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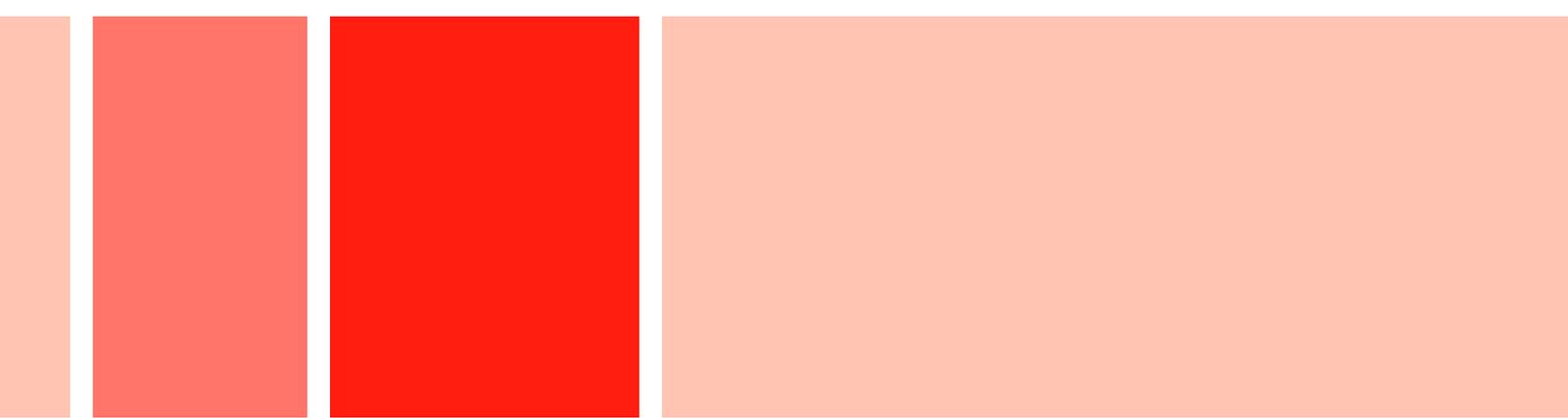
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An Evaluation of Rent First and the Intermediate Rent Market in Wales



An Evaluation of Rent First and the Intermediate Rent Market in Wales

Three Dragons, SQW Ltd, Cyngor Da, and Opinion Research Services Ltd

(Views expressed in this report are those of the researcher and not necessarily those of the Welsh Government)

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EXECUTIVE SUMMARY

Background to the study

1. Rent First was established as a new capital grant funded housing product by Welsh Government in 2011. Rent First provides an intermediate rent solution designed for people unable to access home ownership but who can afford more than a social rent, at least in the short term.
2. Rent First is targeted at households with incomes of between £16,000 and £30,000 per annum and allows for the future purchase of their rented home by the occupier. Rent First can also be provided as an intermediate rent product without the purchase option.
3. Rent First has its origins in the Essex Review and, following a pilot scheme, was launched in 2011. With four years experience of the initiative, Welsh Government has commissioned this study to provide an, “.....*evaluation of Rent First and to review more widely the intermediate rent market in Wales and the use or otherwise of other intermediate rent products*”.
4. The study draws on a wide range of data sources including the 2011 Census and on two elements of original research:
 - Two online surveys, one with local authorities and one with developing housing associations. Response rates of 11 out of 22 (50%) and 18 out of 32 (56%) respectively were achieved;
 - Eight local authority area-based case studies focusing on interviews with representatives from the local authority and housing associations active in the area.

Demand and Supply

5. The analysis of demand and supply statistics for intermediate rent demonstrates that the assumptions on which Rent First is based still hold true, i.e. there is an affordability gap between social and private renting and outright purchase of properties. Across Wales, the income

required to afford social rents is just over £16,000, while the income required to buy an average property is nearly £32,000.

6. However the scale of the 'affordability gap' is not uniform across Wales with the larger gaps in South East Wales and Swansea.
7. Rent First is making a modest contribution to the overall supply of intermediate rent (estimated at about 40 to 50 Rent First properties per annum since 2012) compared with about 800 total intermediate rent per annum in the same period. These estimates are based on online survey results and must be treated with considerable caution (as not all local authorities or housing associations provided data); the estimates can only provide an indication of the numbers.

The Intermediate Housing Market

8. There is no single definition of intermediate rent used by all local authorities and housing associations but it is usually defined as either 80% of market rents or 80% or 100% of the Local Housing Allowance.
9. Local Housing Market Assessments (LHMA) are the primary source of information about the scale of the intermediate rent market but can be supplemented by other market intelligence, including information from housing associations.
10. The potential role for intermediate rent is widely recognised but is not seen as being large-scale. For example, in the local authority online survey, nine out of the 11 respondents said the intermediate rent market in their area was either small or did not exist. A much higher priority is being given to providing social rent.
11. At the local level, the potential for intermediate rent can vary **within** a local authority area, reflecting differences in market values across the authority.

Rent First

12. The online surveys demonstrate that the take-up of Rent First has varied. The surveys found that five out of the 11 local authority respondents offer Rent First, as had eight out of the 18 housing

associations. There is no particular pattern to the use made of Rent First; it is being provided in different parts of the country and in both urban and rural areas. The evidence indicates that the delivery of Rent First is very much a local authority by local authority choice.

13. When asked what influences the decision to offer Rent First, local authorities cited evidence of demand as the main reason, although the potential to cross subsidise development of social rented units was also an influence for six of the 11 local authorities replying to the survey. In addition to a fit with the business plan and in response to local authority priorities, housing associations appear to place more importance on offering a range of tenure choices.
14. Despite its potential to provide cross subsidy, the viability of developing Rent First has been questioned (especially in lower value areas) as have current grant levels (again, especially in lower value areas).
15. The purchase option with Rent First is not offered by all providers. Of the five local authorities in the online survey that had utilised Rent First, three had offered local housing associations the ability to use the 'purchase option'. To date there has been minimal take-up of the purchase option (with only one possible sale identified through the online surveys) and with little expectation that this will change significantly in the future.
16. Households occupying Rent First properties are very similar to other households in the intermediate rent market. They may be single people, couples or families and will typically be in employment, be 25 to 40 years old and on lower income (between £15,000 and £30,000 per annum).
17. Rent First is being developed as one, two and three bed properties at rents up to 80% of market rents.
18. Respondents to the online survey and those involved in the case studies felt that there was low take up of the Rent First option because of the relatively low income of the households involved, along with competition from a number of other schemes offering routes into owner

occupation for lower income households; schemes that are better established and that do not require an initial period of renting. Difficulties in accessing mortgages was also raised as an issue.

Future of Rent First

19. A number of housing associations and local authorities plan to continue with Rent First over the next three years at levels similar to those since its launch. No single change was identified that would encourage a faster pace of development but increased and more flexible use of grant, greater flexibility in operation of the purchase option and further promotion of Rent First (and intermediate rent generally) were highlighted as actions that could help to increase the uptake of Rent First.

Conclusions and Recommendations

20. The picture of Rent First which emerges from the research is mixed, with Rent First attracting both supporters and critics. In the main, local authorities and housing associations do not view Rent First as a core part of their intermediate housing offer and it is neither an integrated or mainstreamed area of activity. Nevertheless, Rent First provides a useful niche option. The basic premise of a scheme with rents at a maximum of 80% market rents and the option to purchase later continues to have a role albeit with a limited market and issues about the viability of the product for providers, especially in lower value areas.
21. The evidence of demand indicates that there is potential for a more substantial programme of intermediate rent in some parts of Wales (but not everywhere). However, in many areas, the priority given to social rent means that less intermediate rent is being planned for than the apparent level of demand would justify.

Recommendations

The recommendations put forward are grouped under two headings – short term and longer term.

Short Term Recommendations

- Welsh Government should continue to promote Rent First to local authorities and housing associations and to provide further information on how Rent First operates including:
 - The purchase option and how Rent First operates with **and** without the option;
 - The target market for Rent First;
 - The way grant is made available for Rent First and viability issues;
 - How Rent First relates to other intermediate rent and low cost home ownership initiatives available.

The additional information could be provided in a guidance note following publication of this research study;

- Welsh Government considers whether there can be additional flexibility in the purchase option so households can purchase their property in stages (noting that there will be a limited market for this);
- Welsh Government provides further publicity about the advice in the new guidance on preparing LHMA¹ which deals with assessment of the scale of the intermediate rented market in an area. Although LHMA's have all been recently updated, there may be a further opportunity for more detailed analysis at the local level of the scale of the intermediate market.
- Welsh Government should consider a re-brand or re-name of Rent First which conveys very clearly that the scheme offers (grant funded) intermediate rent homes with an option (but not obligation) for later purchase.

Longer term recommendations

- Welsh Government should assess how it can flex the level of grant to support Rent First where viability is an issue – including to

¹ Getting Started With Your Local Housing Market Assessment - A Step by Step Guide, Welsh Government, November 2014

compensate for the loss for providers of a share of any uplift in value, when a property is purchased by the occupier. This will require further viability modelling of Rent First which takes into account variations in market rents and sales values across Wales and alternative development scenarios, including mixed tenure s106 schemes;

- Welsh Government should consider introducing a protected programme of public subsidy with the specific purpose of supporting the development of other intermediate rent properties, **where an unmet demand for this is demonstrated**. Grant support should be reserved for schemes that target households that can afford more than social rent, with priority for schemes that can also be shown to take pressure away from social housing demand. Grant should be available where schemes are shown not to be viable;
- In any future review of Tan 2, the opportunity should be taken to build on the current definition of affordable housing so that there can be no doubt that intermediate rent is a form of affordable housing, alongside social rent, with the expectation that local authorities will take intermediate rent into account in forming their policies. This could, for example, include mention of Rent First in Tan 2 as a named form of intermediate rent (to complement the current mention of Homebuy as a form of low cost home ownership).

1. Context for the Study

Rent First is a relatively new initiative in Wales providing a grant funded source of intermediate rent housing. This chapter describes the role of Rent First, setting it in the context of the wider intermediate rent market. The aims and objectives of the research are set out, including the scope for the study to put forward recommendations for the future of Rent First

Study Objectives

- 1.1 Rent First was established as a new capital grant funded housing product by Welsh Government in 2011. Rent First provides an intermediate rent solution designed for people unable to access home ownership but who can afford more than a social rent, at least in the short term. It is targeted at households with incomes of between £16,000 and £30,000 per annum.
- 1.2 Rent First allows for a future outright purchase of their rented home by the occupier; giving time for the occupier to build up a mortgage deposit, thus helping to meet the need for affordable home ownership in areas of shortage and to provide more housing choice. The scheme can assist local authorities to meet their strategic housing needs and housing associations to create schemes of mixed tenure and mixed incomes. Rent First does not have to be offered with a purchase option but where this is proposed it *“should be agreed by the local authority and housing association and this should be supported by evidence around specific housing need.”*²
- 1.3 Rent first is the main mechanism by which Welsh Government grant funds intermediate rent housing. Local authorities can allocate funding for Rent First from the programme of Social Housing Grant (SHG) made available to them, up to a maximum of 25% of total eligible scheme costs.

² Rent First - intermediate rent - Final Guidance, Welsh Government, 2011

1.4 Following a pilot scheme, Rent First was launched in 2011. With four years experience of the initiative, Welsh Government has commissioned this study to provide an, “.....*evaluation of Rent First and to review more widely the intermediate rent market in Wales and the use or otherwise of other intermediate rent products*”. Within this context, the study brief sets out two main aims:

Aim 1: To evaluate the Rent First product, assess its use across Wales, and understand barriers to take up. As part of this aim, the project will also explore the use of other intermediate rent products (both grant and non-grant funded) or strategies by social housing providers.

Aim 2: To assess the extent of the intermediate rent market(s) in and across Wales, and how local authority assessments of their intermediate rent market influence their housing strategies.

1.5 The full list of study issues is set out in Appendix 1. In drawing the findings together, recommendations are to be made which provide:

- Action on future development of Rent First, and
- Action on the extent of the intermediate rent market in Wales and the consequences for intermediate rent products.

Evolution of Rent First

Origins in the Essex Review

1.6 For many years, the only subsidised housing alternative to home ownership or private renting was social rented housing provided by local authorities or housing associations. Models of low cost home ownership were then developed as a way of helping people on low to moderate incomes to get on the first rung of the home ownership ladder. Rent First is the first intermediate rental product developed by Welsh Government.

1.7 The origins of Rent First lie in research completed between 2003 and 2008 which looked at the housing market, the effects of inadequate

supply, and the potential of the intermediate market, particularly in areas where affordability was an issue.

- 1.8 A series of research reports³ showed that increasing house prices in Wales were creating an affordability gap with average house prices many more times average incomes, that increasing numbers of people were finding home ownership unaffordable and that a significant proportion of households who were unable to buy a property were able to pay more than a social rent.
- 1.9 The Essex Review⁴, which drew on much of this research was published in 2009. Designed to improve the delivery of affordable housing, the Review led to far-reaching change in the way affordable housing was regulated, funded, planned for and assessed. The review's 43 recommendations were taken forward by four 'Essex workstreams'. One of these looked at the use of Homebuy and other intermediate market measures and another at the delivery of SHG. Its work paved the way for a move towards a more mixed approach to the tenure of affordable housing, offering more choice and flexibility in the affordable housing 'product offering'. In 2010 the National Housing Strategy (Improving Lives and Communities – Homes in Wales) reinforced this approach and included amongst its priorities developing '*...more ways of helping people to rent, to own, or part-own properties if they cannot do so through the housing market*'.

Rent First Pilot Consultation

- 1.10 In 2009 one of the Essex workstreams commissioned the development of a financial model for intermediate rent with an analysis of the likely

³ These reports included:

Can work; can't buy, Steve Wilcox, Joseph Rowntree Foundation, (2003)

Affordability differences by area for working households buying their homes - 2003 Update (2004)

Steve Wilcox, Joseph Rowntree Foundation Findings;

Home ownership affordability in Wales, Steve Wilcox, Centre for Housing Policy, University of York, (2004);

Young, Working and Homeless? Younger Working households in Wales and the affordability crisis,

Cardiff: Chartered Institute of Housing Cymru, Policy Briefing Paper 3 (2005);

Can't Buy; Can Rent - The affordability of private housing in Great Britain Hometrack (2007);

Can't supply; Can't Buy - The affordability of private housing in Great Britain Hometrack (2008); Working Paper on Homebuy in Wales Tamsin Stirling, Steve Wilcox and Peter Williams, (2009)

⁴ 'Affordable Housing in Wales', the Essex Review (2008)

policy implications of its introduction. The workstream looked at the level of grant required to provide loan repayments relative to market rents and provided a solution which could be modelled by local authorities and housing associations. The approach formed the basis of a consultation in March 2010 on the principles of Rent First and pilot guidance. The response to the consultation showed support for intermediate rent where local authorities identified it as a priority, where it was needed and where it was financially viable

1.11 A second tranche of the Welsh Government's Strategic Capital Investment Fund (SCIF) provided the funding support for the delivery of a pilot programme of schemes and an evaluation of this programme showed that most participants used the Rent First model and suggested that intermediate rent products could, for the first time, form an important part of the main SHG programme where local authorities felt this was strategically important.

1.12 The final Rent First guidance was developed using the experience of the pilot programme. It was issued in 2011. It set out the broad parameters to be used for intermediate rent properties developed with SHG which local authorities and housing associations would be expected to work within, allowing local approaches to be agreed between them.

Operation of Rent First

1.13 Rent First operates as follows:

- A home is acquired or built by a housing association with SHG;
- An assured shorthold tenancy is agreed with an eligible person;
- The rent is set at an 'intermediate' sub-market level (i.e. no greater than 80% of private market rents and within the relevant Local Housing Allowance) with the housing costs of people accessing Rent First homes being no more than 30% of gross income;
- As well as the tenancy agreement, a separate purchase option can be agreed between the housing association and the tenant;

- If a tenant exercises the option to purchase, the property value is independently assessed as is the tenant's ability to sustain ownership. If the market value of the property has increased since the start of the tenancy, 50% of this will be treated as an equity share for the tenant in the form of a pre-paid deposit, potentially reducing the loan-to-value ratio of any mortgage maintained;
 - In this situation, the tenant becomes the home owner, funding their purchase by obtaining a standard mortgage from a retail lender, with the potential benefit of the pre-paid deposit/equity share;
 - If the home is purchased the SHG can be fully recycled with any surplus being used by the housing association as Recycled Capital Grant (RCG) for affordable housing purposes only;
 - However, Rent First can also operate without the purchase option.
- 1.14 Rent First, as an intermediate rented product, can provide people with greater choice, as well as enabling people to 'rent first' before they consider buying a home. While the deposit/equity element is dependent on housing market performance, if exercised, the purchase option provides a route to outright home ownership which, in a constrained financial environment, is potentially attractive to both purchaser and provider.

How Rent First is Funded

- 1.15 Rent First receives SHG but Welsh Government has not ring-fenced Rent First as a separate funding programme and has set no minimum programme size. The proportion of SHG allocated to Rent First is agreed at a local level by the local authority through their annual SHG Programme Delivery Plan, reflecting their local housing strategies and analysis of affordable housing demand and priorities for grant funding in their area.
- 1.16 Rent First schemes follow Welsh Government SHG procedures and grant is paid at a maximum of 25% of eligible costs. By comparison, SHG for social rented homes averages 58% of eligible costs. In calculating eligible costs for grant, published Acceptable Cost

Guidance and On Costs apply to intermediate rent schemes in the same way as they apply to social rented schemes. Value for money assessments by local authorities and housing associations are expected to take account of property types and size, grant, rent levels, management and maintenance costs, service charges and an allowance for voids. Housing associations are expected to be able to demonstrate scheme viability through 10-20 year revenue cashflows.

Rent First within the Context of the Wider Intermediate Market

- 1.17 The two main types of intermediate housing are low cost home ownership and intermediate rent. Low cost home ownership provides people with a 'stepping stone' into home ownership through shared equity or shared ownership. Intermediate rent provides a mid market rental housing solution and potentially assists people in the outright purchase of their home in the future. Various low cost home ownership schemes and intermediate rent products are in operation in Wales and generally self-financed by housing associations.
- 1.18 The Welsh Government sees intermediate rent being targeted at a range of people in housing need who:
- Are on the waiting list for local authority or housing association social rented housing, or who would be eligible for the waiting list;
 - Are on local authority or housing association waiting lists for Low Cost Home Ownership or Homebuy properties;
 - Are re-entering the property market and in the same financial position as first-time buyers (such as owner occupiers who are going through relationship breakdown);
 - Cannot currently meet their housing needs in the market in their local area;
 - Are service or ex-service personnel and their partners provided they meet the other eligibility criteria for the scheme.

