

Local Taxes for Second Homes and Self-Catering Accommodation
Consultation Response from Propertymark
November 2021

Background

Propertymark is the UK's leading professional body for estate and letting agents, inventory providers, commercial agents, auctioneers and valuers, comprising nearly 18,000 members. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry-leading training programme and mandatory Continuing Professional Development.

Question 1: How effective has the use of premiums been in addressing housing issues?

1. Propertymark believes that the effectiveness of council tax premiums to address housing issues across Wales has been limited. This is largely due to the fact that application of the premium has been variable, with just nine out of twenty-two local authorities implementing premium charges on second homes for the 2021-22 financial year and eleven levying premiums on long-term empty property (that which has been unoccupied and substantially unfurnished for at least a year) in the same period.¹ We have seen little evidence to suggest that the stated objectives of the system have been achieved – those objectives being to encourage long-term empty homes to be brought back into optimal use and to generate revenue for local authorities for use in the provision of affordable housing and sustainment of local community services.
2. This assertion is reinforced by latest available figures for 2021-22 which suggest that there are 25,701 long-term empty properties in Wales – an increase of 4% from 2020-21.² Similarly, though affordable housing supply has slowly but steadily increased since 2012-13, the number of units delivered has consistently fallen short of the Welsh Government's lower estimate of affordable housing need.³ However, rather than an inherent lack of effectiveness, we suggest that the inconsistent and short-term application of the policy, coupled with a lack of ring-fencing of revenue generated may be in part to blame for its apparent inadequacy.
3. Just 1.66% of all chargeable dwellings in Wales were charged a premium in the 2021-22 financial year.⁴ In the same period, nine out of twenty-two local authorities charged a council tax premium on 15,828 second homes, accounting for 63.6% of chargeable second homes in

¹ Welsh Government, January 2021: Council Tax Dwellings in Wales 2021-22: <https://gov.wales/sites/default/files/statistics-and-research/2021-01/council-tax-dwellings-april-2021-march-2022-809.pdf>.

² Stats Wales, 2021: Chargeable Empty and Second Homes by Local Authority: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Dwellings/chargeableemptyandsecondhomesbylocalauthority>.

³ Welsh Government, March 2021: Housing Supply Statistics: <https://gov.wales/housing-supply-statistics-interactive-dashboard>.

⁴ Welsh Government, January 2021: Council Tax Dwellings in Wales 2021-22: <https://gov.wales/sites/default/files/statistics-and-research/2021-01/council-tax-dwellings-april-2021-march-2022-809.pdf>.

Wales. However, of these only 11.4% are charged the maximum premium of one hundred per cent – and these only as recently as the current financial year, the highest premium levied until now having been fifty per cent. Furthermore, 9,024 (36.3%) chargeable second homes remain unencumbered by any premium at all.

4. With regard to long-term empty property, eleven local authorities have council tax premium regimes in place as of 2021-22. But in spite of a greater uptake of powers to levy a premium on empty homes, just 28.6% of long-term empty property is subject to one. Of these, the majority (63.9%) are subject to a fifty per cent premium, while 11.1% pay a premium of just twenty-five per cent.⁵ It is therefore difficult to assess the effectiveness of the use of council tax premiums to tackle housing issues when adoption of the policy has been both limited and variable across authorities. We would urge the Welsh Government to continue to keep the policy under review as opposed to committing to reform it.

Question 2: How could local authorities best use the premiums to help bring empty or underused properties back into use to improve housing supply and the sustainability of local communities?

5. Propertymark suggests that consideration should be given as to whether revenue generated by council tax premiums should be ring-fenced to ensure that it is fully utilised and allocated to achieve the intended objectives of the policy. Currently, local authorities applying council tax premiums are at liberty to use the revenue generated from such regimes at their discretion, meaning funds may or may not be allocated to housing. Although Welsh Government funding to local authorities has increased under the last two settlements, considerable funding gaps persist, particularly in relation to workforce, education and social care costs.⁶ Inflationary pressures are also a source of budgetary concern. As a result, we cannot be certain that revenue generated by council tax premiums is being used as envisioned to bring empty homes back into use or to boost the supply of affordable housing.
6. We believe that revenue generated by council tax premiums should be used to fund loans covering the upfront refurbishment costs of derelict property for letting in the private rented sector, as well as cover the cost of tax rebates for owners of empty property who bring them back into use either for long-term let or sale. Revenue could additionally be used to fund initiatives designed to elevate standards in private rented sector stock more broadly, including schemes to enable energy efficiency improvements. Such schemes could be administered through Rent Smart Wales, through the registration and licensing of property ownership and management in Wales.

⁵ Welsh Government, January 2021: Council Tax Dwellings in Wales 2021-22: <https://gov.wales/sites/default/files/statistics-and-research/2021-01/council-tax-dwellings-april-2021-march-2022-809.pdf>.

