

RICS Residential Policy



RICS

the mark of
property
professionalism
worldwide

[rics.org/policy](https://www.rics.org/policy)





Presidential Introduction



RICS aims to be the leading voice in the residential sector. Our members work across estate agency, lettings, development, leasehold estate management and enfranchisement, housing associations, local government, investors and many more. This breadth of knowledge gives RICS a unique opportunity to consider the sector holistically and truly understand how each part of the sector impacts on the other. Legislation, policy and regulation must aim to deliver a vibrant and sustainable residential sector that delivers the homes we need, where and when we need them – at whatever point in a person’s life and in the economic cycle that may occur. It must also aid business growth, improve informed consumer decision making and strengthen consumer protection.



The Coalition Government has made welcome steps to recognise the extent of the UK’s housing crisis – having published a Housing Strategy, introduced initiatives like the New Homes Bonus and NewBuy, brought forward the Affordable Rent regime and the National Planning Policy Framework. RICS has contributed to the development of these policies through consultation submissions, contributions to a wide range of Government working groups and discussions with civil servants and ministers.

RICS policy is member-led and this document has been delivered through consultation with members in England in person and online. Similar consultations will be held in Scotland, Wales and Northern Ireland shortly. Our members have a unique understanding of the issues faced on the ground and are best placed to provide practical and realistic solutions to Government based on professional standards, expertise and ethics. Where our members’ voice was clearest was the need for RICS to deliver real consumer protection in the sales and lettings markets with RICS standards at the heart. With a Government currently unwilling to regulate, it is up to the sector to lead the way and RICS is well-placed to do this. However, Government must sooner or later grasp the nettle and work with industry to protect the consumer.

The development of RICS residential policy does not stop with the publication of this document. It will continue to evolve with member input. We are asking our members to share with us their experiences of the market and how they think RICS residential policy should evolve to meet new and existing challenges. RICS will update on progress and publish a revised version in early 2013.

RICS will have two successive Presidents from the sector in 2012-13 and 2013-14. This is a unique opportunity for RICS to renew its focus and take action to deliver the vibrant and sustainable sector UK Plc needs. The undertakings in this document are ambitious but ones that we intend the organisation to deliver over the coming years of our presidencies.

Signed by **See Lian Ong** FRICS (current President), **Alan Collett** FRICS (President Elect) and **Michael Newey** FRICS (Senior Vice President)

Introduction

The Government has been pushing housing provision up the political agenda since coming to power in 2010. This culminated in the gathering of old and new initiatives into 2011's Housing Strategy. RICS welcomed the strategy and its package of measures to address both increasing supply of land and finance and cutting the costs of construction through increased efficiencies and reducing the cost of land. The Government has made a good start but when the scale of government ambition for HS2 is over £30bn, a similar ambition should exist for housing to ensure that the Housing Strategy is as truly 'radical and unashamedly ambitious' as the Prime Minister believes.

Lack of mortgage finance availability remains the biggest issue in the market alongside uncertainty in the national economy and instability in the Eurozone. First time buyers and new homes are the lifeblood of the market but measures are needed to address the condition of existing stock and to get the whole market moving. Without movement throughout the whole chain, transaction levels will remain stagnant.

The Government's recognition in its Housing Strategy of the essential role the private rented sector plays in the housing market is welcome. However, the continued raft of initiatives to encourage home ownership at almost any cost gives a mixed message to the market. Recognition from Government that renting is an appropriate aspiration at various points in people's lives rather than just a stop on the journey to home ownership for all would encourage investors to enter the market and drive the improvement of standards and consumer protection in the sector. With 1 in 5 households predicted to be in the private rented sector by 2016, the challenge for Government and the markets is to create a fiscal and financial structure that attracts long term institutional investment in the private rented sector coupled with high quality and cost effective management.

Changing demographics and the difficult economic climate mean that an individual's journey through the housing market is very different to a generation ago. The private rented sector, owner occupation, affordable housing and other forms of tenure must be looked at holistically rather than as distinct tenures. RICS seeks to provide this overall view and to make recommendations to create a market that not only addresses immediate issues of supply and demand but that functions sustainably in the long term.

Finance

Mortgage availability

NewBuy has the potential to distort the market by reducing demand for second hand property and adjusting lenders' affordability calculations. Without stimulating the second hand market as well as new build, chains and overall transaction levels will stagnate. A mortgage indemnity scheme that works for the whole market is required.

