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The Potential Role of the Private Rented Sector in Wales

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Summary

- The Minister for Communities and Tackling Poverty asked the Public Policy Institute for Wales to analyse the growth of the private rented sector (PRS) in Wales and to explore the implications of this expansion.
- The scale and pattern of growth in the PRS implies structural changes in how the housing system in Wales is operating. Between 2001 and 2013 private renting dominated tenure changes, with the PRS growing by over 100% and in every local authority. The result is that new building over the period, while directed at the social and owner-occupied sectors, has hardly affected the scale of provision in these tenures. Eighty percent of the growth in households has been accommodated in the PRS mainly via transfers within the existing stock. Importantly these changes are not limited to Cardiff and the main cities of Wales.
- Estimates of need and demand through to 2031 suggest that 8,700 units per annum, are required, of which 37% will need some form of subsidy. Over half of the total requirement will be in Cardiff (27%), Swansea (11%), Wrexham (8%) and Newport (6%). Recent trends suggest that the PRS is likely to play a significant role in meeting this requirement.
- Despite the growth in both private and social renting, Cardiff shows the greatest evidence of shortage in terms of both market rent levels and relative rents between market and social sectors. On the limited evidence presented here any institutional investment in the PRS is likely to be restricted to Cardiff and the surrounding area.
- Initial analysis of the attributes of those in the PRS suggests that there are areas of growth where there are concentrations of unemployment, low income and poor quality housing. Further data collection and analysis is required.
- The spatial pattern of social rents varies relatively little across the country as compared to the PRS. The rent ratios suggest that there are areas where there may be excess supply in the social sector and the case for investment in new social housing should be carefully assessed.
- Overall the shift towards private rented is the largest structural change observed in the Welsh housing market for at least two generations. This must be significant for government in terms of their policies with respect to new building; the allocation of supply subsidies; rent determination; and the role of social and intermediate housing. Policy makers need to take notice of these quite fundamental adjustments.

Introduction

The starting point for this project was the recognition that while private renting has been growing rapidly in Wales, it has not traditionally been at the forefront of decision makers' thinking and plays a relatively small part in housing policy in Wales (although recently interest has been building; see Welsh Government, 2013 and earlier consultations). This is in part because the subsidy support for private renting comes from Housing Benefit which is not a devolved power. How the private rented sector (PRS) is evolving, however, raises many immediate issues about the quality of housing provision; about the best approach to establishing a housing investment programme; and about rent setting and allocation rules in the social sector. Perhaps most positively there is evidence of interest from institutional investors, including international investors, in investing in a modern, well-managed PRS as well as in intermediate and even social housing. Studies in London and Scotland (see Whitehead & Scanlon, 2013) have pointed to opportunities that might in certain circumstances be transferred to Wales.

Three questions have been identified as priorities for this short project:

- (i) What are the issues for government arising from the growth of the PRS in Wales? This is mainly to do with higher rents, welfare dependency and the quality of both management and the stock. If rents are close to affordable rents in a locality, though, a relevant question may be whether there is still a case for investment in new affordable units in these areas or whether the PRS can do the job as well;
- (ii) Whether the shifts from owner-occupation to PRS raise issues around longer term public expenditure costs and value for money for both government and individual households; and
- (iii) If the PRS is to be a long term tenure of choice, whether it is likely to be possible to interest institutional money and professional management in the market (i.e. what are the barriers to large scale investment?).

At the beginning of February 2015 the Minister confirmed that the emphasis of the project should be concentrated mainly on (i) and (ii); although new investment in the PRS, including a summary of a major Welsh initiative, is discussed below and in the appendix.

How the Sector has Grown

At the national level, the Welsh national statistics included in the DCLG series suggest that the total stock of housing in Wales rose from 1,275,000 in March 2001 to 1,384,000 in March 2011 and 1,394,000 in March 2013, an increase of 9% over twelve years. Within this total private renting roughly doubled in ten years and increased by 110% in twelve years. Over the same period, owner-occupation increased by only 41,000 units. This implies a proportional reduction from 74% to 70% of the total stock. Social housing actually declined by 20,000 units and as a proportion from 19% to 16% - with the proportion owned by housing associations (HAs) rising from 23% to 61% of the social sector.

Until 2011/12 the Welsh statistics did not identify dwellings in the PRS separately from those in owner-occupation at the local level. We therefore examined the household data to get a better feel for how the increase in the relative size of the PRS has been distributed across the country.

Households

Tables 1 and 2 show the absolute and proportional changes in households by tenure between 2001 and 2011 both for Wales overall and for each local authority area. The figures are not directly comparable with the national dwelling figures above showing some 80% of the net increase in households going into the PRS, while the proportion of social tenants fell by 2%. If anything they suggest that the increase in owner-occupation may have been overstated.

There were 93,628 additional households enumerated in Wales in 2011 as compared to 2001 - an increase of 7.7%. The number of households grew in every local authority but the extent of that growth varied greatly - from as little as 1.6% in Denbighshire to 15.4% in Cardiff.

Within the Welsh total there was a decline in those living in the social sector of around 1,600, and there were only 21,000 more owner-occupiers. But the increase in the number of private tenants dwarfs these numbers - at nearly 74,500 households. This generally mirrors the pattern found in Scotland and England.

Looking at the distribution of this increase across the country we find, not surprisingly, that the growth has been concentrated in the main urban areas - with more than 100% growth in Cardiff, Caerphilly and Newport which together account for almost 36% of the total increase. If Rhondda Cynon Taf, the Vale of Glamorgan, Bridgend and Swansea are added the proportion of the total rises to over 60% - as compared to 56% in terms of the change in the total number of households.

