Housing Executive

Ulster University

Exploring the Provision of an **Intermediate Rent Product** for Northern Ireland

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Research Report for the NIHE

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LIST OF ABBREVIATIONS

BCS	Business Consultancy Service
BRMAs	Broad Rental Market Areas
B-t-R	Build-to-Rent
CaCHE	Collaborative Centre for Housing Evidence (UK)
CBRE	Coldwell Banker Richard Ellis
DfC	Department for Communities
DoF	Department of Finance
EPC	Energy Performance Certificate
ESG	Environmental, Social, Governance
FTC	Financial Transactions Capital
GB	Great Britain
GDPR	General Data Protection Regulation
IR	Intermediate Rent
HA	Housing Associations
HB	Housing Benefit
HFM	Housing First Model
HMAs	Housing Market Areas
HSS	Housing Stress Survey
JV	Joint Venture
LA	Local Authority
LGD	Local Government District
LHA	Local Housing Allowance
LDP	Local Development Plan
MMR	Mid-Market Rent
NDNA	New Decade New Approach
NI	Northern Ireland
NIFHA	Northern Ireland Federation of Housing Associations
NIHE	Northern Ireland Housing Executive
PfG	Programme for Government
PRS	Private Rented Sector
PTS	Private Tenants Survey
R-t-I	Rent-to-Income
SIB	Strategic Investment Board
SPSS	Statistical Package for Social Sciences
UC	Universal Credit
UK	United Kingdom
UU	Ulster University
UURPI	Ulster University Rental Price Index

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Executive Summary

EXECUTIVE SUMMARY

- This report was commissioned by the Northern Ireland Housing Executive (NIHE) to further interrogate the efficacy of a proposed Intermediate Rent (IR) model for Northern Ireland (NI) through qualitative and quantitative analysis, in order to further profile and understand the circumstances of renters who expend more than 25 per cent of income on rent. Additionally, the report examines the levels of appetite amongst potential providers to deliver an IR product in Northern Ireland as currently proposed. Specifically, the research has a dual focus: first, to profile potential tenants who would benefit most from IR products and explore the views and interest of potential tenants. Second, to investigate and assess the interest and capacity of stakeholders/providers to develop and deliver the IR product.

- The draft Programme for Government (PfG) 2017–2021 recognised that government must reflect wider housing needs and demands beyond the provision of social and intermediate homes. One of the actions in the draft Programme for Government 2016-21 Delivery Plan for housing involves the development of new affordable housing products. More recently, in the New Decade New Approach (NDNA) agreement the restored NI Executive flagged its intention to make housing a priority, with a focus on ensuring that every household has access to a good quality, affordable and sustainable home that is appropriate for its needs. In a recent Ministerial statement on Housing Policy (November 2020), the Minister for Communities announced that the Department is developing new products with the aim of providing a wider range of affordable housing options to increase supply and meet housing need. One such product under consideration is Intermediate Rents. The Draft PfG 2017-21 and Ministerial statement paved the way for exploration and development of the IR product in Northern Ireland.

- Unmet housing need and latent pressures in the private rental sector for tenants relating to affordability, tenancy security and tenure choice underwrite the need to explore additional housing options in NI. There is a gap in rental provision above the level of social intervention within the NI housing system which is being addressed in other jurisdictions through the provision of an Intermediate Rent product. Evidence and practice from other areas of the United Kingdom (UK) highlight successful interventions to provide affordable rented housing – particularly through the private rented sector. Market intelligence from within NI indicates the need for an IR product.

- Following preliminarily and scoping research by the Department for Communities (DfC), research was commissioned to undertake rental analysis and model the need and demand for an IR product in NI, including the nature, scope, geography, structure and design of such a product.

- Previously commissioned research by DfC identified gaps in market evidence and intelligence relevant to the need, design and development of an IR model for NI. This included key issues relating to eligibility, allocation, setting of rent levels across geography, capital funding, product delivery and management.

Critically, Coldwell Banker Richard Ellis (CBRE), the Collaborative Centre for Housing Evidence (CaCHE) and the Department of Finance (DoF) Business Consultancy Service (BCS) research indicated the need for both tenant market testing and provider market testing to further inform the proposed IR model features and eligibility criteria as outlined below:

- Income criteria eligibility for an individual living on their own up to £30,000 and a household (couple/family etc.) with a combined income between £20,000 and £40,000.
- Longer tenancy length (up to 5 years) and the option to pay a tenancy deposit in instalments.
- Rents set at around 20% less than the current market rent (for example: if a typical 3 bedroom terraced house costs £500 to rent in your area then the Intermediate Rent for a 3 bedroom terraced house would be set at £400).
- Good quality housing with response maintenance and tenancy support services.

- Building upon the previous research and a proposed IR model for NI prepared by CaCHE, this research has been commissioned by the Northern Ireland Housing Executive (NIHE) to investigate the application of the IR model as proposed with a dual focus on both potential tenants' views and stakeholders/providers interest/capacity to develop and deliver the IR product. In doing so, the research seeks to profile potential tenants who would benefit most from IR products including demographics, affordability, housing needs, rent setting, lease length and tenant eligibility proposals and also assess levels of interest in both potential tenants and providers.

- The primary tasks of this research were as follows:

  - conduct primary data collection via a bespoke questionnaire, qualitative interviews and focus groups to explore the utility of and interest in an IR product among potential tenants and providers

  - undertake secondary data analysis of the Private Tenants Survey dataset and Housing Stress Survey dataset in order to explore the application of the IR model to potential tenant's profiles/eligibility criteria, demographics affordability and housing needs

  - provide a sound evidence base/analysis for recommendations made

  - develop data and undertake analysis that can be used as an evidence base to support the development of an Intermediate Rental product in Northern Ireland and sustain recommendations in relation to the features of the proposed IR model and

  - provide an evidence base for tenants and providers which will inform the delivery strategy for IR products.

- The report sets out key findings from the qualitative research, the secondary analysis of the Private Tenants Survey (PTS) and Housing Stress Survey (HSS) with reference to the proposed IR model, a bespoke IR online questionnaire and qualitative data collated from potential tenant's and providers. The later sections of this report set out our key findings and insights from the qualitative and quantitative analysis carried out by the research team to meet the research objectives. Our key conclusions from our market research with potential tenants and potential providers / stakeholders follow below.

SUMMARY CONCLUSIONS WITH TENANTS IN PRS

- In scoping attitudes to participation in an intermediate rental agreement among the tenants surveyed, we found strong evidence of demand and acceptability from the online IR scheme questionnaire and through focus groups. Our findings indicate that 90 per cent of tenants surveyed agreed with the need for IR scheme in NI, due to affordability and sectoral challenges in terms of regulation and housing quality. The findings from the primary and secondary data analysis clearly show acute affordability pressures within the PRS and tenant profiling from the questionnaire clearly identified a need for the IR product – with gaps and affordability pressures across a number of rental locations. Further, market evidence of acceleration in average rents and rental affordability analysis indicates that the situation for many tenants will only deteriorate going forward. This underlies the need for IR provision. In this sense, appetite for, and interest in, the proposed IR scheme amongst tenants was strong.

- The empirical analysis across the surveys investigated illustrated that unaffordability was present across NI, and that any potential IR scheme would be well received across the entirety of NI. We conclude that tenure choice and location preference can be met through retrofitting in existing rental locations and through building in areas of acute demand. We suggest that the scheme roll-out can be linked to Local Development Plans, in line with private rental market evidence and can provide a valuable mixed-tenure option.

- Our analysis shows that a significant proportion of tenants were beyond the rental affordability threshold of 25 percent of income and there appears to be a sizeable gap between what tenants can afford to pay and what they are paying in rent. Our findings reveal that tenants are paying approximately 18 per cent of their income above the suggested affordability threshold of 25 per cent – exhibiting that they are paying 43 per cent of their income, on average, on rental costs. This level of unaffordability markedly increases when examining the lower (quartile) incomes which indicated that a number of tenants surveyed were paying beyond 60 per cent of their income on rental costs.

- Tenants strongly supported the proposed model of a professional landlord with regards to maintenance. We therefore conclude that the proposed IR scheme would provide increased regulation and better standards for tenants and regulatory principles can be aligned to PRS and social housing regulator principles.

- Our analysis also found that tenants surveyed required longer-term tenancies of three to five years or more. Our market research findings therefore show widescale support for a tenancy length of five years, to provide enhanced security of tenure for tenants within an IR scheme. We suggest that government should explore whether an introductory phase to the five year tenancy term, which could serve as a non-penalty exit option, is feasible.

- The findings indicate that tenants would like the option to renew the tenancy after the five year period. We conclude that this should be an 'option' and that further consideration as to whether this would be on a periodic or fixed basis is required as this is important for effective asset management of the IR portfolio.

- Our empirical findings indicate that most tenants surveyed support the flexible deposit proposal and that the timescale could range from three to twelve monthly instalments.

- We also found that two thirds of tenants surveyed (67%) were in agreement with the proposed income ceilings of £30,000 for single households and £40,000 for combined household income. However, tenants did present concerns relating to scheme eligibility. Our view is that the income thresholds may need further alignment to household circumstances and affordability and we favour an approach that allows for flexibility. We conclude that there should be further consultation on refined eligibility proposals. Further, whilst some tenants were opposed to credit checks, in many cases this is an essential requirement to ensure affordability on the part of the tenant and risk mitigation for providers. This was acknowledged in our empirical data with tenants.

- On rent setting, we found that the majority of tenants surveyed (91 per cent) agreed that paying a below market rent in the region of 20 per cent was a helpful discount. We noted that some tenants suggested that the discount should be increased. This is supported by our profiling of tenants and our finding that 82 per cent of market rent paid by tenants are beyond the 20 per cent discount proposed. Our analysis suggests that applying a decrease of one standard deviation on rent may equate to between 17-26 per cent of a discount on market rent. We estimate that applying one standard deviation reduction would allow 34% of the sampled tenants from the IR questionnaire survey to access the IR scheme and alleviate the affordability gap.

- Taking into account our affordability gap analysis at 80 per cent of market rent, our findings suggest that a discount in the range of 25-32 per cent is required for those on lower incomes. Thus, we conclude that the discount on market rent may need some degree of flexibility. We therefore recommend that government considers the rent setting and there could be circumstances where the discount may need to be increased to 25-30 per cent to reflect affordability or income assessment and market location. That said, whilst rent discount beyond the 20 per cent level may be desirable, we also recognise that this has to be balanced against the viability of the overall scheme and note this level has been set in other jurisdictions and IR products. Further, we also consider that an *intermediate* rent product is not necessarily designed for tenants on the lowest incomes. Bigger discounts are likely to reflect more means testing, potentially excluding many of the potential tenants the scheme is focussed on.

- Our market research indicates that tenants supported the proposal of indexing rent increases to CPI plus a percentage. The issue of uprating requires further consideration after a five year tenancy. Our market evidence indicates that tenants do not want rents rebased upon renewal and suggested that rent should continue to be uprated link to CPI to avoid a potentially unaffordable rental uplift. This is delicate and is a key policy decision for the IR model in terms of effective asset management of the IR scheme portfolio.

- Turning to the barriers which may prevent potential tenants from accessing an intermediate rental home, our research noted potential barriers in terms of scheme demand and concerns around the application and selection process.

- The evidence from the primary and secondary data with potential tenants provides the basis for a number of recommendations relating to the IR proposed features which may help to recalibrate and refine the proposed IR model. The key findings, conclusions and recommendations are presented in the table below.

KEY FINDINGS, CONCLUSIONS & OPTIONS FROM RESEARCH WITH TENANTS

IR features	Research Findings	Conclusions	Recommendations
Tenancy Length	• 95% of tenants surveyed agreed with need to offer longer tenancy • 68% of tenants sought tenancy term of 5 years or more • 87% suggested tenancy of 3 years or more	• The vast majority of tenants support a tenancy length of 3 or more years • The proposal of 5 year tenancy term has strong support. • Include an introductory period to the tenancy •	• 5 Years tenancy term • Consider an introductory period • Not ‘automatic’ renewal but the ‘option’ to renew after 5 years • Length of renewal should be optional as either periodic or fixed term.

