

Evaluation of Rent First



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Research Summary

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Rent First provides an intermediate rent solution designed for people unable to access home ownership but who can afford more than a social rent. Rent First can include an option for future purchase of their property by the occupier.

The research study provides an evaluation of Rent First in the four years since its introduction. The study found that there remains a 'gap' in the housing market which Rent First can help address. However, take up of Rent First has been patchy and further action is recommended to extend the use of Rent First and to support development of intermediate rent generally.

Background to the study

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.

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.

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*".

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

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.

However the scale of the 'affordability gap' is not uniform across Wales with the larger gaps in South East Wales and Swansea.

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

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.

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.

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.

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

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.

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.

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).

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.

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).

Rent First is being developed as one, two and three bed properties at rents up to 80% of market rents.

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

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

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.

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

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