



Chartered  
Institute of  
Housing  
Cymru

# What you need to know about Green Paper on securing a path towards adequate housing - including fair rents and affordability





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## Background

The Welsh Government has now published its Green Paper on securing a path towards adequate housing – including fair rents and affordability. The Green Paper sets out the findings of an extensive data mapping exercise conducted by Alma Economics in November 2022 and a desktop study carried out by the UK Collaborative Centre for Housing Evidence. Both studies highlighted areas where there are data gaps.

The Green Paper consultation is seeking views and evidence about understanding rents, tenant, and landlord behaviour. It is also seeking views on how supply and adequacy of housing could be improved over time. Consultation responses will inform the development of a White Paper next year which will include proposals to achieve housing adequacy, including fair rents and affordability.

## What is adequate housing?

The Welsh Government's vision is that every person in Wales should be able to obtain a safe and affordable home that meets their needs for the different stages in their lives. The ability to secure the right balance between supply and demand for homes is part of ensuring that every person in Wales can secure an adequate home.

There is no UK definition of housing adequacy. The UN identifies seven criteria which should be met for accommodation to be considered as adequate housing. These are:

- Security of tenure
- Availability of services, materials, facilities and infrastructure
- Affordability
- Habitability
- Accessibility
- Location
- Cultural inadequacy.

## Housing adequacy in the context of supply and demand.

The Green Paper draws a link between the availability of property and people's ability to secure adequate housing. It says that delivering housing adequacy must be about more than just securing a place to live. Yet where the market is competitive with limited supply, some measures of housing adequacy may be difficult to achieve.

In Wales there is an imbalance between supply and demand. Local housing allowance (LHA) is set at the 30th percentile for rents in a broad market area and is designed to help those households in receipt of welfare benefits. The rate of LHA payable has been frozen since 2020 and is not keeping pace with current rent increases. Research by the Bevan Foundation in February 2023 found that only 32 properties in the whole of Wales were available at LHA rates<sup>1</sup>.

ONS 2021 Census data shows that in inner city areas 78 to 90 per cent of households are privately renting. Where there are areas of high demand there are corresponding high rental prices as additional supply is constrained.

In some areas the numbers of properties built over the period of a local development plan (LDP) falls short of the numbers expected. If LDP targets are not met it is likely to mean that supply is not meeting local needs and prospective residents will find it more difficult to satisfy their housing needs adequately.

Supply levels are also impacted in some communities as a result of the increase in the number of second homes. Whilst measures have been put in place to tackle this there will remain areas where the supply of property to rent may not meet the demand.

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<sup>1</sup>Wales' Housing Crisis: Local Housing Allowance and the private rental market in Wales, Winter 2023. <https://www.bevanfoundation.org/wp-content/uploads/2023/03/Wales-Housing-Crisis-Winter-2023.pdf>.

As the need for homes increases and supply does not keep up, we are seeing increases in rental prices. The average rental increase for all private rented properties was 4.4 per cent between March 2022 and March 2023. The average increase for new lettings was 8.9 per cent between January 2022 and January 2023. These increases will further impact a household's ability to secure adequate housing.

## The private rental market in Wales

We have seen how supply and demand can influence an individual's ability to satisfy their housing needs adequately. So how big is the private rented market and how much does it cost to rent a home privately?

The 2021 census showed that 33.6 per cent of households in Wales rent privately an increase of three percent since the 2011 census<sup>2</sup>. Currently more than half of the rented properties in Wales are in the private sector. There are 209,318 properties registered for rent in Wales with 70 per cent of landlords owning one property. Owners with more than ten properties own 21 per cent of the housing stock. Over 50 per cent of landlords are over 55 and 25 per cent are over 65. There is likely to be a turnover of landlords in the future as landlords seek to retire.

The current monthly average rent is £577. Though there is a significant range between the lowest average rent in Blaenau Gwent (£425) and the highest in Cardiff (770)<sup>3</sup>. Alma economics, in their data mapping and analysis, have used the median rent as average rent may include very high and very low rental prices. This will provide a more accurate picture of the private rental market in Wales and a more robust assessment of affordability.

## Local incomes and affordability

### What is a fair rent?

Welsh Government is proposing that the definition of fair rent should be broad and be taken to mean fair in the wider context of equitable in that it needs to be fair and affordable to all parties. This is to ensure supply

and quality are not compromised. It also needs to be fair in respect of it being reasonable and proportional to the specific circumstances of the locality understanding both the local impact and potential impact to neighbouring areas.

Measures of fairness will need to be tested against how they impact on the other factors of housing adequacy to ensure a comprehensive set of measures that work together to support the delivery of housing adequacy.

## Defining "local income" and "low income"

There is no agreed definition of a local income and average income levels differ according to the spatial boundary that is applied. Average income levels across a lower super output area will be different compared to average income levels across a local authority boundary area.