Table 1: Change in number of households by tenure by Local Authority, 2001-2011

Local Authority	Owned	Social	PRS	Total
Cardiff	-1386	3441	16922	18977
Swansea	920	1555	6622	9097
Rhondda, Cynon, Taff	-166	-231	5507	5110
Newport	-275	-128	5040	4637
Caerphilly	1472	-856	4522	5138
The Vale of Glamorgan	841	43	3868	4752
Bridgend	1359	408	3406	5173
Wrexham	1596	-1134	3341	3803
Carmarthenshire	3556	-868	3029	5717
Flintshire	849	-365	2758	3242
Neath Port Talbot	513	-119	2390	2784
Conwy	614	231	2270	3115
Gwynedd	1695	-463	2004	3236
Pembrokeshire	3278	-85	1753	4946
Torfaen	66	-821	1703	948
Blaenau Gwent	400	-1257	1688	831
Powys	3001	-109	1588	4480
Denbighshire	-870	57	1468	655
Monmouthshire	1466	107	1467	3040
Ceredigion	-244	-519	1353	590
Merthyr Tydfil	353	-169	935	1119
Isle of Anglesey	1749	-330	819	2238
Wales	20787	-1612	74453	93628

Source: StatWales, Accessed in March and April 2015

It is important to note that there are a number of other authorities where the PRS increased very considerably in proportional terms even if it was usually from a lower base. These include Flintshire, Wrexham, Blaenau Gwent and Torfaen. The big absolute declines in social renting are also to be found in some of these local authorities, while absolute declines in owner-occupation are limited to the Cardiff/Newport region.

What is also important is that in Cardiff and to a lesser extent Swansea and Bridgend there were significant increases in social housing over the same period. Finally, Cardiff is clearly the most rapidly growing part of the country, which has also seen the largest proportional decline in owner-occupation.

Table 2: Change in tenure proportions and total households (percent), 2001-2011

Local Authority	Owned	Social	PRS	Total
Isle of Anglesey	9.1%	-6.9%	19.3%	7.9%
Gwynedd	5.2%	-5.1%	27.0%	6.6%
Conwy	1.7%	4.0%	32.1%	6.5%
Denbighshire	-3.0%	1.1%	25.8%	1.6%
Flintshire	1.8%	-3.6%	60.2%	5.4%
Wrexham	4.6%	-8.1%	75.9%	7.1%
Ceredigion	-1.1%	-14.0%	24.2%	1.9%
Pembrokeshire	9.8%	-1.0%	27.6%	10.3%
Carmarthenshire	6.7%	-6.9%	39.7%	7.8%
Swansea	1.4%	8.5%	63.5%	9.6%
Neath Port Talbot	1.2%	-1.0%	49.1%	4.8%
Bridgend	3.3%	5.3%	75.4%	9.7%
The Vale of Glamorgan	2.2%	0.7%	85.7%	9.7%
Cardiff	-1.6%	16.4%	103.4%	15.4%
Rhondda Cynon Taff	-0.2%	-1.7%	57.5%	5.4%
Caerphilly	2.9%	-5.8%	109.0%	7.4%
Blaenau Gwent	2.2%	-14.7%	67.0%	2.8%
Torfaen	0.3%	-8.3%	85.0%	2.5%
Monmouthshire	5.5%	2.1%	45.9%	8.6%
Newport	-0.7%	-1.0%	114.2%	8.2%
Powys	8.1%	-1.3%	19.1%	8.3%
Merthyr Tydfil	2.3%	-3.2%	40.2%	4.8%
Wales	2.4%	-0.7%	57.2%	7.7%

Source: StatWales, Accessed in March and April 2015

Dwellings and the balance between households and dwellings

The growth in the number of total dwellings (Table 3) shows that the number of dwellings grew by 14% more than the number of households - so overall the numerical balance improved. However the spatial pattern between households and dwellings was rather different. In six local authorities the numbers of households grew more rapidly than the number of dwellings - Swansea, Caerphilly, Flintshire, Vale of Glamorgan; Monmouth and Blaenau Gwent – i.e. not all in the South East. In Cardiff however the growth in the number of households was more than matched by that in dwellings.

Table 3: Proportion of Total Dwellings by Welsh Local Authorities and Change in Dwellings (Proportion and Count), 2001/02 – 2011/12

Local Authority	2001-02	2011-12	Change in total dwellings in LA (percent)	Change (count)	
	LA proportion of Total Dwellings in Wales	LA proportion of Total Dwellings in Wales		Change in dwellings (count); 2001/2-2011/2	Change in households (count); 2001-2011
Cardiff	10.0%	10.7%	15.3%	19,698	16,968
Swansea	7.8%	7.9%	8.6%	8,655	8,957
Rhondda Cynon Taf	7.7%	7.6%	6.2%	6,163	5,052
Carmarthen-shire	6.0%	6.1%	9.3%	7,177	5,473
Caerphilly	5.7%	5.6%	6.6%	4,778	5,116
Flintshire	4.9%	4.8%	5.1%	3,226	3,268
Neath Port Talbot	4.8%	4.6%	5.3%	3,223	2,854
Newport	4.6%	4.6%	8.0%	4,720	4,420
Powys	4.5%	4.6%	9.5%	5,513	4,537
Gwynedd	4.4%	4.4%	7.0%	4,004	3,152
Bridgend	4.4%	4.4%	10.2%	5,718	5,246
Wrexham	4.3%	4.3%	7.6%	4,170	3,916
Pembrokeshire	4.3%	4.4%	10.9%	5,964	5,518
Conwy	4.0%	4.0%	8.5%	4,389	3,130
Vale of Glamorgan	4.0%	4.0%	7.4%	3,836	4,876
Denbighshire	3.2%	3.1%	2.8%	1,165	715
Torfaen	3.0%	2.9%	4.2%	1,622	1,031
Monmouthshire	2.9%	2.9%	8.3%	3,071	3,093
Ceredigion	2.6%	2.5%	4.7%	1,570	173
Isle of Anglesey	2.4%	2.5%	9.3%	2,909	1,871
Blaenau Gwent	2.4%	2.3%	2.3%	711	857
Merthyr Tydfil	1.9%	1.9%	6.8%	1,679	1,033
Wales	100.0%	100.0%	8.1%	103,961	91,257
<i>Wales (Total Dwellings, Counts)</i>	<i>1,285,157</i>	<i>1,389,118</i>	<i>103,961</i>		