Structure of the Report

- 1.19 The remainder of the report provides a review of the research undertaken and the research findings:

- Chapter 2 – Description of the research methods employed;
- Chapter 3 – Analysis of the demand and supply patterns for intermediate rent;
- Chapter 4 – Analysis of how the intermediate housing market is being defined, how the scale of the market is assessed and the need identified met;
- Chapter 5 – Analysis of the way Rent First is being provided and attitudes to its role in meeting the need for affordable housing;
- Chapter 6 – Analysis of the Rent First product, who is getting access to Rent First and the operation of the purchase option.

1.20 The key findings are drawn together in a final chapter which summarises the study findings and makes recommendations to Welsh Government for:

- Action on future development of Rent First, and
- Action on the extent of the intermediate rent market in Wales and the consequences for intermediate rent products.

2. Research Approach

This section outlines the various stages of this research project and the research methods utilised at each stage.

Research Elements

- 2.1 The project began with a scoping stage, during which information on Rent First was gathered and initial discussions were held with Welsh Government, the Welsh Local Government Association and Community Housing Cymru, to inform the later fieldwork stages. Following this, three main elements of research were undertaken, as described below.
- 2.2 The first was a desk based quantitative analysis of demand and supply of intermediate rented housing which drew on a range of published data sources to provide an overall picture of the intermediate rented market and which highlighted variations in the market across Wales. Data sources utilised include:
- UK Census 2011;
 - Valuation Office Agency (VOA);
 - Office of National Statistics.
- 2.3 There were then two related online surveys:
- A local authority survey which was distributed to all 22 local authorities and national park authorities in Wales. 11 authorities completed the survey (a 50% response rate). Respondents to the survey included local authorities from across Wales but the majority (8) were from the south of Wales;
 - A housing association survey which was distributed to 32 developing housing associations. The survey was completed by 18 associations (a 56% response rate) that operate in 23 out of 25 local authorities and national parks in Wales. Respondent housing associations operate in anywhere between one and seven local authorities.

To encourage responses to the surveys, reminder e-mails were sent out by Welsh Government and the original deadline for responses was extended.

2.4 While the final level of response is acceptable for analysis, it does not provide an exhaustive audit of Rent First and intermediate housing/rent activity across Wales. However, the results do capture a significant amount of activity in the market and can provide some indicative intelligence on the nature of the intermediate rent market and the Rent First intervention in action. One possible explanation for the relatively low response rate is that those sent the survey were less likely to reply if their organisation was not involved with Rent First. This is only speculation but it is a possibility that has to be borne in mind in interpreting the results.

2.5 The final element of the research was a series of eight local authority area based case studies. These involved a review of the authority policy documents and separate qualitative interviews with a representative from the local authority (typically a senior housing or planning officer) and with representatives of one or two housing associations active in the area. The selection of the case studies was agreed with Welsh Government and was designed to achieve:

- A reasonable geographic spread;
- A mix of urban/market town/ rural areas;
- A mix of authorities with high/medium/low demand for intermediate rent and with different levels of delivery.

The selection of the case studies was constrained by requests from some online survey respondents for no further involvement in the research.

2.6 Technical documents relating to the various research elements are included as appendices:

- Appendix 2 – Supporting information about market trends and demand patterns for intermediate rent (Chapter 2 provides an analysis of the demand);

- Appendix 3 – a summary report of information obtained from the online surveys of local and National Park authorities, and housing associations;
- Appendix 4 – case study discussion agenda.

Drawing the Research Elements Together

- 2.7 The founding rationale for Rent First provides the justification for the existence of the intervention, and so determines the starting point for review by identifying what the intervention is seeking to influence or achieve. This lies in the Essex Review as it paved the way for a significant move away from social renting to mixed tenure housing, offering more choice and flexibility in the affordable housing ‘product offering’.
- 2.8 In testing the validity of the rationale, the key issues borne in mind were:
- The extent to which the initiative was filling a gap in provision and responding to distinct need and demand, rather than simply operating as a ‘bright idea’;
 - The need and demand for the initiative going forward i.e. whether the case remained strong for continuing to intervene in the market;
 - The objectives defined for the initiative, and whether these were proving achievable in practice.
- 2.9 Assessing the net benefits of the initiative which included consideration of Additionality, Leakage and Substitution effects⁵:
- Additionality represents the extent to which the benefits generated by an intervention are at a larger scale, higher quality, quicker, or indeed take place at all, as a consequence of that intervention. For this study, additionality was considered in quantitative terms by asking beneficiaries (in this case local authorities) what they would have done in the absence of the initiative.

⁵ As the economic considerations that HM Treasury's Green and Magenta Books recommend be explored in undertaking evaluations of the gross and net effects of public sector intervention’

- Leakage refers to benefits that fall outside of the initiative's target groups/areas. This should be a modest issue, given the initiative's eligibility criteria.
- Substitution refers to the extent to which beneficiaries take advantage of a scheme, but in doing so substitute this for another development activity which they might have pursued. This could be applicable in the case of this programme i.e. local authorities may have substituted Rent First-funded activities for other development actions they were intending in any case and which would have benefited the same group of households.

2.10 The evaluation also sought to address the wider effectiveness of Rent First including:

- The processes by which the initiative is marketed and promoted, and the mechanisms through which participants are identified for, or apply to, the initiative;
- How the intervention has changed behaviours and is expected to influence future investment decisions;
- The extent of linkages, synergies and overlap with other programmes and initiatives, generic and sector-specific, and the extent to which these may provide complementary or alternative routes to reaching Rent First's objectives of making a sustainable change to the operation of housing markets.

3. Demand and Supply for Intermediate Rent

This first part of this chapter draws on a range of published data to address two key issues:

- Affordability across Wales and the potential for Rent First to make a contribution to meeting housing needs in different local authorities;
- The number of households that could potentially benefit from a housing scheme aimed at households who can afford more than social rents, but who cannot afford owner occupation. Rent First is targeted at households with incomes of between £16,000 and £30,000 per annum.

The second part of the chapter assesses the pattern of supply of intermediate rent.

Quantitative Analysis of Market Demand

3.1 The guidance published during the development of Rent First noted that the key issues limiting access to home ownership and driving the intermediate housing market included:

- Mortgage accessibility;
- Economic uncertainty suppressing the desire to purchase;
- A slowdown in the housing supply pipeline.

3.2 This chapter updates that picture in the light of the economic recovery and new data sources including UK Census of Population 2011, focusing on the current gap in the market for non owner households who can afford more than social rents.

3.3 The Welsh Government's Technical Advice Note 2 (TAN 2), Annex B defines affordable housing as:

'housing provided to those whose needs are not met by the open market.'

Within that definition intermediate housing is that

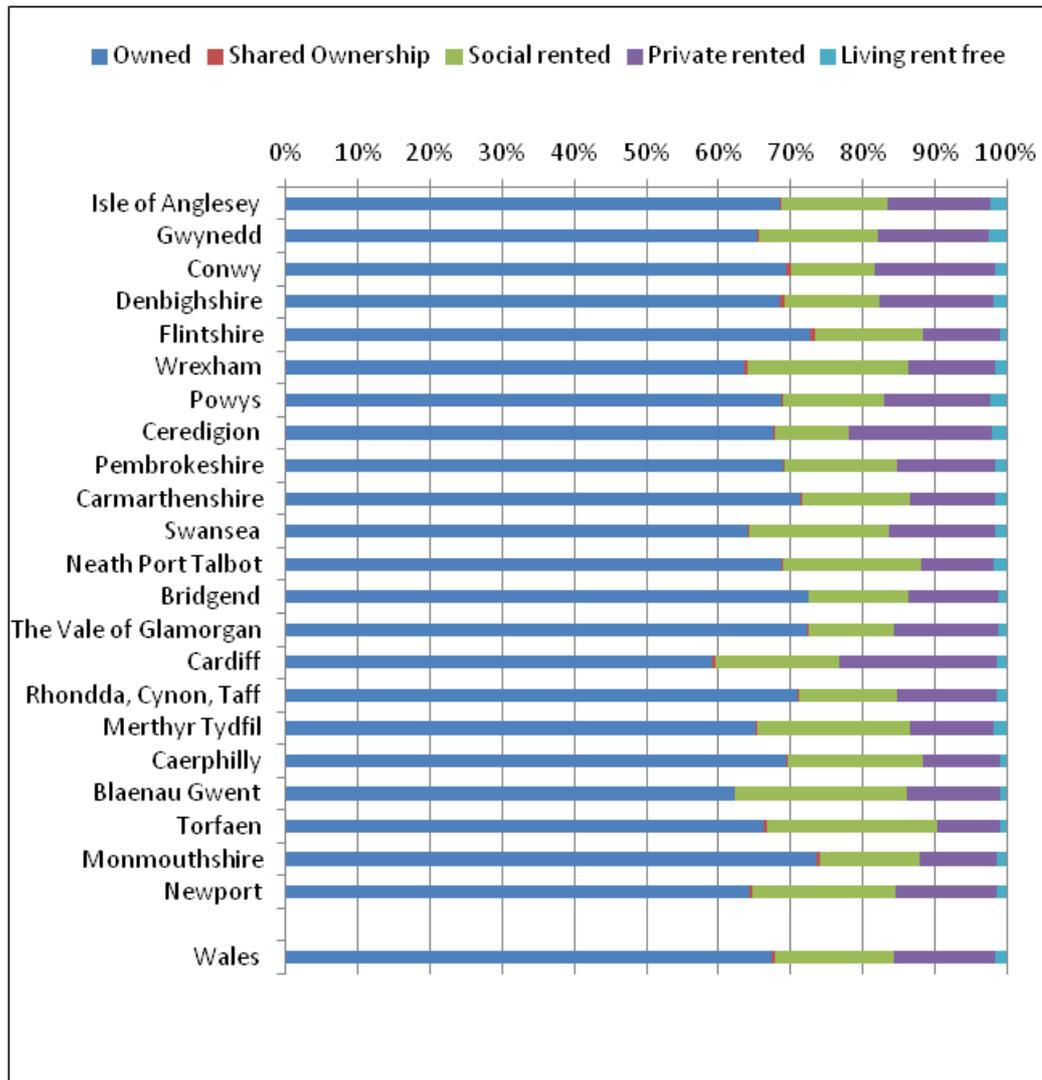
'where prices or rents are above those of social rented housing but below market housing prices or rents.'

- 3.4 For this study it has been necessary to define market housing costs. The lower limit for intermediate housing can be taken from Welsh Government's Local Housing Market Assessment Guide March 2006 which identifies that the threshold point for market housing commences at the lowest quartile for owner occupation and private rents. Given Rent First has both a rental and purchase element, the research has considered both the private rent and owner occupation thresholds.

Housing Tenure Across Wales

- 3.5 To understand the potential role of Rent First in helping to address housing needs across Wales, a review has been undertaken of the operation of the Welsh housing market. Figure 3.1 shows the tenure pattern for all Welsh local authorities at the time of the 2011 Census with private rented rates across Wales ranging from 8% to over 20% of the housing stock. Student households are excluded from the calculations.

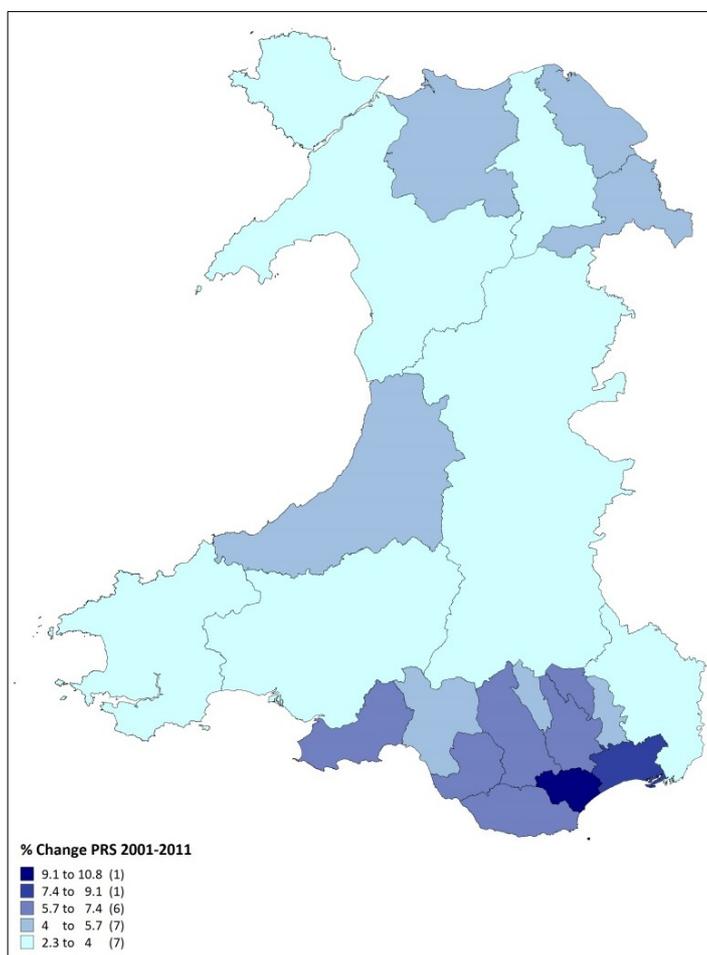
Figure 3.1: Household Tenure by Local Authority in 2011



Source: UK Census of Population 2011

3.6 Analysis of Census data shows that the percentage of households in private rented accommodation has risen since 2001 with the greatest changes occurring in South East Wales. This is illustrated in Figure 3.2 below.

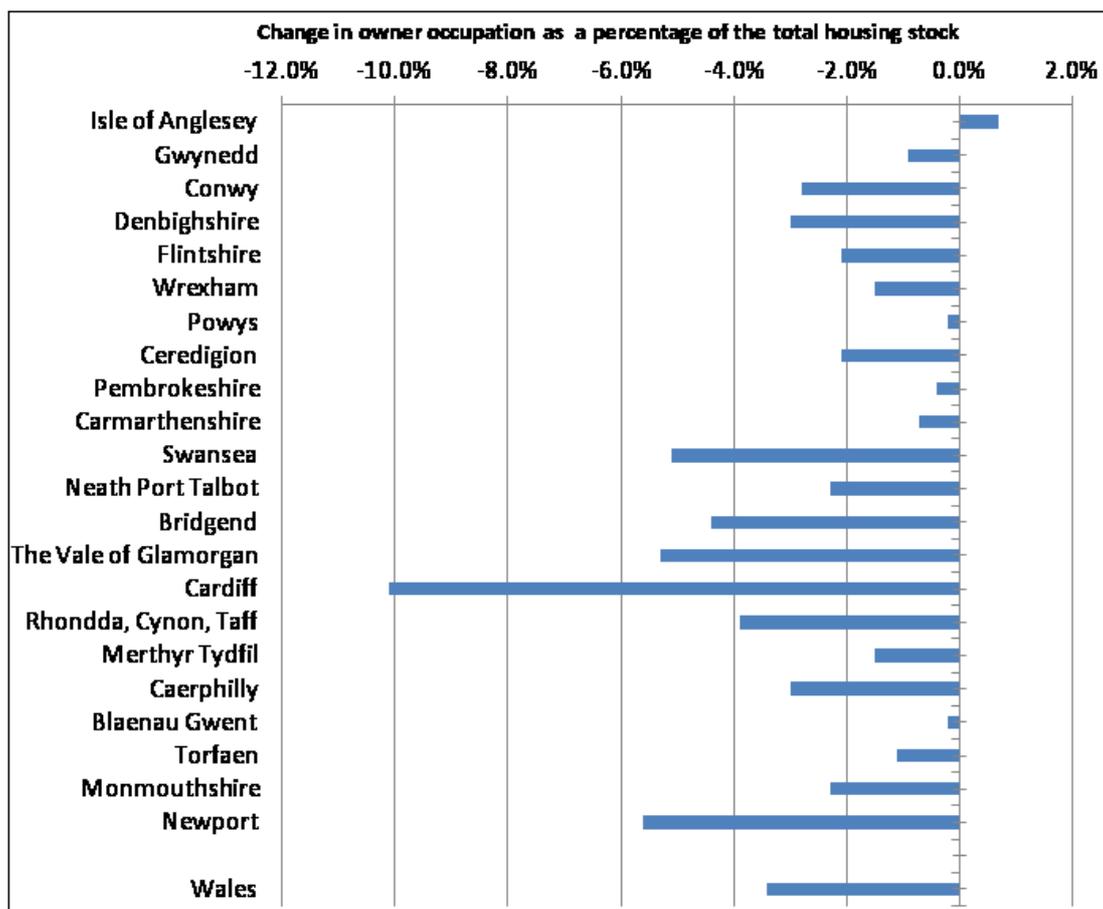
Figure 3.2: Change in Private Rented Sector Rate by Welsh Local Authorities from 2001 to 2011



Source: UK Census of Population 2001 and 2011

3.7 At the same time, rates of owner occupation have decreased, supporting the supposition set out in the Welsh Government's Rent First Guidance Annex 1 that fewer households have been able to move into owner occupation. This is illustrated in the figure below.