⁶ Welsh Local Government Association, December 2020: Evidence to the Finance Committee Welsh Government Budget 2021-22: https://business.senedd.wales/documents/s111191/WGDB_21-22%2025%20Welsh%20Local%20Government%20Association%20WGLGA.pdf.

Question 3: Do you have views on how funds raised from the premium should be used? For example, should local authorities be required to be more transparent about how funds raised from the premium have been spent?

7. As indicated in our response to Question 2, we feel that a historic under-funding may have resulted in revenue generated by council tax premiums being diverted away from housing and used on other services. A requirement for greater transparency could provide an indication of where resources are lacking but would not necessarily compel a local authority to use council tax premium revenue in the manner initially intended by Welsh Government.
8. In deciding how best to utilise funds generated by council tax premiums, the Welsh Government might consider whether the revenue could be used to enable local authorities to bring forward surplus, publicly owned land for development. Alongside bringing empty property back into use, unlocking land is key to increasing housing supply, and the upfront costs of scoping and assembling land are often prohibitive. Local planning authorities could therefore use council tax premiums to undertake this preliminary work, master-planning sites or partnering with social housing developers to initiate projects that might otherwise not be viable.

Question 4: Is the current maximum premium of 100% appropriate? If not, what would you consider to be appropriate and fair?

9. Propertymark believes that the current maximum premium is reasonable in relation to second homes but suggests that the maximum premium on long-term empty property might be reviewed. In reaching this position, we note that just two local authorities (9%) applied a one hundred per cent premium on second homes in the 2021-22 financial year, and that prior to this no council had opted to levy the maximum premium. Given the fact that the majority of councils have, thus far, opted not to utilise the powers afforded to them to their fullest extent, we do not consider any increase in the maximum premium to be appropriate. Furthermore, we would caution against an increase in the maximum premium for second homes which might incentivise owners to let their homes in the short-term let market under the non-domestic rates (NDRs) regime in an effort to avoid the premium.
10. With regard to long-term empty property, three local authorities (13.6%) applied the maximum premium in 2021-22, which had been first implemented in 2019-2020 by a single authority.⁷ We believe the negative externalities arising from second home ownership (and as distinct from short-term let property) to be less detrimental than those produced by the existence of long-term empty property. In tackling persistent, long-term empty property the Welsh Government might consider whether an incremental scale dependent on the length of time left vacant should be introduced. Such a system might raise the council tax premium by

⁷ Welsh Government, January 2021: Council Tax Dwellings in Wales, 2021-22: <https://gov.wales/sites/default/files/statistics-and-research/2021-01/council-tax-dwellings-april-2021-march-2022-809.pdf>.

twenty-five per cent for every additional year (beyond the present one-year threshold) that a property remains unutilised, so that the premium levied on a property that has been empty for five years would be two hundred per cent of the standard council tax rate.

Question 5: If a higher maximum premium were proposed, should this be introduced incrementally?

11. Aside from the proposal outlined in our response to Question 4, which suggests an annual increase in premium for persistent, long-term empty property, we do not consider a rise in the maximum premium to be warranted. As previously noted, very few authorities are presently utilising their powers to levy a one hundred per cent premium on second homes or empty property, and until such time as the policy has been rolled out more widely and consistently to enable its effectiveness and impact to be analysed, we believe the current premium limit should be retained. Purchasers of second homes in Wales are already subject to a higher rate of Land Transaction Tax (LTT) and we would encourage the Welsh Government to consider apportioning this revenue for targeted investment in housing.
12. With regard to the proposal for tackling long-term empty property set out in our response to Question 4, we do not feel that an incremental introduction would be necessary. Property liable for such an increase should already have been subject to the maximum, one hundred per cent premium for at least one year from implementation of the policy and we consider a twenty-five per cent increase for each additional year thereafter that a property remains unutilised to be reasonable whilst also engendering necessary behaviour change.

Question 6: What do you see as the impacts, both positive and negative, of self-catering accommodation?

13. Propertymark believes that second home ownership for tourism purposes can have positive consequences for a local area, particularly in terms of economic benefits to homeowners and seasonal, service and tourism businesses. Nevertheless, it has been suggested that the increase in short-term let property in residential areas has resulted in issues such as a rise in anti-social behaviour, noise pollution and a loss of community cohesion. It also has a potentially detrimental impact on traditional hospitality businesses. But our concern with short-term lets is primarily focused on the impact of the sector's growth on the private rented sector, which has seen a loss of investment due to the strong market for sales and short-term lets.
14. The consequence of an increase in short-term letting activity is location- and even property-specific, and from the evidence available we do not believe it is presenting a problem in all areas. However, in areas of high short-term let demand, landlords in the private rented sector are opting to let their properties as holiday lets, attracted by fewer regulatory burdens, the potential for less wear and tear due to the short-term nature of occupancy and higher returns, with potential revenue generated by a short-term let outweighing any increase in void periods. This is resulting in a loss of stock in the private rented sector which is exacerbating affordability issues as average rents rise with prospective long-term tenants competing for a limited number of properties.