IR features	Research Findings	Conclusions	Recommendations
	• 95% of tenants agreed that there should be option to renew tenancy • Tenancy renewal could be periodic or fixed for 5 years • Tenants sought additional flexibility during tenancy term	• The option to renew the fixed tenancy was supported by most of those tenants surveyed • Tenancy renewal is an important issue and should be flexible.	
Deposit	• 94% tenant's state flexible deposit is helpful. • Reduces upfront costs • Instalments range up to a 12 month period	• Proposed flexible deposit is supported. • Some tenants preferred to pay the deposit over a shorter period of time. • Timescale from 3-12 months	• Flexible deposit for one month rent over a period up to 12 months should be implemented.
Eligibility criteria	• Broad support for proposed income ceilings (67%). • Some support for adjusting income thresholds to reflect family circumstances. • Some support for additional eligibility aspects such as points system.	• The income thresholds may need further alignment to household circumstances and affordability. • Further flexibility based on circumstances (such as dependants) through an income ceiling range for single and combined applicants. • Points system or means-based tests should be avoided if possible.	• Review the income caps for single and combined applicants to tailor the IR product. • Further consultation and review of the refined eligibility proposals

IR features	Research Findings	Conclusions	Recommendations
Rent Setting & Uprating	• 76% of tenants agreed with the rent setting proposal of 20% discount • 91% agreed that 20% discount helpful • Some evidence of need for further discount • Affordability analysis shows need for wider discount range • Analysis shows affordability income gap above 80% of market rent • Tenants support rent linked to inflation • Tenancy renewal should continue at CPI+%	• Support for rents set at 80% • Analysis shows range of 70%-80% discount required • The proposed 20% may not be enough for those on lower incomes • Applying 80% of market rent may require a discount in the range of 25-32 per cent to be applied to help those on lower incomes • The discount on market rent may need some degree of flexibility • Tenants support rent linked to CPI+% and not PRS performance	• Investigate setting rent set at one standard deviation of market rent • Consider discount up to 25-30% for low income • Flexible discount rate linked to affordability/ income • Rent uplifted by CPI+% • Upon tenancy renewal rent setting status quo should remain and rent uplifted using CPI+% • Flexibility on whether rents are re-based to the local market when vacant possession occurs
Location	• Location is a key issue for tenants • Tenants are content for retrofitting to meet scheme demand and locational preference	• There is strong demand and IR Scheme will be over-subscribed • Affordability analysis shows pressures including urban and rural locations.	• IR scheme all rental locations but targeted to areas of need within LDPs and NIHE

SUMMARY CONCLUSIONS FROM INTERVIEWS WITH STAKEHOLDERS

- A key aspect in evaluating the proposed IR model was to obtain empirical data from potential providers/investors relating to the delivery mechanism and interest in the proposed IR product. This was achieved through 14 market research interviews with a mix of potential providers and stakeholder views on the proposed design and delivery of the IR model.

- In consideration of sectoral attitudes relating to demand and sector acceptability, we conclude that there is sectoral support for the IR scheme concept although, for some, this would dilute focus on their social mission and could generate possible conflicts. Whilst the IR concept is theoretically supported, there is limited, if any, interest from the potential providers (private subsidiary of HAs) to take the product forward in its current form. Questions therefore persist on who can supply the IR product and our findings show, decisively, that there is no unitary (private) provider within NI who is currently willing to deliver and operate the proposed IR model.

- We found that the proposed model does not meet the requirements of specific housing associations and many would not be in a position to deliver the product from a financial or legislative perspective. Our market research therefore suggests that the model requires strengthening through flexibilities to enhance viability and attractiveness to the potential providers in Northern Ireland. We conclude that further mechanisms, including additional subsidisation, will need to be explored to meet the requirements of those providers who may be best placed to deliver the IR product. We believe that government will likely need to further investigate financial viability with HAs through viability appraisals and further financial modelling. We also consider that low-cost and 'in-kind' land contributions could be explored and developable land identified in locations where the IR scheme could be placed.

- With regards to the funding mix of FTC and private financing arrangements, we found that this is challenging in Northern Ireland and the market remains unattractive to investors, private subsidiaries of HAs in NI are small in scale and there is a preference for joint venture with the parent HA which would require governance changes or exemption. We therefore consider that further measures would be required to make an IR scheme attractive to potential providers and investors. This includes consideration that the delivery of an IR scheme in NI, may, similar to the Scottish experience, require initial grant funding to bring the product to market and demonstrate viability before a sustainable funding mix may be achieved.

- We conclude from our market research that the key barriers to implementation and delivery are financial, governance and market uncertainty and scalability. There does not appear to be an obvious candidate to act as or form the IR provider envisioned in the proposals. This may necessitate government exploring further options such as a standalone social enterprise or charity.

- A key challenge identified by investors inferred that the IR scheme needs to be introduced at scale to be attractive; it is not clear how this can be aligned in frontal view of questions relating to supply and specifically no unitary entity displaying a willingness or interest to deliver it. This is a barrier to private capital market finance and undermines the funding mix approach to the IR model in Northern Ireland.

- Contributors from the NI HAs highlighted that providers in GB attain a large volume of IR units by virtue of s106 agreements. Interview evidence would suggest that IR units may be deemed a more ‘attractive’ mixed tenure housing medium for private sector developers – particularly if these could be ‘sold-off’ upon completion to a reputable IR operator. Key issues and challenges therefore remain as to how government can ensure on-site provision of IR units through developer contributions moving forward to achieve the policy of mix-use development and tenure.

- Stakeholders asked for greater clarity on the tenant eligibility criteria and the selection strategy. It was felt that potential tenant criteria and affordability determinants of the IR scheme, including the identity of the organisation that would manage this, lacked detail. This potential ambiguity would heighten the risk profile of the IR concept and its appeal amongst prospective providers and investors. There is a need for greater detail around the monitoring and evaluation of tenant eligibility criteria and the tenant selection process.

- Potential providers did not raise any issues with the income cap, although some noted that these need to be pitched at the appropriate level for NI. Taking into consideration providers and investors views, we suggest that flexible income ceilings are adopted for the proposed IR scheme, but with an affordability assessment at the rent discount level.

- Our findings show that a five year tenancy is appropriate but that further clarification was required about tenancy renewal options around the term and whether rent should be rebased. Potential providers and investors queried these aspects and sought further clarification. Our findings indicate a preference for rebasing to market rent where vacant possession is achieved. We conclude that this is an option government should consider to provide an element of certainty to providers/investors of the scheme for asset management and ensure that it would not become disconnected from the market and providers/investors risk models.

KEY FINDINGS, CONCLUSIONS & OPTIONS FROM RESEARCH WITH STAKEHOLDERS

IR features	Research Findings	Conclusions	Recommendations
Unitary Provider	• Sectoral support for the IR scheme concept • No unitary provider willing to deliver proposed IR scheme in NI	• No unitary provider to deliver proposed IR scheme in current form • Financially viability is the main concern of potential providers	• Further research with HAs to clarify the governance and legislative framework of HAs in NI. • Consider legislative reform or exemption to permit HAs •

IR features	Research Findings	Conclusions	Recommendations
		• Current legislative framework is prohibitive for HAs	in NI to operate subsidised IR scheme • Consideration of social enterprise or housing/ charitable trust
Public Finance	• Potential providers do not see IR scheme as economically viable at 80% of MR without additional subsidy • FTC beneficial • Further subsidy such as grant 'in-kind' may be required • Contention over developable public land	FTC beneficial but not enough to deliver IR Scheme in NI • Need for additional flexibilities and subsidies including 'in kind' land to strengthen model	• Undertake viability appraisals (grant in kind in the form of public land contribution and FTC capital) with HAs • Explore with HAs and other key stakeholders potential of land for future housing supply • Further subsidisation could be explored • Consider initial grant funding to bring product to market • Explore 'in-kind' land contributions • Developable land identified
Mix of finance	• Funding mix challenging in NI • Market untested and yields not attractive • Private subsidiaries of HAs lack scalability for IR • Investors seek strong covenants and established track records for operational/asset management	• Private capital entering into IR products require scalability, strong covenant and asset management • IR scheme offers an inflation hedge which would be attractive to private finance.	• Consider initial grant funding to bring product to market (early Scotland experience) • Consider legislative reform or exemption to permit HAs to operate subsidised IR scheme

IR features	Research Findings	Conclusions	Recommendations
Tenancy Length	• There is support for 5 year tenancy proposal	• 5 year tenancy is acceptable to potential providers and investors	• The proposed 5 year tenancy term could be implemented
Eligibility criteria	• Interviewees wanted clarity on the tenant eligibility criteria • Income cap seems fine and pitched at NI level • Needs to be affordability assessments	• Providers and investors want more information • Lack of detail on eligibility criteria heightens the risk profile of the IR concept	• Further detail around the selection process is needed for providers/investors • Flexible income ceilings adopted for the proposed IR scheme with affordability assessment at the rent discount level.
Rent Setting & Uprating	• 80% market rent is consistent with other IR schemes • 80% is likely at the margin in terms of financial viability • CPI+% approach acceptable but more clarity required	• The rent approach of 80% is generally accepted but queries remain as to viability • Rebasing of rent presents challenges and complexities for the IR scheme and could detract from capital investment	• Rent reviewed periodically • Flexibility on whether rents are re-based to the market where vacant possession occurs • Tenancy renewal continues under CPI plus • Further clarity on the percentage element of CPI plus.
Location	• In areas of demand and acute rental stress • Where yields will attract private finance. • Areas of land availability	• More transparency in land holdings to support IR viability • Developable land should be identified in locations where the IR scheme could be placed • IR supported through planning regime (LDPs)	• Review the land transfer process • Make the Public Sector Surplus Lands register more readily available/accessible to HAs

Sections 1 - 4

1.0 INTRODUCTION

1.1 Long standing unmet need, increasing social waiting lists, the lack of affordable housing provision, the growing rental affordability gap in the private sector and a growing body of evidence have brought the need (and case) for a new Intermediate Rental housing product to the fore. More recently, the interest in the development of an Intermediate Rent (IR) product for Northern Ireland has gathered further political and policy traction through the prioritisation of housing in both the Draft Programme for Government 2017-2021 and New Decade New Approach (NDNA) agreement. Likewise, this policy trajectory was confirmed in the Communities Minister statement to the NI Assembly in November 2020 which highlighted the need for additional housing options, spotlighted the introduction of Intermediate Rent product to increase the housing options available and announced that models for this new product were being considered.

1.2 Research by Ulster University (UU) on the performance of the private rented sector (UURPI) and rental affordability has highlighted an upward shift in the distribution of rents across Northern Ireland, with 51 per cent of properties let at £700 or more, and there is an increasing affordability gap for low-income households.

1.3 Previous research recommended that a mid-market rent housing option should be explored in NI. A number of scoping studies and commissioned empirical research provided an evidence base which supports the need for an intermediate product in NI and further informed the development and proposed design of an 'in principle' IR model. Evidence from other jurisdictions also indicates that an IR product funded through Financial Transactions Capital (FTC) appears viable and can add additional options to the housing market and reduce housing stress.

1.4 Research commissioned by the Department for Communities (DfC) and conducted by Coldwell Banker Richard Ellis (CBRE) in 2020 recommended assessment of provider interest and market testing with potential delivery agents and potential customers. The DfC then commissioned Collaborative Centre for Housing Evidence (CaCHE) in 2021 to explore, evidence and develop a potential IR model for NI, the features and eligibility criteria of which are outlined as:

- Income criteria eligibility for an individual living on their own up to £30,000 and a household (couple/family etc.) with a combined income between £20,000 to £40,000.
- Longer tenancy length (up to 5 years) and the option to pay a tenancy deposit in instalments.
- Rents set at around 20% less than the current market rent (for example: if a typical 3 bedroom terraced house costs £500 to rent in your area then the Intermediate Rent for a 3 bedroom terraced house would be set at £400).

- Good quality housing with response maintenance and tenancy support services.

The proposed IR model forms the basis for this Northern Ireland Housing Executive (NIHE) commissioned research project, the findings of which explored in the following report.

