods would get a greater relief on their taxable gain, promoting long-term investment in the sector which promotes longer tenancies.
- 3.7 **This Budget should initiate a fundamental review of the way rented housing is taxed to ensure that tax policy supports, rather than contradicts, the policy objectives of other departments.**
- 3.8 Such a review needs also to address a number of myths surrounding the sector, namely:
- **That landlords are ‘crowding out’ aspiring homeowners from the market.** A report by the London School of Economics noted: *“The (very limited) research into direct competition between investors and private owner-occupiers has found that nationwide only a minority of sales to landlords involved bids from both types of buyer.”*<sup>4</sup>
  - **That landlords are taxed more favourably than homeowners.** Even before recent tax increases on the sector including the restriction of mortgage interest relief and the stamp duty levy on the purchase of additional housing this argument was simply wrong. As the 2011 Mirrlees Review into the UK tax system noted: *“At present, the tax system treats rented and owner-occupied properties differently, creating a distortion in favour of owner-occupation.”*<sup>5</sup>
  - **That landlords are heavily subsidised by the taxpayer through housing benefit.** A report for the Chartered Institute for Housing found that *“the private rented sector is currently in a financially neutral position [with regard to tax payments made to government, and loans and guarantees, plus housing benefit payments, received from government].”*<sup>6</sup>
  - **Corporate ‘build to rent’ investors will fill gaps in the market.** The British Property Federation says that there are just 152,071 build to rent units either completed or planned across the UK<sup>7</sup>, a tiny fraction of the estimated 4.5 million properties in the private rented market.

#### 4.0 MORE CHOICE FOR TENANTS - BOOSTING SUPPLY OF HOMES TO RENT

- 4.1 Tenants and prospective tenants in the private rented sector face a supply crisis as landlords look to disinvest in the market.
- 4.2 The Government’s private landlord survey (Jan 2019) for England reported that 10% of landlords planned to reduce the number of properties they rent out which amounts to 18% of all tenancies. In addition, 5% of landlords, representing 5% of tenancies, said they planned to sell all their rental properties<sup>8</sup>.
- 4.3 The RLA’s most recent survey (Nov 2019) reports that 34% of landlords are planning to sell property over the next year<sup>9</sup> compared with 19% three years ago<sup>10</sup>. An NLA survey (Nov 2019) suggests that 24% of

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<sup>4</sup> London School of Economics, *Taking Stock - Understanding the effects of recent policy measures on the private rented sector and Buy-to-Let*, May 2016, page 5, available at: <http://lse.londonhousing.org/wp-content/uploads/2016/05/GRP12392-LSE-report-design-WEB.pdf>.

<sup>5</sup> Mirrlees Review, *The Taxation of Land and Property*, 2011, page 379, available at: <https://www.ifs.org.uk/uploads/mirrleesreview/design/ch16.pdf>.

<sup>6</sup> CIH, *Dream and Reality? - Government finance, taxation and the private housing market*, September 2018, page 44, available at: <http://www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Dreams%20and%20reality.pdf>.

<sup>7</sup> British Property Federation, *Build to Rent Map of the UK*, available at: <https://www.bpf.org.uk/what-we-do/bpf-build-rent-map-uk>.

<sup>8</sup> MHCLG, *English Private Landlord Survey 2018 – Main Report*, January 2019, page 7, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/775002/EPLS\\_main\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775002/EPLS_main_report.pdf).

landlords are looking to reduce the number of properties they let in the next year<sup>11</sup> compared with 12% three years ago. The proportion of landlords looking to reduce the number of properties in their portfolio increases substantially with the size of portfolio, with just 8% of landlords with one property considering selling in the next 12 months, compared with 43% of landlords with 11-19 properties, and 37% of landlords with 20 or more properties.<sup>12</sup> This suggests that the Government’s interventions are discouraging portfolio landlords – more likely to run a full-time lettings business – with less impact on ‘accidental’ landlords who continue to remain in the market.