Source: StatWales, Accessed in March and April 2015

Note: Yellow shaded boxes indicate are where the change in number of households was greater than change in number of dwellings

New house building patterns do not fully match the changes in total dwellings as this is affected by change of use, demolitions and changes in the numbers of units within the existing stock -

the latter often being driven by the increase in private renting (Tables 4 & 5 and Figure 1). Total new building at 84,000 is some 20,000 units short of the overall increase in stock at 104,000. These increases from other sources are heavily concentrated in Cardiff, Swansea and Carmarthenshire.

Table 4: New house building (units), 2001/02 to 2011/12

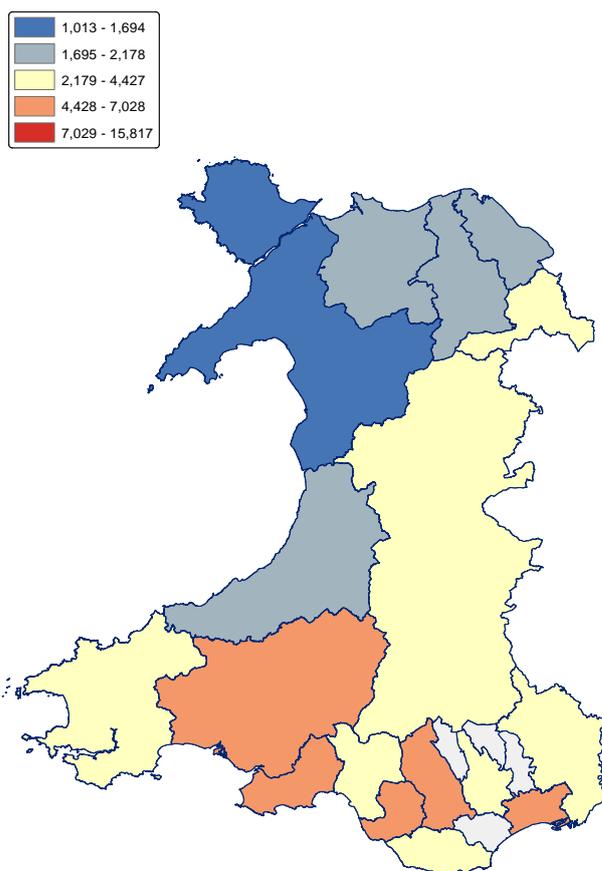
Local Authority or Area	New house building (units)
Cardiff	15,817
Swansea	7,028
Carmarthenshire	5,536
Rhondda Cynon Taf	5,320
Newport	5,308
Bridgend	4,835
Wrexham	4,427
Caerphilly	4,251
Neath Port Talbot	3,661
Powys	3,372
Vale of Glamorgan	3,196
Pembrokeshire	3,036
Monmouthshire	2,911
Denbighshire	2,178
Conwy	2,072
Flintshire	2,026
Ceredigion	1,990
Gwynedd	1,694
Torfaen	1,530
Isle of Anglesey	1,413
Merthyr Tydfil	1,379
Blaenau Gwent	1,013
Wales	83,993
Source: StatWales, Accessed in March and April 2015	

Table 5: Proportion of total house building by Local Authority, 2001/02-2011/12

Local Authority or Area	Proportion of total house building in Wales, 2001/02 to 2011/12
<i>Monmouthshire, Newport, Cardiff, Vale of Glamorgan, Neath Port Talbot, Bridgend and Swansea</i>	50.9%
<i>Cardiff, Swansea and Newport</i>	33.5%
Cardiff	18.8%
Swansea	8.4%
Carmarthenshire	6.6%
Rhondda Cynon Taf	6.3%
Newport	6.3%
Bridgend	5.8%
Wrexham	5.3%
Caerphilly	5.1%
Neath Port Talbot	4.4%
Powys	4.0%
Vale of Glamorgan	3.8%
Pembrokeshire	3.6%
Monmouthshire	3.5%
Denbighshire	2.6%
Conwy	2.5%
Flintshire	2.4%
Ceredigion	2.4%
Gwynedd	2.0%
Torfaen	1.8%
Isle of Anglesey	1.7%
Merthyr Tydfil	1.6%
Blaenau Gwent	1.2%
Source: StatWales, Accessed in March and April 2015	

Over half of new build was in the Newport to Swansea southern belt and around one third in the three main cities in that area. Even so if one looks at the Southern swathe from Newport to Swansea the proportion of the total at 51% is less than the proportion of the increase in total households at 56%. Cardiff's proportion of new build outstripped the growth in households but in some of the areas outside the three cities the numbers of households increased more rapidly than output levels.

Figure 1: Map, new house building (units) by Local Authority, 2001/02 to 2011/12



Looking at the proportion of new build as compared to the proportion of the stock in 2001, five areas stand out as having higher proportions of new building than the promotion of the existing stock: Cardiff, Swansea, Newport, Bridgend and Wrexham.

The Current Role of the PRS

Local authority data are poor with respect to tenure and we only have the breakdown for 2011/12 and 2012/13. Over that year there were increases in the PRS across the country. Table 6 and Figure 2 show that there is no clear spatial pattern. Only eight authorities have more than the national proportion of private rented units while only four authorities have proportions under 10%. These are not areas with particularly similar characteristics. Cardiff stands out as having more than one in five of households in the PRS. It also has had particularly rapid growth since 2001.