- RICS urges Government to ensure that the need for adequate levels of funding in all parts of the market, not just new build, is addressed. Although NewBuy is available beyond first time buyers, it may not help first time buyers take on the properties consequently released, as they will be unlikely to be able to secure a 95% loan on what will be a second hand property.

Schemes like the Local Lend a Hand Scheme whereby the buyer puts down a deposit of at least 5% and the local authority will provide a cash-backed indemnity of up to 20% could provide a new stream of funding for the whole market. The dire state of many local authorities' finances has meant that many are unable or unwilling to take on the risk of equity share in the current market.

- Government should therefore explore indemnifying local authorities to enable them to bring forward Local Lend a Hand Schemes. This would assist specific groups based on local conditions – for example, in areas with a high incidence of negative equity, these Schemes could allow borrowers to port negative equity to new properties to keep the local market moving and ensure consumers do not get locked into unfavourable mortgage deals.
- Government should look at how its equity stake locked up in HomeBuy schemes can be unlocked to create a revolving fund which could be used to guarantee first time buyers a reasonable deposit in return for an equity stake in the home.
- Government and the Financial Services Authority (FSA) should support the development of a proper lending regime for the Buy To Let sector with appropriate, commercially available loans specifically targeted at the market. With most Buy To Let mortgages forbidding the granting of a lease of longer than 12 months, this may provide more long term rentals for families and fewer void periods for lenders and owners.

RICS will include a specific reference to the potential impact of NewBuy in forthcoming guidance on the valuation of new build to ensure any impact of the scheme on valuation is clearly understood and does not adversely impact the market.

Investment

- RICS supports the Property Industry Alliance submission to the Montague Review of investment in the private rented sector.

Government should encourage Build to Rent via S106 agreements where 'market rent' is treated as 'affordable rent' via a covenant stating that all units on a development will be rented for a minimum of 10 years from first occupation. This will make those sites that are not currently viable due to the requirement to provide viable affordable housing and increase supply of market rented housing on a large scale. A S106 requirement to provide a proportion of affordable homes on sites would provide an appropriate balance in areas like London where rents are not 'affordable' at 80% of market rent.

- Government should bring tax relief in the residential sector in line with the arrangements in the commercial sector to encourage investment.

Reducing VAT to 5% for repairs, maintenance, lettings and management would give encouragement to investors considering investment in residential.

RICS will work with Government and the sector to raise awareness of the benefits to landlords and consumers of granting Assured Shorthold Tenancies for longer than 12 months. For example, families could be offered 3 or 5 year tenancies with rent increases linked to RPI to maximise income for investors by minimising voids and removing market risk. This would also offer families greater security.

- Government should issue a clear definition of 'best value' which includes housing supply and the resultant economic benefits. To support those local authorities already engaged in exploring the use of Joint Ventures, such as Local Asset Backed Vehicles and REITs to release land for free or at low cost.

RICS will work with members, central Government and local authorities to fully disseminate and improve understanding of RICS Guidelines on the Disposal of Land at Less Than Best Consideration to provide clarity and certainty in the disposals process.

RICS will seek to improve the understanding in the commercial sector of residential as an attractive investment class. RICS is well placed to bring the residential and commercial sectors closer together.

Tax

VAT

- Government should consider a cut in VAT on the labour element of all home repair, maintenance and improvement work to 5%.

RICS is a member of the cross-industry Cut The VAT coalition which has long campaigned for this change. It would provide an incentive to refurbish empty homes, an incentive for investors and much-needed jobs for the construction sector. This cut could be offered for an initial three year period with a review begun during year 3 to assess success in stimulating the economy. This cut would:

- Provide a total economic stimulus in the region of £1.7 billion in the UK alone, rising to over £20 billion by 2020.
- Creating 26,650 jobs in the construction sector, as well as an extra 34,400 new jobs in the wider economy in 2012. A cut to 5% would create an extra 100,600 jobs in the UK by 2020.¹

This total economic stimulus would outweigh the Government's tentative costing of the measure in 2011 at £2.2 billion.²

Stamp Duty

- Government should reform the whole stamp duty system by introducing a fairer, marginal rate to replace the current slab structure which distorts the market. This reform would ensure that those at the top end of the market contribute fairly, as well as helping those struggling to get onto the property ladder.

RICS will continue to monitor the impact of the Government's reform to the current stamp duty system announced in the Budget 2012 and the system as a whole through the RICS Housing Market Survey. RICS will share this market analysis with Government.