15. Our research into the impact of short-term lets (conducted prior to the COVID-19 pandemic) found that twenty-three per cent of landlords in Great Britain offered short-term lets as part of their portfolio. If extrapolated, this would equate to 46,000 properties that have been removed from private rented sector stock, or 0.9%.⁸ The primary motivation to offer short-term lets was cited as the increased flexibility afforded to landlords over how they use their property, while 38% referred to burdensome regulations in the private rented regime as their reason to shift sectors. Changing patterns of behaviour and demand for 'staycations' as a result of the COVID-19 pandemic have further fuelled investment in the STL sector, though whether this momentum represents a sustained or transitory shift is yet to be seen. Given these factors, along with the further changes to the private rented sector due in 2022 when the Renting Homes (Wales) Act comes into force, we would urge the Welsh Government to recognise the threat to the private rented sector and consider what approaches could be taken to ensure that investment in the private rented sector remains attractive and viable.

Question 7: What are your views on the current criteria and thresholds for defining property as self-catering accommodation and liable for non-domestic rates?

16. We believe that genuine businesses should be liable for business rates and feel the current criteria and thresholds may warrant an increase. But perhaps more significantly, we would urge consideration of the impact of Small Business Rates Relief (SBRR) on the short-term letting industry. We are concerned by the loss of investment in the private rented sector as private landlords seek to capitalise on higher potential revenues, greater flexibility and less prescriptive regulation. In an effort to mitigate this, the Welsh Government might consider whether short-term lettings businesses that meet the criteria and thresholds for non-domestic rates (NDRs) liability should be excluded from SBRR. This would help to level the playing field and make investment in the private rented sector relatively more attractive.
17. Currently, businesses whose premises have a rateable value of up to £6,000 are eligible for one hundred per cent relief on NDRs, with relief applied on a tapered basis thereafter. We feel that this incentivises letting in the short-term rather than private rented sector and would encourage the Welsh Government to assess the SBRR to ensure that it does not have perverse consequences for the private rented sector, those that it houses and that the loss of NDR revenue as a result of short-term let businesses accessing the SBRR does not outweigh the benefits generated by those businesses.

Question 8: Do you think the self-catering accommodation thresholds should be changed and if so, why?

18. We feel that there may be more merit in changing the eligibility under SBRR than amending NDR thresholds. However, the Welsh Government could consider whether increasing the

⁸ Propertymark, January 2020: The Impact of Short-Term Lets:
<https://www.propertymark.co.uk/static/0165201f-6a7e-46cb-987444e6862ab403/The-impact-of-short-term-lets.pdf>.

thresholds such that a property must be available for at least 180 days and commercially let for at least 90 days would be more effective in ensuring that only legitimate businesses are captured by the definition for NDR purposes. Those engaging in short-term let activity that do not meet this threshold would then be subject to council tax and the relevant premium as applied by the local authority.

Question 9: If the self-catering thresholds were to be changed, what do you suggest the new thresholds should be?

19. Please refer to our response to Question 8.

Question 10: What are your views on the eligibility of self-catering accommodation for Small Business Rates Relief?

20. As outlined in our response to Question 7, we feel that consideration might be given as to whether short-term let businesses eligible for NDRs should be exempt from SBRR. Such an intervention would remove the risk of exploitation of SBRR and help mitigate the erosion of stock from the private rented sector, making more of a level playing field for the two.

Question 11: Are there other ways in which you think the local tax system could be used to support the sustainability of our communities?

21. Propertymark believes that council tax premiums should be ring-fenced and used as intended to help fund affordable housing and bring empty property back into use. More broadly, we believe that incentives applied via the tax system could have more practical impact on shaping the housing sector. In this regard, the Welsh Government could consider measures such as tax rebates for owners of long-term empty property who let their property in the private rented sector or sell to key workers, first-time buyers or those with a local connection.

22. Crucially, the Welsh Government must ensure that any changes to the local tax system do not prejudice private landlords. Private landlords provide homes, and without incentives to sustain investment, the loss of stock in the private rented sector will have costly consequences for Welsh Government and local authorities, who may see housing waiting lists grow. Through tax relief or rebates, the Welsh Government could encourage investment in the private rented sector – not only in supply terms but in elevating the quality of stock through VAT exemption on refurbishment and making funding available to improve energy efficiency. Consideration could be given as to whether Rent Smart Wales renewal fees could be waived if a landlord can provide evidence that they have let their property to the same tenant for a certain period of time, in an effort to promote longer-term tenancies.

Question 12: What effects do you think there would be on the Welsh language? How could positive effects be increased, or negative effects be mitigated?

23. Propertymark does not have sufficient expertise to respond to this question.

Question 13: Please explain how you believe the proposed policy approach could be formulated or changed so as to have positive effects or increased positive effects on opportunities for people to use the Welsh language.

24. Propertymark does not have sufficient expertise to respond to this question.

Question 14: If you have any related points which we have not specifically addressed, please use this space to record them.

25. We have no additional comments.