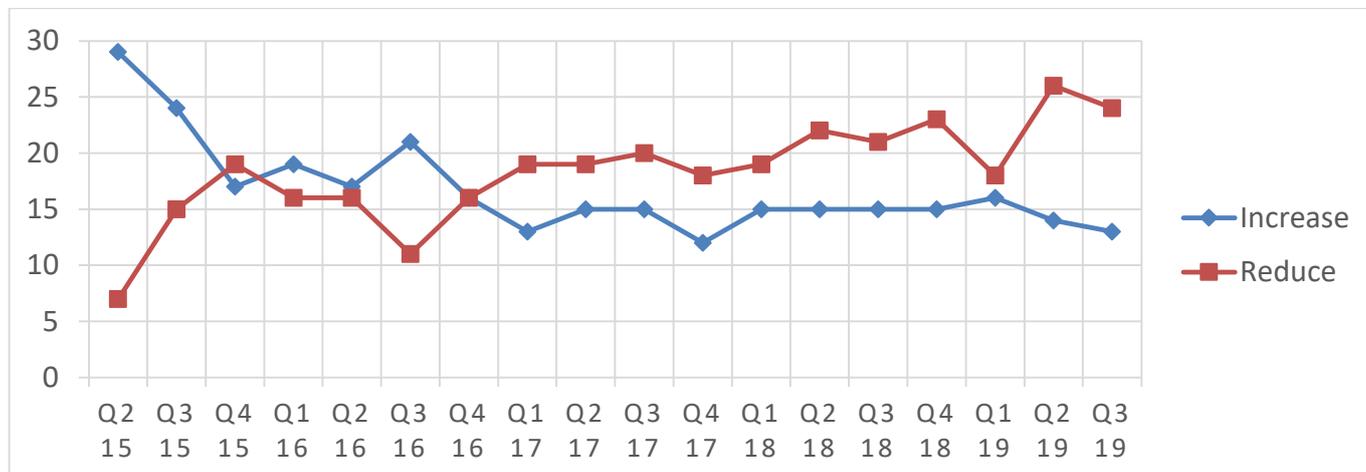


Chart above shows percentage of landlords seeking to either increase or reduce the size of their portfolio in the ‘next 12 months’, NLA Quarterly Survey Q2 2015 to Q3 2019.

- 4.4 The joint effects of mortgage interest relief changes and the introduction of the stamp duty levy on the purchase of additional properties have had a negative impact on the confidence of landlords to invest in new property. Research by The Mortgage Lender has shown that in 2016, following the introduction of the stamp duty levy, the number of Buy to Let mortgages for house purchase dropped by 13%, followed by a 27% fall in 2017 and a further 11.5% fall in 2018.<sup>13</sup>
- 4.5 The Royal Institution of Chartered Surveyors has warned of notable rent rises as a result of the demand for rental properties outstripping supply. As it observes in its most recent market survey (Dec 2019)<sup>14</sup>:

*“In the lettings market, tenant demand (non-seasonally adjusted monthly series) picked-up modestly over the survey period. Meanwhile, landlord instructions remained very much in decline, with this indicator stuck in negative territory going all the way back to 2016.*

*“Going forward, rents are expected to increase as a consequence of the imbalance between rising demand and falling supply. Indeed, projections point to around 2% rental growth over the coming year, while this is anticipated to accelerate to average closer to 3% per annum over the next five years. It is worth noting that five year price expectations, at 3.5% per annum, have moved slightly*

<sup>9</sup> RLA, *Landlord Confidence Index (Lci) No.3: 2019 Q3*, 19<sup>th</sup> November 2019, available at: <https://research.rla.org.uk/research-reports/landlord-confidence-index-lci-no-3-2019-q3/>.

<sup>10</sup> RLA, *Landlord Investment, Finance, and Tax Report 2016*, September 2016, page 24, available at: <https://research.rla.org.uk/wp-content/uploads/Finance-and-Tax-Review-of-the-PRS-Report.pdf>.

<sup>11</sup> NLA, *Landlords to reduce portfolios despite record asking rents*, 7<sup>th</sup> November 2019, available at: <https://landlords.org.uk/news-campaigns/blogs/landlords-reduce-portfolios-despite-record-asking-rents>.

<sup>12</sup> NLA Quarterly Survey, Q3 2019, base: 884 responses.