Figure 3.3: Change in Owner Occupation as a Percentage of Total Housing Stock from 2001 to 2011



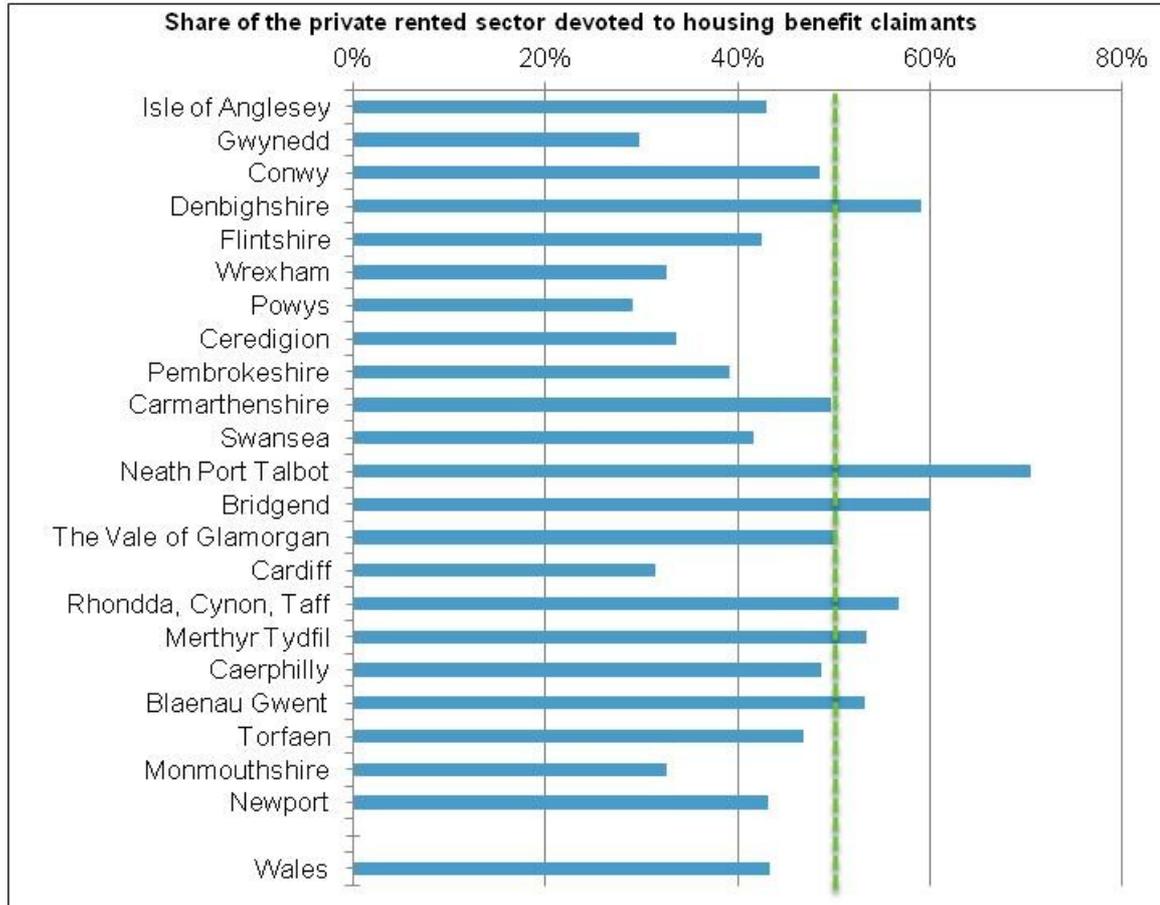
Source: UK Census of Population 2001 and 2011

3.8 The composition of the private rented sector is also important in assessing the potential role of Rent First. In an area where the private rented sector is dominated by households claiming housing benefit, there may be less capacity for an intermediate rent scheme to help to meet housing need. As these households would have been unlikely to move on to owner occupation in the past; their needs may more likely be for social rent.

3.9 Figure 3.4 shows that, for authorities such as Blaenau Gwent, Bridgend, Merthyr Tydfil, Neath Port Talbot and Rhondda Cynon Taff, over 50% of the private rented sector is occupied by households in receipt of housing benefit. The households who receive housing benefit will typically have household incomes of less than £20,000, with many

having much lower figures. Few will fall into the household income range of £16,000-£30,000 - the range Rent First was expected to help.

Figure 3.4: Share of the Private Rented Sector Devoted to Housing Benefit Claimants.



Source: UK Census of Population 2011 and DWP Benefit Statistics May 2011
The vertical line represents 50%

3.10 It is estimated that there are nearly 100,000⁶ households in Wales who are not students and who are paying their private rents without assistance through housing benefit. Approximately one fifth of these are in Cardiff. These households represent a group that could potentially benefit from Rent First.

⁶ This is a rounded figure from an actual figure of 96,817 calculated as follows. Total households in private rent - 184,254 (source: Census 2011) less student households in private rent - 7,497 (source: Census 2011) less households in private rent in receipt of housing benefit - 79,940 (source: DWP)

Housing Affordability Across Wales

- 3.11 As well as the existing tenure, it is also important to consider affordability of an area to understand the potential for intermediate rent: if rents and property prices in the area are relatively low then most households will be able to address their own housing needs without subsidy.
- 3.12 A measure of the rent costs in an area can be derived from the Valuation Office Agency (VOA) Broad Rental Market Areas (BRMAs) - the geographical areas used to determine the local housing allowance (LHA), the allowance paid to housing benefit claimants.
- 3.13 LHA rates are derived from the 30th percentile of rents for the BRMA, which means that 30% of properties in the area are at the LHA rental levels or lower. LHA can be taken as an entry point private rent for that area with households being required to pay at least the LHA rate.
- 3.14 Analysis of rents for 1-4 bedroom properties for each BRMA in Wales demonstrates a considerable range in entry level private rents with, for example, a LHA rent for a 2 bedroom property in Blaenau Gwent of £75 per week and £128 per week in Cardiff.
- 3.15 Comparing the LHA rent for a 2 bedroom property in each local authority with average social rents shows that in some areas, such as Blaenau Gwent and Merthyr Tydfil, there is little difference. However, for other areas including Cardiff, Vale of Glamorgan, Monmouthshire and Flintshire the difference is over £30 per week. Figure 3.5 shows the comparison for each local authority (for further information on rental levels, see Appendix 2).

Figure 3.5: Comparison of Weekly Social Housing Rents and LHA Rates by Local Authority 2014

	Average social rents	LHA rents for 2 bed property	Monetary Difference between LHA rents for 2 bed property and average social rents	Percentage Difference between LHA rents for 2 bed property and average social rents
Isle of Anglesey	£72.01	£90.52	£18.51	25.7%
Gwynedd	£76.6	£86.95	£10.35	13.5%
Conwy	£81.27	£103.56	£22.29	27.4%
Denbighshire	£76.05	£104.23	£28.18	37.1%
Flintshire	£80.87	£111.73	£30.86	38.2%
Wrexham	£76.18	£104.89	£28.71	37.7%
Powys	£82.42	£90.05	£7.63	9.3%
Ceredigion	£76.88	£95.57	£18.69	24.3%
Pembrokeshire	£70.77	£96.69	£25.92	36.6%
Carmarthenshire	£73.61	£92.05	£18.44	25.1%
Swansea	£75.96	£104.89	£28.93	38.1%
Neath Port Talbot	£76.67	£90.90	£14.23	18.6%
Bridgend	£80.92	£103.56	£22.64	28.0%
The Vale of Glamorgan	£84.28	£118.52	£34.24	40.6%
Cardiff	£85.14	£128.19	£43.05	50.6%
Rhondda, Cynon, Taff	£79.88	£83.20	£3.32	4.2%
Merthyr Tydfil	£72.1	£80.55	£8.45	11.7%
Caerphilly	£77.66	£94.36	£16.70	21.5%
Blaenau Gwent	£69.75	£75.00	£5.25	7.5%
Torfaen	£82.27	£97.81	£15.54	18.9%
Monmouthshire	£83.28	£115.07	£31.79	38.2%
Newport	£81.63	£103.56	£21.93	26.9%
Wales	£78.53	£98.77	£20.24	25.8%

Source: StatsWales and VOA

- 3.16 For home ownership, affordability is measured by property prices. Here, Land Registry data shows that in 2014, average property prices ranged from £63,500 in Merthyr Tydfil to £177,000 in Monmouthshire (for a full list see Appendix 2).
- 3.17 Drawing together the information on affordability enables calculation of the annual level of income required to be able to afford different tenures in every local authority in Wales. Taking into consideration Welsh Government's Local Housing Market Assessment Guide which

indicates that households should spend no more than 25% of their gross income on rent and that households can be considered to afford a property which costs 3.5 X of a single income, or 2.9 X of joint income. For this calculation it has been assumed that households can obtain a mortgage for 3.5 X gross income for 95% of the value of the property. However it should be noted that 95% of value mortgages are still relatively restricted.

3.18 The results of this calculation show that for areas such as Blaenau Gwent and Merthyr Tydfil there is little difference between the income required to afford social rents and that needed to rent in the private sector or to be able to afford to buy an average property. This is set out in Figure 3.6 below.

3.19 Columns B and C are colour coded to illustrate, respectively, the step-up in income required to go from affording social rent to private rent and from affording private rent to house purchase. The table below explains the colour coding used.

Figure 3.6: Explanation of Colour Coding used in Figure 3.7

	Column B	Column C
	Comparison of increase in income required to go from affording social rent to private rent	Comparison of increase in income required to go from affording private rent to house purchase
Green	Less than 15%	Less than 50%
Orange	Between 15% and 30%	Between 50% and 100%
Red	More than 30%	More than 100%

3.20 It should be noted that the 'gaps' shown for columns B and C use different percentages. This simply reflects the pattern of values. It may be useful to think of green as being 'a limited gap', orange a 'moderate gap' and red showing a 'large gap' in the affordability of the respective tenures.

Figure 3.7: Affordability of Different Tenures by Local Authority - 2014

	A	B	C
	Income required to afford average social rent	Income required to afford 2 bedroom private rent at LHA level	Income required to afford mortgage for average house price
Isle of Anglesey	£14,978	£18,828	£35,937
Gwynedd	£15,933	£18,086	£36,860
Conwy	£16,904	£21,540	£34,580
Denbighshire	£15,818	£21,680	£30,699
Flintshire	£16,821	£23,240	£34,281
Wrexham	£15,845	£21,817	£32,056
Powys	£17,143	£18,730	£39,004
Ceredigion	£15,991	£19,879	£41,347
Pembrokeshire	£14,720	£20,112	£37,213
Carmarthenshire	£15,311	£19,146	£28,554
Swansea	£15,800	£21,817	£29,043
Neath Port Talbot	£15,947	£18,907	£22,637
Bridgend	£16,831	£21,540	£31,594
The Vale of Glamorgan	£17,530	£24,652	£44,053
Cardiff	£17,709	£26,664	£39,764
Rhondda, Cynon, Taff	£16,615	£17,306	£19,787
Merthyr Tydfil	£14,997	£16,754	£17,236
Caerphilly	£16,153	£19,627	£26,247
Blaenau Gwent	£14,508	£15,600	£17,860
Torfaen	£17,112	£20,344	£27,686
Monmouthshire	£17,322	£23,935	£48,260
Newport	£16,979	£21,540	£30,346
Wales	£16,334	£20,544	£31,839

Source: UK Land Registry, VOA and StatsWales

3.21 For much of Wales there is a significant gap in affordability between social rent and market rent and between market rent and purchasing. Across Wales the income required to afford social rents is just over £16,000, while the income required to buy an average property is nearly £32,000. This highlights that the initial assumption that Rent First could help to provide housing for those with incomes of between £16,000 and £30,000 per annum is still valid with households on the lower incomes unable to afford market rent. It also highlights an

additional potential role for Rent First as a first step on the housing ladder which will eventually lead to owner occupation.

3.22 Figure 3.7 above highlights significant variation between authorities in the gap between incomes required to afford social rent and market rent and then between market rent and outright purchase. There are authorities where there is a more significant gap between social rent and market rent than between market rent and sale (Swansea and Cardiff being key examples) and only Gwynedd where the pattern is reversed. Monmouthshire is unique with a significant gap between the income required to afford social rent and market rent and again between market rent and outright purchase.

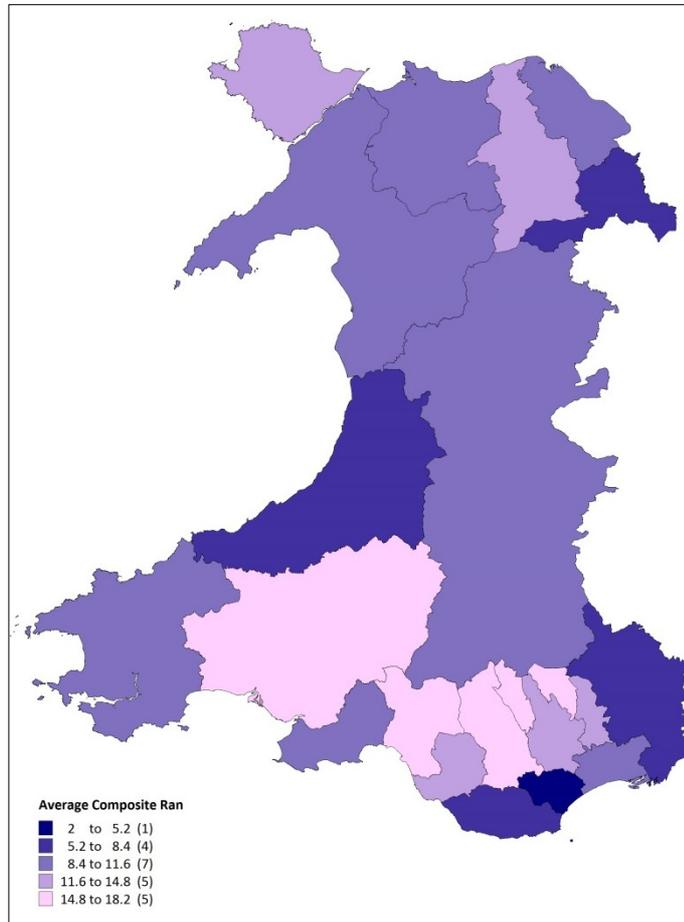
3.23 This analysis would not rule out the use of intermediate housing in other areas. For example, in local authorities with lower house prices it may be the accommodation available is of a lower quality and that new intermediate housing can offer better quality accommodation.

Extent of the Potential Role of Intermediate Housing

3.24 Focussing on areas with affordability gaps, a range of measures⁷ were taken to place each local authority in rank order. On this basis, the authority with the greatest potential for intermediate housing was ranked number 1 and the one with the least potential as number 22. Therefore, for size of the private rented sector, Cardiff ranks first and Torfaen ranks 22nd. However, for house prices, Monmouthshire ranks first and Merthyr Tydfil ranks 22nd. All of the ranks have been combined and an average rank taken for each local authority. This is shown in the map below (with supporting data set out in Appendix 2). The darker the shading the lower the rank, and therefore, on the basis of the data analysed here, the greater the potential for an intermediate rent market.

⁷ The measures are size of private rented sector (PRS), growth in PRS 2001 to 2011, share of PRS not taken up by LHA claimants, LHA rents for 2 bed property, average house prices.

Figure 3.8: Composite Rank of Private Rented Sector Indices, LHA and House Prices



Source: UK Census of Population 2011, DWP Housing Benefit Statistics, VOA and UK Land Registry)

- 3.25 The overall findings of this exercise show Cardiff as having the top average rank reflecting its large private rented sector and poorer affordability, while Merthyr Tydfil is ranked the lowest and therefore arguably, the least potential for Rent First to address affordability needs.

Income Growth over Time

- 3.26 Rent First can incorporate the option to purchase which can help households 'in the gap' get on to the property ladder. The possible scale of the market for young households who may benefit from the purchase option offered by Rent First can be estimated by analysing household formation rates and income data.

- 3.27 A review of median and mean earnings for different age groups across the UK shows that the median earnings for those aged 30-39 years is £7,665 higher than for those aged 22-29 years. Beyond the 30-39 years age group, income peaks slightly higher for the 40-49 years age group before declining among older workers.⁸
- 3.28 Every year in Wales, around 7,500 workers aged 22-29 years achieve an income of £20,000 for the first time which means they can afford more than social rent, but most cannot afford to become owner occupiers. Similarly, 5,700 achieve an income of over £22,500, 4,700 an income of over £25,000 and 1,900 an income of over £27,500 each year. It is estimated that that approximately 7,300 new individuals in the 30-39 years age group achieve this level of income for the first time each year.
- 3.29 These calculations are very approximate, but do indicate that a significant number of people in the 22-29 years age group could potentially afford to access a housing product with a starting income threshold of £20,000 per annum and then move to purchase elements as their incomes rise over time. (It should be noted that these results refer to individuals rather than households). Appendix 2 provides a fuller description of the data underlying these calculations.

On-going Rationale for Rent First

- 3.30 Rent First was developed as part of the solution to the intermediate housing gap in Wales which was driven by a lack of housing supply, economic uncertainty and a lack of access to mortgages which would see many newly forming household struggle to access owner occupation. It was anticipated that it could help to meet the needs of households with incomes of between £16,000 and £30,000 per annum

⁸ It should be noted that the age group breakdown is only available for the whole of the UK and therefore there is no direct evidence for how income varies across age groups in Wales. However, median earnings for all employees across the UK are around £26,500. The average median earnings for residents in Wales are around £24,300 (Source: ASHE 2013).

who could afford more than social rent, but who could not afford to become owner occupiers.

- 3.31 The analysis of the market has confirmed that there remains a significant intermediate housing gap across Wales.
- 3.32 In particular, the 2011 Census data has provided confirmation of the growth of the private rented sector and falling owner occupation rates. This is unsurprising given recent events in the housing market. Between 2009 and 2014, the average number of dwellings completed in Wales was 5,700 per annum. The Holmans Report estimates indicate that between 2006 and 2026 an average of 14,200 dwellings per annum are required to meet all of Wales' housing needs⁹.
- 3.33 Meanwhile, despite some recent evidence that the mortgage market is becoming easier to access, with the Council of Mortgage Lenders reporting that 2014 had the highest number of first time buyer mortgages in the UK since 2007, it is still the case that owner occupation rates fell across all local authorities in Wales between 2001 and 2011. The falling owner occupation rate occurred in a decade when the housing market was predominantly strong, but where supply was not able to match demand. Given that housing supply is still not meeting the growth in household numbers in Wales it can be anticipated that the private rented sector will continue to grow while owner occupation rates fall.

⁹ Housing Need and Demand in Wales 2006-2026: Cambridge Centre for Housing and Planning Research, Alan Holmans and Sarah Monk: 2010

Supply of Intermediate Rent

- 3.34 Estimates of the scale of development of intermediate rent are taken from the housing association online survey. However, as only 18 respondents provided this data, these figures should be used with caution and cannot be said to be representative of the sector as a whole. Compared with the wider intermediate rent sector, Rent First is playing a relatively small role. Survey estimates show that Rent First represents about 5% (or 43) of the 810 intermediate rent and Rent First units provided since April 2012. A simple extrapolation from these estimates indicates that around 80 Rent First properties have been developed to date (in the order of, say, 40 to 50 per annum). This compares with a total new provision of intermediate rent of about 1,600 or about 800 per annum. While the above estimates should be treated with caution they do indicate the likely limited contribution of Rent First to the overall supply of intermediate rent.

Summary

- 3.35 This chapter has demonstrated that the assumptions on which the development of Rent First were based still hold true, i.e. that there is an affordability gap between social rents and private renting and outright purchase of properties and that the properties to fill this gap are in short supply. The analysis indicates that the scale of the 'gap' is not uniform across Wales. The data suggests the greatest potential for Rent First is in South East Wales and Swansea, although authorities such as Ceredigion and Wrexham may also have potential for Rent First and other forms of intermediate rent.
- 3.36 The delivery of new intermediate rent units (including Rent First) does not appear to be directly related to the level of apparent demand. This suggests that not all factors influencing decisions about where intermediate rent/Rent First is provided are captured by data alone. Hence the importance of undertaking more qualitative work with local authorities and housing associations to understand their views and experience. This is set out in the following chapter.

3.37 Rent First is making a modest contribution to the overall supply of intermediate rent (estimated at about 5% or around 40 to 50 Rent First properties each year since 2012 – but noting these figures must be treated with caution and can only provide a general indication of the true numbers).