Table 6: Count and proportion of private rented dwellings, 2012/13

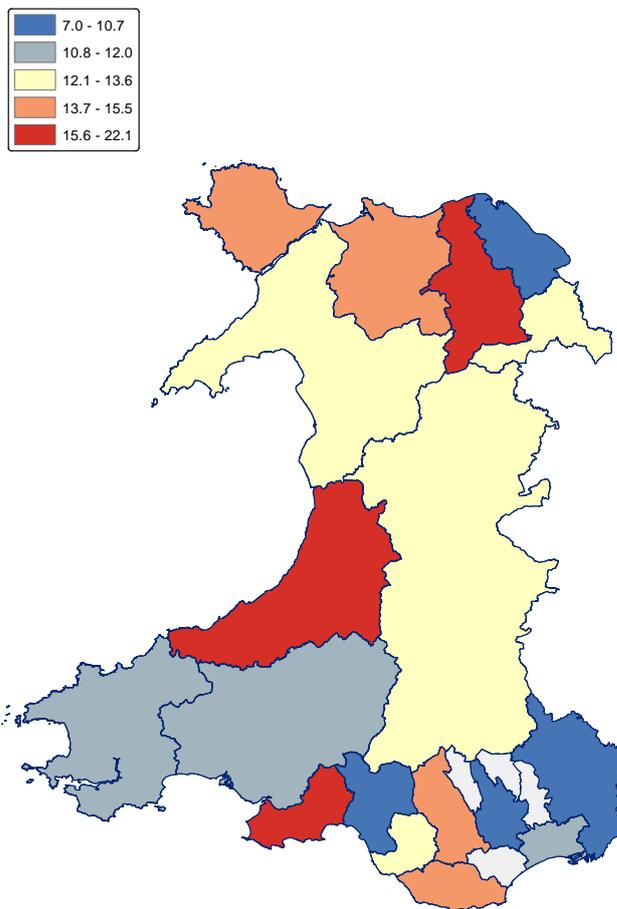
	Privately Rented (PR) Dwellings	Total Dwellings	Proportion of Total Dwellings
Cardiff	32,917	149,093	22.1%
Ceredigion	6,104	34,838	17.5%
Denbighshire	7,102	42,967	16.5%
Swansea	17,307	109,677	15.8%
Conwy	8,725	56,380	15.5%
Isle of Anglesey	4,923	34,373	14.3%
Vale of Glamorgan	7,880	55,750	14.1%
Rhondda Cynon Taf	14,510	105,971	13.7%
Gwynedd	8,331	61,267	13.6%
Powys	8,467	63,918	13.2%
Wrexham	7,335	59,533	12.3%
Bridgend	7,632	62,011	12.3%
Carmarthenshire	10,200	85,270	12.0%
Newport	7,586	64,254	11.8%
Blaenau Gwent	3,725	32,177	11.6%
Pembrokeshire	7,014	61,011	11.5%
Merthyr Tydfil	2,826	26,388	10.7%
Monmouthshire	4,325	40,506	10.7%
Caerphilly	7,660	77,815	9.8%
Neath Port Talbot	6,125	64,452	9.5%
Flintshire	5,995	66,249	9.0%
Torfaen	2,857	40,564	7.0%
<i>Wales</i>	<i>189,610</i>	<i>1,394,464</i>	<i>13.6%</i>
Source: StatWales, Accessed in March and April 2015			

Overall the evidence of changes in stock and households from 2001 to 2013 suggests that (i) across the country more dwellings than households were added; (ii) these increases are concentrated in Cardiff and from Swansea to Newport - but everywhere showed some increases in both dwellings and households; (iii) private renting dominates tenure changes especially in Cardiff and the southern cities - but this pattern is not confined to this region; and (iv) fundamentally new building was directed at the social and owner-occupied sectors. However the vast majority of the growth was concentrated in the PRS - via tenure transfers within the existing stock.

The scale of change - and the fact that growth has continued since 2011 - implies structural changes in how the housing system in Wales is operating. This must be significant for government in terms of their policies with respect to new building; the allocation of supply subsidies and pricing; and the role of social and intermediate housing. Importantly these changes are not limited to Cardiff and the main cities of Wales. Rather the PRS has grown in all parts of the country - although to varying degrees. However the largest impact is

undoubtedly in Cardiff where owner-occupation has actually fallen compared to renting in both absolute and proportional terms.

Figure 2: Proportion of PR dwellings by Local Authority



Household Projections

Alan Holman's estimates of demand and need through to 2031 suggest that 174,000 units, 8,700 units per annum, are required, of which 37% will need to be in the subsidised sector (Table 7). This is a higher proportion than in England.

Table 7: Projections, requirements to 2031 by market and social sector

	Market sector (proportion of total projected for LA)	Social sector (proportion of total projected for LA)	Total	Proportion of total projected in Wales
Cardiff	72%	28%	46,600	26.8%
Swansea	63%	37%	18,600	10.7%
Wrexham	67%	33%	13,000	7.5%
Newport	65%	35%	10,700	6.1%
Carmarthenshire	56%	44%	10,300	5.9%
Rhondda Cynon Taff	48%	52%	8,900	5.1%
Bridgend	64%	36%	8,000	4.6%
Gwynedd	69%	31%	7,500	4.3%
Vale of Glamorgan	85%	15%	7,200	4.1%
Pembrokeshire	53%	47%	5,800	3.3%
Powys	67%	33%	5,700	3.3%
Caerphilly	40%	60%	5,500	3.2%
Flintshire	60%	40%	5,200	3.0%
Denbighshire	54%	46%	4,100	2.4%
Conwy	68%	32%	3,100	1.8%
Neath Port Talbot	40%	60%	3,000	1.7%
Ceredigion	59%	41%	2,900	1.7%
Torfaen	41%	68%	2,200	1.3%
Monmouthshire	52%	48%	2,100	1.2%
Merthyr Tydfil	47%	53%	1,900	1.1%
Blaenau Gwent	-58%	105%	1,900	1.1%
Isle of Anglesey	50%	50%	1,400	0.8%
<i>Wales</i>	<i>63%</i>	<i>37%</i>	<i>174,000</i>	<i>100.0%</i>
Source: PPIW (forthcoming)				

Looking across local authorities, 27% of the total requirement is located in Cardiff with a further 11% in Swansea; 6% in Newport; with nearly 15% in the areas around - so well over half in these southern areas. All areas have some projected requirements - but in some the totals are in the very small thousands.