<sup>13</sup> The Mortgage Lender, *Buy to Let: The Landlord Experience*, June 2019, available at: [https://themortgagelender.com/wp-content/uploads/2019/08/TML\\_SpecialReportMay19\\_V4.pdf](https://themortgagelender.com/wp-content/uploads/2019/08/TML_SpecialReportMay19_V4.pdf).

<sup>14</sup> RICS, *December 2019: UK Residential Market Survey*, January 2020, available at: <https://www.rics.org/globalassets/rics-website/media/knowledge/research/market-surveys/december-2019-rics-uk-residential-market-survey.pdf>.

*above those for rents for the first time since 2018 (although we would caution against placing too much emphasis on a single month's figures)."*

- 4.6 The leading lettings platform, Rightmove, has warned also that: *"A shortage of new stock to choose from, coupled with strong demand from tenants, has led to record asking rent."*<sup>15</sup> Supporting this, NLA research in Q2 2019 showed that 59% of landlords cited the impact of tax changes as a reason for seeking to increase rent in the following six months.
- 4.7 Furthermore, Professor David Miles, a former member of the Bank of England's Monetary Policy Committee, has warned in a blog post<sup>16</sup> that *"aspiring first-time buyers are hardly helped by squeezing the supply of rental property and driving rents up."*
- 4.8 Some argue that a smaller private rental market is a good thing making more homes available for purchase. The reality is that previously rented homes gradually being released on to the market are not going to drive prices down sufficiently to make owner occupied housing more affordable. A mass sell-off of rental properties risks exposing the country to a housing crash, as warned by the Governor of the Bank of England<sup>17</sup>.
- 4.9 **It is imperative to boost the supply of private rented sector housing to meet growing demand. To support this, the 3 percentage point stamp duty levy should not be applied in cases where landlords add to the net supply of housing. This should include where landlords are developing new properties, bringing empty properties back into use, changing use from commercial to residential or converting large properties into smaller, more affordable units of accommodation. It is completely illogical at a time of housing shortage to have a tax on new homes.**

## **5.0 CREATING A MARKET FOR TENANTED PROPERTIES**

- 5.1 As the Government seeks to end the use of Section 21 repossessions in its Renters' Reform Bill, an important way to prevent them in the first place would be to support the development of an attractive market for landlords to purchase properties with tenants in situ.
- 5.2 The RLA's largest ever survey of landlords and agents (July 2019) found that 65% have neither bought nor sold property with tenants in occupation whilst 74% believe that it is important to ensure a property is vacant when selling or purchasing a property. Furthermore, 49% said that they would not consider buying or selling a property with tenants in situ<sup>18</sup>.
- 5.3 As part of the survey the RLA questioned how those responding would react in a situation in which the buyer of a property with tenants in situ could reclaim the stamp duty on it if the tenants remained for at least 12 months. In such a scenario, 48% of landlords said that it could encourage them to purchase such properties<sup>19</sup>.
- 5.4 **The stamp duty levy on the purchase of additional properties should therefore not apply where landlords purchase a rental property with tenants remaining in it, thereby preventing evictions taking place.**

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<sup>15</sup> Rightmove, *Landlords plan to reduce portfolios in spite of record asking rents*, Q3 2019, available at: <https://www.rightmove.co.uk/news/rental-price-tracker/>.

<sup>16</sup> Professor David Miles, *The war on the rental sector has no winners*, 11<sup>th</sup> September 2019, available at: <https://news.rla.org.uk/blog-the-war-on-the-rental-sector-has-no-winners/>.

<sup>17</sup> The Times, *Carney warns of housing crisis if landlords leave the market*, 6<sup>th</sup> July 2016, available at: <https://www.thetimes.co.uk/article/carney-warns-of-housing-crisis-if-landlords-quit-the-market-s9mrr2hx2>.

<sup>18</sup> RLA PEARL, *Possession Reform in the Private Rented Sector: Ensuring Landlord Confidence*, July 2019, pages 50-52, available at: <https://research.rla.org.uk/wp-content/uploads/RLA-Section-21-review-July-2019.pdf>.