1.5 In developing an evidence base, this report provides further exploratory research to further inform the proposed IR model under development. Specifically, the research has a dual focus: first, to profile potential tenants who would benefit most from IR products and explore the views and interest of potential tenants. Second, to investigate and assess the interest and capacity of stakeholders/providers to develop and deliver the IR product. The research utilises existing secondary data sets collated by the NIHE Research Unit on social housing applicants in housing stress from the Housing Stress Survey (HSS) of 2020, and private tenants in NI using the Private Tenants Survey (PTS) in 2020. The data was used to profile potential IR tenants and explore the relationships between rent, income, household characteristics and affordability. Focus groups with potential tenants were conducted to provide further insights on the various elements of the proposed IR model, including eligibility criteria.

1.6 An online survey was also completed with respondents who completed the NIHE PTS (2020). This bespoke survey specifically explored the features of the IR model and questioning was closely aligned to the recent IR consultation paper which opened in October 2021 by the DfC (closed in January 2022).

1.7 Finally, semi-structured interviews were conducted with a range of potential service providers/operators and funders. Organisations interviewed included local Housing Associations (HA's) within NI, local charities providing supported housing akin to IR housing and potential investors and lenders. Interviews explored the viability of the IR product, the levels of interest in providing the product as wells as barriers to and incentives for delivering an IR product for NI.

1.8 The report has been prepared by a team of researchers at UU in collaboration with colleagues at NIHE and DfC. We acknowledge and are sincerely thankful for the assistance and endeavours of Patrice Reilly and Ursula McAnulty at NIHE and Maryann Dempsey and Diane Shiveral of DfC in facilitating access to data and for insightful feedback and review. We also thank key stakeholders reflecting the Northern Ireland housing sector who agreed to participate in interviews and all of the tenants who completed the questionnaire and participated in the focus groups and were the key lynchpin of the research.

1.9 The report is structured as follows: -

Section 2: provides a contextualised outline of the background to the development of an IR product in Northern Ireland and positioning of the research.

Section 3: details the project aims and objectives.

Section 4: sets out the project methodology for primary data collection and secondary analysis of existing survey data.

Section 5: offers a brief literature review of the policy and research informing the development of the IR model in Northern Ireland.

Section 6: provides analysis and key findings from survey data to profile potential IR tenants and gain insights into key issues.

Section 7: provides the findings from a questionnaire with tenants renting in the private rented sector on the features of the proposed IR scheme for Northern Ireland.

Section 8: provides analysis and key findings from the focus groups convened with potential tenants.

Section 9: provides analysis and key findings from semi-structured interviews with stakeholder/providers of the IR product.

Section 10: sets out key conclusions to the research and offers recommendations.

2.0 BACKGROUND & CONTEXT

2.1 The Northern Ireland Housing Executive was set up by the Housing Executive Act (Northern Ireland) 1971 as a Non-Departmental Public Body for accounting purposes. It is therefore not a Local Authority and does not prepare its accounts in accordance with the Code of Practice on Local Authority Accounting. Assuming the housing responsibilities of some 65 separate authorities, it became Northern Ireland's Regional Housing Authority, making the Housing Executive a unique body in UK Public Administration. The Northern Ireland Housing Executive's primary responsibilities are to:

- Regularly examine housing conditions and housing requirements;
- Draw up wide ranging programmes to meet these needs;
- Affect the closure, demolition and clearance of unfit houses;
- Affect the improvement of the condition of existing housing stock;
- Establish housing information and advisory services;
- Consult with District Councils and the Northern Ireland Housing Council;
- Manage its housing stock in Northern Ireland;
- Manage the Housing Benefit and Rates Relief Programmes;
- Act as the Home Energy Conservation Authority for Northern Ireland;
- Administer the Supporting People Programme;
- Manage the Social Housing Development Programme;
- Provide Traveller accommodation; and
- Manage the Affordable Warmth Scheme and a Boiler Replacement Scheme.

2.2 Northern Ireland does not have an established Intermediate Rent product and there is currently no affordable rent provision aimed at tenants currently experiencing financial pressures who cannot access home ownership, lack affordability in the private rented sector (PRS) and are unlikely to attain sufficient points on the common waiting list to access social housing in an area of choice within a reasonable timeframe.

2.3 Existing review and research of the social housing sector has identified increased reliance and pressure on the PRS in meeting housing need. In addition, research has also recommended that a mid-market rent housing option should be explored in NI. The growing body of research provides a clear rationale for development of an affordable rental product that can bring security and greater financial stability for low-income households living in the PRS.

2.4 This need for an Intermediate Rent product is supported by reference to ongoing market intelligence and research on private sector rents across NI. The UURPI highlights considerable acceleration in private rents which have increased by 27 per cent between Q1 2015 and Q4 2021. The UURPI analysis on the distribution of average rents in Northern Ireland reveals that 52 per cent of rental lettings fall within the £500-£699 pricing range, with 39 per cent of rental properties costing £700 or more per month. For Belfast, 44 per cent of properties are let between £500-£699 per month, with more than half (51%) let at £700 or more, highlighting more acute rental affordability issues within the Belfast market. This analysis illustrates that net rental household income needs to be between £2,000-£2,800 per month to fall at 25 per cent rent to income (R-t-I) ratio[1].

2.5 Research into rental affordability by UU also reveals that rental affordability decreased over 2020, reflecting a divergence between rental inflation and income levels. The research applys median income against first quartile rents across Local Government Districts (LGDs), thus representing a rental affordability gap relative to the benchmark of 25 per cent of income, and indicates that the affordability gap is most acute in Belfast and Derry and Strabane.

2.6 The draft Programme for Government 2017–2021 also recognised that government must reflect wider housing needs and demands beyond the provision of social and intermediate homes - reflected in Indicator 8: 'Improve the supply of suitable housing'. More recently in the NDNA agreement, housing is identified as a key priority, with a focus on ensuring that every household has access to a good quality, affordable and sustainable home that is appropriate for its needs.

2.7 The Draft PfG and NDNA commitments were reflected in a Ministerial statement to the NI Assembly on 3 November 2020 where the Communities Minister announced an ambitious and expansive housing programme which included the development of new products to provide a wider range of affordable housing options to increase supply and meet housing need. This included consideration of an Intermediate Rent product to improve rental options. Following this, departmental officials commenced work on the development of an IR product suitable for NI. As part of the wider housing supply strategy, the Intermediate Rent proposal is an important intervention which, in tandem with a spectrum of additional interventions, can support affordability, meet housing need, and assist households vulnerable to financial stresses and unaffordability.

2.8 Developing an IR can provide a solution for households who wish to live in rented accommodation but are struggling with affordability and access to the PRS, whilst making provision to support those who wish to access low-cost home ownership. It can also assist households who are awaiting a social housing allocation to access an affordable rented home in the interim.

2.9 Thus, DfC is seeking to introduce a new category of 'Intermediate Rent' to expand housing supply in a way that complements the current housing market portfolio. Generally, the IR model can provide an additional supply of rental housing which may be most suitable for:

[1] The benchmark for affordability assessment is expenditure beyond 25% of income is seen as unaffordable. This research therefore applies the ratio of consuming more than 25% of income being paid on rents as unaffordable.

i. households (families or individuals) who have lower housing waiting list point scores (optimally for households with 69 points or fewer) and therefore are unlikely to be allocated social housing in short order; and

ii. households who are unable to access good quality private rented housing in a preferred location and at a cost which is affordable to them (i.e. not more than 25-30 per cent of the households' income). This category may include concealed households who are currently living with family/friends etc. due to their difficulties in accessing rented accommodation in their own right.

2.10 Considerable scoping and empirical research has already been undertaken in reviewing the IR product for Northern Ireland. The research analysis follows on from the earlier research intelligence and model development undertaken by the DfC, Business Consultancy Service (BCS) within the Department of Finance (DoF) and external research by CBRE and the CaCHE. The independent empirical research by both CBRE and CaCHE sought to establish an IR model based on below market rent rates and a solid evidence base, establish (at a strategic level) the likely scale of need/demand, comment on the optimal location for siting IR homes, and consider the viability of use of FTC to fund IR development. The research also considered potential eligibility parameters for tenants to access IR homes and explored market appetite to develop and operate IR homes in Northern Ireland.

2.11 Proposals for an IR model are in the final stage of development and DfC have also completed a public consultation process in relation to the introduction of an IR product in Northern Ireland[2]. The research and analysis detailed in the following report will further develop the IR model, by market testing both potential tenants and providers relating to, *inter alia*, housing stress, need, IR options and delivery mechanisms.

2.12 Ulster University were commissioned by the NIHE in December 2021 to provide Intermediate Rent product research via qualitative and quantitative market testing, to interrogate the efficacy of the proposed IR model for NI and to profile and understand the circumstances of tenants who expend more than 25-30 per cent of income on rent.

[2] https://www.communities-ni.gov.uk/consultations/consultation-intermediate-rent-development-policy-and-model

3.0 RESEARCH AIMS & OBJECTIVES

3.1 The following research seeks to build on previous analysis, commissioned by DfC and undertaken by both CBRE (2020) and CaCHE (2021), to interrogate the efficacy of a proposed IR model through qualitative and quantitative analysis with potential tenants and providers. Empirical analysis by CaCHE in 2021 indicated that approximately 50,000 private tenants in Northern Ireland are spending more than 25 per cent of their household income on rent, and, of these, approximately 20,000 are spending more than 40 per cent on rent. Thus, the aim is to target those identified as experiencing affordability issues in lower income households, spending more than 25 per cent of their income on housing costs/rent. In view of this, this research seeks to undertake further market intelligence gathering and analysis to assist NIHE in further profiling and developing an understanding of the circumstances of those who may fall within this group, including their housing needs and interest in an IR product. A synopsis of previous research findings on this issue by BCS, CBRE and CaCHE are detailed in Section 5.

3.2 The research aim is to conduct research to explore and inform the proposed IR model under development with a dual focus on both potential tenants' views and profile and stakeholders/providers interest/capacity to develop and deliver the IR product. The research also seeks to profile potential tenants who would benefit most from IR products and assess levels of interest in IR for both potential tenants and providers.

3.3 To meet the overall aim of the research, the primary research objectives are to:

- Conduct primary data collection questionnaire survey and qualitative interview/focus groups to explore the utility of, and interest in, an IR product among potential tenants and providers in Northern Ireland.

- Undertake secondary data analysis of the Private Tenants Survey dataset and Housing Stress Survey dataset to explore the application of the IR model to potential tenant's profiles/eligibility criteria, demographics, affordability and housing needs.

- Provide further research evidence and analysis to develop an Intermediate Rental product in Northern Ireland and sustain recommendations in relation to the features of the proposed IR model.

- Provide an evidence base for tenants and providers which will inform the delivery strategy for IR products.

3.4 Given the specific need to profile potential tenants and obtain further insights on their perspectives through primary data collection, the research has 6 key objectives:

- Develop a comprehensive understanding of the characteristics of potential Intermediate Rental tenants in Northern Ireland.

- Review the proposals of the IR model design and ascertain what would be required to meet the target tenant group's housing needs and provide additional choice, including locations, rent amount, quality of accommodation/housing, length of tenure.

- Undertake an examination of the outline rent setting, lease length and tenant eligibility proposals.

- Identify benefits and the value of an Intermediate Rental home for the target tenant group.

- Identify barriers which may prevent potential tenants accessing an Intermediate Rental home.

- Scope attitudes to participation in an Intermediate Rental agreement among the target tenant group.

3.5 A key aspect in evaluating the proposed IR model is to obtain further data from potential providers relating to the delivery mechanism and interest in the IR product. Therefore, in consideration of potential providers, the research has five main objectives:

- Review the proposals relating to the design of the proposed IR model and ascertain whether the proposed product and funding model will be viable and attractive for providers to deliver and operate, including consideration of the adjustments required and stakeholder viewpoints on a funding mix derived from government loan funding and private finance.

- Identify the opportunities and benefits for a potential provider who would develop and operate Intermediate Rental homes

- Identify risks or barriers which may prevent a potential provider from delivering or operating Intermediate Rental homes

- Scope attitudes to participation in delivery of Intermediate Rental homes among potential providers, particularly the proposal to procure a single IR Programme Operator to deliver IR homes.

- Undertake an examination of the outline rent setting, lease length and tenant eligibility proposals.

