

# **Intermediate Rent Development of Policy and Model**

## **Consultation Response, Belfast City Council, December 2021**

### **1. Introduction**

The Regional Development Strategy 2035 recognises that the provision of more affordable housing helps to build strong balanced communities. Additionally, the Strategic Planning Policy Statement acknowledges the role of the development plan as the primary vehicle for facilitating identified need by designating land for housing and indicating where a proportion of site may be required for affordable housing.

Northern Ireland presently supports social renting through both the housing association sector and the Housing Executive. It also has a long established shared ownership model, where the primary provider, the Co-Ownership Housing Association, also provides a market rental model which returns rent to the tenant in the form of equity to support access to home ownership – Rent to Own. There is however no affordable rent provision aimed at tenants who cannot or do not wish to access home ownership but would be unlikely to attain sufficient points on the Common Waiting List to have a realistic chance of accessing social housing in an area of choice.

In a statement to the NI Assembly in November 2020, the Communities Minister set out an ambitious housing programme and introduced new housing options including Intermediate Rent. This new product supports the SPPS aim of assisting eligible households into affordable housing and will help meet the affordable housing obligations of Policy HOU5 set out in the draft Belfast Local Development Plan 2035.

The Council are extremely supportive of measures that could enhance the potential for delivery of mixed tenure schemes and we believe that intermediate rent could play an important role in helping to deliver communities open to all tenures. However, it is not possible to provide a definitive view on the specific product proposed until there is clearer understanding on how the model will be delivered in practice. This paper sets out a number of aspects of the proposals that the Council believe could merit further considerations, including the need for a single programme operator, funding mechanisms, construction and quality standards, setting or establishing the appropriate rent level and deliverability.

Mixed tenure is defined as residential development which combines a range of tenure options, which can include owner-occupier housing, shared ownership housing and rental properties (social, intermediate and private). This diversity enables and fosters a greater sense of social mix supporting thriving and sustainable communities. While Intermediate rent is important, it is not the only delivery vehicle in creating mixed tenure communities. Notwithstanding this, the Council believe that the proposals within this consultation are a significant step in the right direction.

### **2. Need for new affordable housing product(s)**

The Belfast Local Development Plan (LDP) draft Plan Strategy (dPS) sets out an ambitious policy approach to seek the delivery of a minimum of 20% affordable housing as a proportion of all housing schemes of 5 units or more. In the development of this approach it was recognised that there was a need for a broader range of affordable housing products to beyond social housing and shared

ownership, and paragraph 7.1.33 recognises the scope for the definition of affordable housing to be further expanded to include other innovative products.

As recognised within the Department's Consultation document, the definition of affordable housing has since been expanded to include the category of intermediate housing for rent alongside social housing and intermediate housing for sale. This represents an important aspect in facilitating the development and delivery of new affordable housing models, such as Intermediate Rent, into the housing market here. It is acknowledged that increasing social housing alone is not the only solution, and that growing the supply of other affordable products can help address housing need in its broadest sense. The Council would be very supportive of any product which could help add products to the market whilst providing greater scope for partnership delivery thereby increasing housing supply and contributing to reductions in housing stress.

The reference to the Local Development Plan (par. 6.11.4) within the consultation is welcomed and the Council would agree that the provision of an additional affordable housing product such as Intermediate Rent could improve the ability of developments to address any future policy requirements. For example, at present, there is no affordable housing product that would work as part of a mixed tenure development in the city centre or other higher density environments.

### **3. Single programme operator**

Paragraph 6.2 of the consultation states that *"Research indicates that a scheme could best be operated by a single entity, established for and focused on that purpose."* The Council would have significant concerns around the proposal and need to limit the potential delivery to a single supplier, which must be tied to a Housing Association (HA), and believe that this may limit the scope or use of the product in a broader range of settings.

It is recognised that scale may be important to drive forward attractive loan terms for any such delivery organisations, but we believe that a critical mass could still be achieved whilst allowing a broader range of delivery partners. If all housing associations are encouraged to deliver mixed tenure development, a restriction on access to a delivery model could place one HA at a competitive advantage over others who cannot provide the product.

Furthermore, the proposed Belfast LDP's affordable housing policy essentially seeks to shift the policy landscape with regards to mixed tenure development, meaning that there will be a requirement for the private sector to supply affordable homes as part of mixed tenure development. Should a single operator be established for intermediate rent, there would need to be a clear mechanism for early engagement with the development sector prior to planning applications being developed and the ability to make an early commitment to schemes that can be maintained throughout the development process.

It is anticipated that an intermediate rent product could be seen as an attractive prospect for private developers, particularly in a higher density, city centre context where other affordable products would have greater delivery challenges. Where a developer wishes to use an Intermediate Rent product as their affordable housing allocation in such cases, it is unclear whether the proposed model would require the allocation to be sold on a block/building basis or via individual flats across a scheme, or whether there is a mechanism to allow an operator to 'allocate' affordable homes without taking ownerships. Whilst there may be scope to address such questions through a single operator taking leases on units rather than purchasing, this is likely to introduce a number of risks that would need to

be effectively mitigated. One of the big challenges, for example, would be managing a single building, when different organisations are managing different units within it.

Alternatively, there are numerous examples in other jurisdictions of where the broad parameters of an intermediate rent product are defined in a general sense, but that the delivery is not limited to a single entity, in effect allowing the private sector to deliver intermediate rented housing directly, within the scope of the broader definition. It may be necessary to explore this as a delivery mechanism and to ensure that there is sufficient flexibility to enable delivery in all scenarios.