4. Research Findings: The Intermediate Housing Market

The chapter draws on results from both the online survey and the case studies to describe how local authorities and housing associations define the intermediate market, the evidence they draw on to assess its scale and their approach to meeting the needs of this market. Rent First is discussed as a component of the wider intermediate market (the next chapter explores Rent First in more detail).

Understanding of the Intermediate Housing Market

Defining intermediate rent

- 4.1 Both the online surveys and case study interviews, explored how intermediate rent is perceived and where Rent First fits. There is a broad consensus among local authorities and housing associations (drawn from both online surveys and the case studies) that intermediate rent is a product that helps meet the needs of households that can afford more than social (also described as benchmark) rents but cannot afford full market rents or the cost of purchasing in the area. However, in lower value area (for rents and market prices), it was reported in the case studies that intermediate rents could theoretically be lower than social rents. In these circumstances, there would be very little or no role for intermediate rent.
- 4.2 The case studies explored the definition of intermediate rent in more detail. There was no single definition that emerged but, for interviewees that commented, intermediate rents were either 80% of market rents, 80% of the Local Housing Allowance or 100% of the Local Housing Allowance (LHA). A couple of interviewees noted that they previously considered 80% of the LHA was an appropriate definition but had moved to 100% LHA rates because of difficulties in ensuring schemes were viable at the earlier lower rents.
- 4.3 This variety in definitions illustrates subtle differences between the way local authorities and housing associations are viewing intermediate rent as a tenure and what they consider to be acceptable rents in their area.

80% of market rent is, in fact, similar to 100% LHA so some authorities (and associations) using 80% LHA may be seeking intermediate rent housing at costs little above social rents.

- 4.4 On the other hand, in higher value areas, differences between intermediate and social rents could be much larger.
- 4.5 Where intermediate rent properties are provided as flats, service charges (reported to be on the increase) can increase overall costs to tenants so that they breach LHA ceilings with potential affordability problems for occupiers who rely on housing benefit to meet their housing costs.

Occupiers of Intermediate Rent

- 4.6 A consistent pattern emerged from the online surveys and case studies of typical intermediate renters. They were described as being 25 to 40 years old (often as 'early 30s'), in employment, singles or couples with some young families and on lower income (say between £15,000 and £30,000 per annum).
- 4.7 From the case studies it is apparent that in many authorities intermediate renters were not considered to be in priority housing need and unlikely to qualify for social rented housing, for example:
'...social rent is the biggest need..'
'...priority need is for social rent but intermediate rent has a role, albeit limited....'
- 4.8 However, some case study interviewees commented that there is not a distinct intermediate market in their area and households that occupy intermediate rent properties were in very similar circumstances to those occupying homes let at social rents.
- 4.9 These comments may reflect the way, in some areas, intermediate rent properties (be it for Rent First or another type of intermediate rent) are allocated to households on common housing registers and which include households who can only afford social rent.
'.....occupants for intermediate rent will be from the same common housing register as those for social rent...'

'...all tenants are housed from the common housing register – there is no difference compared with social rent...'

- 4.10 There is then the inference (if not directly stated by interviewees) that the additional costs of intermediate rent would be met by housing benefit as the following comments from interviewees suggest:
- '...same people (occupying intermediate rent) as take up social rent....'*
- '...housing benefit is picking up the slack with the higher rent of intermediate rent compared with social rent...'*

Perceived Scale

- 4.11 The majority of local authorities and housing associations acknowledge that there is an intermediate rent market in the areas they operate but the majority view is that the intermediate rent market is very limited. In the local authority online survey, nine out of the 11 respondents said the intermediate rent market was either small (eight) or does not exist (one). A similar picture emerged from the case studies.
- 4.12 However, the perception of a very limited intermediate rent market may underplay the actual scale of the market – at least in some parts of the country. In Chapter 3 it was shown that there are eight local authorities where incomes required to afford market rents are more than 30% above social rents and another nine authorities where the difference is between 15% and 30% (see Figure 3.6). It is not possible to directly compare local authority perceptions with the actual 'gap' in their market but the evidence indicates that in some parts of Wales there may be a more substantial role for intermediate rent than is currently understood.
- 4.13 Nevertheless, and despite the general perception of a relatively small intermediate rent market, all of the 11 local authority online survey respondents offered some form of intermediate rent product. This included five offering Rent First, with the remaining six using only their own 'product'. It is possible that the non respondents to the survey are those not offering intermediate rent in their area but this would seem unlikely and the probability is that intermediate rent is being provided in most, if not all, parts of Wales.

- 4.14 Although only reported in a small number of the case studies, at the local level, there can be an understanding that the potential for intermediate rent varies **within** a local authority area, reflecting differences in market values across the authority. In these examples, market rents were reported to be significantly above social rents in one part of the area but with much smaller differences in a (lower value) part of the authority.

'...there is no intermediate market in places like X but a market exists in high value areas e.g. Y..'

'...there is an intermediate market in higher value areas...'

'...the market varies across (the authority area) – not significant in X where there is a high demand from low income households.'

- 4.15 This point also highlights that local authority level statistics may only tell part of the story about the demand for intermediate rent in an area.

- 4.16 In a few instances, there were different assessments of the scale of the intermediate market in an area, between housing associations and local authorities. Typically the association perceived that there was a larger market than that understood by the local authority –as the following comment illustrates:

'...could have provided intermediate rent (in a new scheme) but did not because of the local authority priority...'

Evidence Used to Assess the Intermediate Market

- 4.17 Not all local authorities and housing associations have an up to date picture of the scale and nature of the intermediate rent market. The online survey asked local authorities, *'How does your local authority assess the extent of the intermediate rent market in your area?'*. All 11 local authorities replying to the survey stated that they used their Local Housing Market Assessment (LHMA) to assess their intermediate rent market. About two thirds of the local authorities supplement this with other information e.g. market intelligence from local agents, analysis of the housing register.

- 4.18 At the time of the research, some LHMA's were quite dated and did not fully take into account potential demand for intermediate rent. Where this was the case, local authorities were looking to explore the intermediate market in more depth when they updated their LHMA. Since the survey was undertaken, local authorities have all updated their LHMA's using new guidance¹⁰ which includes a section dedicated to identifying the scale of the intermediate rented market in an area. This should prove useful to local authorities in assessing the full extent of their intermediate rent market.
- 4.19 Housing associations largely rely on local authority evidence about the intermediate market. Some will supplement this with their own intelligence e.g. experience from lettings, use of online databases (e.g. Hometrack) but the case studies showed that it is unusual for an association to rely solely on their own evidence.

How the Delivery of Rent First Compares with Estimated Demand

Local Authority Priorities

- 4.20 Where the intermediate rent market fits into local priorities will depend on how evidence is translated into policy. In the online survey, local authorities were asked to select their strategic priorities from a list provided to them in the survey, with respondents given the opportunity to select multiple priorities. 'Social rent' was the most commonly cited strategic housing priority, with 10 local authorities reporting this as a priority. Social rent was followed by 'empty homes', which was given as a priority for nine local authorities. The full list of priorities is shown below.

¹⁰ Getting Started With Your Local Housing Market Assessment - A Step by Step Guide, Welsh Government, November 2014

Figure 4.1: Strategic Housing Priorities for Local Authorities (multiple options could be selected)

What are your local authority's strategic priorities for the supply of housing? (Please select all that apply)	Number	Percent
Social rent	10	91%
Empty homes	9	82%
Intermediate rent	8	73%
Other	5	45%
Market housing	4	36%
Shared ownership	2	18%
Base	11	100%

4.21 Importantly, 'intermediate rent' was only highlighted by eight authorities as a priority. Nevertheless, all 11 responding local authorities provided some form of intermediate rent in their area, which indicates that intermediate rent is recognised as an issue even if not viewed as a priority.

Funding of Intermediate Rent

4.22 Six of the 11 respondents to the local authority online survey included intermediate rent in their priorities due to its value in enabling cross-subsidy of social rented units or support for a mixed tenure scheme.

4.23 Interviewees in the case studies confirmed that intermediate rent can be an opportunity to increase the volume of affordable housing provided with SHG - effectively spreading grant more thinly, for example:

'... (we) need to adapt to an environment where resources are shrinking.....Flexibility is key to deal with this...'

'...intermediate rent is a way of delivering more affordable homes for fewer grants...'

'...intermediate rent plays a role...in larger schemes would want to see some intermediate rent to stretch the grant and to achieve tenure mix...'

- 4.24 Capital funding has been made available for intermediate rent housing in forms other than for Rent First. This includes through the Welsh Housing Partnership (WHP), a partnership of Coastal Group, Hendre Group, Seren Group and Grwp Cynefin. Funding for the WHP is through a combination of £21 million of Welsh Government grant funding, private finance from Principality Building Society and Yorkshire Building Society and equity finance from the investors in Welsh Housing Partnership.
- 4.25 The research also identified that intermediate rent is being provided without any public support either with housing associations relying on their own funds and/or through a s106 mixed tenure scheme. These funding mechanisms were not typical but were noted by interviewees in three of the eight case study areas.

Relationship to Low Cost Home Ownership

- 4.26 Some case studies interviewees recognised intermediate rent and LCHO as two distinct markets, one largely driven by the guarantee of rent income due to rents being set within the LHA eligibility ceiling, the other driven by prospective purchasers' ability to access a deposit and mortgage funding. LCHO tends to feature more strongly in local authority policies. Two case study local authority interviewees expressed the view that that LCHO is proving difficult to sell, possibly due to having been largely satisfied by other initiatives such as Help to Buy, and that intermediate rent is being approved by the local authority as an alternative.

Differences in Priorities between Local Authorities and Housing Associations

- 4.27 A small number of housing association case study interviewees perceived a greater demand for intermediate rent in an area than their local authority partners. Where this is the case, housing associations are drawing on their wider experience of developing intermediate rent in other places or on additional information they have collected e.g. private market lettings in the area.

- 4.28 In most of the case study areas, local authority priorities determine the type of affordable housing to be provided in the area. However, the online survey indicated that housing associations balance the local authority position with other factors in deciding whether to follow the local authority priority and develop Rent First or other intermediate housing products in an area. These other factors include fit with their own business plan, the availability of social housing grant and in-house commitment to offering a range of tenure choices. The online survey indicated that about half the associations replying considered at least one of these other factors.
- 4.29 Housing associations are very alert to the relationship between lower SHG rates for Rent First/ intermediate rent, the ability to charge sufficiently high rents to offset the additional borrowing required and the potential impact of a high level of intermediate rent provision on the financial soundness of the business. They indicated, through the case study interviews, that this could lead them to take a cautious view of the financial viability of developing intermediate rent.

Future Provision of Intermediate Rent

- 4.30 Whatever priority is given to intermediate affordable housing, local authorities are very unlikely to have any target for its provision. The local authority online survey identified only one local authority with an annual target for provision of intermediate housing.
- 4.31 However, all 11 local authorities in the online survey indicated that they would provide some form of intermediate rent product in the future. Several reasons were offered for this, including:
- A recognition of the need for a product to support mid to low earners who cannot access social housing but are also unable to afford market level rents;
 - A need to reduce pressure on social housing by providing alternatives;
 - Mortgage availability was likely to remain poor, making it difficult for residents to purchase housing on the open market.

4.32 These reasons for future provision of intermediate rent generally support the continuing rationale for Rent First as a grant funded scheme.

Summary

4.33 The potential role for intermediate rent is widely recognised although generally seen to be a lower priority than social rent. Local Housing Market Assessments are the primary source of information about the scale of the intermediate rent market but can be supplemented by other market intelligence, often used by housing associations that draw on their wider experience of providing intermediate rent.

4.34 Local authorities are giving a clear priority to providing social rent and this is directly affecting the amount of intermediate rent being developed.

5. Research Findings: Rent First in Action

The reasons for providing Rent First and how it is developed are reviewed in this chapter. The chapter includes consideration of the economics of development of Rent First and the importance of the SHG available with the scheme.

Take up of Rent First

- 5.1 The online survey demonstrates that the take-up of Rent First has been very patchy. The online survey found that 5 of the 11 local authority respondents offer Rent First, as had 8 of the 18 housing associations. There is no particular pattern to the use made of Rent First; it is being provided in different parts of the country and in both urban and rural areas. The evidence indicates that the delivery of Rent First is very much a local authority by local authority choice.
- 5.2 As commented on in Chapter 3, compared with the wider intermediate rent sector, Rent First is playing a relatively small role. More housing associations are providing intermediate rent (11 out of 18 in the online survey) and where Rent First is provided, it is only about 5% (or 43) of the 810 intermediate rent and Rent First units provided since April 2012.
- 5.3 There is a strong relationship between development of Rent First and other intermediate rent in an area. There are few places identified in the survey where there is no intermediate rent provided but Rent First is being developed or vice versa. The table below illustrates this.

Figure 5.1: Number of Local Authorities where Housing Associations Operate and Number of intermediate Rent Properties in these Areas Since April 2012

Types of intermediate rent offered	Number of Local Authorities where respondents operate		Total Intermediate Rent properties	
	No.	%	No.	%
Non-Rent First Intermediate Rent Properties ONLY	15	60%	479	59%
Rent First Properties ONLY	3	12%	33	4%
BOTH Rent First and Non-Rent First Intermediate Rent Properties	2	8%	298	37%
No Intermediate Rent	5	20%	0	0%
TOTAL	25	100%	810	100%

Source: E- survey of housing associations

5.4 The housing association online survey also indicates that Rent First development will broadly continue at current levels in the future with 59 Rent First homes planned 'over the next 3 years' compared with the 43 Rent First units provided April 2012 to autumn 2014.

Reasons for take up of Rent First

5.5 The online surveys explored reasons of both housing associations and local authorities for providing Rent First. For local authorities, as shown in Figure 5.2, evidence of demand was the main reason, although the potential to cross subsidise development of social rented units was also an influence for six of the 11 local authorities replying to the survey.

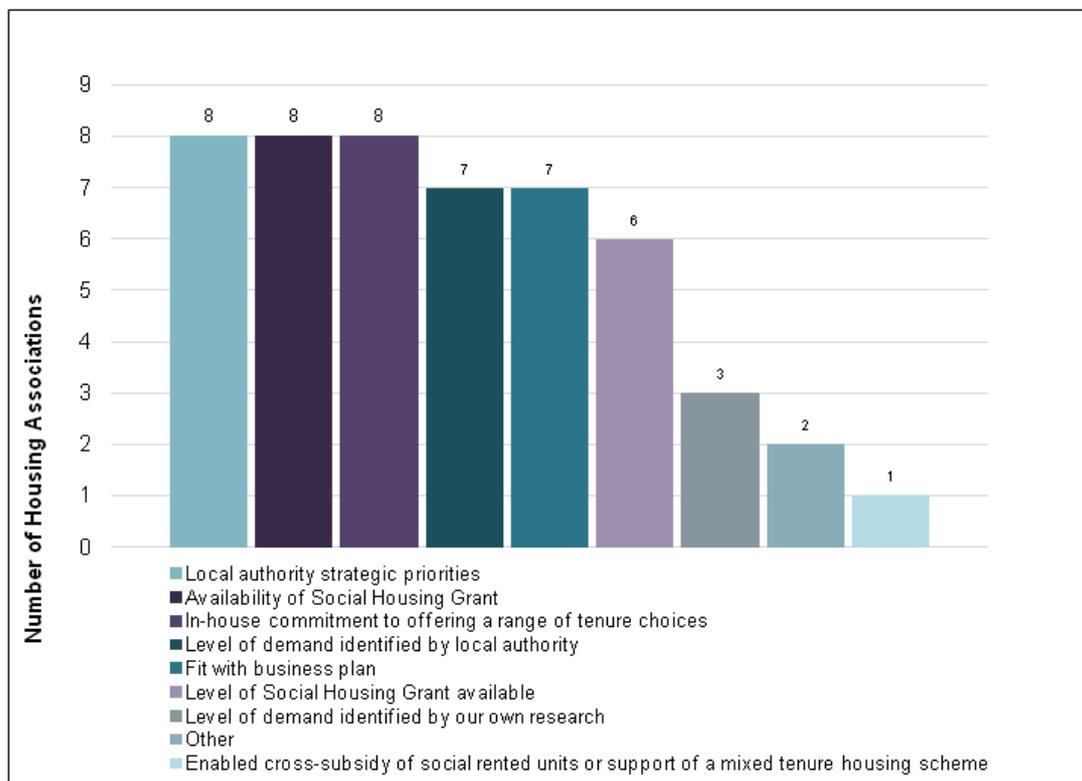
Figure 5.2: Factors Influencing Local Authorities Decision to pursue Intermediate Rent (including Rent First, if applicable)



Source: Local authority online survey

5.6 The housing associations gave a wider range of reasons as is illustrated in Figure 5.3 below.

Figure 5.3: Factors Influencing Housing Associations Decision to pursue Intermediate Rent (including Rent First, if applicable)



- 5.7 In addition to a fit with the business plan and in response to local authority priorities, housing associations appear to place more importance on offering a range of tenure choices. The associations also highlighted the importance of available SHG in pursuing intermediate rent/Rent First.
- 5.8 A number of housing associations and local authorities in the case studies described Rent First as a useful addition to the housing options available and a help in meeting the 'gap' in the market.
'...(we) welcomed Rent First as an extra option to help deliver choice and meet need for affordable housing...'

Delivery Issues

Development Viability

- 5.9 The case studies (echoing the online survey findings reported above) found that, apart from the local authority policy drivers, differences in approach to the delivery of intermediate rent and Rent First is usually attributed to economic considerations. For local authorities and housing associations in low market value areas there is insufficient headroom between social and market rents for intermediate rent/Rent First to be a realistic option (but this issue could be overcome with more grant), for example:
'...Where market and social rents are almost the same – it doesn't work economically...'
'...Higher grant would be beneficial if Welsh Government wished to encourage development in areas where there is little difference between social rents and the LHA maximum...'
- 5.10 Elsewhere the key issue was whether the rent levels that could be set (given the local market and Local Housing Allowances) would be sufficient, in conjunction with the SHG available, to produce a viable scheme.
- 5.11 Introducing intermediate rent does not necessarily make an unviable scheme, viable. The relationship between the lower rates of SHG for Rent First (25%), the additional borrowing to be serviced and the higher

rents chargeable is finely balanced, particularly as rents have to be kept within LHA limits. The purchase option shares any uplift in value, between first occupation and time of sale, between the provider and the occupier. Although this gives purchasers a helpful start on the 'ownership ladder' it will impact on development viability for providers who, otherwise, could include 100% of future sale income of rental properties as part of their viability calculations (as is typical for models of market rent provision).