<sup>19</sup> RLA PEARL, *Possession Reform in the Private Rented Sector: Ensuring Landlord Confidence*, July 2019, pages 53 and 51, available at: <https://research.rla.org.uk/wp-content/uploads/RLA-Section-21-review-July-2019.pdf>.

## 6.0 SUPPORTING TENANTS INTO HOME OWNERSHIP

- 6.1 In its manifesto, the Conservative Party spoke of wanting to “*encourage as many people as possible into home ownership*”<sup>20</sup>
- 6.2 A further measure that would support properties being sold with tenants in situ whilst also helping to achieve the Government’s aim of helping people into home ownership would be to use Capital Gains Tax (CGT) to encourage the sale of rented housing to tenants.
- 6.3 Research by the RLA has found that the level of CGT due for payment on sale of a property is a key factor behind landlords not being prepared to sell. It found that when those landlords who were not considering selling any of their properties were excluded, 58.2% of landlords either “strongly agreed” or “agreed” that they had held property for longer than envisaged as a result of CGT<sup>21</sup>.
- 6.4 **A CGT exemption or reduction should be provided for landlords who sell to a sitting tenant(s). This could follow the kind of models proposed by Onward<sup>22</sup> and the Centre for Policy Studies<sup>23</sup>.**
- 6.5 Under the Onward model existing rental properties would be eligible for 100% CGT relief, split evenly between the landlord and the tenant, if the property is sold to a sitting tenant who has lived there for three years or more. The Centre for Policy Studies has proposed a CGT ‘holiday’ to encourage landlords to sell to sitting tenants.

## 7.0 ENERGY EFFICIENT RENTED HOMES

- 7.1 Following the general election the Prime Minister pledged to make the country the “*cleanest, greenest on earth, with the most far-reaching environmental programme.*”<sup>24</sup> A key part of achieving this is improving the energy efficiency of the country’s housing stock reflected by the Government’s commitment to spending £6.3 billion on such measures<sup>25</sup>.
- 7.2 The NLA and RLA are fully seized of the need for improvements to the energy efficiency of all types of rented housing and believe that a framework needs to be in place to support landlords to provide the most energy efficient private rented properties they can.
- 7.3 As a result of the Minimum Energy Efficiency Standard (MEES), since April 2018 all new private tenancies have required the property to have an Energy Performance Certificate (EPC) rating of at least an E. From April this year the standard will apply to all private rented homes. In 2017, 6.3% of private rented

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<sup>20</sup> *The Conservative and Unionist Party Manifesto 2019*, page 30, available at: [https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba\\_Conservative%202019%20Manifesto.pdf](https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba_Conservative%202019%20Manifesto.pdf).

<sup>21</sup> RLA PEARL, *State of the Private Rented Sector – Finance, Tax and Supply*, December 2019, page 45, available at: [https://research.rla.org.uk/wp-content/uploads/State-of-the-PRS-Q3-Survey-FINAL\\_compressed-1.pdf](https://research.rla.org.uk/wp-content/uploads/State-of-the-PRS-Q3-Survey-FINAL_compressed-1.pdf).

<sup>22</sup> Onward, *Make a house a home - How to give private renters a chance to buy and encourage longer tenancies*, October 2018, page 6, available at: <https://www.ukonward.com/wp-content/uploads/2018/10/061018-Make-a-House-a-Home-Final-1-1.pdf>.

<sup>23</sup> Centre for Policy Studies, *Resentful Renters: How Britain’s housing market went wrong, and what we can do to fix it*, December 2019, page 5, available at: <https://www.cps.org.uk/files/reports/original/191222122235-ResentfulRentersFINAL.pdf>.

<sup>24</sup> BBC News, *Election results 2019: Boris Johnson's victory speech in full*, 13<sup>th</sup> December 2019, available at: <https://www.bbc.co.uk/news/election-2019-50777071>.