¹ The Opportunities and Cost of Cutting VAT: The effects of selected reductions in the rate of VAT on the labour element of housing repair, maintenance and improvement. www.cutthevat.co.uk/cut-the-vat/research

² Lord Sassoon – Written Answer, House of Lords, 18 July 2011

Consumer Protection

RICS members provide consumers with the information they need when making one of the most important purchases of their life. The independent consumer publication Which? has recommended that consumers who commission structural surveys before purchasing a property use an RICS member. RICS must now build on this to improve consumer understanding and protection in the market.

Buying and selling

- RICS calls on the Government to instruct the FSA (the Financial Conduct Authority from 2013) to investigate the mortgage process and whether it provides the consumer with adequate protection. The investigation must focus on consumer information in the homebuying process.

The consumer must have information in sufficient detail and in a format that enables the reasonably well informed, reasonably observant and circumspect consumer to make an informed decision about the property they wish to buy and the mortgage they are taking out. Placing the onus on lenders to ensure the customer understands the types of survey and valuations available as well as the fee structure for mortgage valuations will improve consumer protection.

RICS will work with the FSA (FCA from 2013) and Council for Mortgage Lenders (CML) to amend their best practice guidance to state ‘a competent person’ should make the customer aware of the products available.

RICS will work with members and other organisations to provide evidence of the current operation of the market and potential solutions to Government and the FSA (FCA).

Lettings

The current regulatory framework in the lettings market and the ever-increasing number of registration schemes is confusing and inconsistent for the consumer and a barrier to business growth, particularly for the many microbusinesses and sole practitioners in the sector. Reducing the red tape of regulations and schemes and creating one regulation scheme for all lettings agents would not only benefit the consumer but would help deliver much-needed small business growth.

- RICS urges the Government to remove the artificial distinction between sales and lettings by reforming the Estate Agents Act 1979 to bring lettings agents within scope in terms of the need to have client money protection, professional indemnity insurance and clear redress mechanisms.

RICS will work with other bodies to establish by 2015 a single, industry-wide regulation and independent redress scheme for the whole sector supported by the Government, based on standards, qualifications and regulation that are widely recognised and well regarded by the consumer and business. The RICS Global Real Estate Agency and Brokerage standards and the RICS Blue Book (RICS UK Residential Property Standards)³ have a clear role to play in this scheme and driving the development of industry wide standards.

³ The RICS Blue Book promotes the standards expected of those acting as residential agents. It provides residential sales, letting and management professionals with the best practice advice to offer the highest level of service. RICS Blue Book is aligned with RICS Global Real Estate Agency and Brokerage Standards.

Land

The announcement that Government has identified enough surplus public land to build over 100,000 homes is a welcome step in the right direction. However, the challenge is now to ensure the required development is brought forward. There is a tension at central Government level where the Treasury is tasked with getting the best financial value from land while the Homes and Communities Agency is tasked with housing delivery. This is then played out at local authority level where, in an era of reduced local government finance, there is pressure on local authorities to realise maximum capital receipts. The question should be not 'why is the Local Authority not getting best value on the land?' but 'why is the L.A. not getting best use/benefit from the land?' A joined up approach is essential.

- Government should issue a clear, long term nationwide strategy or plan for the release of permissible land. This is key for developer confidence. The Local Government Transparency Code which calls for councils to publish online details of public land and building assets must be enforced.
- Government should develop a National Asset Register to provide transparency for developers on the land available for housing.
- Government should issue a clear definition of 'best value' which includes housing supply and the resultant economic benefits.
- RICS calls on Government to endorse RICS Guidelines on the Disposal of Land at Less Than Best Consideration to provide local authorities and investors with a clear framework, common across all authorities. This will provide the clarity and certainty which will speed up the disposal process.

RICS will work with members, central Government and local authorities to achieve better understanding and use of these Guidelines.

Viability

The National Planning Policy Framework (NPPF) is a welcome step towards reducing the complexity of the planning system and ensuring much-needed housing development can be brought forward. Assessing the viability of housing development is at the heart of the NPPF and it is vital that professionals have the appropriate guidance to deliver these assessments. The following recommendations will contribute towards delivering increased supply of market and ‘affordable’ rented housing on a large scale. Mixed tenure developments will provide the homes required across all tenures.

- RICS calls on Government to endorse the RICS Financial Viability in Planning Guidance in support of the NPPF.