4.0 RESEARCH METHODOLOGY

4.1 The research methodology entails both primary qualitative and quantitative data collection and secondary analysis of quantitative datasets. In doing so, the approach employs triangulation of quantitative and qualitative data in order to meet the research aims and objectives. The qualitative analysis provides rich data and insights into the levels of interest regarding an IR product both from the viewpoint of potential tenants and potential providers. Analysis of qualitative insights from tenants is supported by a questionnaire instrument and secondary analysis of the Private Tenants Survey (2020) dataset and Housing Stress Survey (2020) dataset in order to profile of those who would benefit most from IR products. This allows for deeper insights and discussion relating to the efficacy of the proposed IR model features and draws out further evidence to support or indicate potential amendments to the proposed IR model.

Primary Data Collection

Survey of Private Tenants

4.2 A brief online survey was constructed and shared via email with a sample of private rental tenants. The online survey collected primary data relating to tenant's perspectives on the proposed features of the IR product, and characteristics of tenants/households including income and affordability of housing costs.

4.2.1 The online survey was developed with reference to the DfC public consultation on the IR model and explored eight key domains. The questionnaire was conducted using Microsoft Forms platform (See Appendix 1). Participants were targeted and drawn from a pool of respondents to the Private Tenant's Survey who had indicated agreement to participate in further research (n=1,300).

Focus Groups

4.3 Building upon the primary data collected via the online survey, the researchers conducted two structured focus groups with respondents to the online survey (potential IR tenants). Consent to participate in focus groups was requested via the online survey (see previous section). Participants for the focus groups were identified through data stratification based on participant demographics to ensure heterogenous sampling to meet the research needs. This included participants selected based on the following stratification process:

- Postcode and locational preference for IR home
- If they are in receipt of housing benefit
- If they are on the housing waiting list
- If on the housing waiting list the number of housing points awarded
- Income band
- Household composition.

Subsequently, participants were contacted by NIHE and invited to attend a focus group session. Informed consent was obtained from each participant. Two focus groups were convened on 21st and 22nd March 2022, with a total of 10 participants. A breakdown of the questions posed to participating tenants on their views and perspectives can be found in Appendix 2. Each lasted 1 hour 15 minutes and were comprised as follows:

- Focus Group 1: Private tenants (stratified income) (n=7)
- Focus Group 2: Private tenants in housing stress/waiting list/housing benefit (n=3)

The focus groups were facilitated by a senior researcher from NIHE and were chaired and conducted by two researchers from UU who took notes of the discussion. The purpose of the focus groups was to gain a deeper understanding of participants lived experience in relation to housing and affordability and how the IR product could impact/benefit them. Participants were encouraged to discuss their views openly and thematic prompts were developed by UU, in consideration of emerging survey findings and early DfC consultation findings, to steer the discussion, ensure consistency in data collection across different participants and explore the target respondents' attitudes and perspectives relating to various aspects of IR product. The qualitative data was analysed through inductive and interpretative analysis to describe the participants' views of the proposed IR Rent product.

Interviews with Stakeholders/Providers

4.4 The research also included semi-structured interviews with stakeholders and potential providers of IR products to provide further insight into both levels of interest in development of an IR product and ease of application from a provider's perspective. The semi-structured interview schedule was developed in consideration of existing market intelligence and the emerging consultation responses compiled by DfC. A breakdown of the questions posed to interviewees can be observed in Appendix 3. The schedule guided the discussion to allow for consistency in data collection across different participants. A list of providers was developed in consultation with NIHE and included a number of property stakeholders including, all NI based Housing Associations and their subsidiaries, Housing Associations in Great Britain and investors and lenders from across the UK and NI. In total, 14 interviews were conducted in March 2022. Informed consent was obtained. Those who wanted to participate in the research and subsequently interviewed included five Housing Associations in NI, two Housing Associations based in GB, three Charitable organisations and four Investors/Lenders. See Appendix 4 for a full breakdown of the organisations who took part in the research. We note that the views obtained from the provider based interviews involved within the research may not be entirely representative of the entirety of the housing sector, although all efforts were made to obtain and ensure market representation.

4.5 Focus Groups and interviews with tenants and stakeholder/providers were recorded through interview note-taking which was streamlined in order to accurately record the conversation and to cement information. Interview notes were analysed holistically and thematically. The data and findings from the focus groups and semi-structured interviews is held securely in accordance with research protocols and was anonymised with each participant assigned a unique reference number. The findings were reported to ensure that the data reporting was not disclosive, ensuring no individual, organisation or agency could be identified, allowing free and open expression of the issues identified. Where appropriate, quotations from participants or stakeholders are reported anonymously in the research. The data sets used for the analysis will be retained for 10 years under research protocol and subsequently destroyed.

Secondary quantitative data analysis

4.6 Two existing Housing Executive data sources, specifically the PTS dataset and HSS dataset, contain a significant amount of information which yielded insights into tenant profiling and rental market value and income levels.

4.7 The datasets were provided by NIHE for 2020 and comprised:

- A sample frame consisting of 1,002 respondents to a Housing Applicants survey focusing on housing stress, housing needs and aspirations (Housing Stress Survey) – of which a proportion are also private renters.

- A sample frame consisting of c.2,567 respondents to a Private tenants survey (PTS) from across Northern Ireland.

4.8 The datasets were password protected and securely stored in UU Cloud with access restricted to the research team only. The datasets were analysed in Microsoft Excel and Statistical Package for Social Sciences (SPSS) software in accordance with the research specification in order to provide a profile of those who may benefit most from IR products. This includes both descriptive and inferential statistical analysis. The data was subject to quality assurance checks and, in some cases, the data was purged through statistical techniques for statistical analysis. Where appropriate the analysis is reported in tabular format. The analysis was triangulated with the primary qualitative evidence from focus groups and interviews. The data sets used for the analysis will be retained for 10 years under research protocol and subsequently destroyed.

Brief Literature Review

4.9 A literature review is set out by way of brief compass and contextualisation of the research in Section 5 of the report. Given the scope of the research, and in frontal view of the existing body of internal and commissioned research by DfC, it was considered that the literature review for this research should be confined to key findings of the scoping and commissioned research to allow for the current research findings to be positioned and discussed with reference to the findings of the CaCHE (2021), CBRE (2020) and BCS (2020) reports in relation to the proposed IR product for NI and its suggested parameters and development.

4.10 Accordingly, the literature is confined to the housing and strategic policy context and the recent scoping and empirical research relating to the development of an IR product for NI. In this sense, the literature review does not employ a literature search strategy or undertake a detailed review of comparative IR products - as these have already been extensively reviewed and evaluated in the earlier research reports.

4.11 This literature is reported in section 5, below.

4.12 The research was conducted in accordance with General Data Protection Regulation (GDPR) and Data Protection legislation.

Section 5

5.0 LITERATURE REVIEW

Housing Market Challenges

5.1 The PRS is now the fastest growing and second largest housing tenure in NI and continues to support housing options. Research indicates that many tenants with low incomes have a high housing cost burden. In this sense, many experience acute affordability issues, particularly as rental prices grow in the private sector in the face of ongoing demand, and at a pace which is not matched by increases in incomes.

5.2 Research on tenant's views of the PRS notes that the main reasons cited for living in the PRS are lack of homeownership affordability, location preference, lack of/awaiting access to social waiting list and flexibility. The importance of the PRS to addressing the lack of housing supply has also been highlighted in research conducted by NIHE which found that a lack of alternative options and difficulty accessing suitable housing is a key driver of the growth, and sustained demand, for the private rented sector.

5.3 Research also estimates that a significant number of low-income households are living in private rented housing with many living in relative poverty and over half of PRS tenants rely on housing benefit support to meet their rent. Research has also found that households on housing related benefits (Housing Benefit (HB) /Universal Credit (UC)) struggle to pay private rents due to a decline in the level of this allowance relative to market rents and that almost all of these tenants experience a shortfall (gap). Furthermore, recent research suggests low-income households on housing benefits in the PRS are experiencing rising rents with Local Housing Allowance (LHA) rates failing to keep pace with prevailing market conditions, placing upward pressure on affordability.

5.4 The UURPI indicates that the volume of rental transactions has decreased year-on-year since 2013. Overall, the analysis reveals that the annual number of rental transactions has decreased by 52% since 2013. Over this period, average rents have increased considerably, up 27% since the beginning of 2015. Recent research evidence from the UURPI also reveals that strong demand for rental properties, against the downturn in supply, has continued to exert upward pressures across various locations of the market and fuel price increases. The Rental affordability report produced by UU also evidences the level and nature of rental (un)affordability, with figures for 2020 revealing the two main urban areas in NI, namely the Belfast and the Derry and Strabane LGDs, to display heightened affordability gaps (deficits), noting an increase in the gap beyond the 25 per cent threshold of income relative to rental (housing) costs from the previous year. In the case of Belfast, the affordability gap increased to just over 12 per cent, with the Derry and Strabane LDG also showing the affordability gap to increase to just over four per cent. Indeed, against the backdrop of the sustained growth in average rents, the reduced transactional activity due to a lack of available rental product has culminated in a supply crunch which will continue to impact on market tenure choice and affordability for renters in the longer term.

5.5 Therefore, whilst the PRS provides low-income households on housing benefits with tenure options, acute affordability issues can often translate into the loss of tenancies, debt and homelessness. This is supported by further research which has identified security of tenure as the predominant theme amongst tenants in the private rented sector. Likewise, a fundamental review of social housing allocations has identified that the increased reliance on PRS has meant that, as a sector, it has become instrumental in meeting housing need and that greater financial and tenure stability is required for many low-income households within the PRS.

5.6 The NI housing market continues to face a number of challenges, with particular pressure on the availability of social housing. Waiting list data for 2020-21 reveals a total of 43,971 applicants on the social housing waiting list, 30,288 of whom are in housing stress (meaning they have 30 or more points on the housing selections scheme) and a further 9,889 households were accepted as statutorily homeless.[3] At the same time, there is a deficit in social housing new starts and completions in the private sector. Escalating house prices and private rents have increased unaffordability for low-income households in the private sector. Whilst NI presently supports social renting through both the Housing Association sector and the Housing Executive, and has an established shared ownership model and Rent to Own model, there is no affordable rent provision aimed at tenants who are not able 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.

5.7 The PRS thus provides vulnerable low-income households on housing benefits with housing and tenure choice. However, the lack of affordable housing options and sectoral unaffordability can result in arrears, debt, eviction and loss of tenure. Finally, insecure tenancies and housing benefit stigma within the private sector are also key considerations affecting access.

Housing Policy and the Intermediate Rent in Northern Ireland

5.8 In a statement to the NI Assembly in November 2020, the Communities Minister set out an ambitious housing programme, including the development of a Housing Supply Strategy and the introduction of new housing options to ensure every household has access to a good quality, affordable and sustainable home that is appropriate for its needs.[4] As one strand of a number of activities to contribute towards increasing housing supply and reducing housing stress,

[3] https://www.communities-ni.gov.uk/system/files/publications/communities/ni-housing-stats-20-21-full-copy.pdf

[4] See: https://www.communities-ni.gov.uk/news/housing-statement-communities-minister-caral-ni-chuilin-3-november-2020.

officials have begun work on the development and delivery of a new Intermediate Rent policy and model. The development of new products, such as Intermediate Rent, is an integral element of both the Minister's commitment to expand the rental options available here and the Department's Housing Supply Strategy which is in development.

5.9 The draft Programme for Government 2017–2021 recognised that housing challenges are broader than the need for social rented housing and shared ownership housing. It also recognised that government must reflect wider housing needs and demands beyond the provision of social and intermediate homes - reflected in Indicator 8: Improve the supply of suitable housing. More recently, in the NDNA agreement, housing is identified as a key priority, with a focus on ensuring that every household has access to a good quality, affordable and sustainable home that is appropriate for its needs.

5.10 The Draft PfG and NDNA commitments were reflected in a Ministerial statement to the NI Assembly on 3 November 2020 where the Communities Minister announced an ambitious and expansive housing programme which included the development of new products to provide a wider range of affordable housing options to increase supply and meet housing need. This included consideration of an Intermediate Rent product to improve rental options. Following this, departmental officials commenced work on the development of an IR product suitable for NI. As part of the wider housing supply strategy, the Intermediate Rent proposal is an important intervention which, in tandem with a spectrum of additional interventions, can support affordability, meet housing need, and assist households vulnerable to financial stresses and unaffordability.