<sup>25</sup> Conservative Party, *Our manifesto gets Brexit done and unleashes the potential of the whole country*, 24<sup>th</sup> November 2019, available at: <https://vote.conservatives.com/news/our-manifesto-gets-brexit-done-and-unleashes-the-potential-of-the-whole-country>.

properties had an EPC rating of F or G, down from 21.8% a decade earlier – a reduction of 69%<sup>26</sup>. The PRS has the highest proportion of pre-1919 stock of all tenures (35% compared with 20% in owner occupation and 4% and 8% respectively in local authority and housing association stock).<sup>27</sup> Given these properties have solid, rather than cavity, wall construction, this is a particularly significant improvement in the energy efficiency of the housing stock.

- 7.4 The Government's Clean Growth Strategy establishes an objective to upgrade as many private rented properties as possible to an EPC rating of at least a C by 2030 "*where practical, cost-effective and affordable*."<sup>28</sup> Currently, 72.5% of such properties have an EPC rating of D or lower<sup>29</sup>.
- 7.5 Under the law, landlords of properties with an EPC rating of F or G are required to pay up to £3,500 to bring the property to the required standard. Where this would still be unable to bring the property to the suitable standard, the landlord must submit quotes from three different installers, each providing evidence that the cost of the requisite energy efficiency measure would be greater than the spending cap.
- 7.6 The first Budget of this new Parliament provides an important opportunity to reform the tax system so that it actively encourages landlords to invest in energy efficiency improvements to properties they rent out. At present, there is no tax incentive for landlords to do so.
- 7.7 A clear example of the way the tax system is failing to achieve this is boilers. Much has been made about the need to phase out inefficient boilers as a way of improving the energy efficiency of properties. In the private rented sector, if a landlord wanted to replace a boiler for a model that is more energy efficient it would not be tax deductible. However, if a boiler were to break down and be replaced, it would be tax deductible, as it would be classified as a repair.
- 7.8 Whilst just one example, this shows that the tax system is failing to encourage landlords to proactively make the energy efficiency improvements to rental properties that would make a genuine difference to the lives of tenants and support the Government to meet its decarbonisation objectives.
- 7.9 It also is inconsistent with the tax treatment of repairs, as landlords with properties rated at F or G are compelled to undertake improvements in order to let legally.
- 7.10 **We propose that any work that a landlord carries out to a rental property that is recommended on an Energy Performance Certificate (EPC) should be tax deductible, with landlords able to choose whether to deduct against income tax or capital gains tax.** This would have the benefit of:
- Encouraging landlords to behave in a way that they would otherwise not have done. Research by the RLA has found that among the 42% of landlords who indicated that they were not currently planning to make any investment in energy efficiency measures over the next 12-24 months, almost 72% said that a tax scheme to support such work would make a difference to their decision<sup>30</sup>.

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<sup>26</sup> MHCLG, *English Housing Survey 2017 to 2018: headline report*, 31<sup>st</sup> January 2019, Annex Table 2.7, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/774827/2017-18\\_Section\\_2\\_Housing\\_Stock\\_Annex\\_Tables.xlsx](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774827/2017-18_Section_2_Housing_Stock_Annex_Tables.xlsx).

<sup>27</sup> MHCLG, *English Housing Survey 2017 to 2018: stock profile*, 17 July 2019, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/817041/DA1101\\_Stock\\_profile.xlsx](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817041/DA1101_Stock_profile.xlsx).

<sup>28</sup> HM Government, *The Clean Growth Strategy - Leading the way to a low carbon future*, October 2017, page 13, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/700496/clean-growth-strategy-correction-april-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/700496/clean-growth-strategy-correction-april-2018.pdf).

<sup>29</sup> MHCLG, *English Housing Survey 2017 to 2018: headline report*, 31<sup>st</sup> January 2019, Annex Table 2.7, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/774827/2017-18\\_Section\\_2\\_Housing\\_Stock\\_Annex\\_Tables.xlsx](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774827/2017-18_Section_2_Housing_Stock_Annex_Tables.xlsx).

<sup>30</sup> RLA PEARL, *State of the Private Rented Sector – Finance, Tax and Supply*, December 2019, page 45, available at: [https://research.rla.org.uk/wp-content/uploads/State-of-the-PRS-Q3-Survey-FINAL\\_compressed-1.pdf](https://research.rla.org.uk/wp-content/uploads/State-of-the-PRS-Q3-Survey-FINAL_compressed-1.pdf).

