

Consultation Response: Rent a Room relief

To: HM Treasury

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction

The Intergenerational Foundation (IF) welcomes the opportunity to contribute to the Rent a Room relief consultation. As noted in the call for evidence, the housing market has changed significantly in the 25 years since this relief was first introduced. IF believes the relief is a good thing in principle, but its effectiveness could be improved. Our response addresses the following consultation questions:

- *“How significant is the role of Rent a Room relief in supporting the government’s wider objective to have a diverse supply of housing options?”*
- *“Do you think that there should be differences in eligibility for Rent a Room relief according to type of letting activity, purpose or length? Do you think homeowners should only be eligible to claim Rent a Room relief where they are offering a room for let on a longer-term basis (e.g. 31 days or more)?”*
- *“Do you have any further ideas or evidence about how the UK might reform rent a room relief?”*

“How significant is the role of Rent a Room relief in supporting the government’s wider objective to have a diverse supply of housing options?”

The Rent a Room relief scheme has the potential to ameliorate a serious problem within the UK housing market: under-occupation. Under-occupied housing represents a severe imbalance in the allocation of space; the very definition of ‘under-occupation’ is that a household has two or more bedrooms than the notional number needed. In 2016-2017, the overall rate of under-occupation was 36%, accounting for

approximately 8.3 million households.¹ It is a particularly acute problem within the owner-occupied sector, as 51% of owner-occupied homes were under-occupied.²

It is unsurprising that over a third of under-occupied housing stems from “empty nest” households,³ where children have grown up and moved out of the family home, but their parents may be reluctant to downsize. However, this means that valuable housing space is being used inefficiently, when it could contribute to combatting the housing crisis. Under-occupation also contributes to the problems of loneliness and isolation among older people, while it also means that those who are “brick rich”, but on low incomes, could be missing out on an additional source of income. This is where IF believes the Rent a Room relief scheme could play a vital role, especially if it encourages older people to effectively “downsize-in-situ”⁴ by letting out part of their homes while continuing to reside in them.

“Do you think homeowners should only be eligible to claim Rent a Room relief where they are offering a room for let on a longer-term basis (e.g. 31 days or more)?”

As the call for evidence for this consultation notes, “The original purpose of Rent a Room relief was to increase the supply and variety of low-cost residential housing”. IF strongly supports this objective, yet we think the relief should also be designed to encourage stable, long-term letting which is better for individuals and communities. Therefore, we think the relief should only apply to long-term lets, unlike the current terms which do not specify any time limit or purpose of the let.

This is partly in response to the rapid changes which are occurring in the UK housing market as a result of peer-to-peer online marketplaces, which have made it much easier for homeowners to advertise very short-term lets. Airbnb is a notable example of this; from 2016-2017, Airbnb saw an 81% increase in listings in the UK, with 45% of these being rooms to rent.⁵ Giving tax relief on these kinds of lets is arguably harmful because it may discourage landlords from offering longer-term leases.

“Do you have any further ideas or evidence about how the UK might reform rent a room relief?”

IF believes the current Rent a Room incentive could be increased. The current incentive of £7250 does well to incorporate the average price of letting one room across the UK. However, it clearly is not working as well as it could be – the terms of reference suggest only 2.7% of homeowners are letting out spare rooms. Therefore, IF proposes a rise to the incentive, making it a more enticing scheme for those who are looking to rent out more than one room. This is a particularly pertinent point as

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/675942/2016-17_EHS_Headline_Report.pdf

² *ibid*

³ http://www.if.org.uk/wp-content/uploads/2014/10/Empty_Bedrooms_Undermine_New_Building_FINA_L.pdf

⁴ http://www.if.org.uk/wp-content/uploads/2016/03/Unlocking-Englands-Hidden-Homes_Final.pdf

⁵ <https://www.thetimes.co.uk/article/airbnb-flat-out-as-bookings-rise-by-81-2qmsmf9rv>

under-occupation is defined at *two* or more unused rooms, and there are 25 million unused bedrooms across the UK⁶, there is definitely scope for many households to let out more than one room under the terms of this scheme.

IF also believes that the amount of Rent a Room relief should rise in line with CPI inflation. Currently, the future increases are unpredictable, which means that the scheme provides less of an incentive with each year that the allowance lags behind inflation.

Conclusion

IF is delighted to see this consultation has been established to explore a scheme which has so much potential for aiding the UK housing market. As it currently stands, it is not effective enough in enticing homeowners and under-occupiers to let out spare rooms. However, with some slight reforms, there is the possibility of a very useful scheme which encourages more efficient use of the current housing stock.

If you would like to learn more about the work of the Intergenerational Foundation please contact:

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⁶ http://www.if.org.uk/wp-content/uploads/2014/10/Empty_Bedrooms_Undermine_New_Building_FINA_L.pdf