5.11 DfC has committed to developing alternative forms of affordable housing, including those that address the problems faced by households in the PRS facing housing affordability challenges.

Research on IR product for Northern Ireland

5.12 DfC had already undertaken internal and preliminary desk-based research on Intermediate Rent products before commissioning additional independent research. This scoping research usefully examined a number of IR products in operation across the UK and Ireland and provided analysis of the key elements of similar products and consideration of potential application and funding implications within the NI housing setting. The scoping research conducted by DfC highlights that Intermediate Rent is a rental product which sits between social and private market rents and can improve housing cost, quality, tenure choice and security. The research further indicated that the implementation of an IR model in NI needs to be developed in frontal view of the key market failures that it will seek to address. It concludes that the development of the product should be steered by a clear idea of likely partners and providers and suitably identified parameters, including established rent levels and rent increase mechanisms.

CBRE Research

5.13 Research was conducted by CBRE for The Strategic Investment Board (SIB) (on behalf of DfC) to establish the need for and viability of Intermediate Rental Products for the NI housing market. This reported in May 2020. The scope of the research was to investigate and provide a sound evidence base to determine, *inter alia*, whether affordable rent product(s) are required in NI and explore the most cost-effective and viable model(s) for delivery, having regard to the level of government intervention that would be needed in order to inform decisions on the future policy direction of affordable rents in NI.

5.14 The May 2020 report provided a detailed review of comparable affordable rental products in England, Scotland, Wales and Republic of Ireland to inform delivery of appropriate housing and increase suitable housing supply to meet need and demand in NI. The research usefully offered tabular comparison of the key features of the comparable products from other jurisdictions and set out a proposed affordable rent product which could be further developed. The report also undertook further financial viability analysis which identified that an affordable rental product would have a role to play in areas of relatively higher market prices and how households in particular income groups might benefit from such a product.

5.15 The CBRE research concludes that there is a selective role for such a product in specific high-cost areas in parts of Belfast and the North West Broad Rental Market Areas (BRMAs). However, they also identify data limitations relating to smaller geographies for both social and private renting and suggest a case for alternative household income measures. They suggested further research at a more granular level and also further data collection to gauge interest in the product options, and to clarify what, if any, adjustments would be needed to the terms in order to make an IR product attractive to providers.

Business Consultancy Service (DoF)

5.16 In June 2020, the Business Consultancy Service (BCS) of the Department of Finance (DoF) was appointed by DfC to undertake a short scoping phase to identify further data and evidence requirements in relation to Intermediate Rental products and development. The purpose of the BCS research was to help scope the data, information, evidence and analysis required to develop and introduce Intermediate Rental products in NI and gain a fuller understanding of next steps in relation to Intermediate Rental product development including the associated requirements to source, collate and analyse the requisite information and data. The research was intended to provide DfC a proposed action plan based on the need for intervention, objectives, constraints and potential options.

5.17 The BCS report scopes out the data and further analysis required to test the Intermediate Rental market niche and bring the product to market. In the context of data and research, the BSC scoping study indicative action plan for the development of the IR product noted, under phase 3, the need for a tenant market test which includes:

(1) analysis of NIHE research on housing stress to understand trade-offs and product choice;
(2) analysis of NIHE PRS tenant survey to understand trade-offs and product choice and

(3) targeted tenant research to understand tenant preferences once location and segmented groups are identified.

They also noted that a delivery partner market test should be undertaken which could include:

a) consultation with key stakeholders/providers to market test product options;

b) review of PRS landlord survey and;

c) further stakeholder engagement.

CaCHE Research

5.18 Building on existing internal DfC scoping work, CBRE findings and BCS review of the potential IR model, DfC commissioned CaCHE to undertake further evidence-based research to investigate the development of a viable Intermediate Rent model for the NI housing market. CaCHE undertook rental analysis of NI Housing Association and private rents to identify rental and financial gaps across local market areas. The research also undertook modelling to identify the niche or potential demand for an Intermediate Rent product that sits between market and social rents and provide insight into the key issues pertaining to the design, governance and financing of an Intermediate Rent model. This included interviews with potential tenant and provider stakeholders relating to the scope, geography, structure and design of the IR model.

5.19 The research findings identified that there are considerable gaps between market and HA rents in the Belfast catchment and other rental locations outside of Belfast. The research also found that there is evidence from elsewhere in the UK, particularly Scotland, that suggest that a financial model based on a combination of FTC and private finance can be made to cover the costs of provision at submarket rents and does not require grant funding. The modelling research found that there may be as many as 50,000 households paying more than 25 per cent of their income on rent in the PRS and, of them, 20,000 pay more than 40 per cent. The research identified key principles that might underpin the shape of a potential new Intermediate Rent model and undertook a series of sense checking expert interviews and broader consultation about how such a product would be viewed across the housing sector.

5.20 Key Findings and Recommendations of CaCHE research:

- There are considerable gaps between market and HA rents in different parts of NI where the HA / PRS differential is at least 25 per cent for either two- or three-bedroom properties. These are potential locations for an Intermediate Rent product.

- There is evidence from elsewhere, particularly Scotland that suggests that a financing model based on the combination of FTC and private finance can be made to cover the costs of provision at an Intermediate Rent level. This does require a good covenant for lenders, but it appears that in principle such a model is viable.

- Modelling suggests that there is a sizeable cohort of private rental tenants whose affordability problems are particularly acute. It is estimated that there may be 50,400 households paying 25 per cent or more of their income in rent in the PRS and, of this group, 20,000 paying more than 40 per cent and that this may have deteriorated further. An FTC funded product could help meet affordable need for this cohort and do it without displacing social renting investment.

- The findings indicate that a 20 per cent reduction in rent has a significant impact on rental affordability, pushing nearly a third, (16,000 tenants), back below the 25 per cent 'affordability line'. Further discounts to market rent continue to reduce the number in rental affordability stress, but the impacts are less pronounced.

- Development of an IR product for NI should take into account a number of key design and implementation principles, specifically:

    - The IR model can work delivering sub-market rents on longer than standard private rental tenancies; the research favouring a core simple model, one that stands financially on just public and private loans through FTC and long-term debt or equity private financing;
    - The research prefers a standard five-year tenancy, for simplicity.
    - Additional subsidy flexibilities should be a viewed as a bonus rather than a necessary element.
    - Intermediate Rent will contribute to meeting housing need through provision at sub-market rents.
    - Determination of tenancy requires further consideration, specifically whether income ceilings, affordability thresholds or insufficient social housing 'points' would be employed.
    - The model could work potentially across different locations and settings but will require clarity in terms of scale and capacity to let properties.
    - Intermediate Rent would offer good value for money to government and the taxpayer. The IR product should not result in a significant increase in costs to housing-related benefits (e.g., the housing element of Universal Credit). Rents should be set to

a clear formula placing them between social and market rents on a consistent basis, allied to a well understood uprating formula (such as CPI plus a particular per centage).

- Findings from qualitative interviews suggested that there is an in-principle case for an Intermediate Rent product, although some of the support for this innovation was cautious and conditional on separating out clearly social renting from Intermediate Rent in terms of how properties are offered to prospective tenants. There was general interest from the sector in taking the product forward and broad agreement with the geography proposed for where an Intermediate Rent product might work.

- There is support for testing the IR model to ensure it can work in the NI and local market context, however, there a number of detailed issues, potential barriers, and proposals to overcome in terms of a proposed IR product for NI:

    - The proposed geography requires further consideration
    - Rent-setting is critical, both in relation to pitching the rent between market and social rent levels but also deciding on the underlying rationale of the initial rent level before dealing with uprating each year.
    - Questions remain as to funding draw down. Employing FTC and private finance is untested in NI in this context and project viability is essential.
    - Will the product explicitly relate to mixed tenure.
    - There is strong stakeholder support for longer tenancy length.
    - Concerns relating to application process, income cap, affordability and eligibility were identified.
    - There needs to be a ‘bright line’ between any IR scheme and zero displacement of the social housing scheme.

- The CaCHE research concluded that there were *prima facie* locations for an Intermediate Rent product which could be FTC funded to help meet affordable need without displacing social renting investment. The research indicated that the parameters of a potential IR model should involve: (1) A five-year tenancy and no within-tenancy reassessment of eligibility. (2) Initial rents may be pitched at 67-80 per cent of local market rents and annual uprating based on CPI (3) Eligibility may be based on an income cap set at £25-30,000 depending on how many earners are in the household, evidence of excess rents (greater than the relevant LHA), and (4) clear evidence that the household’s estimated points would not provide a realistic chance of securing social housing in a reasonable timeframe in an area of choice.

Developing the IR Model

5.21 Previous commissioned research by DfC has also undertaken extensive literature reviews of comparative IR models and detailed empirical analysis to establish an IR model product and potential parameters. Taken together, the commissioned research points to a need within the market for a product such as Intermediate Rent and this is viable and has the potential to provide an housing market intervention that can help to address niche housing market failures. Research has identified optimal locations for development of this new supply of homes where the gap between social and private rentals are most significant and noted that there is a potentially viable model for Intermediate Rent in NI that a model can be developed using a mix of FTC loan and private subsidy.

5.22 Based on research and informal sectoral engagement, an outline framework for the introduction of an Intermediate Rent model has been developed and departmental consultation advanced. The evidence base indicates that the Intermediate Rent model may:

- create a new supply of homes in locations where Intermediate Rent is viable and attractive to deliver and live in;
- provide much needed quality housing supply, at below market rents, aimed at lower income individuals and families (with defined income bands to maximise impacts);
- focus provision of Intermediate Rent homes in areas where rent differentials are highest, and where people wish to live;
- set rent at a level below market rents which is more affordable for eligible households;
- offer tenants increased security of tenure, meaning that tenants can remain in their Intermediate Rent home with tenancies offered for terms of longer than the sectoral norm of 12 months (e.g. a tenancy term of up to five years with opportunities for renewal);
- require the Intermediate Rent programme operator to make available a network of management and support services to tenants; and
- ensure rollout of the Intermediate Rent model where it can be viable for the programme operator, subject to funding and approvals.

5.23 DfC has undertaken significant engagement with a range of stakeholders, including housing providers, private landlords, and housing lobby groups through the establishment of project forums. Further intelligence has been obtained through research and interviews with a variety of housing stakeholders (CaCHE, 2021).

5.24 DfC has also undertaken public consultation on the proposals for Intermediate Rent. The Department published a Consultation Outcome Report in March

2022, outlining the feedback received on proposals, the Department's response, and an outline of next steps[5].

Key Issues and Gaps for the current research

5.25 The introduction of an Intermediate Rent product is complex and not straightforward. This approach has the potential to provide a small but significant component of the NI housing market which can increase the supply of affordable housing and improve tenure options.

5.26 There remain a number of key issues relating to eligibility, allocation, setting of rent levels across geography, scale, capital funding and product delivery and management. Research evidence has identified the need for deeper analysis and further research to refine the IR model options and explore administrative, operational and delivery mechanisms through market testing research in order to gauge feasibility and identify enablers and barriers to the provision of an IR product in NI.

5.27 CBRE recommended further assessment of provider interest through survey evidence followed by interviews with a number of potential private and registered social landlord providers, to gauge interest in the product options, and to clarify what, if any, adjustments would be needed to the terms in order to make the product(s) attractive to providers. CBRE also suggested market testing with potential delivery agents, including the use of a semi-structured questionnaire, followed up by individual interviews.

5.28 Phase 3 of the BCS scoping study action plan for the development of the IR product indicated the need for a tenant market test including: (1) analysis of NIHE research on housing stress to understand trade-offs and product choice i.e. in terms of price, quality; (2) Analysis of NIHE PRS tenant survey to understand trade-offs and product choice i.e. in terms of price, quality and; (3) targeted tenant research to understand tenant preferences once location and segmented groups are identified. Further, a delivery partner market test should be undertaken which could include: (1) qualitative data collection with NIHE, HAs and Private Sector to market test product options and; (2) review of PRS landlord survey (3) further stakeholder engagement.

5.29 Thus the following report progresses the conclusions of previous scoping and empirical research, by profiling the characteristics and perspectives of potential tenants and programme operators to inform the final design of an IR model for NI.