The Office of National Statistics defines households as being in low income if they live on less than 60 per cent of the average (median) net disposable equivalised UK household income<sup>4</sup>. The average (median) full-time weekly earnings in Wales in 2022 was £598.10. This equates to an annual gross salary of £31,101. So, if a household income is less than £18,660 (60 per cent) the household would be defined as "low income".

## Housing affordability

The Office for National Statistics deem a property affordable if a household spends 30 per cent or less of its income on rent. Using the Office of National Statistics 30 per cent rule to the low-income threshold of £18,660, as outlined above, then the maximum affordable monthly rent would be £466.50.

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<sup>2</sup>Housing in Wales (Census 2021). [https://www.gov.wales/housing-wales-census-2021.html#:~:text=The%20census%20data%20on%20tenure,33.5%25%20\(451%2C000\)%20in%202021](https://www.gov.wales/housing-wales-census-2021.html#:~:text=The%20census%20data%20on%20tenure,33.5%25%20(451%2C000)%20in%202021)

<sup>3</sup>Private rental affordability, England, Wales and Northern Ireland <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/private-rental-affordability-england/2021>

<sup>4</sup>The median is often presented as the headline measure for average earnings because the distribution of earnings is skewed, with more people earning lower salaries than higher salaries. In a skewed distribution a relatively small number of high values can have a disproportionate influence on the mean, pulling it away from what might be regarded as typical. The median is not affected by extreme values and consequently is considered a better indicator of typical "average" earnings.

When we consider the latest Wellbeing of Wales National Indicators, we see that 37.1 per cent of households in the private rented spend 30 per cent or more of their income on housing costs. (This assessment of affordability is based on the family resources survey which also includes, insurance, council tax and water as part of housing costs).

The Office of National Statistics produces a data set looking at the affordability ratio in Wales for private rented accommodation. This uses the median rental price and the median income. This shows that over the last nine years households spent between 21 and 23 per cent of their income on housing costs (in this context housing costs is just the rental price). Using this data, it would appear that Wales does not have an affordability issue in the private rented sector as the ratio is below 30 per cent.

Yet if we consider affordability for the lowest quartile of earners it has worsened since 2020 with 35 per cent of income now being spent on rent. In contrast earners in the 50th and 75th percentiles have found affordability marginally improving.

### Data gaps

There is currently limited data on local rents in Wales. The better the quality of rent levels in an area the more confidence we can have in the genuine market rent and whether this is affordable for household living in the area.

## Rent control measures

Rent control can be non-price interventions such as controls around evictions or regulation of letting agents. It can also be price interventions of which there are several approaches taken. The approaches are categorised as:

- **First Generation:** Strict price ceiling or rent freeze.
- **Second Generation:** Moderated rent increases are allowed.
- **Third Generation:** Rents are reset at or around market levels between tenancies.

## First generation rent models.

There are three models set out in the Green Paper. A yield-based model, a costs based model and an affordable supply model.

### Yield based model

Maximum rent level is set according to a percentage yield which is based on the property value either at time of purchase or on an agreed valuation date. The green paper uses net yield as this allows for future costs of investment in improving the property to be considered.



## Costs based model

In this model a landlord can use the costs incurred on property maintenance or improvement over the last twelve months to determine the rent that can be charged.

## Affordable supply model

Under this model a certain proportion of new build units would be secured for affordable rent through section 106 planning obligations. This could be done in two different ways:

- **Quasi social rent model**

The affordable rent would be set at local housing allowance rate for a minimum of 25 years. There would be an option for a RSL to purchase at end or revert to a private sector rent following an agreed financial payment to be used to secure more affordable housing.

- **Intermediate rent model**

An agreed number of unites retained for rent with the affordable rent being 80 per cent of the market rent for the area and type of property.

## Second generation rent model.

### Energy/quality based model

This type of model would link rents to the energy performance ratings of properties based on rent bands. An example of a banding system is:

| EPC Band | Rent Cap Limit |
|----------|----------------|
| A        | 8 per cent     |
| B        | 7 per cent     |
| C        | 5 per cent     |
| D        | 2 per cent     |
| E        | 1 per cent     |

## Third generation rent model

This model would se the rent officer data based on broad rental market areas and property type to determine an index of market rents that landlords would need to use to set the rent for a property.

## Income based indices

Income based indices would identify areas where the average household spends a certain percentage of income on rent suggesting that affordability is an issue. This would result in rent pressures zones allowing for targeted intervention of rent control measures in a specific geographical location, over a defined period.

## Rent control in the rest of the UK

### Scotland

As part of The Cost of Living (Tenant Protection) (Scotland) Act 2022 first generation rent controls were introduced in the form of a rent freeze and a moratorium on evictions. This only applies to in-tenancy rent increases. Yet according to ONS data, the greatest in tenancy rent increases is in Scotland which saw an increase of 5.1 per cent between March 2022 and March 2023.