RICS will work with the industry to establish broad agreement across the industry in understanding viability in the planning system and to create a continuous feedback loop to ensure the Guidance is workable in practice.

- RICS recommends that there should be a S106 requirement on developers to provide homes that are let at rents that are affordable as well as at market rent and forms of shared ownership.

Such provision should however recognise local market needs. An agreement to provide a proportion of such affordable homes on sites would give an appropriate balance in areas like London (and other high value areas) where rents are not ‘affordable’ at 80% of market rent.

Where viability remains an issue, it should be possible for some element of the ‘affordable’ rented homes to be temporarily converted to ‘market’ rented property.

- Government should encourage Build to Rent in its own right, but where it is part of the S106 provision the agreement should state that all the market rent units on the development will be rented for a minimum of 10 years from first occupation and all ‘affordable’ ones remaining available in perpetuity.

Construction

Innovation

Innovative construction methods have a clear role to play in delivering supply in both the new build and Build To Rent sector. Lessons can be learnt from the economies achieved in the student sector where buildings have been cost-effective to build and efficient to manage.

- RICS urges Government to consider ways to support non-traditional forms of construction not only through incentives like tax breaks but also by supporting better education of lenders in how to value these methods. A lack of understanding of the valuation of these methods is slowing down the process of innovation.

RICS is producing guidance for the valuation of new-build properties, the principles of which apply equally to self-build. RICS will continue to work with lenders, valuers and Government to ensure the property is appropriately risk-assessed during the construction phase where stage payments are requested.

RICS will work with the Government, RICS members, the Building Societies Association (BSA) and the CML to ensure lender requirements in the valuation of self-build are captured in guidance and to fully understand how these risk management requirements are driven by compliance with FSA regulation.

Getting Britain Building

The RICS Construction Market Survey Q4 2011 showed that the industry as a whole is sceptical about the impact the Get Britain Building scheme and other Government initiatives will have, with the majority of respondents believing it will have little consequence for the sector. The lack of finance for small builders is the key issue affecting the recovery of the sector and consequently, the economy as a whole.

- Government should be encouraging banks to work in partnership with small and medium property developers and construction firms to develop new projects.
- Government should underwrite or act as a guarantor for small to medium sized developers to help them compete for this funding on a level playing field with large-scale developers.

RICS will continue to monitor the take up, particularly by small businesses, of the Government's initiatives to increase supply through the RICS Construction Market Survey. RICS will regularly present these findings to Government, MPs and policy makers.

Improving Existing Stock

Empty Homes

- Government should consider low interest loans to individuals delivered by local authorities to bring properties back into use.
- RICS urges Government to intervene with local authorities to require them to issue publically available information on existing empty local authority stock and a measurable programme for getting empty stock back into use. This is contrary to Government's localism agenda but the critical nature of the lack of housing supply means central government must intervene.
- Government should consider the use of carefully targeted legislation to drive the use of empty homes. A financial penalty on owners who leave property empty in the long term or an increase in council tax on homes left empty over a number of years should be considered.

Energy Efficiency

The Green Deal has the potential to fund improvements in the energy efficiency of all housing stock, particularly older properties that are more difficult to improve. Government must ensure that SMEs and microbusinesses are able to access improvement and assessment work to ensure that the benefits of the scheme are felt throughout the whole economy.

The Green Deal must be workable in practice and provide the consumer with independent and expert advice.

- Government should clearly define what is meant by an 'Independent Assessor' in regulations to ensure the consumer has a clear understanding of any existing relationship or obligations with particular Green Deal providers.
- Government must put in place robust qualification and accreditation arrangements to ensure that Assessors are able to offer a holistic view of each property and the improvements required. Without this, the Government risks consumers receiving inadequate advice and potentially implementing wrong or badly installed measures.
- RICS urges Government to consider making a Home Condition Report mandatory before the installation of all Green Deal measures.

Measures in the Energy Act 2011 to introduce legally binding minimum energy efficiency standards in the private rented sector are welcome and will potentially improve over half a million properties. However, it may not be desirable or cost-effective to bring some buildings up to the required 'E' rating – for example, listed buildings.

- RICS urges Government to consider introducing exceptions in secondary legislation to enable the sale of F or G rated residential and commercial buildings that cannot be occupied or disposed of for development or refurbishment or for the leasing of F or G rated buildings where the lease makes an explicit obligation for a tenant to improve the energy performance of the property.