5.12 The case studies explored the other reasons for the limited take up of Rent First and why most case study housing associations took the view that intermediate rent (including Rent First) could only constitute a small part of their development programme without putting business viability at risk. The most important of these was that there are other established low cost alternatives (for rent or sale) and that Rent First does not offer any significant advantage over these other options: *'...Homebuy provides the best option for people looking to purchase affordable housing...'*

'...Other options are available... shared equity works fairly well'

5.13 Other reasons given by at least two or three case study interviewees were that:

- Rent First was considered to be too complex and inflexible – and would benefit from changes to the way the purchase option works, for example, to allow for purchase of the equity in stages;
- Rents charged were relatively high in comparison with market properties and so there are issues of affordability. This was said to be, in part, because Rent First units were built to a higher specification and this was reflected in the rents charged;
- Linked to the above, that adherence to Welsh Government space standards for Rent First was having an adverse impact on viability;
- Housing associations with intermediate rent/Rent First housing occupied by households from a common housing register, reported that management costs have proved to be higher than anticipated.

This is in contrast to intermediate rent/Rent First properties let to households in employment (usually following an affordability test) where rent arrears and management costs were measurably lower than in the social rented stock;

- Rental levels for Rent First properties meant that occupiers have difficulties saving a large enough deposit for the later purchase of their property.

5.14 The concerns outlined above go some way to explain the housing association online survey finding that the areas with the largest Rent First provision since April 2012 are not planning to increase provision over the next three years, and new Rent First properties will be provided in areas that do not currently make use of the programme.

5.15 A small number of case study local authorities and housing associations reported looking at mechanisms for delivering affordable housing (including intermediate rent) without grant, subsidising development by including market housing in mixed tenure schemes, for example:

'...the best way (of providing intermediate rent) is through the established funding streams used by housing associations, especially s106 ...'

Terminology

5.16 An issue relating to terminology emerged during the research. Many housing associations and local authorities report that they regard intermediate rent as being Rent First *only* if the option to purchase the property is offered. Where there is no purchase option, they will class it as intermediate rent (even if a development is grant funded) and so found it difficult to comment on Rent First as tenure. There remains some confusion about what constitutes Rent First, despite the very clear statements in the 2011 Guidance. It is not possible from this research to assess how widespread this confusion is but, if the Rent First scheme is to be taken forward, it will continue to need to be explained and its benefits set out.

5.17 The confusion about Rent First has quite possibly affected the estimates of the number of Rent First properties provided, based on the online surveys, as reported in Chapter 3. The estimate of 40-50 Rent First properties provided each year since its start is quite likely an underestimate of the true picture.

Summary

5.18 Take-up of Rent First has been patchy and compared to other forms of intermediate rent, it is playing a relatively minor role. Where Rent First is being developed, it is mainly because it meets an identified need but there are also economic reasons for its development, including the availability of SHG. However, the viability of developing Rent First has been questioned (especially in lower value areas) and current grant levels questioned (again, especially in lower value areas)..

6 Research Findings: The Rent First Product

This chapter describes Rent First as a product, the types of unit developed as Rent First, characteristics of households who occupy Rent First and the operation of the purchase option, exploring why this has been so little used to date.

Types of Unit and Rental Levels

- 6.1 Rent First includes a mix of types of unit, provided as new build units. Housing associations in the online survey indicated that Rent First units are provided mainly as houses and that these are evenly distributed through 3 bed or larger, 2 bed or 1 bed units.
- 6.2 Rental levels for Rent First are defined in the same way as for other intermediate rent homes. The setting of Rent First rents takes account of the Rent First guidance and the Local Housing Allowance (LHA) ceiling. However, there may be some confusion between rents set at 80% of LHA and 80% average market rents (the latter being higher than 80% of LHA). Where Rent First is offered, rent levels can be significantly higher than those for social rent. Examples provided during the research indicate that Rent First rents may be 50% or more higher than social rents for an equivalent property in the same area. However, even at 50% or more above social rent costs, Rent First rents may not be seen as an issue by providers and local authorities as housing benefit is available to meet the difference between what households can afford and the rent charged (at least up to the level of LHA). A few interviewees in the case studies recognised the point but went on to argue that this may not be a sustainable situation as there could be (unspecified) future changes to the benefit rules.
- 6.3 Despite these concerns, letting Rent First properties is not generally seen as an issue for providers, although there may be some initial resistance in areas with higher rents.

Households Taking up Rent First

- 6.4 The research found no evidence that households taking up Rent First are significantly different from those in other intermediate rent properties. They are a mix of single, couple and family households, typically in employment and described as being 25 to 40 years old and on lower income (between £15,000 and £30,000 per annum). But again it is worth highlighting that in a few areas, intermediate rent/Rent First occupiers are from the same group of households that are eligible for social rent and that Rent First is not being targeted at a particular group of households i.e. those in the 'gap'.

Purchase Option

- 6.5 The study brief required the following exploration of the purchase option within Rent First:
- “Where the purchase option is utilised, there will need to be an assessment of it, which looks at the processes through which this option is provided and the steps taken to ensure financial viability of the tenant. It may also include (depending on the extent of take up of the purchase option) assessment of the impact on tenants.”*
- 6.6 Not all providers of Rent First offer the purchase option. The online survey indicated that three of the eight housing associations that develop Rent First do not offer this option while five do. Of the other 10 housing associations responding to the survey, six provided another form of intermediate rent and four offered no form of intermediate rent.
- 6.7 Of the five local authorities in the online survey that had deployed Rent First, three had offered local housing associations the ability to use the 'purchase option'. This trio of authorities indicated that six of the housing associations operating in their areas offered the 'purchase option' to their tenants.
- 6.8 These survey findings lend further weight to the emerging picture that Rent First is being seen by some providers and local authorities as a straightforward intermediate rent product rather than as a means of achieving home ownership for lower income households.

- 6.9 To date there has been minimal take-up of the purchase option and only one possible sale was identified from the online survey by the five housing associations offering the option. It is not possible therefore to comment on the purchase process.
- 6.10 However, the case studies explored wider views about the purchase option and the added value this provides Rent First. There was minimal comment from interviewees on the available guidance for Rent First but those that did comment highlighted that, as a relatively new initiative, there can still be misunderstandings about how the scheme operates:
- ‘...benefits of Rent First need to be ‘sold’ better...do people know enough about the scheme?’*
- ‘...public has no idea what intermediate rent is can be difficult to promote the benefits of different models of affordable housing...’*
- 6.11 A possible explanation for the low take up, put forward by the researchers, may simply be that it will take more time before Rent First tenants can save up a sufficient deposit to move on to purchase their Rent First home. However, interviewees who expressed a view did not seem to think so stating rather, for example:
- ‘...sounds great but people go on renting....don’t see great distinction between Rent First and intermediate rent...’*
- ‘... there are no signs of a growing demand for the purchase option..’*
- ‘...the purchase option could be attractive to tenants but there is currently little sign of any demand...’*
- 6.12 The low incomes of the Rent First households was most often given as the primary reason why occupiers of Rent First are unlikely to take up the purchase option as one interviewee stated:
- ‘...it is not workable for tenantsthey would be unable to save a large enough deposit over a reasonable timescale...’*
- 6.13 Case study respondents saw this as a common issue for Rent First and other forms of intermediate rent. While a small defined group of Rent

First tenants may experience income growth in the future, this was thought to apply to a very limited number of occupiers.

- 6.14 Two other factors are also working against take up of the purchase option with Rent First. First, and as described earlier, that the Rent First purchase option is competing with a number of other schemes offering routes into owner occupation for lower income households; schemes that are better established and that do not require an initial period of renting (before any equity can be purchased), such as Homebuy and latterly, Help to Buy. Second, 'marginal purchasers' are still facing problems obtaining mortgages which is a discouragement. This would be the same issue for purchasers of any low cost home ownership option but is something potential purchasers through Rent First have to face.

Evidence of Additionality of Rent First

- 6.15 For most local authorities in the online survey, the availability of Rent First has not made a difference to their approach to intermediate housing provision. For two out of the 11 local authorities responding to the survey, the availability of Rent First meant they were able to provide more intermediate housing in their areas.
- 6.16 No local authority saw an increase in the speed of provision of intermediate housing as a result of the Rent First programme, or an increase in the quality of housing that they were able to provide. At this level, acceleration and/or quality additionality was therefore not evident.
- 6.17 However, there was comment that the introduction of a grant funded intermediate rent initiative had raised awareness of the potential intermediate rent market in an area. This may not have led immediately to any direct actions but would be taken into account in future market assessments as explained by an interviewee in the case studies who stated that:

'...Rent First was a good starting point to think about doing something different...'

Views on the Future of Rent First

6.18 The online survey of housing associations indicates a continued programme of Rent First over the next three years but at levels similar to those of the last three years, as illustrated in the table below.

Figure 6.1: Number of Intermediate Rent and Rent First Properties Housing Associations Plan to Provide over the next 3 years

	Number	Percent
Non-Rent First Intermediate Rent Properties	446	88%
Rent First Properties	59	12%
Total Properties	505	100%

Source: Housing association online survey

6.19 The online surveys also highlighted that while Rent First would be provided across several local authority areas, most authorities are unlikely to have any Rent First development over the next 3 years. The majority of local authority areas (14 out of the 25 where housing association respondents operated) will offer only non-Rent First intermediate properties.

6.20 These findings were reflected in the case studies where those that had not taken up Rent First in the past did not indicate a likelihood of doing so in the future. The following comment from one interviewee explains typical reasons for this:

'...Intermediate rent is already well served by other funding mechanisms¹¹...There is currently a very limited market for Rent First with the purchase option'.

6.21 Other respondents felt that Rent First, including the purchase option, should be retained as it has a role in assisting certain types of lower income households, albeit that the role is limited with a small pool of potential occupiers who can fully benefit from the scheme. With a retained scheme consideration should be given to:

¹¹ See Chapter 4 for discussion of other funding mechanisms including mechanisms that do not involve any form of public subsidy and other schemes using public funding such as through the Welsh Housing Partnership.

- The way the scheme is funded and grant levels available, although even then there remains some scepticism about the market for Rent First as the following interviewee comments illustrate:

'...(Welsh Government to) look at grant rates across schemes...'

'If grant rates were higherwould consider..... But in any case, not convinced there is any demand for the product with a purchase element at the end...'

Other suggestions to improve the scheme mentioned by one or two interviewees included:

- A more flexible timescale for purchase:

'...purchase option to be applied more flexibly – so can purchase later or not at all...'

(but noting this is already the case with Rent First and may indicate something about the need for further information on Rent First than a change to the scheme itself)

- The possibility of staircasing to purchase (rather than as a single step to 100% ownership):

'...Staircasing to purchase in smaller steps; keep simple and flexible...'

6.22 Rent First would also benefit from further promotion and explanation and to give it a clearer identity so it does not get lost amongst the range of affordable housing initiatives available which can create, as one interviewee put it:

'...a confusing landscape for housing associations and local authorities'.

Around a third of those interviewed for the case studies mentioned the need to promote Rent First more and to explain its operation to encourage take-up as illustrated by the following comments from interviewees:

'...Rent First product is OK but needs more promotion by Welsh Government and discussion with local authorities...'

'...the concept is good but it requires more promotion, and it needs to be made as easy as possible to provide...'

- 6.23 Similarly, there is a need to work with lenders to ensure they understand the Rent First option and the best mortgage options are available to purchasers. This was raised by interviewees as an issue for Rent First but also as an on-going problem for other types of low cost home ownership purchase:

'...problems with willingness of lenders to provide mortgages..'

'...(Rent First) is a step to ownership for those who can't afford outright sale - but mortgage issues remain..'

'...if it's (Rent First) a genuine bridge to ownership then there should be partnership with mortgage providers...'

'...Problems with low cost home ownership and mortgages (continue)...'

Summary

- 6.24 Typical households occupying Rent First are very much as was intended when the product was set up. They may be single people, couples or families but will be in employment and described as being 25 to 40 years old and on lower income (between £15,000 and £30,000 per annum). Rent First is being developed as one, two and three bed units at rents up to 80% of market rents.
- 6.25 The purchase option with Rent First is not offered by all providers. But where it has, there has not been any take up of the option and interviewees did not expect this to change significantly in the future.
- 6.26 A number of housing associations and local authorities plan to continue with Rent First over the next three years at a level similar to that since Rent First was launched. No single change was identified that would encourage a faster pace of development but increased and more flexible use of grant, greater flexibility in operation of the purchase option and further promotion of Rent First (and intermediate rent generally) were highlighted as actions that could help to overcome perceived current shortcomings of Rent First.

7 Conclusions and Recommendations for the Future of Rent First

The final chapter of the report summarises the main findings from the research and makes recommendations for the future of Rent First and for intermediate rent generally.

Context

- 7.1 The assessment of Rent First and the intermediate rent market has drawn on a wide range of published data and the views and experiences of local authorities and housing associations, collecting information through a number of different mechanisms. The picture which emerges is mixed, with Rent First attracting both supporters and critics.
- 7.2 However, the overall picture is that local authorities and housing associations do not view Rent First as a core part of their intermediate housing offer, but see it at best as a supplementary measure that can be used from time to time (with an estimated 40 to 50 Rent First properties being provided each year). As such, Rent First is neither an integrated or mainstreamed area of activity, nor does it operate on a consistent and constant basis across Wales.

Rationale for the Intervention

- 7.3 The analysis of the housing market demonstrated that the rationale for Rent First remains and the overall objectives for Rent First continue to hold i.e. *“.....to offer a flexible product that can provide local authorities and housing associations with the ability to create mixed income developments and communities in a market where home ownership and affordable rental is becoming an increasingly difficult option”*.¹²
- 7.4 Eight years after it was discussed in the Essex Review, there is still a ‘gap’ between the cost to the occupier of social rent and market rent and between market rent and purchase. The ‘gap’ varies significantly between local authorities and there are parts of Wales where social

¹² ¹² Rent First - intermediate rent - Final Guidance, Welsh Government, 2011

and market rents and sale prices are so close that there is a very limited potential for any kind of intermediate rent product, while in other parts of the country the gap can be substantial. It is South East Wales and Swansea where the 'gap' is most significant although authorities such as Ceredigion and Wrexham also exhibit characteristics indicating high demand for intermediate rent. Within other authorities, there can be pockets of higher value where intermediate rent would also have potential, even if the majority of the authority does not. In very low value areas, new intermediate rent may serve a different purpose by providing a higher quality product than that currently available in the private rented sector.

- 7.5 The analysis has also confirmed that focusing Rent First on households with incomes of between £16,000 and £30,000 per annum remains valid and that many younger households can expect income growth through to their 40s (and beyond). Although the availability of mortgages has slightly eased over recent months, marginal purchasers are still not finding it easy to obtain mortgages.
- 7.6 In a broad sense, Rent First has been successful in meeting its objectives, in offering a way to fund intermediate housing that meets the needs of those in the 'gap' and is helping to, "*create mixed income developments and communities*". However, there are no explicit targets for provision of Rent First across Wales and decisions about how much and where Rent First is provided lie with individual local authorities, many of whom have priorities that do not include Rent First or other forms of intermediate rent, even though there is an apparent 'gap' in the local market.
- 7.7 For some local authorities, the priority for providing social rent is so great, Rent First (and other forms of intermediate rent) is being treated as another source of supply of affordable housing (supported by housing benefit) and the same group of households are occupying Rent First as do social rent. This effect is very difficult to quantify but has been a message throughout the research.

Net Benefits of the Product

- 7.8 Rent First development has added to the delivery of intermediate rent although there are parts of Wales where there is no or minimal development of Rent First or of any other form of intermediate rent. In many instances, this reflects low levels of demand but the study also indicates that low delivery is presenting for other reasons. This can relate to a lack of up to date evidence to draw on (with LHMA due for updating¹³) and/or because local policies simply give pre-eminence to social rent provision. The research found very limited connection between the scale of demand for intermediate rent and local priority given to its supply.
- 7.9 The introduction of Rent First itself focused more attention among providers and local authorities on the intermediate market in their area. The new LHMA guide directly encourages assessment of intermediate rent requirements and this will help strengthen further local evidence about the intermediate market.
- 7.10 In terms of Rent First benefit as a route into home ownership, take up of the purchase option has been minimal to date and there is no expectation that demand for this will accelerate significantly. Nevertheless, for the limited group of households the purchase option could help, it is viewed positively by providers/local authorities operating the scheme as a useful niche product. Importantly, the research did not find a preference amongst local authorities and housing associations to remove the option. A view expressed by some of those with experience of the scheme, was that introducing further flexibility into Rent First would be useful e.g. so that occupiers could move to full ownership in stages (some form of shared equity model).

¹³ The interviews were carried out in 2014 and ahead of the deadline for updating LHMA

Rent First and Value for Money

- 7.11 Rent First has been delivered with much lower levels of grant than other forms of rented affordable housing and therefore, in as far as it is possible to comment, Rent First is offering value for money.
- 7.12 While the available grant may make the option of Rent First initially attractive, some of the evidence suggests that grant levels (at 25%) coupled with providers only being able to realise 50% of value growth on the sale of a dwelling, has led to concerns about the viability of Rent First. Providers are conscious that improving viability by raising rent levels has to be set against constraints on rent levels to maintain affordability.
- 7.13 There is then a complex debate about funding mechanisms for intermediate rent generally and the extent to which it should attract 'ring-fenced' funds and the capacity of housing associations to cross subsidise intermediate rent with market housing (either directly or through the s106 mechanism). The details of these issues lie outside the scope of this research but how grant (and/or development cross subsidy) is used to support intermediate rent is something that Welsh Government may want to review if more intermediate rent is to be achieved with/without a purchase option.

Wider Effectiveness

- 7.14 Although the current Rent First guidance is generally well thought of by housing associations and local authorities, and an improvement on earlier versions, there remain issues of limited knowledge and understanding of Rent First.
- 7.15 This is particularly in relation to the role of the purchase option and whether a scheme can be Rent First (and attract grant) if the purchase option is not made available. The current guidance explains the situation but there remains uncertainty about this at the local level.

Overall conclusion

- 7.16 Rent First is a useful niche option and the basic premise of a scheme with rents at a maximum of 80% market rents and the option to

purchase later continues to have a role. The scheme, though, has its limitations with a very constrained market and issues about the viability of the product for providers, especially in lower value areas.

- 7.17 The evidence of demand indicates that there is potential for a more substantial programme of intermediate rent in some parts of Wales (but not everywhere). However, in many areas, the priority given to social rent means that less intermediate rent is being planned for than demand would appear to indicate.

Recommendations

- 7.18 The study brief required two types of recommendations:

- Action on future development of Rent First, and
- Action on the extent of the intermediate rent market in Wales and the consequences for intermediate rent products.

The recommendations put forward are cross-cutting and grouped under two headings – short term recommendations and recommendations for the longer term.

Short Term Recommendations

- Welsh Government should continue to promote Rent First to local authorities and housing associations and to provide further information on how Rent First operates including:
 - The purchase option and how Rent First operates with **and** without the option;
 - The target market for Rent First;
 - The way grant is made available for Rent First and viability issues;
 - How Rent First relates to other intermediate rent and low cost home ownership initiatives available.