The proportion of subsidised housing required varies considerably across the country. In Cardiff it is only 28% (more in line with England), and in the Vale of Glamorgan it is only 15% - by far the lowest in the country. In Newport it is 35% and in Swansea it is 37%, both roughly in line with the national average. It is also probably reasonable to expect that in authorities with lower rates of subsidy requirements, a higher proportion of those needing help can afford shallow subsidy options.

At the other extreme, all of the projected requirements – and indeed over 100% of projected need – in Blaenau Gwent are in the social sector. There are six other authorities where the

majority needs to be social - in both rural areas and areas in the South: Rhondda Cynon Taff, Caerphilly, Neath Port Talbot, Torfaen, Merthyr Tydfil, and the Isle of Anglesey.

Cardiff's market housing requirement, at 31% of the total, accounts for almost one-third of total market demand in Wales. If Swansea and Newport are taken into account the proportion is almost 50% of all market housing requirements until 2031.

One obvious question in this context is whether the PRS will provide some of this subsidised housing through market rents and Housing Benefit. In practice this will undoubtedly be the case; the question for policy-makers is whether the result will be acceptable provision. This depends on the quality of the housing and its management; the affordability of rents for those in low income employment; and the extent to which private investment will be generated

Concentrations of Deprivation in the PRS

Here we have looked only at the attributes of the PRS in the context of three variables which relate to stress: the proportion of households not in employment; private tenant households in the 10% most deprived in income terms; and the evidence in terms of housing quality from the same source (Table 8). These can be no more than indicative - but suggest strongly that more detailed analysis of the attributes of the PRS is required.

We know in general that the PRS includes disproportionate numbers of younger people including students. The proportions shown here suggest that authorities with the higher than average levels of households not in employment (which includes the elderly) clearly reflects something other than the student population.

With respect to multiple deprivation the numbers suggest that those in the worst 10% in income terms are not concentrated in the PRS (8% versus the proportion of total households in the PRS at 14%). The Cardiff and Newport figures however do suggest that higher proportions are concentrated in the PRS as compared to the rest of the country. The most important aspect with respect to the housing scores (i.e. poor quality housing) is how varied they are across authorities. Cardiff, Conwy, Gwynedd, Ceredigion and Pembrokeshire all show particularly high proportions, while many other areas show extremely low ones.

Table 8: Attributes of households in the PRS – unemployment, income and housing deprivation, 2012/13

Local Authority	Percent not in employment*	Welsh Index of Multiple Deprivation - Income Score Band			Welsh Index of Multiple Deprivation - Housing Score Band		
		Households in 10% most deprived (count)	Percent of Wales Total	Percent of LA Total	Households in 10% most deprived (count)	Percent of Wales Total	Percent of LA Total
Blaenau Gwent	62.2%	242	1.9%	7.2%	0	0.0%	0.0%
Bridgend	61.4%	317	2.5%	5.3%	179	0.7%	3.0%
Neath Port Talbot	60.4%	846	6.7%	13.0%	0	0.0%	0.0%
Rhondda, Cynon, Taf	57.2%	1,233	9.7%	11.9%	398	1.5%	3.8%
Conwy	54.9%	587	4.6%	7.9%	1,960	7.6%	26.4%
Swansea	54.4%	655	5.2%	5.7%	1,396	5.4%	12.2%
Denbighshire	52.2%	701	5.5%	12.3%	1,238	4.8%	21.7%
Gwynedd	50.9%	56	0.4%	0.6%	3,861	15.0%	44.4%
Ceredigion	49.7%	0	0.0%	0.0%	1,705	6.6%	28.8%
Vale of Glamorgan	49.6%	573	4.5%	8.3%	206	0.8%	3.0%
Monmouthshire	48.3%	0	0.0%	0.0%	0	0.0%	0.0%
Caerphilly	47.3%	398	3.1%	5.9%	0	0.0%	0.0%
Merthyr Tydfil	45.4%	126	1.0%	4.7%	87	0.3%	3.3%
Cardiff	42.9%	3,963	31.2%	18.3%	8,833	34.4%	40.8%
Isle of Anglesey	41.5%	370	2.9%	8.5%	981	3.8%	22.5%
Newport	40.6%	919	7.2%	15.3%	547	2.1%	9.1%
Powys	38.5%	0	0.0%	0.0%	0	0.0%	0.0%
Torfaen	37.5%	195	1.5%	6.1%	0	0.0%	0.0%
Pembrokeshire	34.5%	450	3.6%	6.4%	2,038	7.9%	28.8%
Flintshire	33.5%	434	3.4%	5.8%	322	1.3%	4.3%
Carmarthenshire	33.0%	572	4.5%	7.2%	690	2.7%	8.6%
Wrexham	25.0%	49	0.4%	0.8%	1,265	4.9%	20.8%
Wales	46.3%	12,686	100.0%	8.1%	25,706	100.0%	16.3%

Sources:

*Author's calculations drawing on National Survey for Wales 2012/13;

** Welsh Index of Multiple Deprivation - income score band of household in private renting sector

*** Welsh Index of Multiple Deprivation - housing score band of household in private renting sector

The Welsh Index of Multiple Deprivation (WIMD) is currently made up of eight separate domains (or types) of deprivation: income; employment; health; education; access to services; community safety; physical environment and housing. Each domain is compiled from a range of different indicators.