- Being self-policing as the recommendations are legally required to be listed on the EPC and are made by a qualified energy performance assessor. They also have a directly measurable cost-benefit as each recommendation must come with an estimate of its cost and the expected annual monetary saving it will create.
- Incentivising improvements over the long term rather than being a ‘one-off’ as a landlord can get a new EPC having improved the property and carry out a further set of improvements to increase efficiency permitting a further tax deduction. It also encourages improvement beyond landlords simply reaching the minimum E standard and then stopping.
- Incentivising and encouraging landlords to undertake continual improvements to a property would provide new work for those local SME tradespeople whom individual and small business landlords will often use. Research by Aldermore Bank suggests that landlords contribute £3.61bn into local businesses across the UK every year<sup>31</sup>.

7.11 In order to manage the relief effectively, we propose matching the level of eligible expenditure to the MEES cost cap, currently £3,500, enabling landlords to claim tax relief on up to £3,500 of expenditure per property, per year. The Committee on Climate Change found last year that the average landlord will need to pay £26,300 over the next 30 years to bring their properties up to carbon neutral status (an A rating), and meet the Government’s target of net zero carbon by 2050.<sup>32</sup> Landlords should therefore be able to rollover tax relief between years in order to undertake more substantial works.

7.12 The Cambridge Centre for Housing and Planning Research, in partnership with the Joseph Rowntree Foundation (JRF), has modelled the potential impact of various tax changes in the sector. This included one to make specified improvements to properties tax deductible against income tax (rather than Capital Gains Tax, as at present)<sup>33</sup>.

7.13 The report argued that *“if all landlords invested in appropriate energy-efficiency measures, they could spend a total of £8,409 million.”* It went on to note: ***“If we assume that 25% of landlords invested in such measures over the next 10 years, this would give a total investment of £2,102 million over the 10-year period, or £210 million per year.”***

7.14 The JRF/Cambridge Centre study noted that if landlords letting the estimated 1.2 million private rented properties occupied by people in receipt of housing support were eligible for tax relief on expenditure that improves the quality or quantity of liveable space *“a fifth of eligible landlords would invest each year, spending an average of £1,000 each – giving a sector expenditure figure of £240 million per year.”* It continued: *“Taken together with the estimated expenditure on energy efficiency, this would give a total expenditure of £450 million per year.”* The report concluded that the cost of such a policy to the Government would be £36 million in the first year, rising to £86 million after nine years.

7.15 Calls have also been made by a number of organisations in the energy saving industry for a tax system that better supports investment in improvements in rented housing. These include<sup>34</sup>:

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<sup>31</sup> Aldermore, *Landlords inject £3.61bn annually into local economies across the UK*, Aldermore research shows, 3<sup>rd</sup> February 2020, available at: <https://www.aldermore.co.uk/about-us/newsroom/2020/02/landlords-inject-361bn-annually-into-local-economies-across-the-uk-aldermore-research-shows/>.

<sup>32</sup> Committee on Climate Change, *UK Housing: Fit for the future?*, February 2019, page 42, available at: <https://www.theccc.org.uk/wp-content/uploads/2019/02/UK-housing-Fit-for-the-future-CCC-2019.pdf>.

<sup>33</sup> Joseph Rowntree Foundation, *Using incentives to improve the private rented sector: three costed solutions*, March 2018, available at: <https://www.jrf.org.uk/report/using-incentives-improve-private-rented-sector-three-costed-proposals>.

<sup>34</sup> Business, Energy and Industrial Strategy Committee, *Oral evidence: Energy Efficiency*, HC 1730, 26<sup>th</sup> February 2019, available at: <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/business-energy-and-industrial-strategy-committee/energy-efficiency/oral/97353.html>.