### Northern Ireland

Northern Ireland introduced a system of rent regulation within the Private Tenancies Act (Northern Ireland) 2022. The act limits rent increases to once every 12 months and allows regulations to be made to freeze rents and/or cur them by up to 10 per cent for up to four years. This is subject to consultation with landlords, tenant representatives and councils.

### England

The UK Government has stated it does not support rent controls in England. However, it has recently laid a Bill before parliament to legislate to ensure more predictable rent increases.

## Consultation questions

There is a total of 22 questions included in the Green Paper. The full list can be accessed [here](#).



## Initial view from CIH

CIH Cymru fully support Welsh Government's use of the UN's seven criteria that make up adequate housing. It is these criteria that have formed the basis of our #BacktheBill campaign, with #BacktheBill partners Tai Pawb and Shelter Cymru, to fully incorporate the right to adequate housing into Welsh Law<sup>5</sup>.

Legislation should be the mechanism by which we incorporate adequate housing standards into Welsh law, based on these seven criteria identified by the UN. Would any of us, as housing professionals or indeed citizens of Wales, disagree with the view that Wales should aspire to these seven criteria of housing adequacy? And the question that then really presents itself is, why aren't we already doing so?

The legislation will incorporate the right through a progressively realised approach. It would compel statutory authorities to bring forward plans about how we deliver the right over the timeframe of progressive realisation. The plans would identify monitoring arrangements and enforcement measures, as well as the investment needed to meet the scope of the legislation. CIH Cymru believes that legislation to incorporate the right is the starting point on a journey that will address other issues raised in this Green Paper around affordability and the delivery of adequate housing. For us, it's clear that the time to act and bring about positive, long-lasting change is now. Wales has radical and transformational roots in social justice – Nye Bevan and the creation of the NHS shows this. Housing is the 21st Century equivalent of the NHS – our predecessors did not wait for enough hospitals, doctors, and nurses to form the NHS – they recognised legislation would drive it and got on with it. And that's the approach we should take now and incorporate a right to adequate housing in Wales.

That said, we do recognise the issues raised by the Green Paper around affordability in the private rented sector here in Wales and

the need to make the private rented sector more equitable for landlords and tenants. Yet, as outlined in our research in Northern Ireland<sup>6</sup>, rent controls could have unintended consequences at a time when there are already acute pressures on the supply of private rented homes in Wales, making it difficult to deal with ever-increasing numbers of people entering temporary accommodation or being added to housing waiting lists. The research in Northern Ireland found that up to two-thirds of landlords say they would exit the market if rent control was brought in, and there are similar suggestion from private landlords in Wales.

What was needed instead, according to the research, was alternative ways of addressing affordability. This could be achieved through welfare reform which is also supported by members who contributed to the recent consultation on the private rented sector in Wales.

Welfare reform was seen as preferable to rent control. There were concerns, and we would echo these, that rent control could result in shrinking the private rented market further resulting in increased rental prices. This is simple market economics when demand is high, and supply is low, prices inevitably increase. However, the Welsh Government doesn't have



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<sup>5</sup>The right to adequate housing in Wales: the evidence base. An independent research report by Alma Economics. Commissioned by Tai Pawb, the Chartered Institute of Housing Cymru and Shelter Cymru. <https://sheltercymru.org.uk/wp-content/uploads/2022/01/Alma-Economics-Back-the-Bill-Phase-1-Full-Report.pdf>

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<sup>6</sup>The right to adequate housing in Wales: the evidence base. An independent research report by Alma Economics. Commissioned by Tai Pawb, the Chartered Institute of Housing Cymru and Shelter Cymru. <https://sheltercymru.org.uk/wp-content/uploads/2022/01/Alma-Economics-Back-the-Bill-Phase-1-Full-Report.pdf>



control over welfare and we are currently in a deep and prolonged cost of living crisis, so could specific short-term intervention targeted at super local rental market areas alleviate some pressures, particularly if linked to improving standards within the PRS stock?

These are all questions that the Green Paper aims to answer ahead of the publication of the White Paper – a Labour/Plaid Cymru cooperation agreement commitment – which is due to be published early next year. We want to explore the questions raised in the Green Paper with you, our members in Wales, and will be engaging with you in several ways over the coming months ahead of our submission to the consultation in early September.

Our message to Welsh Government remains clear, we believe that legislation to incorporate the right to adequate housing into Welsh law is the starting point that provides the paradigm shift in the way we view housing and the

investment and prominence it is given in the wider public policy debate in Wales to deliver the long-lasting change that we, as housing professionals, all aspire to delivering

## Further information

You can find further information about Green Paper [here](#).

CIH Cymru will be providing written evidence in response to the Green Paper by 15 September 2023. We will also be holding engagement events looking at the Green Paper and to inform our response to Welsh Government.

We would welcome any information from members to help inform and shape our contribution. Please contact our policy and public affairs manager Cerys Clark by emailing [cerys.clark@cih.org.uk](mailto:cerys.clark@cih.org.uk) with any thoughts relevant to this work.