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[5] Available at: https://www.communities-ni.gov.uk/sites/default/files/consultations/communities/Intermediate%20Rent%20Consultation%20Outcome%20Report_2.pdf

Section 6

6.0 SECONDARY ANALYSIS OF EXISTING SURVEY DATA

6.1 The existing research on the development of IR model for NI has identified that further profiling of potential tenants is required to inform the proposed IR model. Accordingly, there is a need to gather further evidence relating to various gaps including the profile of potential tenants in terms of income, affordability, eligibility, requirements in terms of rent covenant, quality, and tenure, need and attitudes to renting. This section presents an overview of the key findings from secondary quantitative analysis of two datasets: the Private Tenants Survey (2020) and Housing Stress Survey (2020) to profile potential tenants for the IR product and garner deeper insights into tenants' characteristics relating to key issues. It should be borne in mind that these surveys were not undertaken with IR in mind and largely predates work to develop an IR model, however, they offer some valuable insights into renters' attitudes and aspirations which are applicable to the research.

6.2 This Section begins by undertaking analysis of the PTS to garner insights into existing tenant's attitudes and perspectives in relation to housing costs and profiling to interrogate the efficacy of the proposed IR model. Specifically, this section undertakes analysis of the PTS in order to establish the gaps between income sensitivity and rents, and to explore the application of the IR model to potential tenant's profiles/eligibility criteria, demographics, income, affordability and housing needs to provide an evidence base for tenants and providers which will inform the delivery strategy for IR products. It then proceeds to offer analysis of the HSS to provide further insights into key need and stress issues. Unless stated otherwise, the analysis throughout this section includes NI as a single geographic unit and is also disaggregated by available spatial differentiation, specifically Belfast and outside of Belfast for the PTS survey and NIHE Housing Market Areas (HMAs). It was not possible to interrogate the datasets at a lower spatial geography, as the datasets do not permit this level of analysis.

Analysis of the NIHE Private Tenants Survey

6.3 The review of the secondary data in relation to the PTS provides an initial overview relating to the typical background of tenants who completed the survey. This online survey conducted in 2020 by the NIHE obtained 2,527 responses which was intended to garner views and perspectives on tenants experiences living within the PRS. It presents thematic findings in relation to key challenges and requirements and further undertakes analysis of income and rents and relationships to help determine eligibility criteria and evidence to help inform the design of any potential IR product.

Profile of Survey Respondents

6.4 Average household size in the survey equated to 2.38. The household composition of the survey respondents shows that 36 per cent are two person households, 29 per cent single person households, 16 per cent three person, 12 per cent four person households, with seven per cent 5+ person households.

6.5 In terms of household composition, 43 per cent were two adult households, 41 per cent one adult households with seven per cent a three-adult household. Approximately 71 per cent of households have no children, 14 per cent have one child[6] with 11 per cent having two children and four per cent three children.

6.6 Regarding marital status, 54 per cent of the PTS survey respondents are single (never married), 17 per cent married (first marriage), three per cent re-married, three per cent in a Civil Partnership, with nine per cent separated (but still legally married), 13 per cent divorced (but not legally remarried) and two per cent windowed[7].

6.7 The survey sample exhibited that 60 per cent of tenants were not in receipt of any kind of benefits, whilst 22 per cent receive housing benefit. Notably, 83 per cent of this cohort stated that benefits did not cover their rent.

6.8 The average age of respondents is 40 years, with the median 37 years. Approximately 43 per cent of the respondents are aged between 16-34, with 40 per cent aged between 34-54, and 17 per cent aged 55+ years.

6.9 In terms of property type, 10 per cent live in a detached house and five per cent within a detached-bungalow. Just over one quarter (26%) reside in a semi-detached property and three per cent in a semi-detached bungalow, with 30 per cent residing in terrace properties. Just under one-fifth of survey respondents (18%) reside in purpose-built apartment blocks and seven per cent within an apartment in a converted house. Just over two per cent stated ‘other’.

6.10 The average number of bedrooms is 2.6 for the survey sample. Approximately 42 per cent of tenants reside in three-bedroom properties, 35 per cent in two-bedroom properties, 14 per cent in 4 (4+) properties and seven per cent in one-bedroom properties. Two per cent of respondents indicated they lived in a bedsit or rented a room in a shared property.

6.11 For those tenants who reside in detached properties, 39 per cent comprised three bedrooms with 49 per cent 4(+) bedrooms. For semi-detached housing, 17 per cent contained two bedrooms, 70 per cent three bedrooms and 12 per cent four bedrooms. In the sample, 46 per cent of terrace properties have three bedrooms, with 37 per cent comprising two bedrooms. Purpose built apartments show 76 per cent to be two bedroom and 15 per cent to have one bedroom, with converted apartments showing 34 per cent to be one bedroom and 46 two bedrooms.

6.12 In terms of location profile, 10 per cent of tenants surveyed resided in East Belfast, nine per cent in North Belfast, 21 per cent in South Belfast and four per cent in West Belfast. Just over half (52%) resided outside of Belfast, with

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[6] Defined as below the age of 15 years.
[7] Percentages have been rounded and may not equate to exactly 100 percent

just over five per cent of surveyed tenants preferred not to disclose their location.

Tenant Sophistication and Regulatory Awareness

6.13 Survey responses infer a lack of sophistication/awareness on the part of the tenants in terms of their rights. For example, 64 per cent of respondents stated that they were unsure or had not been provided with an Energy Performance Certificate (EPC).

6.14 Similarly, 64 per cent of tenants surveyed were either unsure or had not been provided with a rent book, with a further 55 per cent stating they had received no inventory.

6.15 Some 62 per cent of respondents were unaware or had limited knowledge of the landlord registration scheme. It is also noteworthy that a number of contributors did not respond to this question. A higher per centage of respondents (80%) were not aware of the Housing Rights Mediation Service.

6.16 Just under one-quarter of those surveyed (24%) were dissatisfied with the letting agents'/property management companies. Nonetheless, 65 per cent indicated that they were satisfied with the level of service they receive.

Professionalism and Quality of Stock Provision within the PRS

6.17 Over half or respondents (52%) reported that they struggled to find suitable accommodation within the PRS. Of these, 64 per cent cited affordability as an inhibiting factor to finding suitable accommodation. The analysis also implies that competition for property is higher in East (63%) and West Belfast (54%) relative to the remainder of Belfast. In addition, 29% of respondents stated they had selected their current property based on affordability.

6.18 The PTS survey data suggested an issue with the quality of stock within the PRS – with respondents citing poor state of repair, with specific issues relating to damp problems, poor heating/insulation systems and energy efficiency. Invariably, the current escalation in the cost of living challenges will undoubtedly exacerbate these reported issues.

6.19 Lack of professionalism on the part of landlords was also highlighted in relation to the speed of repairs and clarification on who is responsible for repairs. Unannounced visits on the part of the landlord and contract dissolution during the tenancy were further detailed as issues/concerns from survey respondents.

6.20 Considering housing furnished/unfurnished preference, 66 per cent of tenants surveyed said it was important that properties were furnished, with 34 per cent stating that they did not have furnishings, and it was highlighted that this was associated with expenditure (unable to afford or unwilling to spend money on a property they are renting).

6.21 The analysis also exhibits differences between Belfast (as a whole) and outside Belfast in preference for furnishing. Of those respondents living ‘Outside of Belfast’, 50 per cent placed importance on furnished status, whereas within Belfast, a higher per centage placed emphasis on the importance of furnished properties for rental properties.

Tenancy Agreements

6.22 Those surveyed identified security of tenure as a prominent concern. The findings showed 41 per cent of respondents had concerns about security of tenure related issues and potential rent increases. Just over 10 per cent of respondents highlighted that they had to previously vacate a property due to rental increases resulting in unaffordability.

6.23 Generally, tenancy agreements were set for a fixed period and in the main this was for a period of 12-24months (76%). Although, it is worth noting that 41 per cent of these respondents had no firm fixed date of extension after the initial fixed term reverting to a monthly basis and undermining security of tenure for tenants.

6.24 The analysis highlighted that 51 per cent of tenants had been in their current property (within the PRS) for two plus years, while 37 per cent of tenants surveyed indicated that they had lived in the sector for more than five years. This finding was consistent across market areas, again suggesting that a large cross-section of private tenants in NI are residing and continuing to reside in the PRS – perhaps ‘locked in’. However, for 20 per cent of the tenants surveyed, experiences within the private rental sector were more transient.

6.25 Across the market geography areas there was general consistency in relation to the length of time respondents had been renting within the PRS. Across the delineated market areas between 31 per cent and 41 per cent of tenants had been living in their current accommodation for ‘2 years or more but less than 5 years’. The West Belfast market area recorded the highest proportion of renters to have lived in their current accommodation within the 5+ years category followed by the North Belfast area. For those tenants who have been within the PRS for more than ten years, the highest frequency were residing ‘outside of Belfast’.

6.26 The majority of tenants surveyed had appetite for longer-term tenant contracts with appetite also for medium- to long-term tenancies. Almost half of respondents (47%) indicated that their ideal tenancy would be 3-5 years. Notably, 28 per cent of the survey respondents would ideally want an agreement of five years plus.

6.27 There were some spatial differences in terms of tenancy renewal and attitudes towards the ideal length of tenancy. Within the Belfast area, 60 per cent of tenants renewed their tenancies, however, outside of Belfast 40 per cent of tenants renewed their tenancy agreements.

6.28 Appetite for 5+ years tenancy was highest outside Belfast with 38 per cent of surveyed tenants living outside the city selecting this preference, and a further 56 per cent of tenants outside Belfast preferring 3+ years. Within Belfast, 47 per cent of tenants surveyed were residing within North Belfast wanted tenancies of 3+ years, with 28 per cent preferring 5+ years, followed closely by West Belfast (43%), of which 23 per cent favoured 5+ years. Rolling contracts were more preferable in South Belfast (20%) and West Belfast (17%).

6.29 The PTS survey explored tenants reasons for living in a particular area. Personal circumstances appeared to drive some deviations in terms of choice spatially. Being close to kinship ties was much more pronounced in West Belfast, some 15 per cent higher than other market areas. Within Belfast, affordability seemed to drive choice more so than outside of Belfast.

Rental deposit requirements and rent advances

6.30 The PTS survey highlights that 85 per cent of tenants surveyed paid rent in advance with 91 per cent also paying a deposit. Half (50%) of respondents had to pay more than £500 deposit on their rental property. Deposits were sourced; – 65 per cent out of their own savings, 23 per cent derived from family and friends with 6 per cent of respondents utilising loans/credit card. The analysis shows that almost 30 per cent of respondents did not have the financial capacity to pay the rental deposit on their property. Indeed, 40 per cent of respondents highlighted this is a key issue when accessing the PRS.

6.31 In terms of market composition, circa 50 per cent of respondents residing in South and East Belfast found it easier to pay the deposit requirements in advance. In contrast, 48 per cent of respondents residing within North and West Belfast found it difficult to raise the deposit and/or rent in advance. This appears to be associated with income profiles of tenants.

6.32 Just under 40 per cent of the tenants surveyed found it difficult to pay rent in advance. Approximately one third (33%) of respondents paid up to £450 with 53 per cent paying more than £500 in rent in advance.

6.33 It is noteworthy that just over one-quarter (26%) of respondents could only afford an increase in rents of up to £60 per month – equivalent to a 10 per cent rent increase (based on average rent). A mere 18 per cent of respondents indicated that they *could* afford an increase in rent of £80 per month.

6.34 Additionally, 89 per cent of respondents stated that rental payments were their main priority with 56 per cent of respondents stating they have had to reduce other expenses in order to pay their rent – primarily savings (31%), food (17%) and heating (12%).

6.35 The inability to save suggests that for almost a third of respondents, the ability to elevate out of the PRS towards homeownership is being compromised.

6.36 In the preceding 12 months of the survey, 47 per cent of respondents reported that they had missed a rental payment generally due to reduced hours of work or absence of overtime.

Rental Affordability of Tenants

6.37 In terms of rental value, 46 per cent of respondents considered their rent to be high or very high, with 44 per cent considering it to be satisfactory. Notably, two-thirds (66%) indicated their rent had not increased, with one fifth (20%) of tenants indicating their rent had increased within the last two years.