RICS will work with Government, MPs, members and other stakeholders to ensure the secondary legislation which will put into effect measures in the Energy Act, provides a clear definition of an 'Independent Assessor', puts in place a robust accreditation scheme and makes appropriate exceptions for properties with a low energy efficiency rating.

RICS will continue to provide Guidance for members and other individuals to ensure valuers are aware of how energy efficiency measures work through the market and into consumer perceptions.

Affordable Housing

The Affordable Rent model is not a long term solution to the provision of affordable housing. With its over-reliance on borrowing against housing associations' existing asset value, their ability to raise finance will be exhausted by 2015. The Government urgently needs to provide the sector and investors with clarity on what the post-2015 model will be.

There is no one solution to ease the pressure on what capital funding is available for the provision of affordable homes. S106 agreements, free or cheap land and 'social housing' REITs are all part of a solution as is the growth of the market rent sector and help for first time buyers. What is clear is that the provision of affordable housing can help make mixed developments happen, bringing investment, jobs, and benefits for the whole community.

- Government should establish a cross-departmental group to look at funding of affordable housing as a whole. There is currently a disconnect between the capital funding being received from the Department for Communities and Local Government and housing benefit being paid by the Department for Work and Pensions.
- RICS urges Government to consider giving Registered Providers the flexibility to set their own rents within boundaries set by local housing authority. This would facilitate more of a conversation with local authorities about local need and would create homes that meet the needs of the community.
- Government should consider basing the replacement of properties sold under the refreshed Right to Buy scheme on floor space rather than the building. Local authorities should not be able to sell a three bedroom house and build three one bed flats because they are of higher value.

RICS will work with members and other stakeholder groups to provide practical expertise to the Government as new investment models for the sector are developed and refined.



RICS HQ

Parliament Square
London SW1P 3AD
United Kingdom

Worldwide media enquiries:

e pressoffice@rics.org

Contact Centre:

e contactrics@rics.org
t +44 (0)870 333 1600
f +44 (0)20 7334 3811

Advancing standards in land, property and construction.

RICS is **the world's leading qualification** when it comes to professional standards in land, property and construction.

In a world where more and more people, governments, banks and commercial organisations demand greater certainty of **professional standards and ethics**, attaining RICS status is the recognised **mark of property professionalism**.

Over **100 000 property professionals** working in the major established and emerging economies of the world have already recognised the importance of securing RICS status by becoming members.

RICS is an **independent** professional body originally established in the UK by Royal Charter. Since 1868, RICS has been committed to setting and upholding the **highest standards of excellence and integrity** – providing **impartial, authoritative advice** on key issues affecting businesses and society.

RICS is a **regulator** of both its individual members and firms enabling it to **maintain the highest standards** and providing the basis for **unparalleled client confidence** in the sector.

RICS has a worldwide network. For further information simply contact the relevant RICS office or our Contact Centre.

**Europe
(excluding United Kingdom and Ireland)**

Rue Ducale 67
1000 Brussels
Belgium

t +32 2 733 10 19
f +32 2 742 97 48
ricseurope@rics.org

United Kingdom
Parliament Square
London SW1P 3AD
United Kingdom

t +44 (0)870 333 1600
f +44 (0)207 334 3811
contactrics@rics.org

Oceania
Suite 2, Level 16
1 Castlereagh Street
Sydney, NSW 2000
Australia

t +61 2 9216 2333
f +61 2 9232 5591
info@rics.org.au

Asia
Room 2203
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

t +852 2537 7117
f +852 2537 2756
ricsasia@rics.org

Africa
PO Box 3400
Witkoppen 2068
South Africa

t +27 11 467 2857
f +27 86 514 0655
ricsafrica@rics.org

Middle East
Office G14, Block 3
Knowledge Village
Dubai
United Arab Emirates

t +971 4 375 3074
f +971 4 427 2498
ricsmenea@rics.org

Americas
One Grand Central Place
60 East 42nd Street
Suite 2810
New York 10165 – 2810
USA

t +1 212 847 7400
f +1 212 682 1295
ricsamericas@rics.org

Ireland
38 Merrion Square
Dublin 2
Ireland

t +353 1 644 5500
f +353 1 661 1797
ricsireland@rics.org

India
48 & 49 Centrum Plaza
Sector Road
Sector 53, Gurgaon – 122002
India

t +91 124 459 5400
f +91 124 459 5402
ricsindia@rics.org