The additional information could be provided in a guidance note following publication of this research study.

- Welsh Government considers whether there can be additional flexibility in the purchase option so households can purchase their property in stages (noting that there will be a limited market for this).
- Welsh Government provides further publicity about the advice in the new guidance on preparing LHMA¹⁴ which deals with assessment of the scale of the intermediate rented market in an area. Although LHMA's have all been recently updated, there may be a further opportunity for more detailed analysis at the local level of the scale of the intermediate market.
- Welsh Government should consider a re-brand or re-name of Rent First which conveys very clearly that the scheme offers (grant funded) intermediate rent homes with an option (but not obligation) for later purchase.

Longer Term recommendations

- Welsh Government should assess how it can flex the level of grant to support Rent First where viability is an issue – including to compensate for the loss for providers of a share of any uplift in value, when a property is purchased by the occupier. This will require further viability modelling of Rent First which takes into account variations in market rents and sales values across Wales and alternative development scenarios, including mixed tenure s106 schemes.
- Welsh Government should consider introducing a protected programme of public subsidy with the specific purpose of supporting the development of other intermediate rent developments, ***where an unmet demand for this is demonstrated***. Grant support should be reserved for schemes that target households that can afford more than social rent, with priority for schemes that can also be shown to take pressure away from social housing demand. Grant should be available where schemes are shown not to be viable.

¹⁴ Getting Started With Your Local Housing Market Assessment - A Step by Step Guide, Welsh Government, November 2014

- In any future review of Tan 2, the opportunity should be taken to build on the current definition of affordable housing so that there can be no doubt that intermediate rent is a form of affordable housing, alongside social rent, with the expectation that local authorities will take intermediate rent into account in forming their policies. This could, for example, include mention of Rent First in Tan 2 as a named form of intermediate rent (to complement the current mention of Homebuy as a form of low cost home ownership).

APPENDIX 1

Study Brief – Areas for Investigation in Full

- Rent First's take up and use across all types of housing providers (including the purchase option), exploring any differences in use by type of housing provider, geographical area etc.
- Where it is used, the purchase option, the processes used to provide it, the steps taken to ensure financial viability of the tenant and (depending on the take up) an assessment of the impact on tenants.
- Where it isn't used an exploration of the reasons why.
- Provision - type of provision, property, targeted tenant, rents, service charges, tenancy, tenancy turnover etc.
- Barriers to take up (including the purchase option)
- Strengths and weaknesses and impact on other activities, such as tenant management and business planning.
- The use of other intermediate rent products and why, identifying the factors key in their take up and how they are funded and structured.
- What intermediate rent strategies are used, if any (and how they may differ from other rental products)
- Whether there is any overlap between intermediate rent products/strategies and shared equity schemes, identifying where and how.
- Definitions of intermediate rent used by providers and ascertaining consistency across Wales.
- The extent to which there is an intermediate rent market in Wales and how this varies across different areas, by exploring data on house prices, income levels, mortgage accessibility, economic uncertainty, housing supply etc.
- How local authorities investigate and understand their intermediate rent markets – the evidence collected and used, how intermediate rent levels are benchmarked (particularly against Local Housing

Allowance), how and how often assessments are undertaken for example.

- How housing strategies and policies take into account the assessment of the intermediate rent market.

APPENDIX 2

Additional Information on Market Trends

Figure A2.1: Size of the Private Rent Sector by Local Authority

	Total private rented sector	Student households in private rent	Housing benefit tenants in private rent	Other private rent households	Other private rent as a percentage of all households
Isle of Anglesey	4,324	45	1,860	2,419	7.9%
Gwynedd	8,060	653	2,390	5,017	9.6%
Conwy	8,534	4	4,150	4,380	8.6%
Denbighshire	6,446	7	3,810	2,629	6.5%
Flintshire	6,729	4	2,860	3,865	6.1%
Wrexham	6,775	150	2,210	4,415	7.7%
Powys	8,638	2	2,510	6,126	10.5%
Ceredigion	6,275	835	2,110	3,330	10.6%
Pembrokeshire	7,188	6	2,820	4,362	8.2%
Carmarthenshire	9,301	64	4,620	4,617	5.9%
Swansea	15,260	1,642	6,370	7,248	7.0%
Neath Port Talbot	6,186	3	4,360	1,823	3.0%
Bridgend	7,188	8	4,330	2,850	4.9%
The Vale of Glamorgan	7,813	3	3,910	3,900	7.3%
Cardiff	31,220	3,082	9,840	18,298	12.8%
Rhondda, Cynon, Taff	13,604	700	7,730	5,174	5.2%
Merthyr Tydfil	2,809	3	1,500	1,306	5.4%
Caerphilly	7,995	5	3,890	4,100	5.5%
Blaenau Gwent	3,892	3	2,070	1,819	6.0%
Torfaen	3,315	0	1,550	1,765	4.6%
Monmouthshire	4,130	0	1,350	2,780	7.3%
Newport	8,572	278	3,700	4,594	7.5%
Wales	184,254	7,497	79,940	96,817	7.4%

Source: UK Census of Population 2011 and DWP Benefit Statistics May 2011

Figure A2.2: Local Housing Allowance Rates by Local Authority and Broad Rental Market Areas in October 2014

Local authority	Broad Rental market Area	1 bed	2 bed	3 bed	4 bed
Isle of Anglesey	Isle of Anglesey	£70.70	£90.52	£109.32	£132.00
Gwynedd	North West Wales	£70.70	£90.52	£109.32	£132.00
	South Gwynedd	£65.65	£83.38	£99.65	£113.92
Conwy	Conwy	£80.00	£103.56	£122.36	£149.59
Denbighshire	North Clwyd	£80.00	£103.56	£122.36	£149.59
	Wrexham	£83.38	£104.89	£122.36	£155.34
Flintshire	Flintshire	£80.55	£110.47	£126.58	£168.98
	North Clywd	£80.00	£103.56	£122.36	£149.59
	West Cheshire	£98.08	£121.15	£138.46	£184.62
Wrexham	Wrexham	£83.38	£104.89	£122.36	£155.34
Powys	Brecon and Radnor	£69.07	£94.09	£110.38	£126.58
	Neath Port Talbot	£80.00	£90.90	£100.11	£120.00
	North Powys	£65.27	£85.15	£100.11	£128.19
Ceredigion	Ceredigion	£88.40	£95.57	£115.37	£138.08
Pembrokeshire	Pembroke	£79.40	£97.81	£120.82	£149.59
	Ceredigion	£88.40	£95.57	£115.37	£138.08
Carmarthenshire	Carmarthenshire	£72.26	£92.05	£103.56	£126.58
Swansea	Swansea	£92.05	£104.89	£115.07	£151.50
Neath Port Talbot	Neath Port Talbot	£80.00	£90.90	£100.11	£120.00
Bridgend	Bridgend	£80.55	£103.56	£113.92	£149.59
The Vale of Glamorgan	The Vale of Glamorgan	£97.81	£118.52	£127.00	£161.10
Cardiff	Cardiff	£103.56	£128.19	£151.50	£192.28
Rhondda, Cynon, Taff	Merthyr Cynon	£67.09	£80.55	£86.88	£115.07
	Taff Rhondda	£64.90	£85.85	£90.90	£126.00
Merthyr Tydfil	Merthyr Tydfil	£67.09	£80.55	£86.88	£115.07
Caerphilly	Caerphilly	£74.59	£94.36	£103.56	£134.90
Blaenau Gwent	Blaenau Gwent	£60.00	£75.00	£85.00	£110.47
Torfaen	Torfaen	£78.25	£97.81	£109.32	£126.58
Monmouthshire	Monmouthshire	£90.90	£115.07	£136.93	£172.60
Newport	Newport	£85.00	£103.56	£118.52	£156.49

Source: VOA

Figure: A2.3 Average House Price by Welsh Local Authorities 2014

	Average house price.
Isle of Anglesey	£132,400
Gwynedd	£135,800
Conwy	£127,400
Denbighshire	£113,100
Flintshire	£126,300
Wrexham	£118,100
Powys	£143,700
Ceredigion	£152,330
Pembrokeshire	£137,100
Carmarthenshire	£105,200
Swansea	£107,000
Neath Port Talbot	£83,400
Bridgend	£116,400
The Vale of Glamorgan	£162,300
Cardiff	£146,500
Rhondda, Cynon, Taff	£72,900
Merthyr Tydfil	£63,500
Caerphilly	£96,700
Blaenau Gwent	£65,800
Torfaen	£102,000
Monmouthshire	£177,800
Newport	£111,800
Wales	£117,300

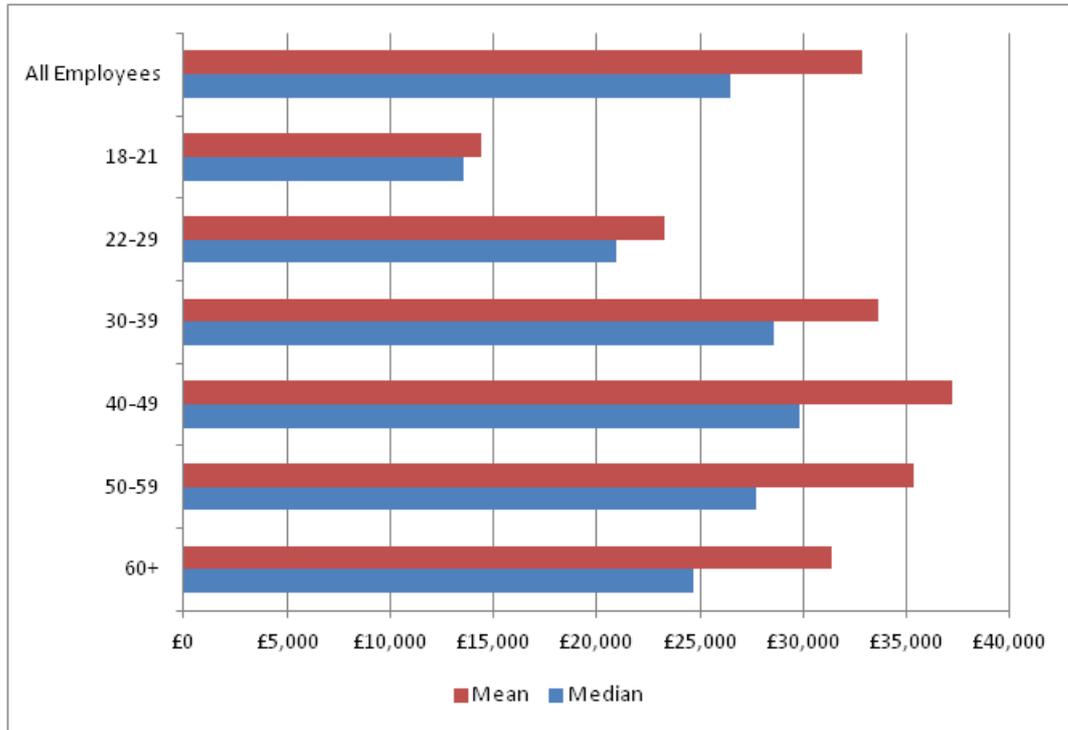
Source: Land Registry

Figure A2.4: Composite Rank of Private Rented Sector Indices, LHA and House Prices

	Rank for size of private rented sector excluding students and housing benefit claimants	Rank for growth in private rented sector between 2001 and 2011	Rank for share of PRS not taken up with LHA claimants	Rank for LHA rents for 2 bed property	Rank for house prices	Average rank Score	Rank in Wales
Isle of Anglesey	7	20	10	17	8	12.4	13
Gwynedd	4	18	2	19	7	10	9
Conwy	5	14	13	9	9	10	9
Denbighshire	13	17	20	7	13	14	15
Flintshire	14	15	9	4	10	10.4	11
Wrexham	8	11	4	6	11	8	5
Powys	3	22	1	18	5	9.8	9
Ceredigion	2	13	6	13	3	7.4	3
Pembrokeshire	6	21	7	12	6	10.4	11
Carmarthenshire	16	16	15	15	16	15.6	18
Swansea	12	5	8	5	15	9	6
Neath Port Talbot	22	12	22	16	19	18.2	22
Bridgend	20	7	21	8	12	13.6	14
The Vale of Glamorgan	10	3	16	2	2	6.6	2
Cardiff	1	1	3	1	4	2	1
Rhondda, Cynon, Taff	19	4	19	20	20	16.4	20
Caerphilly	17	8	14	14	18	14.2	16
Blaenau Gwent	15	6	17	22	21	16.2	19
Merthyr Tydfil	18	9	18	21	22	17.6	21
Torfaen	21	10	12	11	17	14.2	16
Monmouthshire	11	19	5	3	1	7.8	4
Newport	9	2	11	10	14	9.2	7

Source: UK Census of Population 2011, DWP Housing Benefit Statistics, VOA and UK Land Registry

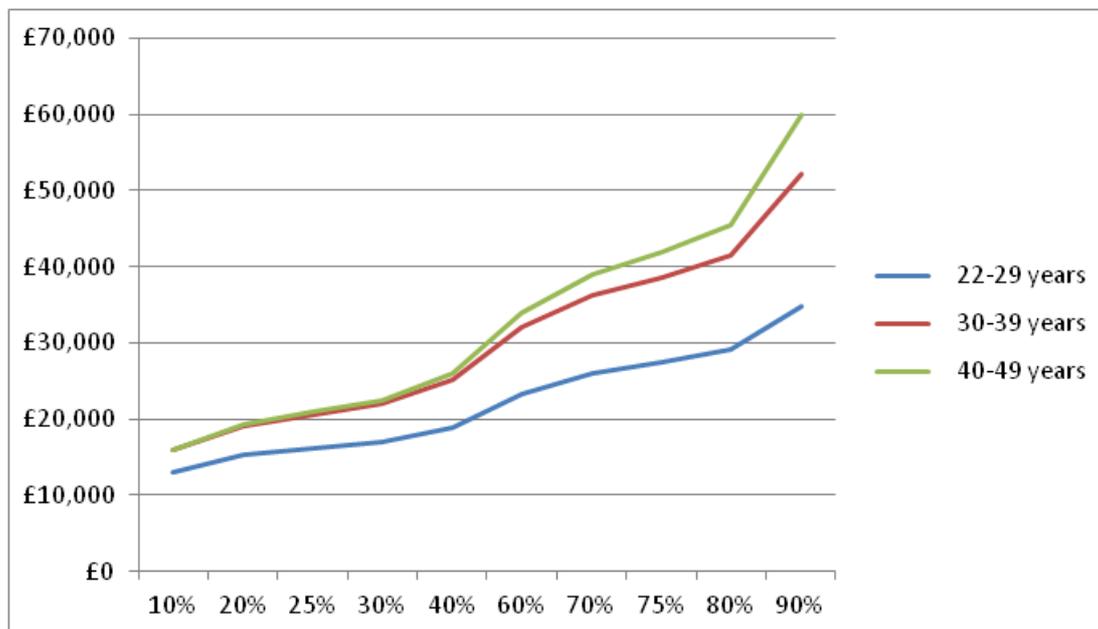
Figure A2.5: Mean and Median Earnings by Age UK 2012 Full Time Employee Jobs



Source: ASHE, ONS

Note: ASHE contains information not only on median income, but also on each decile of income. Therefore, it includes information at a UK wide level on how large an income is required to be in each decile. This is important because it allows for a finer grain calculation of the number of workers whose incomes will fall into bands. As an example the chart below shows that 60% of all full-time employees aged 22-29 years earn less than £24,000 per annum. Similarly, 60% of those aged 30-39 years and 40-49 years earn less than £35,000.

Figure A2.6: Percentile Earnings of Employees and Residents for UK in 2012 for Full-time Workers by Age Group



Source: ASHE 2012, ONS

Note: The level at which the deciles occur allow us to forecast how many people are likely to be in particular income bands in particular age groups in Wales. At the time of the 2011 Census there were 307,864 people aged 22-29 years living in Wales. Of this group 49% were employed full-time which represents 150,810 employees. This number may have grown since this time, but it represents a useful benchmark to start the calculations. ASHE data indicates that 40% of full-time employees aged 22-29 years in the UK earn more than £22,000. ASHE data also indicates that earnings in Wales are at approximately 90% the level of the UK average. Applying this result to Wales implies that 150,810 full-time employees aged 22-29 years earn more than £20,000. Given this is spread over an eight year age group this would imply that approximately 7,500 new individuals in the 22-29 years age band achieve this level of income for the first time each year. This means that every year in Wales, around 7,500 workers aged 22-29 years achieve an income of £20,000 for the first time which means they can afford more than social rent, but most cannot afford to become owner occupiers. Similarly, 5,700 achieve an income of over £22,500, 4,700 an income of over £25,000 and 1,900 an income of over £27,500 each year.

Figure A2.7: Income Profile for those Aged 22-29 in Wales

	Residents of Wales	Newly Emerging Each Year
Number aged 22-29 during 2011 Census	307,864	38,500
% employed full-time	49%	-
Number of full-time employed	150,800	18,900
Earning above £20,000	60,300	7,500
Earning above £22,500	45,200	5,700
Earning above £25,000	37,700	4,700
Earning above £,7,000	15,100	1,900

Source: UK Census of Population 2011

The figure below shows the same calculation for those aged 30-39 years. At the time of the 2011 Census there were 357,739 people aged 30-39 years living in Wales. Of this group 51% were employed full-time which represents 182,400 employees. ASHE data indicates that 40% of full-time employees aged 30-39 years in the UK earn more than £30,000. Applying this result to Wales implies that 73,000 full-time employees aged 30-39 years earn more than £27,500. Given this is spread over a ten year age group this would imply that approximately 7,300 new individuals in the 30-39 years age band achieve this level of income for the first time each year.

Figure A2.8: Income Profile for those Aged 30-39 in Wales

	Residents of Wales	Newly Emerging Each Year
Number aged 30-39 during 2011 Census	357,739	35,800
% employed full-time	51%	-
Number of full-time employed	182,400	18,200
Earning above £27,000	73,000	7,300
Earning above £31,500	54,700	5,500
Earning above £36,000	45,600	4,600
Earning above £45,000	18,200	1,800

Source: UK Census of Population 2011 and ASHE

These calculations are very approximate, but do indicate that a significant number of people in the 22-29 years age band could potentially afford to access a housing product with a starting income threshold of £20,000 per annum and then move to purchase elements as their incomes rise over time. It is also the case that these results refer only to individuals.