6.38 Comparing the number of rooms relative to the household size shows the average bedroom per person equated to 1.94 with a median of 1.50. Alternatively, the average household size to bedroom ratio equated to 0.64 suggesting that tenants were under-occupying housing – contributing to their affordability issues. Overall the data tentatively suggests that private tenants have however no alternative (choice) than to rent properties which are bigger than required, further suggesting that the availability and elasticity of stock appears to be a challenge in NI.

6.39 Similarly, examining rental prices on a per-room basis and multiplying this by the household size in comparison to actual rents paid indicated that, on average, tenants were over-paying (based on what they need) by a third (average 0.63; median 0.66). Put differently, on average, tenants should only be paying two thirds of the rent (based on need) that they are paying which may be contributing to the affordability issue.

6.40 Considering rental affordability of tenants on benefits, just over half (51%) of those that received benefits identified a shortfall of up to £130 per month with 49 per cent stating it was difficult or very difficult to afford this shortfall. When asked how they afforded this shortfall, respondents indicated that they generally paid the shortfall mainly from other benefits followed by savings, wages and DHP. Some tenants did identify that they did forgo other items to make up the difference. Just over 50 per cent of respondents in receipt of benefits stated that recent welfare changes had adversely impacted their ability to pay rent.

Future intentions for housing choice next five years

6.41 The survey highlighted that 44 per cent of respondents plan to stay within the PRS for the next five years, with 29 per cent planning to stay in their current property. Approximately 30 per cent of tenants surveyed aspired to move into owner-occupation. Of this 30 per cent of surveyed tenants who aspired to move into home-ownership, just under three quarters (74%) stated that they are prevented from buying their own home due to their inability to save for a deposit.

Income and rent profiling

6.42 Descriptive statistics, based on the sample of 2,035 responses[8] shows that gross average household income[9] of tenants surveyed was approximately £1,851 per month, with a median income of £1,622 per month. The analysis reveals that 68 per cent of tenant's gross income ranges between £749 and £2,953 per month (**Table 6-1**).

6.43 The analysis, applying 2,299 observations, recorded an average rent[10] of £561[11] with just over two-thirds (68%) of the sample paying rents ranging between £382 and £740 per month (**Table 6-1**).

6.44 While it is important to analyse and compare income and rental costs, examination of a tenants 'actual' ability to pay is of equal importance as this provides insight into what tenants can afford to pay and not what they are paying relative to their income.[12] Therefore, taking account of 25 per cent of tenants income relative to what they are paying on rent, the analysis indicates that, on average, tenants surveyed could afford to spend £463 (**Table 6-1**) on rents without going into rental affordability stress. At the 75th per centile of the participating tenant income profiles, the amount tenants could afford pay on rent equated to £595, on average, and only 25 per cent could afford more than this figure (**Table 6-1**).

Table 6-1 Descriptive statistics of PTS income and rents

	Rent	Income	Income (25%)
Mean	561	1,851	463
Median	548[a]	1,622[a]	412
Std. Dev.	178.9	1102.2	275.5
25	443	885	184
75	656	2,636	595
N	**2,299**	**2,035**	**2,035**

[a]Calculated from grouped data. [b]Percentiles are calculated from grouped data.

6.45 The analysis of respondent tenants average Rent-to-Income (R-t-I) ratio equated to 43 per cent suggesting that tenants, on average, are paying 43 per cent of their income on rents (**Table 6-2**). When considering the median, the findings show that tenants expended 34 per cent of their income on rental costs.

6.46 Further, the results show that just over two-thirds (68%) of tenants within the sample (based on 1,932 observations) were beyond the rental affordability threshold of 25 per cent. In other words, only 32 per cent of tenants surveyed

[8]This reduced sample is due to participants preferring not to declare either income or rent levels. Rent statistics are determined using 2,299 observations with income statistics determined using 2,035 observations. Ratio based statistics are based on 1,928 observations.
[9] We apply the mid-range point within each income band.
[10] The mid-point rent for each band is applied.
[11]The survey findings showed 87% of respondents stated that there rents included rates, however noted that 61% did not receive a breakdown of rent and rates when you signed up to your current tenancy.
[12] This is determined by taking the stated income mid-point bands and multiplying by 25% to derive what a tenant can actually afford based on their income.

paid less than 25 per cent of their income on rent. Extending the affordability threshold to 30 per cent, the analysis reveals that 54 per cent of tenants still paid beyond this threshold (**Table 6-2**).

6.47 Examining the variation in rental values relative to the 25 per cent affordability benchmark shows approximately 11 per cent of tenants surveyed fell within +/- two per cent of the threshold (**Table 6-2**) with 28 per cent of tenants affordability ranging between 20 per cent and 30 per cent of income.

6.48 Comparison of average rents (£561) with the 25 per cent of income that surveyed tenants can afford to pay on that average rent (£463), indicated a deficit of £98 on average, which equates to 21 per cent of income. This translates into an 18 per cent gap, on average, in terms of market rent (**Table 6-2**). This infers that, on an ability to pay basis, a market discount on market rents of 20 per cent will be effective to some degree in alleviating rental affordability stress.

Table 6-2 Affordability threshold and profiling

Thresholds	%
Average Rent-to-Income ratio	43.12%
Median Rent-to-Income ratio	33.83%
% paying beyond 25% of income	68.10%
% paying beyond 30% of income	54.40%
Within +/-2% of 25%	10.70%
Within +/-5% of 25%	28.40%
Between 25-30%	13.94%
Deficit (stated) income / rent	-£98.00
Deficit % (on 25%) of income	21.17%
Deficit as a % of Rent	17.55%
Base = 1,928	

6.49 Considering rental affordability by property type, the analysis applying 25 per cent of income to measure the gap between what tenants can pay relative to their average rental costs, shows there to an average affordability gap ranging between 23 per cent (or £148) for Detached houses, to 11 per cent (or £54) for converted apartments (**Table 6-3; column two**).

> **Example**. As highlighted in **Table 6-3**, tenants living in terrace houses spend £84 per month, or 16% of their income, on rental costs beyond the 25 per cent accepted affordability threshold.

Considering those tenants at the lower quartile (25th percentile) of the income range, this gap was much more pronounced varying between 63 per cent for tenants residing within semi-detached housing, and 30 per cent for tenants residing within converted apartments (**Table 6-3**). This suggests that there is an acute rental affordability gap for those tenants surveyed on lower incomes living in semi-detached housing. This may be due to preference or indeed no alternative housing options available.

Table 6-3 Gap between 25% of income and % of income to rent by property type

		Mean	Median	25th P	50th P	75th P
Detached	£Gap	-147.56	-112.5	-291.62	-112.5	12.5
	25% R-t-I	-22.63%	-18.75%	-58.32%	-18.75%	1.53%
Semi-detached	£Gap	-110.61	-188.5	-316	-188.5	4
	25% R-t-I	-18.77%	-31.42%	-63.20%	-31.42%	0.57%
Terrace	£Gap	-84.32	-142.5	-216	-142.5	-4.25
	25% R-t-I	-16.32%	-28.50%	-54.00%	-28.50%	-0.71%
Apt (purpose-built)	£Gap	-71.73	-112.5	-218.5	-112.5	4
	25% R-t-I	-12.45%	-18.75%	-43.70%	-18.75%	0.57%
Apt (converted)	£Gap	-53.47	-88.5	-118.5	-88.5	-4.25
	25% R-t-I	-10.89%	-17.70%	-29.63%	-17.70%	-0.71%
Base = 1,932						

6.50 As previously evidenced, the findings indicated that for those tenants surveyed that there may by under-occupancy, or a mismatch between household size and rental costs. Therefore, comparing the number of bedrooms relative to the R-t-I ratio provides some useful insights as to any potential variation in rental and income costs by the number of bedrooms. The analysis shows the average R-t-I ratio to range between 46 per cent for one-bedroom properties, to 41 per cent for two-bedroom properties which displayed the lowest ratio (**Table 6-4**). Notably, the variance was also lowest for two-bedroom dwellings. This indicates that, on average, tenants residing in properties with, for example, three bedrooms, are paying 45 per cent of their income on rental costs.

Table 6-4 Rent-to-Income ratio by number of bedrooms

	N (obs)	Mean	Median	Std. Dev
1 bed	128	45.92%	34.40%	0.403
2 bed	698	40.87%	30.77%	0.2865
3 bed	817	45.00%	34.97%	0.2912
4 bed	247	43.62%	31.96%	0.3239
Base = 1,890				

6.51 When further considering what tenants can afford to pay based on 25 per cent of their ‘actual’ (average) income, the gap between average incomes and rents for one-bedroom properties equates to, on average, £109 or a R-t-I deficit of 21 per cent (**Table 6-5**). This indicates that tenants living in one-bedroom dwellings are paying 21 per cent of their income beyond the 25 per cent affordability threshold. This was also comparable for both three- and four-bedroom properties overall, which displayed a financial gap of £115 and £116 respectively equating to 20 per cent and 18 per cent gap beyond 25 per cent of their income. Two-bedroom properties, in the main, showed a reduced gap of

£70 or 13 per cent. When examining the market median, the affordability gap markedly increased (**Table 6-5**). The gap also markedly increased when examining the lower quartile of the distribution showing the gap to equate to 63 per cent for two bedroom properties.

Table 6-5 Gap between 25% of income and % of income to rent by bedrooms

1 bed	Mean	Median	25	50	75
Gap£	-£109.17	-142.5	-216	-142.5	-4.25
25% R-t-I	-21.35%	-28.50%	-54.00%	-28.50%	-0.71%
2 Bed					
Gap£	-70.13	-88.5	-316	-88.5	104
25% R-t-I	-12.95%	-17.70%	-63.20%	-17.70%	17.33%
3 Bed					
Gap£	-114.85	-188.5	-316	-188.5	-4.25
25% R-t-I	-20.10%	-31.42%	-63.20%	-31.42%	-0.71%
4 Bed					
Gap£	-115.96	-112.5	-143.5	-112.5	12.5
25% R-t-I	-18.40%	-18.75%	-33.77%	-18.75%	1.56%
Base = 1,890					

6.52 With respect to the defined market areas (**Table 6-6**), the analysis showed a deficit between mean (and median) market rents and income across all of the market areas.

Example. As highlighted in **Table 6-6**, the East Belfast market area showed an affordability deficit of £49, or eight per cent. This indicates that for those tenants living within this market area, they are paying eight per cent of their income above the 25 per cent affordability threshold, which equates to a gap of £49 per month.

The level of the affordability gap increases markedly for those tenants surveyed who are residing in the North and West Belfast market areas. The analysis indicates that tenants in the West Belfast market area have an affordability gap of £140 per month. Or simply put, they are paying, on average, £140 (or 25 per cent of their income) above the expected 25 per cent income affordability threshold. Notably, tenants in the lower quartile of income show heightened levels of unaffordability with gaps ranging between £218 and £316, or 44 per cent to 63 per cent (**Table 6-6**).

Table 6-6 Gap between 25% income and % of income to rent by market area

		Mean	Median	25th P	50th P	75th P
	R/I Ratio	27.25%	30.77%	44.40%	30.77%	21.54%
East Belfast	Gap£	-48.8025	-112.5	-218.5	-112.5	112.5
	25% R-t-I	-8.26%	-18.75%	-43.70%	-18.75%	16.07%
	R/I Ratio	32.12%	34.97%	67.93%	34.97%	25.18%
North Belfast	Gap£	-120.375	-142.5	-316	-142.5	-4.25
	25% R-t-I	-22.16%	-28.50%	-63.20%	-28.50%	-0.71%
	R/I Ratio	31.80%	34.97%	67.93%	34.97%	25.18%
Outside Belfast	Gap£	-117.75	-142.5	-316	-142.5	-4.25
	25% R-t-I	-21.38%	-28.50%	-63.20%	-28.50%	-0.71%
	R/I Ratio	27.64%	30.77%	35.52%	30.77%	21.54%
South Belfast	Gap£	-55.115	-112.5	-118.5	-112.5	112.5
	25% R-t-I	-9.55%	-18.75%	-29.63%	-18.75%	16.07%
	R/I Ratio	33.26%	36.45%	67.93%	36.45%	29.15%
West Belfast	Gap£	-140.23	-188.5	-316	-188.5	-85.44
	25% R-t-I	-24.82%	-31.42%	-63.20%	-31.42%	-14.24%
Base = 1,759						

Summary of Key insights from PTS

The analysis of the PTS indicated areas of clear housing need, tenure choice and affordability. Overall, six key findings emerge:

- **The PRS requires more professionalism and regulation.** It may be inferred from the findings that there is a need for a more professional, transparent framework within the PRS which serves to better inform tenants on their rights and of the regulatory frameworks pertaining to PRS. This positively supports the idea of the introduction of the IR model, as there would be an expectation of increased professionalism in terms of operational management and reduce exposure to the potential of less professional landlord practices.