- **Philip Sellwood** (Chief Executive of the Energy Saving Trust): *“There is no reason why we could not use the tax system to incentivise landlords through tax relief, so that they could claim all of that, rather than just £3,500, £5,000 or whatever.”*
- **Lawrence Slade** (Chief Executive of Energy UK) supported the re-introduction of the Landlord Energy Savings Allowance (LESA) arguing that: *“This would be a perfect example of carrot and stick: “Yes, you have to invest in the properties you own, but actually there is a tax-saving opportunity for you there.” The Government have missed a trick in not looking at that again.”* The re-introduction of the LESA was also supported by the Association for Decentralised Energy.
- **Shirley Rodrigues** (Deputy Mayor for Environment and Energy at the Greater London Authority): *“We think incentives and tax allowances would really help to get landlords taking this up and addressing this really big problem.”*

## 8.0 SUPPORTING DISABLED AND ELDERLY TENANTS

- 8.1 According to the English Housing Survey (July 2019), around 23% of private sector tenants have either a long term illness or a disability<sup>35</sup>. In a report looking at housing for disabled people (May 2018)<sup>36</sup> the Equalities and Human Rights Commission has previously noted that disabled people *“face particular problems in the private rented sector.”* Its recommendations included a call for the Government to *“review and address the barriers to installing adaptations in the private rented sector.”*
- 8.2 Alongside this is a projected growth in the number of older people now reliant on private rented housing. As the All Party Parliamentary Group (APPG) for Ageing and Older People noted last year: *“Although older tenants currently make up a small proportion of the private rented sector, there is likely to be a significant increase over the next 20 years.”*<sup>37</sup> The APPG for Housing and Care for Older People’s 2019 inquiry into rental housing for an ageing population noted forecasts that the number of households in the PRS headed by someone aged over 34 will more than treble by 2046, to 1.5 million, with 360,000 dwellings for older renters with disabilities required by 2050.<sup>38</sup>
- 8.3 Given the extra needs that older tenants have, the APPG for Ageing and Older People called on the Government to: *“work with private landlord organisations to increase the availability of housing in the private rented sector that is flexible and adaptable to older and disabled renters.”* It went on to say: *“This should includ[e] making the criteria for obtaining a DFG more inclusive of private renters with increased local authorities capacity and resources to deliver grants to this sector.”*<sup>39</sup>
- 8.4 **In order to facilitate the use of the Disabled Facilities Grant (DFG) in the PRS, the Government should loosen the requirement that DFGs can only be awarded if there is proof that there is an intention to live in the house for five years.** There is currently an inconsistency in how this requirement is interpreted by

<sup>35</sup> MHCLG, *English Housing Survey - Private rented sector, 2017-18*, July 2019, page 10, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/817630/EHS\\_2017-18\\_PRS\\_Report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817630/EHS_2017-18_PRS_Report.pdf).

<sup>36</sup> EHRC, *Housing and disabled people: Britain’s hidden crisis*, May 2018, available at: [https://www.equalityhumanrights.com/sites/default/files/housing-and-disabled-people-britains-hidden-crisis-main-report\\_0.pdf](https://www.equalityhumanrights.com/sites/default/files/housing-and-disabled-people-britains-hidden-crisis-main-report_0.pdf).

<sup>37</sup> APPG for Ageing and Older People, *Inquiry into decent and accessible homes for older people*, Summer 2019, page 17, available at: <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/appg/appg-for-ageing-and-older-people---report-on-decent-and-accessible-homes-for-older-people.pdf>.

<sup>38</sup> APPG for Housing and Care for Older People, *Rental housing for an ageing population*, July 2019, page 5, available at: [https://www.housinglin.org.uk/\\_assets/Resources/Housing/Support\\_materials/Other\\_reports\\_and\\_guidance/HAPPI-5-Rental-Housing.pdf](https://www.housinglin.org.uk/_assets/Resources/Housing/Support_materials/Other_reports_and_guidance/HAPPI-5-Rental-Housing.pdf).

<sup>39</sup> APPG for Ageing and Older People, *Inquiry into decent and accessible homes for older people*, Summer 2019, page 6, available at: <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/appg/appg-for-ageing-and-older-people---report-on-decent-and-accessible-homes-for-older-people.pdf>.

local authorities.<sup>40</sup> The Government should be clear that it is sufficient that a landlord and tenant make a statement that there is an intention for the tenancy to continue for five years.