The attributes of those in the PRS is an area for detailed analysis in the light of the very rapid changes in the scale of the PRS. This is not part of this short project. However the very limited data that we have examined suggest that (i) the spatial patterns of employment, deprivation and housing conditions are not straightforward - there are areas which appear to have considerable concentrations of problems, but to understand these would require proper cross-tenure and cross-authority analysis of both census and survey data; and (ii) given the outdated nature of the house condition survey, the enormous variation in the housing quality element of the deprivation index and the very large changes in tenure within the existing stock it would be appropriate to update this evidence.

Comparing Social and Private Rents

Table 9 shows average rents in the social and private rented sectors for one-bed units. Social rents are available from the regulator every year. Private rents data are survey data and only available for a couple of years - and only for one-bed and two-plus beds. We therefore concentrate on one-bed units which are anyway the most relevant comparator.

Social rents across Wales at £65 per week are some-two thirds of those found in the PRS where the average is almost £97. However the range is far narrower - from £56 to £73 - with rents in only three authorities falling outside the £60 - £70 range. In the PRS the range is from £69 to £114 with average rents in seven authorities falling outside the range £80 - £100. At the top end of the private market are Cardiff, Swansea and the Vale of Glamorgan all with average over £100 per week. At the bottom end are four authorities north of Cardiff - Blaenau Gwent, Merthyr, Rhondda Cynon Taf and Powys.

There is somewhat of the same pattern in terms of ratios but there are also differences. For instance Cardiff, with the highest market rents, has some of the lowest social rents and the lowest ratio of 0.58 - but Wrexham has a similar ratio with much lower average rents in both sectors. At the other end of the ratio scale there are four authorities with ratios at or above 80% - Blaenau Gwent at 0.89; Torfaen at 0.86; Powys at 0.85 and Merthyr Tydfil at 0.80, which are close to one another but still have market rents varying from £69 to £85.

Table 9: Social and Private rents for one-bedroom units: average (mean) rents per week

	SR average (£)	PR average (£)	SR / PR
Blaenau Gwent	61.68	69.22	0.89
Torfaen	73.15	85.55	0.86
Powys	66.23	77.64	0.85
Merthyr Tydfil	61.14	76.77	0.80
Gwynedd	63.03	80.25	0.79
Denbighshire	66.84	84.40	0.79
Rhondda Cynon Taf	63.12	79.53	0.79
Conwy	69.12	88.59	0.78
Carmarthenshire	62.19	80.28	0.77
Neath Port Talbot	65.11	84.96	0.77
Monmouthshire	73.37	97.36	0.75
Newport	69.27	93.06	0.74
Bridgend	64.96	89.52	0.73
Caerphilly	62.08	85.09	0.73
Flintshire	64.74	91.12	0.71
Pembrokeshire	62.45	89.56	0.70
Isle of Anglesey	60.24	86.72	0.69
Ceredigion	64.67	98.31	0.66
Vale of Glamorgan	68.41	108.85	0.63
Wrexham	56.37	96.37	0.58
Swansea	65.89	114.00	0.58
Cardiff	66.68	114.41	0.58
Wales	65.26	96.78	0.67
Source: StatWales, Accessed in March and April 2015			

If instead of averages we look at lower quartile rents in the PRS (which is as close as we can get to the 30% of local market rents that are eligible for Housing Benefit) the picture is generally similar (Table 10 and Figure 3). Overall social rents are then about 80% of lower quartile market rents. The lowest market rents are £62 per week in Blaenau - but other authorities with among the lower rents can be found in Gwynedd and Denbighshire. At the other end of the market is Cardiff at around £104, with Swansea and the Vale of Glamorgan in the mid £90s.

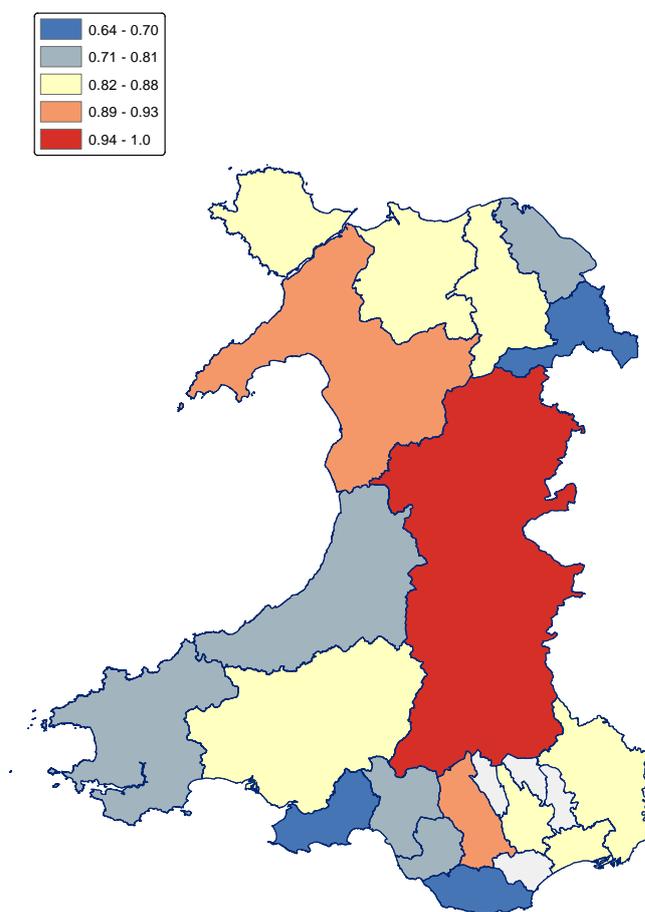
Importantly there are now two authorities where social rents are very similar to private rents for the same sized properties (Blaenau and Torfaen) and 14 authorities with ratios of 0.8 and above, which in England is regarded as the ratio where households may choose better located - if poorer quality - private rented properties as compared to being in the social sector. At the other end of the scale, ratios in Cardiff, Wrexham, Swansea and the Vale of Glamorgan are at 0.7 or below suggesting that there will be long waiting lists for social renting.