#### **4. Funding mechanisms**

The Council fully agree with the statement at paragraph 2.7 of the consultation that “it is critical to the achievement of a successful Intermediate Rent programme that the programme is based on a robust and viable funding model.”

It is vital that the funding of intermediate rent is not at the expense of funding for social housing and we welcome the recognition that a separate additional funding mechanism should be established. The Council would question why a low-cost loan from Financial Transactions Capital (FTC) is the only option suggested, rather a mixture of loans and grants as is the case in some of the English, Scottish and Welsh cases. This is a particularly pertinent given that HAs generally are already able to access private finance on relatively good terms.

As noted above, the appointed programme operator would need to work closely with other interested parties around the planning for and delivery and implementation of Intermediate Rent homes. This will require early engagement and mechanism needs to be provided that would allow this kind of collaboration. Such discussions and negotiations can only be possible, we believe, with multi-year budgets in place, so the Council would highlight the need for long-term funding for new intermediate rent homes.

#### **5. Construction and quality standards**

Paragraph 6.28 of the consultation states that “it is envisaged that all Intermediate Rent homes would be required to meet the building regulations requirements, selected or designed with sufficient flexibility to meet people’s evolving needs.” However, the Council don’t believe that limiting Intermediate Rent homes to meeting statutory building regulations only, would help in providing high quality, secure and accessible living that is sustainable. We would strongly recommend that the forthcoming Housing Supply Strategy set the agenda for the supply of new homes, including high quality sustainable construction standards.

Using a broader strategy to help drive up quality standards for all housing, rather than specifically through this product, will also help overcome potential challenges over any increased costs associated with construction to a higher standard, whilst limiting potential rental returns to 80%. Ensuring higher standards across the board will also help address broader policy requirements such as ‘tenure blindness’ in mixed tenure developments.

Paragraph 6.2 of the consultation also reference the use of existing and refurbished properties, but we would have concerns as to how the standards of these properties will be regulated. Will be they

be under the same regulatory regime as other private rented properties; will these properties have to have Certificates of Fitness in place before the tenancies can commence?

The current regulatory regime for privately rented properties is not fit for purpose and would not give any guarantee of the design and quality of the properties. There is no mention of any regulatory regime in the consultation paper, other than the notice to quit provisions in the amended Private Tenancies Bill in Paragraph 5.19 and securing of deposits. Will the landlords of these properties be required to be registered landlords? The Council would like to be assured that these tenancies would be of the similar standard to the social housing sector and would not be in breach of any of the private rented sector regulations for which the Council are the enforcement authority.

We would welcome clarity on whether the introduction of this new product would require separate legislation to regulate both rental levels and eligibility, as well as to secure the appropriate quality and design of homes within the sector. If new legislation is required, we would welcome confirmation of timescales and how quickly the new product can be rolled-out, given that we hope to have the new planning policy context, as set out in the LDP dPS, adopted in the near future.

The Consultation also states that details (including furnishing) will be finalised subject to discussions with the programme operator (par. 6.27 of the consultation). However, it would be desirable to set high quality standards before choosing partner organisations to deliver Intermediate Rent.

## **6. How will Intermediate Rent levels be set and reviewed?**

Viability will be at the heart of the delivery of this product. Rent setting will therefore be critical, being pitched at 67-80% of local market rents. Whilst we recognise that this will most likely be appropriate within a Belfast, a wider Urban Area context, we are aware that this may restrict the use of the product in more rural areas given the considerable spatial variations in rents and incomes within Northern Ireland. There will therefore need to be flexibility in how a broad Regional requirement is applied on a case by case basis to ensure that development can remain viable whilst delivering a supply of more affordable homes.

## **7. Deliverability**

Viability is clearly critically important in the delivery of the new product. We would encourage the Department to explore all available alternative options for the delivery of an intermediate rent product and ensure that the product is deliverable in a variety of circumstances.

There is encouragement to consider test cases/pilots based upon the purchase of 'Off the Shelf' products and, whilst this is understandable as it delivers schemes in areas on scale and at a faster pace, OTSs purchases are likely to only be available on the market at full market value. It is therefore unclear how such a purchase will be considered viable when based on rental returns of 80%.

Clearly there is also scope for commitment to new-build development up front, but the Council believes there needs to be more detailed financial modelling undertaken to show how such a product would work in practice. There are concerns that the private sector already believes there are viability issues for city centre residential development and it is unclear how will this be addressed when products are introduced that cap rents at 80%.

Another potential delivery mechanism we believe might be worth exploring is the conversion of existing vacant space above commercial premises, which has often required incentives to deliver within the private sector, but which may be relatively quick in comparison to new-build developments but more commercially viable at a reduced rental rate than OTS purchases may be. Within Belfast, we believe there is scope for such a scheme in areas of the City Centre and on many of the arterial routes within the District.

## **8. Conclusion**

In conclusion, the Council believe there is an important role for an intermediate rent product. The LDP dPS recognises the need for a broader range of affordable housing products beyond social housing and shared ownership and the proposals within this consultation are a significant step in the right direction. However, we believe there remain a number of key questions that need to be carefully considered before it can be fully determined if the product proposed is truly deliverable in an NI context. The Council would also encourage the Department to continue to investigate other affordable housing options that will help create genuinely sustainable, mixed tenure communities within the broader definition of the affordable housing.