The results also show that a typical individual's income grows considerably between the ages of 22 and 39. Therefore someone who could only afford to repay the equity stake in the home when they first purchase it is likely to see their income grow in the future to the point where they could afford to staircase out to 100% ownership. However, these results must be treated with caution as historically the rate of staircasing to full ownership and second hand trading from shared ownership properties has been low¹⁵, but there is some evidence that this situation is changing¹⁶

¹⁵ Understanding the Second-Hand Market for Shared Ownership Properties: Cambridge Centre for Housing and Planning Research May 2012, Anne Clarke and Andrew Heywood

¹⁶ Moving on Up: Staircasing in Shared Ownership Housing: Gateway Housing Association 2014.

APPENDIX 3

Report of the Online Surveys

Introduction

- 1 The summary report presents the findings from two online surveys undertaken to understand the scope of the intermediate rent market in Wales and, informed by this context, to characterise the performance of Rent First. The first was focussed on the 22 local authorities and National Park authorities in Wales; the second focused on housing associations. Contacts for both surveys were identified by Welsh Government.
- 2 The surveys were designed by the consultant team and agreed with Welsh Government. The surveys were undertaken between 27 October and 12 November 2014, using the SmartSurvey online survey platform. Whilst both surveys examined the performance of Rent First and the intermediate rent market, the local authority survey was the more focused on the strategic housing context in each area, whilst the housing association survey concentrated more fully on the detail of intermediate rent provision and the use of Rent First.
- 3 It is important to note from the start that responses were not received from all local authorities and housing associations. With the local authority survey, representatives from 22 authorities were approached for participation, with 11 responding, whilst of the 32 housing associations that were contacted, 18 responded. Thus, the analysis does not provide an exhaustive audit of Rent First and intermediate housing/rent activity across Wales. However, the results do capture a significant amount of activity in the market and can provide some indicative intelligence on the nature of the market, and the Rent First intervention in action.
- 4 The rest of this analysis presents the key results from the two surveys and is structured as follows:
 - The Local Authority Survey, focusing on:
 - Strategic priorities for local authorities

- The scope of the intermediate rent market
- The characteristics of Rent First provision
- Additionality of the Rent First programme according to local authorities, including the strengths and issues of the programme
- The Housing Association Survey, focusing on:
 - Rationale for housing association intermediate rent provision
 - The scope of the intermediate rent market
 - The characteristics of Rent First provision
 - Additionality of the Rent First programme according to housing associations, including the strengths and issues of the programme
- Key Findings

Local Authority Survey

- 5 This section sets out the results of the local authority survey, which was circulated to 22 local authorities and National Park authorities in Wales. Eleven local authorities responded (no National Parks were among the respondents), providing a response rate of 50%. The survey's questionnaire focused on local authority strategic priorities and housing market intelligence, reflecting the role that local government plays in housing provision. Respondents to the survey included local authorities from North, Mid and South Wales as shown in Table A3.1.

Table A3.1: Number of Surveyed Local Authorities by Region

Region of Wales	Number of Local Authorities
South	8
North	1
Mid	2

Strategic Priorities

- 6 Local authority strategic housing priorities are an important contextual factor for Rent First and the intermediate rent market, as they set out the key areas of focus for local authorities in terms of housing policy.

7 Local authorities were asked to select their strategic priorities from a list provided in the survey, with respondents given the opportunity to select multiple priorities. When asked about their strategic housing priorities, 'Social rent' was the most commonly cited strategic housing priority for respondents, with 10 local authorities (91%) reporting this as a priority. This was followed by 'empty homes', which is a priority for nine local authorities (82). Importantly, 'intermediate rent' was only highlighted by eight (73%) as a priority. Nevertheless, all 11 responding local authorities provided some form of intermediate rent to their residents, which indicates that it is recognised as an issue for all local authorities which responded even if they did not view it as a priority.

Table A3 2: Strategic Housing Priorities for Local Authorities (multiple options could be selected)

What are your local authority's strategic priorities for the supply of housing? (Please select all that apply)	Number	Percent
Social rent	10	91%
Empty homes	9	82%
Intermediate rent	8	73%
Other	5	45%
Market housing	4	36%
Shared ownership	2	18%
Base	11	100%

8 Respondents also identified other priorities beyond the options listed in the survey. Construction of new council houses was a priority for one local authority, whilst others identified shared equity and partnerships with developers.

9 Local authorities were also asked if they had annual targets for the number of intermediate rent units that they aimed to provide per annum. Of the 11 respondents, only one local authority had an annual target for provision of intermediate housing.

Scope of Intermediate Rent Market

10 Local authorities were asked about the intelligence that they use to assess the extent of intermediate rent in their areas. All respondents reported relying on their Local Housing Market Assessment (LHMA) to assess the extent of their intermediate rent market, with seven using additional financial data to understand and define the market.

Table A3 3: Local Authority Methods for Assessing Local Intermediate Rent Markets

How does your local authority assess the extent of the intermediate rent market in your area? (Please select all that apply)	Number	Percent
Local Housing Market Assessment	11	100%
Financial Data	7	64%
Need and/or demand	5	45%
Other	1	9%
Total	11	100%

11 Across responding local authorities, eight (73%) indicated that the intermediate rent market in their area was small. Considering that only one local authority indicated that its local market was large, and one stated that there was no intermediate rent market in its local area, this gives a strong impression of a relatively modest market for intermediate rent amongst the respondent group. This issue has been explored further in the Case Study section of the study's research.

Table A3.4: Size of Intermediate Rent Market Identified by Local Authorities

How would you describe the intermediate rent market in your area?	Number	Percent
Small	8	73%
Large	1	9%
Medium	1	9%
None	1	9%
Total	11	100%

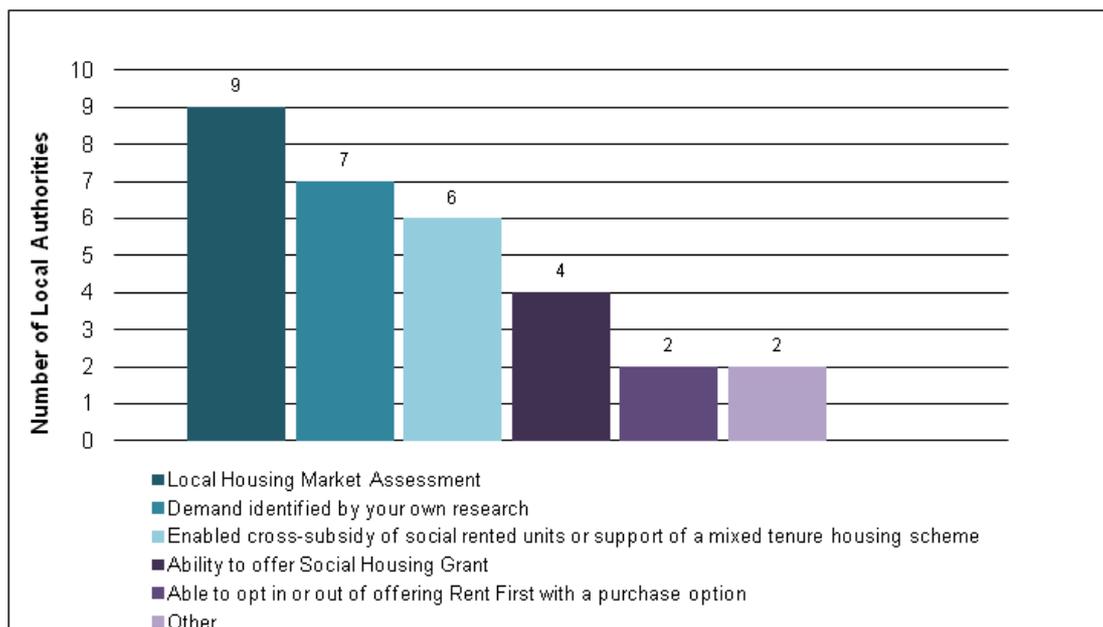
12 Despite perceptions of a relatively small size of the intermediate rent market in most of the responding local authorities, all 11 respondents offered some form of intermediate rent product. This included five offering Rent First, with the remaining six using only their own 'product'. Moreover, of the eight local authorities identifying intermediate rent as a strategic housing priority, only three actually offered Rent First.

Table A3.5: Local Authorities Where Intermediate Rent and Rent First are Provided

	Intermediate Rent (Number)	Intermediate Rent (percent)	Rent First (Number)	Rent First (Percent)
Yes	11	100%	5	45%
No	0	0%	6	55%
Total	11	100%	11	100%

13 Respondents were also asked what influenced their decision to pursue intermediate rent (including Rent First). Unsurprisingly, nine of the 11 cited their Local Housing Market Assessment as their main evidence base and rationale for provision. A further seven indicated that their own additional research had driven their decision to pursue intermediate rent.

Figure A3.6: What Influenced Your Local Authority’s Decision to Pursue Intermediate Rent (including Rent First, if applicable)? (please select all that apply)



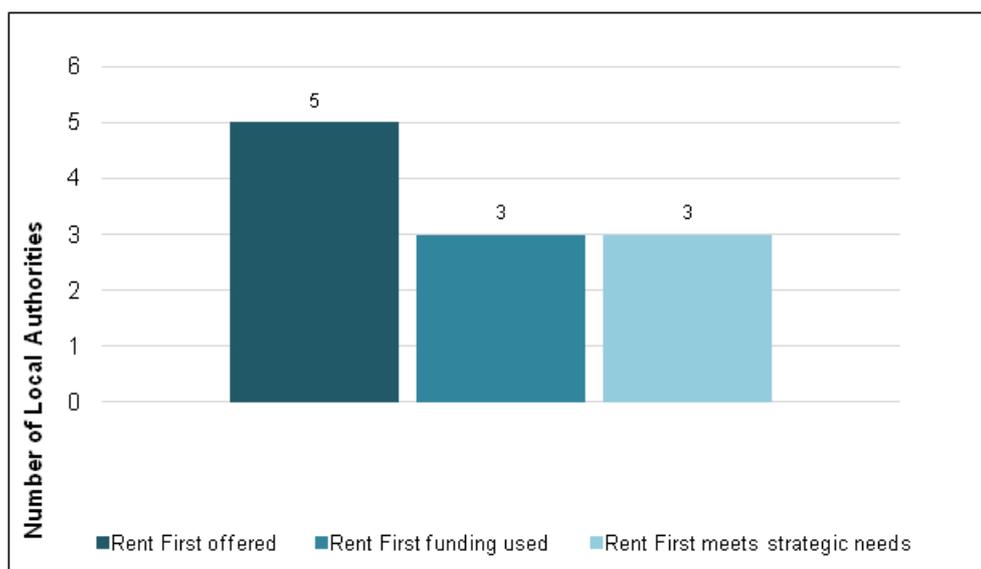
- 14 For those local authorities not making use of Rent First, survey participants were asked to provide their opinions on the main strengths of their intermediate housing products. Two local authorities responded, with one indicating that its ability to offer affordable housing without relying on external grant monies was more appropriate in its area, whilst the other stated that non-Rent First intermediate rent provided it with greater flexibility on sites where low-cost-home-ownership schemes were struggling to find buyers. However, neither provided a detailed 'how and why' explanation of the reasons that their own intermediate rent product was judged better suited to these purposes than Rent First. Probing this area is an issue that is explored in the Case Study element of the study's research.
- 15 All 11 respondents indicated that they would provide some form of intermediate rent product in the future. Several reasons were offered by local authorities for their likely future use of intermediate rent, including:
- There was a recognised need for a product to support mid to low earners who cannot access social housing but are also unable to afford market level rents.

- There was a need to reduce pressures on social housing by providing alternatives
- Mortgage availability was likely to remain poor, making it difficult for residents to purchase housing

Rent First Provision

- 16 This section provides detail on the nature and extent of Rent First provision among the responding local authorities.
- 17 As noted above, five local authorities offered Rent First in their local authority area. As shown in Figure A3.7, only three of these local authorities had recorded actual usage of Rent First funding by housing associations. Of these same five local authorities, three indicated that the programme helped to achieve their local strategic housing priorities, with two stating that it did not.

Figure A3.7: Use of Rent First and Meeting Local Authority Needs



- 18 Among the three local authorities responding that Rent First had contributed to achieving their strategic housing priorities, one indicated that Rent First had contributed to their objectives by helping low income people to get on the housing ladder, and allowing them as an authority to offer as many housing options as possible in the current market. Another respondent found Rent First useful because their local authority views offering as many housing options as possible as a key priority.

- 19 For the balance of six authorities who did not consider Rent First had aided their strategic priorities, a number of specific reasons were provided:
- Demand was low for intermediate housing in their area, meaning that demand for Rent First was negligible
 - The Rent First model was too complex for people to understand fully, making partners reluctant to use it
 - The 'purchase option' was not affordable for the target demographic in their area.
- 20 None of the five local authorities using Rent First had any annual targets for the provision of housing using Rent First monies. Rather, the model seems to have been more of one of 'use as and when necessary'. The same five authorities were also asked to provide details of the average grant per property that they provided using Rent First. However, only one local authority answered this question, making it difficult to come to any firm conclusion about the average grant across the surveyed respondents.
- 21 Local authorities offering Rent First were also asked about their use of the Rent First 'purchase option', which allows tenants to buy their Rent First property. Among the five local authorities that had deployed Rent First, three had offered local housing associations the ability to use the 'purchase option'. This trio of authorities indicated that six of the housing associations operating in their areas offered the 'purchase option' to their tenants.
- 22 Table A3.8 shows the reasons that the five 'Rent First User' authorities gave for their use of the 'purchase option'. Evidence of local demand was cited by all those offering the 'purchase option', as was evidence of local lack of affordability of housing.

Table A3.8: Reasons for Local Authorities Offering Residents the Rent First ‘Purchase Option’

Why did your local authority choose Rent First provision including a ‘purchase option’ for tenants? (please select all that apply)	Number	Percent
Evidence of local demand	3	100%
Evidence of local lack of affordability	3	100%
Support from providers	2	67%
Support from mortgage lenders	1	33%

Additionality of Rent First

23 This section provides a headline analysis of the additionality of the Rent First programme, based on the responses from those local authorities offering Rent First in their areas. Respondents were asked if the existence of Rent First had made a difference to the intermediate housing market in their area. Of the five local authorities offering Rent First, two said it had made a difference to their local intermediate housing market, with a further two stating that it did not.

Table A3.9: Has the Existence of Rent First Made a Difference to Your Local Intermediate Housing Offer?

	Number	Percent
Not Applicable	6	55%
Yes	2	18%
No	2	18%
Don't know	1	9%
Total	11	100%

24 Two local authorities reported changes as a result of Rent First. In terms of the improvements cited, both these respondents indicated that Rent First allowed for more intermediate housing to be provided in their areas and both stated that this amounted to between one and five percent of the total number of properties their local authority provided.

Table A3.10: Rent First Additionality

	Number	Percent
Local authorities able to provide more intermediate housing with Rent First	2	40%
1-5% of total local authority properties provided by Rent First	2	40%
Local Authorities using Rent First	5	100%

- 25 No local authority saw an increase in the speed of provision of intermediate housing as a result of the Rent First programme, or an increase in the quality of housing that they were able to provide. At this level, acceleration and/or quality additionality was therefore not evident.
- 26 In closing, respondents were also asked what they thought the main strengths of Rent First were. Four of the 11 respondents answered this question, with two providing positive answers. The other two respondents saw no clear benefit to Rent First, above other existing intermediate rent options. Respondents replying positively indicated that strengths included the ability to use the 'purchase option' of the programme and the ability to help low to middle income people.
- 27 In terms of criticisms, one respondent said that they could see no benefit to the scheme, whilst the other stated that their own intermediate rent product and shared ownership scheme was more effective at meeting their local housing market issues than Rent First.

Table A3.11: Comments on Strengths of Rent First

	Number	Percent
Positive comments	2	40%
Negative comments	2	40%
Total comments	4	80%
Local Authorities offering Rent First	5	100%

Housing Association Survey

- 28 This section sets out the results of the housing association survey, which was circulated to 33 housing associations identified by the Welsh

Government. Eighteen organisations responded to the survey, a response rate of 55%. The survey questionnaire concentrated on the characteristics of the provision of Rent First and intermediate rent in housing association areas of operation.

- 29 The survey covered housing associations that operate in 23 out of 25 local authorities and national parks. Respondent housing associations operate in anywhere between one and seven local authorities. On average, they offered intermediate rent in two local authorities.

Rationale for Intermediate Rent Provision

- 30 Housing associations reported a variety of reasons for offering Rent First or other intermediate housing products. Local authority strategic priorities, the availability of social housing grant and an in-house commitment to offering a range of tenure choices were the most frequently cited reasons.
- 31 In terms of influencing factors, there was a spread of commonly cited factors, with six factors being cited by between six to eight respondents. It is worth noting that whilst local authorities 'strategic priorities' was one of most commonly cited reasons for offering intermediate rent options, only eight housing associations provided this reason, accounting for 44% of the total.

Table A3.12: Reasons for Using Intermediate Rent or Rent First

What influenced your organisation's decision regarding any offer of Rent First and/or intermediate rent? (please select all that apply)	Number	Percent
Local authority strategic priorities	8	57%
Availability of Social Housing Grant	8	57%
In-house commitment to offering a range of tenure choices	8	57%
Level of demand identified by local authority	7	50%
Fit with our business plan	7	50%
Level of Social Housing Grant available	6	43%
Level of demand identified by our own research	3	21%
Other	2	14%
Enabled cross-subsidy of social rented units or support of a mixed tenure housing scheme	1	7%
Total	14	100%

Scope of Intermediate Rent Market

32 The majority of housing associations offered intermediate rent in their areas, as shown in Table A.13. Among the 18 respondents, 14 (78%) provided some form of intermediate rent in their areas.

Table A3.13: Number of Housing Associations that Provide Intermediate Rent

Does your organisation provide intermediate rent?	Number	Percent
Yes	14	78%
No	4	22%
Total	18	100%

33 There were a variety of different intermediate rent options offered by housing associations (Table A3.14). Among respondents, eight (44%) made use of some form of Rent First, and six (22%) offered an alternative intermediate rent option, without offering Rent First. Of the eight respondents who made use of Rent First, five offered the 'purchase option'.

- 34 Non-Rent First intermediate rent products were the most commonly used across all respondents, with 12 (67%) using an alternative intermediate rent product, either alone or in parallel to Rent First.

Table A3.14: Intermediate Rent Options Provided by Housing Associations

What Intermediate options does your organisation provide?	Number	Percent
Intermediate rent only	6	33%
Rent First with 'purchase option' & other Intermediate rent	5	28%
None	4	22%
Rent First without 'purchase option' only	2	11%
Rent First without 'purchase option' & other Intermediate rent	1	6%
Total	18	100%

- 35 Across respondents, take-up of intermediate rent was mixed, with eight respondents (57%) rating it as either very good or good. A further three respondents (21%) described take-up as satisfactory in their areas.