Table 10: Average social rents and lower quartile private rents, one-bed properties, 2012/13

	Average Social Rents (SR)*	Average Quartile Private Rents (PRLQ)**	SR/PRLQ
Torfaen	£73.15	£70.96	1.03
Blaenau Gwent	£61.68	£61.73	1
Powys	£66.23	£67.27	0.98
Gwynedd	£63.03	£68.08	0.93
Rhondda Cynon Taf	£63.12	£70.00	0.9
Merthyr Tydfil	£61.14	£69.23	0.88
Isle of Anglesey	£60.24	£70.09	0.86
Conwy	£69.12	£80.00	0.86
Denbighshire	£66.84	£78.69	0.85
Monmouthshire	£73.37	£86.54	0.85
Newport	£69.27	£81.92	0.85
Carmarthenshire	£62.19	£73.85	0.84
Caerphilly	£62.08	£73.85	0.84
Neath Port Talbot	£65.11	£80.00	0.81
Flintshire	£64.74	£80.77	0.8
Bridgend	£64.96	£80.77	0.8
Pembrokeshire	£62.45	£80.00	0.78
Ceredigion	£64.67	£85.00	0.76
Vale of Glamorgan	£68.41	£98.08	0.7
Swansea	£65.89	£95.00	0.69
Wrexham	£56.37	£87.69	0.64
Cardiff	£66.68	£103.85	0.64
Wales	£65.26	£80.77	0.81

Source: StatWales, Accessed in March and April 2015

Figure 3: Map, ratio of SR/PRLQ by Local Authority for 1-bed properties, 2012/13



There are a number of implications and questions that arise from the analysis of rents at the local level for policy makers. First, what is the rationale for the spatial pattern of social rents; second, are there areas where there may be a significant chance of excess supply in the social sector, given the increasing availability of private rented accommodation; and, third, are there areas where relative rents between the sectors might imply that the case for investment in new social housing should be carefully assessed? In addition, as already noted above, it clearly points to the need for a better understanding of who is being housed in the PRS and the quality of accommodation that is being provided. A more careful analysis of the relationship between social and private rents at local level linked to the relative scale of the two sectors would also be of considerable value to policy makers at both national and local level.

New investment in the PRS

The evidence on the growth of the PRS shows clearly that large numbers of units must have moved within the existing stock from other tenures to private renting. Equally there will have been significant Buy to Let activity within the new private housing market. However in both cases there are very little immediately relevant data available. It would be particularly valuable to be able to break down Buy to Let by area to see whether the majority of such activity was in Cardiff and perhaps other areas, such as the Vale of Glamorgan, Newport and Swansea.

It is almost certain that the vast majority of any new investment will come through the Buy to Let route. Evidence from London and Scotland suggests that interest from institutional investors is likely to be limited to the capital city and perhaps other areas of rapid economic growth (such as Aberdeen in Scotland) and that scale is of particular importance (Whitehead and Scanlon, 2013). This report also discusses the range of financial models which might be employed to generate higher levels of investment in new privately rented provision.

Of particular importance in the Welsh context is the evidence from Scotland and London (reported in the same publication and on the LSE London website) which suggests that Housing Associations can have an important role in supporting high quality private renting not just in terms of management but also providing equity finance and obtaining low interest rate loans based on their reputation. What is suggested by the Scottish evidence is that the results of such initiatives outside the main centres are far more likely to be part of the intermediate sector than pure private rented accommodation. As such they should be assessed in the context of the Welsh government's policies on low cost homeownership and intermediate renting.

In the Welsh context there is one major initiative already underway affecting three identified sites in south east Wales. As part of this research we undertook interviews and an analysis of other materials on this initiative. The results are presented in the Appendix. The results so far suggest that it has proved far more difficult than expected to get the process underway and to obtain development finance. The model itself ultimately involving pension fund finance is still at the drawing board stage and has yet to be tested. However the CEO suggests that no fundamental problems have been encountered such that the model cannot work. Even so it clearly depends not only on a mix of tenures and government guarantees and is only likely to work on a relatively small number of sites.

Conclusions

This small project started with the question of whether experience in Scotland and elsewhere could be of value to Welsh policy makers in looking at opportunities to expand investment in new build in the PRS. It quickly became clear that there were other more immediate and fundamental issues around the role of the PRS that needed to be addressed before the attributes of detailed schemes - many of which were themselves not yet fully operational - would be pertinent.

The questions were therefore modified as set out in the introduction. This paper makes it clear that a far more detailed understanding of the changing role of the PRS in Wales - not just at the national but also at local level - will be a necessary tool when developing housing policies into the future.

It also makes it clear that although statistics have to some extent been improved, there are important gaps in these statistics. One major gap relates to the quality of the stock and therefore the value for money that households and the government obtain from the PRS, especially when accommodating households in need of subsidy.

More generally, there is uncertainty around the stability of longer term tenure trends – both with respect to the extent to which private renting (where the income related subsidy is a UK matter) is substituting for social housing provision and whether the dip in owner-occupation rates and its impact on the PRS is a short to medium-term outcome of the financial crisis or part of a new pattern of household behaviour. More generally, additional analysis is required particularly with respect to the make-up of the PRS in terms of the attributes of dwellings and their location; the mix of households and how this varies across different types of area; occupancy levels and the extent of dependence on housing benefit. It is in this context that policies towards low cost homeownership and other shallow subsidy approaches to intermediate ten, in addition to policies directed specifically at private renting, need to be (re)assessed. Longer-term implications depend crucially on the answers to these and related questions.