- 8.5 **The Government should also intervene to incentivise landlords to adapt properties and to continue to offer these to the market over the long term. Capital gains tax relief for landlords who let properties to tenants in need of adaptations or accessible homes for a period of at least five consecutive years would support landlords to let to disabled and older tenants, promoting both longer tenancies and the retention of adaptations once installed.** It would be straightforward for landlords to evidence the continued occupation of a tenant with accessibility needs, as tenants will need to have an occupational health or adult social care assessment of whether the property is suitable at the outset of the tenancy. A tenancy agreement and proof of ongoing rental payments could evidence the length of the tenancy.

## 9.0 SUPPORTING VULNERABLE TENANTS

- 9.1 As of August 2019, 45% of households in receipt of Universal Credit which included support for housing costs were in the private rented sector. With so many claimants reliant on the sector for a place to live it is vital that both the tenant and the landlord have the confidence that claimants have the resources to meet their rent payments in full and on time.
- 9.2 Whilst we note the Government decision to increase the Local Housing Allowance (LHA) from April this year by CPI as it stood in September 2019 (1.7%). Since the housing allowance freeze began in April 2016, private rents have increased by 5.1%<sup>41</sup>.
- 9.3 Although we welcome the Government's recognition that the housing allowance freeze needed to end, we agree with Crisis, whose Chief Executive, Jon Sparkes, had concluded that the Government's action amounts to *"a drop in the ocean compared with the investment we know is needed to ensure housing benefit covers the true cost of renting."*<sup>42</sup>
- 9.4 In fact, research by the Bureau of Investigative Journalism assessed the impact of the Government's inflation-linked rise on the affordability of 62,000 two-bed properties available to rent across Britain and found that only 900 more properties would be affordable. Across all adverts assessed, just 1.4% more properties would be available to those renting who rely on LHA for their housing costs.<sup>43</sup>
- 9.5 Research by the National Housing Federation has suggested that 94% of private rented homes are too expensive for those on housing benefit<sup>44</sup>.
- 9.6 **In order to improve access to rented housing for the most vulnerable and to ensure the housing allowance properly reflects local rents, the Local Housing Allowance should revert to being based on the 30th percentile level and therefore increase in line with market rents. A flat, inflation rate linked**

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<sup>40</sup> APPG for Housing and Care for Older People, *Rental housing for an ageing population*, July 2019, page 22, available at: [https://www.housinglin.org.uk/assets/Resources/Housing/Support\\_materials/Other\\_reports\\_and\\_guidance/HAPPI-5-Rental-Housing.pdf](https://www.housinglin.org.uk/assets/Resources/Housing/Support_materials/Other_reports_and_guidance/HAPPI-5-Rental-Housing.pdf).

<sup>41</sup> The Office for National Statistics' *Index of Private Housing Rental Prices, UK: monthly estimates* can be accessed at: <https://www.ons.gov.uk/file?uri=%2feconomy%2finflationandpriceindices%2fdatasets%2findexofprivatehousingrentalpricesreferencetables%2fcurrent/iphreferencetabledecember2019.xls>. According to Table 1, in the UK in April 2016 the index value was 103.2 In December 2019 it was 108.5. This represents an increase of 5.1%.

<sup>42</sup> Jon Sparkes for The Times Red Box, *'Unfreezing' Housing Benefit is not enough to end rough sleeping*, 14<sup>th</sup> January 2020, available at: <https://www.thetimes.co.uk/article/unfreezing-housing-benefit-is-not-enough-to-end-rough-sleeping-zzkljwgim>.

<sup>43</sup> Charles Boutaud & Maeve McClenaghan, for The Bureau of Investigative Reporting, *Locked out: Why the housing benefit rise won't make much difference*, 24<sup>th</sup> January 2020, available at: <https://www.thebureauinvestigates.com/stories/2020-01-24/locked-out-why-the-housing-benefit-rise-wont-make-much-difference>.

<sup>44</sup> National Housing Federation, *Housing benefit freeze: 9 in 10 homes unaffordable for families*, 7<sup>th</sup> October 2019, available at: <https://www.housing.org.uk/press/press-releases/housing-benefit-freeze-9-in-10-homes-unaffordable-for-families/>.

increase takes no account of significant variations in local rent levels and will cause distress to many renters in areas of high values and shortages.

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