Table A3.15: Take up of Intermediate Rent and Rent First across Housing Associations

How would you describe take-up of completed units offered as Rent First and/or intermediate rent?	Number	Percent
Good	5	36%
N/A	3	21%
Satisfactory	3	21%
Very good	3	21%
Total	14	100%

- 36 As the survey did not achieve a 100% response rate, it is not possible to provide a full account of the scale of intermediate rent provision across the country, or the performance of Rent First in totality. However, respondents did provide details of the number of units that they provided, both in terms of Rent First and other intermediate rent products, which provides an indication of the scale of provision that is

available. The table below shows the number of new intermediate rent properties among housing associations. In total, 767 non-Rent First intermediate housing properties were provided by respondents using non-Rent First schemes, whilst 43 Rent First properties were provided. This suggests that Rent First properties account for 5% of the total number of intermediate rent properties offered by housing associations. This share of the 'mix' aligns broadly with the replies from respondents to the local authority survey.

Table A3.16: Number of Intermediate Rent and Rent First Properties Provided by Housing Associations since April 2012 Offered by Housing Associations

	Number	Percent
Non-Rent First Intermediate Rent Properties	767	95%
Rent First Properties	43	5%
Total Properties	810	100%

- 37 The table below shows the range of different intermediate rent offers available since April 2012 across the local authorities where respondent housing associations operate. It breaks down these local authorities into four distinct groups and shows the number of local authorities in each and the number of intermediate properties that respondents offer in each group.
- 38 The majority of local authorities (15 out of the 25 where respondents operated) offered only non-Rent First Intermediate Properties. This group also accounted for the largest number of intermediate rent properties, with some 480 properties offered in this group. Those local authorities where both Rent First and non-intermediate rent were offered accounted for the majority of the rest of the intermediate rent properties on offer, with some 300 in this group.

Table A3.17: Number of Local Authorities where Respondents Operate and Number of Intermediate Rent Properties in these Areas since April 2012

Types of intermediate rent offered	Local Authorities where respondents operate		Total Intermediate Rent properties	
	Number	Percent	Number	Percent
Non-Rent First Intermediate Rent Properties ONLY	15	60%	479	59%
Rent First Properties ONLY	3	12%	33	4%
BOTH Rent First and Non-Rent First Intermediate Rent Properties	2	8%	298	37%
No Intermediate Rent	5	20%	0	0%
TOTAL	25	100%	810	100%

39 In similar vein, respondents were asked about their plans for future provision of intermediate housing units. Non-Rent First intermediate housing units accounted for the majority of planned provision, with 88% of the 500 or so planned properties. There are about 60 new Rent First properties planned, accounting for 12% of the total planned over the period. This suggests that there will be a slight increase in the proportion of intermediate housing provided through Rent First in the future, compared to the period from April 2012 to November 2014.

Table A3.18: Number of Intermediate Rent and Rent First Properties Housing Associations Plan to Provide Over the next 3 years

	Number	Percent
Non-Rent First Intermediate Rent Properties	446	88%
Rent First Properties	59	12%
Total Properties	505	100%

40 The table below shows the range of different intermediate rent provision that housing association respondents indicated they will offer over the next three years, across the authority areas where these respondents operate. It breaks down these local authorities into the same four groups as shown above and provides the number of local authorities in each

and the number of intermediate properties that respondents offer in each group.

- 41 Again, the majority of local authority areas (14 out of the 25 where respondents operated) will offer only non-Rent First Intermediate Properties. This group will also account for the largest number of intermediate rent properties, with some 360 properties offered in this group. Similarly to the current provision, those authority areas where both Rent First and non-intermediate rent would be offered will account for the majority of the rest of the intermediate rent properties on offer, with some 140 properties to be provided in this group.

Table A3.19: Number of Survey Local Authorities and Number of Intermediate Rent Properties to be offered over the next 3 years

Types of intermediate rent offered	Local Authorities where respondents operate		Total Intermediate Rent properties	
	Number	Percent	Number	Percent
Non-Rent First Intermediate Properties ONLY	14	56%	363	72%
Rent First Properties ONLY	0	0%	0	0%
BOTH Rent First and Non-Rent First Intermediate Rent Properties	2	8%	142	28%
No Intermediate Rent	9	36%	0	0%
TOTAL	25	100%	505	100%

- 42 Housing associations were asked what the average cost per unit was for non-Rent First intermediate housing properties. Across respondents, the average cost per unit provided by housing associations for intermediate housing solutions varied from £90k to £126k. However, only five of the 14 housing associations who provided intermediate rent answered this question, so these figures should be viewed with caution, and are only indicative at best.

Rent First Characteristics

- 43 This section sets out the key characteristics of Rent First in the areas covered by respondents in terms of the types and sizes of units, and the use of the Rent First 'purchase option'.
- 44 Table A3.20 shows the size of Rent First properties offered by respondents. Three housing associations offered three-bed houses or larger for their Rent First properties, whilst two provided one-bed properties and two provided two-bed properties.

Table A3.20: Size of Rent First Property Offered by Housing Associations

What sizes of units have been provided for Rent First?	Number
3 bed or larger	3
2 bed	2
1 bed	2

- 45 In terms of the types of housing provided by the eight housing associations offering Rent First, two provided flats, whilst five provided houses (Table A3.21).

Table A3.21: Types of Accommodation Provided by Housing Associations offering Rent First

What types of units have been provided for Rent First (please select all that apply)	Number
Flats	2
Houses	5

- 46 Purchase was the most common method that housing associations used to acquire their Rent First housing stock, as shown in the table below. Over half of respondents used new build properties to provide their Rent First accommodation.

Table A3.22: Acquisition of Rent First Housing Stock Provided by Housing Associations Offering Rent First

How have you acquired your Rent First housing stock? (please select all that apply)	Number	Percent
Purchase	7	100%
New build	4	57%
Total	7	100%

47 One of the unique elements of the Rent First programme is the ability to offer the option for tenants to purchase their rented property. Among the eight housing associations that offered Rent First, five offered the 'purchase option'. However, across the totality of the area that these housing associations covered, only one tenant had taken up the offer. Although the data on this is limited due to the low response rate, it would suggest that Rent First is primarily being used to offer standard intermediate rent to low and middle income people and is not being utilised to fund the purchase of properties by the majority of housing associations.

Additionality of Rent First

48 As shown in Table A3.23, of the eight housing association respondents which offered Rent First, only two stated that Rent First had made a difference to their ability to serve the intermediate housing market. Both of these housing associations reported that Rent First provided more intermediate housing in their areas, but only one stated that their offer was of a higher quality as a result of Rent First, or that Rent First allowed faster provision of intermediate housing. One housing association also stated that housing was provided more quickly as a result of the Rent First programme.

Table A3.23: Rent First Additionality

	Number	% of HAs offering Rent First
Rent First has made a difference to intermediate housing offer	2	25%
Rent First has provided more intermediate housing	2	25%
Rent First has provided higher quality intermediate housing	1	13%
Rent First has provided intermediate housing more quickly	1	13%
Total housing associations offering Rent First	8	100%

- 49 Respondents were asked to provide comments on the Rent First Programme, indicating its strengths. Seven of the 18 respondents answered this question, with three identifying some strengths, including one that highlighted its effectiveness in targeting local residents who wished to buy but could not due to their financial situation.
- 50 By contrast, the other four respondents saw either limited benefit in Rent First or no benefit at all in their area. Several substantive reasons were provided, including:
- There is no demand for the 'purchase option' provided by Rent First in one respondent's area, meaning that the programme offers no added value over other intermediate rent products
 - Another respondent only had a small intermediate rent market in their area, meaning that demand for an intermediate rent product like Rent First is insignificant
 - One respondent found the programme difficult to use, as the local authorities in their area had no agreed definition of intermediate rent.

Key Findings

- 51 This final section sets out the main findings of the two surveys in regards to Rent First and the intermediate rent market in Wales. Table A3.24 provides the key data from both surveys regarding Rent First.

52 Overall, both surveys indicated that local authorities and housing associations do not view Rent First as a core part of their intermediate housing offer, but see it at best as a supplementary measure that can be used from time to time. As such, based on this group of respondents, Rent First is neither an integrated or mainstreamed area of activity, nor does it operate on a consistent and constant basis across Wales.

Table A3.24: Summary of Key Survey Data

Local Authorities offering Rent First	5 (out of 11 surveyed)
Housing Associations offering Rent First	8 (out of 18 surveyed)
Number of Rent First Properties offered since April 2012	43 (5% of total)
Total number of intermediate rent properties offered since 2012	810
Number of Rent First Properties planned over next 3 years	59 (12% of total)
Total number of intermediate rent properties over next 3 years	505

- Intermediate housing is a priority for the majority of surveyed local authorities, although other priorities were common among respondents. However, the majority of surveyed local authorities stated that their local intermediate rent market is small.
- Rent First was not offered by the majority of surveyed local authorities or housing associations. Across both surveys, more local authorities and housing associations offered non-Rent First intermediate rent products than offered Rent First, suggesting that Rent First is not at present meeting the intermediate rent needs of the majority of respondents.
- When looking at the number of intermediate rent properties provided by housing associations, and the number planned over the next three years Rent First accounts for a minority of provision.
- Moreover, in the areas with largest number of intermediate rent properties provided so far, housing associations do not appear to be making any use of Rent First.

- The Rent First 'purchase option' was used by some local authorities and housing associations, but crucially only one tenant among the surveyed housing associations had taken up this option, indicating either a lack of demand or issues with the design of the 'purchase option' component.
- 53 Both the local authority and housing association surveys indicated that additionality was low for the Rent First programme, which is corroborated by comments that indicated that there was little demand for Rent First in several areas.

APPENDIX 4

Case Study Discussion Agendas

LOCAL AUTHORITY

1 Basic quantitative information about delivery RF and intermediate rent.

Scale of delivery of all forms of Intermediate Rent (including RF and any other non grant funded IR units) – units complete, units in the pipeline

- Scale of delivery RF delivery – units complete, units in the pipeline
- Grant received for RF – amount per unit
- Rental levels of RF units
- Purchase (by occupier) of RF units - any completed sales, any interest shown

2 Scale and characteristics of the intermediate market in the area.

- How would you define what you would call the intermediate market in your area?
- How significant do you think the intermediate market is? (and does this vary at all across your area)?
- How does this break down between intermediate rent and low cost sale?
- What evidence is available to you to about the intermediate market – source and date
- Are there particular types of household that make up the intermediate market (age, size, income)

3 Overall priorities of the council for new AH.

- When planning for new affordable housing, what are your council's priorities?
- Why are these your priorities?
- How does the need for intermediate rent fit into this (*If there is a need*)

4 If priority is only or mainly social rent

- What are seen as the solutions for meeting the needs of the intermediate market? (Role of social rented sector, low value private rent, low value market sale).
- How well do these current options meet the needs of the intermediate market?
- Are there any gaps?
- Do you use SHG for intermediate rent (i.e. to provide Rent First?)
If yes, does this include the option to purchase at a later date?
- If yes, What do you see as the advantages of this approach? Check for the following:
 - Does RF have a potential role in deflecting demand away from social rent?
 - Is the help that RF offers in assisting people into owner occupation seen as being useful. And reasons for saying this.
- If no, what are the reasons for this? (Please check – is this because there is no intermediate market and therefore RF has no role or that

there is an intermediate market but RF is not the right product for this market).

- What would need to change about RF for it to be seen as a useful product?
- Given unrestricted choice, what do you see as the best way of assisting the intermediate market?
- If LA has a programme of grant funded RF (despite SR being priority) – check i) why they have taken up this option, ii) whether the grant levels are sufficient to deliver RF and iii) whether LA would support provision of intermediate rent if grant not available
- Is intermediate rent being developed in your area that is not grant funded? What is the scale of this programme?
- If yes
 - How do the rents charged compare with those for social rent and RF (if applicable)
 - How is this funded (e.g. through cross subsidy from market housing)
 - How does this model of provision compare with that of RF?

4 If intermediate rent seen as having a role as part of provision of affordable housing

Generally about the intermediate market

- What are seen as the solutions for meeting the needs of the intermediate market? (Role of social rented sector, low value private rent, low value market sale).
- How well do these current options meet the needs of the intermediate market?
- Are there any gaps?
- Given unrestricted choice, what do you see as the best way of assisting the intermediate market?

Delivery of Rent First

- Do you use HFG for intermediate rent (i.e. to provide Rent First?)
If yes, does this include the option to purchase at a later date?
- What is the value to the organisation of providing RF? Check for the following:
 - Does RF have a potential role in deflecting demand away from social rent?
 - Is the help that RF offers in assisting people into owner occupation seen as being useful. And reasons for saying this.
- How do RF rents compare with social rent levels and market rent. Are RF rents set at a level that meet the needs of the intermediate market RF is intended for and, if not, why is this?
- Do you have any information about the types of households that have been moving into RF? What would they have done without RF?
- Are RF properties easier/harder to let than SR and thoughts on why this is the case?

- Preliminary views on the option to purchase. Is this option offered in your area?
 - If yes, What are the reasons for this? Any interest shown in this from tenants? If not, why not?
 - If no, what are the reasons for this?
- Is the help that RF offers in assisting people into owner occupation seen as being useful. And reasons for saying this.
- What changes could be made to increase its attractiveness (to org or tenant?).
- How important is the availability of grant as an incentive to provide RF? Is current level of grant enough to ensure viability of schemes that include RF? If there are viability issues, how are these being solved?
- Would RF still be encouraged by the LA without grant support?
- Would a larger RF programme be deliverable and would there be demand for it – can interviewee put a number to this?
- What would need to change about RF to overcome any shortcomings?

Other forms of intermediate rent housing

- Is intermediate rent being developed in your area that is not grant funded? What is the scale of this programme?
- If yes
 - How do the rents charged compare with those for social rent and RF (if applicable)
 - How is this funded (e.g. through cross subsidy from market housing)
 - How does this model of provision compare with that of RF?

Partnership working

- Do you have any specific partnership working initiatives with housing associations to deliver intermediate rent housing and, if so, what are these?

6 For Everyone

Has there been any sharing of experience about meeting the needs of the intermediate rental market between RSLs and the local authority in this area? If so, how has this happened?

What key messages about RF should this assessment take back to WG?

HOUSING ASSOCIATION

1 Delivery of Rent First and other intermediate rent housing

- Scale of RF delivery – units complete, units in the pipeline
- How many in this authority area
- How many by the HA in total
- Grant received – amount per unit
- Purchase (by occupier) of RF units - any completed sales, any interest shown
- Scale of delivery of intermediate rent that is not grant funded:
- How many in this authority area
- How many by the HA in total

2 Scale and characteristics of the intermediate market in this area.

- How would you define what you would call the intermediate market in this area?
- How significant do you think the intermediate market is? (and does this vary across this area)?
- How does this break down between intermediate rent and low cost sale?
- Are there particular types of household that make up the intermediate market (age, size, income)
- What information do you have available to identify the intermediate market in this area?

3 How are the needs of the intermediate market being met?

- What are seen as the solutions for meeting the needs of the intermediate market? (Role of social rented sector, low value private rent, low value market sale).
- How well do these current options meet the needs of the intermediate market?
- Are there any gaps?
- Given unrestricted choice, what do you see as the best way of assisting the intermediate market?

4 If Rent First not being developed in this area

- What are the main reasons for this?
- How do HA views on appropriateness of RF in this area compare with those of LA?
 - Is the LA more/less keen on RF? Why this difference of views?
 - Could a RF programme succeed in this area if was supported by the LA? If yes – what are the reasons for saying this.
 - Are there any changes that could be made to RF to overcome differences in views between the HA and the LA?

- Does the HA have experience of developing in another authority where RF is viewed more/less favourably? How does this affect what is developed?
- What are seen as the strengths/ issues of RF. What would need to change about RF to overcome any shortcomings?
- Preliminary views on the option to purchase. Does this add to the attractiveness of RF for occupier and for HA?
- Are there any development viability issues with RF? Check for:
 - Adequacy of rents to ensure viability
 - Grant funding not meeting gap between borrowing capacity and costs.
 - Only viable with significant cross subsidy from market housing
- Is the RF programme being led by grant availability – would the HA do more RF in this area if grants were larger?

Other forms of intermediate rent housing

- Is intermediate rent being developed by you in this area that is not grant funded? What is the scale of this programme?
- If yes
 - How do the rents charged compare with those for social rent and RF (if applicable)
 - How is this funded (e.g. through cross subsidy from market housing)
 - How does this model of provision compare with that of RF?
- Do you have any other general observations on development of non grant funded intermediate rent and how this compares with Rent First.

Partnership working

- Do you have any specific partnership working initiatives with the local authority to deliver intermediate rent housing and, if so, what are these?

5 If Rent First is being developed in this area

- Overall – what is the value to the organisation of providing RF in this area?
- What are seen as the strengths/ issues of RF. What would need to change about RF to overcome any shortcomings?
- What rents are being charged and how do RF rents fit in housing cost hierarchy of the area? What basis for setting RF rents at these levels?
- Early experiences of who has been moving into RF (what types of household) – what would they have done without RF?
- How do HA views on appropriateness of RF in this area compare with those of LA?
 - Is the LA more/less keen on RF? Why this difference of views?

- Could a RF programme succeed in this area if was supported by the LA? If yes – what are the reasons for saying this.
 - Are there any changes that could be made to RF to overcome differences in views between the HA and the LA?
- Does the HA have experience of developing in another authority where RF is viewed more/less favourably? How does this affect what is developed?
- Preliminary views on the option to purchase. Is this option offered in this area?
 - If yes, what are the reasons for this? Any interest shown in this from tenants? If not, why not? (Check for ease of mortgage finance generally, timing of purchase option, easier(cheaper) alternatives in the market, occupiers seeing RF as a better rental option – no intention of purchasing)
 - If purchase option not offered, what are the reasons for this?
- Is the help that RF offers in assisting people into owner occupation seen as being useful. And reasons for saying this.
- What changes could be made to increase its attractiveness (to org or tenant?).
- Are there any development viability issues with RF? Check for:
 - Adequacy of rents to ensure viability
 - Grant funding not meeting gap between borrowing capacity and costs.
 - Only viable with significant cross subsidy from market housing
- Is the RF programme being led by grant availability – would the HA do more RF in this area if grants were larger?

Other forms of intermediate rent housing

- Is intermediate rent being developed by you in this area that is not grant funded? What is the scale of this programme?
- If yes
 - How do the rents charged compare with those for social rent and RF (if applicable)
 - How is this funded (e.g. through cross subsidy from market housing)
 - How does this model of provision compare with that of RF?
- Do you have any other general observations on development of non grant funded intermediate rent and how this compares with Rent First.

Partnership working

- Do you have any specific partnership working initiatives with the local authority to deliver intermediate rent housing and, if so, what are these?

6 For everyone

Has there been any sharing of experience about meeting the needs of the intermediate rental market between RSLs and the local authority in this area?
If so, how has this happened?

What key messages about RF should this assessment take back to WG?