Appendix: Plans for Three Major Sites in Wales

Interview by Kath Scanlon, 27 March 2015, and analysis of related material

As part of this research we undertook brief case studies of three large brownfield sites being developed by subsidiaries of Tai Tirion, a joint venture between the Welsh Government and the Principality Building Society formed in 2012. Tai Tirion is trialling an innovative model for financing development which relies partly on income from PRS units, as set out below.

The sites are Ely Mill in Cardiff, Whiteheads in Newport and Parc Eirin in the Rhondda Valley. Development has not yet started on any of the three. Ely Mill is a brownfield site in Cardiff on the banks of the River Ely, close to the city centre. Formerly the Arjo Wiggins paper mill, the 53-acre site has been derelict for over a decade. The paper mill operated from the early 1870s until 1999 when it was purchased by the Welsh Development Agency. Remediation began on the site in 2012; at the time concrete covered about 70% of the site.

Whiteheads is a 39-acre former steelworks close to the centre of Newport. It was most recently owned by Corus and closed in 2005. Parc Eirin in Rhondda Cynon Taf (RCT) is a 6.5-hectare site at Eirin Park in Tonyrefail.

Ely Mill is the development that has progressed the furthest and is serving as a test bed for the new financial model. The site is now owned by the Ely Bridge Development Company (EBDC), a subsidiary of Tai Tirion. When developed it will accommodate about 800 homes, most of which will be affordable or social. According to David Ward, Chief Executive of Tai Tirion, there will be

- 358 market for-sale units provided by private developers
- 43 PRS units at full market rent
- 75 S106 social rented units
- 125 units to be rented at 73-76% of open market rent (as specified by Cardiff Council)
- 199 units to be rented at 80% of open market rent

The developer will be responsible for the construction of the affordable housing units along with the primary infrastructure and recreational areas. It will also meet all Section 106 (S106) obligations and contributions. It plans to sell three parcels of land to for-profit house builders to build the homes for sale; these parcels will have no S106 obligations. The sale was due to take place in May 2014 (Norman, 2014) but as of late March 2015 was awaiting final agreement.

Financing

The Welsh Government has granted a loan of £6m on commercial terms; the total development cost is expected to be about £100m. The Principality Building Society is providing development finance in three tranches: first for the infrastructure package; second for construction of the first phase of 102 units; and third to allow Tirion Homes to purchase the homes from the development company (a transaction which is tax-efficient). Repayment of the first tranche, and part of the second, will be funded by the sale of land parcels to house builders (above).

When the number of completed units reaches critical mass, Tai Tirion can draw down funds from the pension fund. The pension fund wants investment lots worth £10-15m; the first phase with 102 homes will provide this. While the fund and Tai Tirion have exchanged heads of terms, the deal will not be final until there is an asset to purchase. Tai Tirion thus still runs the risk that they will have to finance the debt themselves, if upheaval in the capital markets causes the pension fund to abort the deal in the next year or so.

The mechanics of the deal were described by Ward and Wayne as follows:

‘The principles of the model rely on the formation of an investment company and a charitable parent company alongside EBDC. The investment company will secure the institutional finance, purchase the housing from EBDC and manage the estate through services provided by a registered social landlord (RSL) in perpetuity. This is a critical point, as the investment company’s long-term interest in the site drives the delivery of high-quality housing managed to the highest standards. Cadwyn Housing Association is the preferred managing RSL for the development and will work closely with EBDC to explore opportunities for new social enterprises at the site.

The charitable parent company will provide overall strategic direction to EBDC and the investment company, and will receive financial surpluses generated by EBDC and the investment company for the furtherance of other affordable housing projects in Wales. On retirement of the senior debt the charity will take ownership of the housing assets creating a self-sustaining long term model for the financing, construction and management of affordable housing in Wales...Should The Mill be successfully delivered using this model then it is the intention to roll out the development of affordable housing projects across Wales with surpluses generated in some locations cross-subsidising projects where the investment proposition is more marginal’ (Ward & Wayne, 2013)

According to Ward, this is a new financing model for the pension industry in general, not just for this particular fund (which he did not identify).

The investor is buying cash flow from the rented units on a 50-year annuity linked basis. The agreement between Tai Tirion and the pension fund commits the former to producing an income stream, but there is no covenant on the private rented units. In future, if rents in the area rose, this income stream could be produced from a smaller number of units. This would open up the possibility of selling some.

Issues around financing and planning

Development finance

Tai Tirion experienced more difficulty than expected in securing development finance, even allowing for the fact that it was a start-up with no cash. The banks they approached said that in the wake of the financial crisis they no longer accepted land as collateral (whether or not it had contamination problems), and in the end all the development finance for the project was provided by Principality. The original plan had been to go to more funders, but this was not possible.

Size of investment required by institutions

The pension fund is looking for a total investment of at least £300m. The Mill site, when built out, will provide about £60m, so Tai Tirion will be looking for other sites as well. They will focus not only on land currently in public ownership but also at large private developments where they could take on the affordable element.

Planning

The planning process was more protracted and difficult than Tai Tirion expected, even though the site had previously had planning consent for more homes than the current scheme. Securing planning permission took 18 months—twice as long as they had originally estimated.

Lessons for other developments

Tai Tirion believes that in general the financial model is scalable, although it may need to be modified for other sites. In some markets such as the Rhondda Valley, rents are too low to support it, and other tenures (e.g. low-cost home ownership) may have to be built first.

(Interview with David Ward, CEO of Tai Tirion, March 2015)

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