- **The PRS needs more affordable rent models.** Generally, tenants found the rents to be high and difficult to afford – including those in receipt of housing benefit / welfare support. This was exacerbated by high upfront costs involving deposits and rent in advance payments. The affordability issue continued during the tenancy with only a quarter of tenants viewing a 10 per cent rental increase as something they could afford, and over half reporting a requirement to defray other expenditures to afford rent payments, such as savings and essentials such as food and heating.

- **The proposed IR model is appropriately calibrated.** Tenants who completed the PTS survey were paying on average 43 per cent of income on rent, against an ideal of 25 per cent of income. The findings reveal that between 54 per cent and 68 per cent of tenants were paying beyond 25-30 per cent of their income on rental costs. This suggests that for the average tenant in NI, a 20 per cent reduction from market rent would help address the affordability issue, however between 25-30 per cent would be more sufficient. Whilst individual circumstances vary considerably in the sample, there is a definite trend that poorer tenants are more affected by the affordability gap. In this regard there is definitely a market-based need for the IR model.

- **The PRS Tenants are not transient.** Tenants were generally settled into a renting form of tenure, either by choice or by circumstances, and generally would prefer more security of tenure and a medium term letting. The majority would prefer a tenancy of longer than three years, with a significant minority seeking five years or more. However, this is against the backdrop of high rental and poorer management, so this outlook may be extended overall if rent concerns and a better management regime where part of the package. This supports the introduction of the proposed IR model for enhancing tenancy consistency.

- **The PRS tenants need support for positive tenure choices.** The affordability concerns shed light on how PRS tenure can mitigate against eventual home ownership, given the difficulty many tenants face in building savings that could be used as a deposit. Mortgage access is also potentially compromised by almost half of the respondents reporting a history of missed rental payments – largely due to precarious income profiles from employment – reduced hours of work and availability of overtime. Whilst the proposed IR model would still require tenants to comply with tenancy obligations, the reduced rent would help mitigate these issues. It is also suggested that some element of a 'saving for deposit' scheme be considered, similar to the existing 'rent to buy' scheme, allowing tenants to build a rent account buffer against short term cashflow issues and / or build a deposit.

- **The PRS needs more purpose-built stock.** Whilst most properties occupied by the tenants surveyed were two bedroom or less, there was a relatively high ratio of bedrooms to occupants overall – this was likely to be exacerbating the affordability issue, with more bedrooms associated with higher rent, all other things being equal. This may indicate a need for the provision of stock with fewer bedrooms, where this can facilitate lower rents. This plays to the strengths of the proposed IR model, given that an element of the provision is intended to be undertaken in new build purpose-built units. It would be ideal to have some scope for flexibility within the stock offered, to allow sideways movement / rationalisation of stock provided, to allow for the changing personal circumstances of tenants. Though it must be noted that in other jurisdictions, one bedroom units for IR schemes have been challenging to deliver due to economies of scale and costs.

Analysis of the Housing Stress Survey

6.53 The Housing Stress Survey (HSS, 2020) based on 1,002 observations was examined in order to profile of those who would benefit most from IR products, permitting further insights into tenant profiling and discussion relating to the efficacy of the proposed IR model features to help draw out further evidence to support or indicate potential amendments to the proposed IR model based on affordability. As noted for the PTS, the HSS survey was not designed to collect specific data relating to the IR product, rather the survey focuses on housing applicants on the common waiting list who were experiencing housing stress (30 or more housing points) and this should be considered in any interpretation of the reported findings.

Profile of HSS Respondents

6.54 The average age of respondents who participated in the HSS survey is 44, with the median 42 years. A quarter (25%) of respondents were below the age of 29, with 13 per cent of those surveyed above 65 years.

6.55 The majority of the respondents (57%) are one-adult households, with 23 per cent constituting two-adult households. Three-adult and four-adult households constitute 10 per cent and six per cent of the sample respectively. The remaining five per cent are 5+ person households.

6.56 In terms of employment, just over one fifth (21%) of the respondents claimed that they are not working or seeking work, with 11 per cent unemployed and 14 per cent indicating that they have a full time job, whilst 12 per cent are in part-time employment. Approximately, 14 per cent of those surveyed are retired and 16 per cent are either permanently sick or disabled.

6.57 For those surveyed who (at the time of survey) were private renters (n=485), 24 per cent were employed (FT/PT), two per cent self-employed, with 70 per cent Unemployed/not working. Approximately one-third (33%) received no benefits with 43 per cent in receipt of housing benefits and 20 per cent in receipt of Universal Credit.

6.58 In terms of current tenure, of those who are private renters, nine per cent of private tenants are lodgers, 19 per cent sharing/sofa surfing with 11 per cent currently residing in temporary accommodation (single let/other TA) and five per cent in hostel temporary accommodation or a B&B (1%). Over half of the private tenants (55%) reside within a fixed abode within the PRS.

6.59 Just under half (47%) of private renters surveyed who received benefits indicated that the benefits did not cover housing costs, with 20% indicating that the benefits received did cover housing costs.

Waiting list and Tenure

6.60 The median waiting time of respondents on the housing waiting list is 2 years, whereas the average is just under three and a half years (3 years and 5 months). One quarter (25%) of the respondents have been on the housing waiting list for more than 4 years.

6.61 In terms of current tenure/housing circumstances, private tenants are the largest group of respondents (43%), followed by sharing/ sofa surfing (15%) and temporary accommodation (comprising B&B hotel, hostel and single let etc.) (14%). Only six per cent are owner occupiers, with approximately eight per cent indicating that they live with family members and/or friends and seven per cent are lodgers.

6.62 For the respondents who have a fixed permanent abode, over 50 per cent are owner-occupiers, with 42 per cent privately renting. On the other hand, a small fraction of the sample (8%) rent a bedroom. It is further noteworthy that the vast majority of the latter group of respondents (86%) would not consider a shared tenancy in social housing (where they rent a bedroom in a shared social housing property).

6.63 Approximately one third of respondents (33%) indicated that they had lived in their current accommodation with no fixed abode for more than five years. Further, 31 per cent claimed they were in the same situation for more than one year, but less than 5 years. Just under one fifth (19%) indicated they had lived in their current accommodation for less than six months.

6.64 For respondents without fixed abode, approximately 60 per cent indicated that they had been without accommodation for more than six months. Amongst this group of people, half (50%) had been without accommodation for over two years. It is further revealed that the majority of them (66%) had not been offered hostel/temporary accommodation.

6.65 Amongst those who have been offered hostel/temporary accommodation, half (50%) of them accepted the offer. On the other hand, the remaining half stated that family issues and health-related circumstances were the main reasons they rejected the offer.

Current accommodation and satisfaction

6.66 The average number of bedrooms equates to 2.58 bedrooms. Just under half (49%) of respondents lived in three bedroom properties, with 31 per cent living in two bedroom properties and 11 per cent of respondents residing in one bedroom properties. Just over nine per cent reside in properties with four or more bedrooms.

6.67 The majority of respondents (71%) were satisfied with the size of their current properties. Just over one-fifth (21%) were either quite or very dissatisfied.

6.68 Regarding state of repair of their current properties, most of the respondents within the survey were either satisfied (36%) of very satisfied (32%) with only 18 per cent expressing dissatisfaction. When asked whether the property suits their housing needs, the responses became more polarised with over half (56%) of respondents either quite satisfied or very satisfied, whereas just over one-third (34%) showed dissatisfaction and nine per cent were neither satisfied nor dissatisfied with their current properties.

6.69 In terms of the financial aspect of the property, of all tenants who responded, 43 per cent of respondents stated that they were not satisfied with housing costs. The survey analysis further suggests that the vast majority of the respondents were satisfied with the location of their properties (81%) with only 11 per cent expressing moderate or strong dissatisfaction.

6.70 Amongst the respondents with fixed permanent residence, over two-thirds (69%) lived in houses; 13 per cent in bungalows with 12 per cent living in a flat or maisonette and five per cent in apartments blocks.

Attitudes to Social housing

6.71 All respondents were asked a series of questions exploring their attitudes and beliefs in relation to social housing. They were also asked about their areas of choice and why they were important to them. The findings show that location seems to be an important factor in the decision-making process of the applicants for social housing. The findings of the survey reveal that just over one-third (35%) of respondents favoured areas with social and family support, with 22 per cent pointing out familiarity with the neighbourhood a primary consideration. In addition, 12 per cent stated that safety and comfort of the area is of great importance in choosing where to live. Proximity to schools is considered by eight per cent of the respondents as a paramount locational factor.

6.72 The survey further revealed that the majority of the respondents perceived social housing as socially, financially and mentally beneficial. The vast majority (84%) of participants indicated that life would be easier/ better in social housing with another 78 per cent stating that a social house is the only way they can remain near their family/roots. Two-thirds (66%) agreed that social housing supports their health needs in general with the vast majority (>90%) indicating social housing could/would improve their mental health.

6.73 The analysis infers that social housing is perceived as a form of protection at both personal and social levels - a primary reason why most respondents were in strong support of it. The survey data revealed that over 68 per cent of respondents agreed that being on the waiting list for social housing provides a safety net, with 44 per cent citing security of tenure offers protection, believing they would not be evicted from social housing. It is further worth highlighting that over 63 per cent of respondents were of the view that the Housing Officer would help them to sustain their tenancy and access support. More than two thirds of respondents (68%) also believed that social housing is better maintained than other forms of housing.

6.74 Respondents were generally inclined to rely on social housing in the long-term. When asked what their future plans would be if they were successfully allocated a social housing unit, the majority of them (57%) indicated their intention to remain as a Housing Executive tenant with an additional two per cent hoping to move to a Housing Association property. Only a small per centage expressed their desire to move to the owner-occupied sector (4%) or move into the PRS (2%). Nevertheless, it is interesting to observe that 16 per cent of survey participants revealed their inclination to purchase their Housing Executive house after 5 years.

6.75 Semi-detached or detached houses were the most popular property type indicated by those who would consider the PRS as the most favourite type of accommodation (45%), followed by; Bungalow (33%) and flat / maisonette (10%). Apartment appears to be the least popular with only five per cent considering this as an option.

6.76 The attractiveness of social housing amongst the survey respondents can be further illustrated by the finding that 54 per cent of respondents would not consider removing their name from the waiting list for social housing even if they were offered help to access and secure private rental accommodation such as help with a deposit and more affordable rent. Of this group of people, a large number of them explained that social housing is considered more secure, more affordable and better.

Housing costs and affordability

6.77 The results of the survey show that over half of all survey respondents were on benefits with 35 per cent and 18 per cent being in recipient of Housing Benefit and Universal Credit (housing cost element) respectively. However, one-third (33%) of this cohort on housing related benefit recipients considered the welfare insufficient to cover all their housing costs. It was further revealed that 43 per cent of all survey respondents received neither Housing Benefit nor Universal Credit to help with housing costs.

6.78 The survey also indicated that affordability was one of the main issues driving respondents strong preference for social housing over other forms of housing. The vast majority of the respondents (83%) pointed-out that social housing is the only housing they can possibly afford. Similarly, over 80 per cent suggested that they cannot afford to buy or live in privately rented accommodation, with 70 per cent further highlighting that there is a lack of private rental accommodation in their area(s) of choice. The tendency for respondents to prefer social housing can also be explained by the finding that over 74 per cent of respondents agreed that only social housing can provide them with adapted accommodation for their needs.

6.79 It appears that affordability was not the primary cause of applicants rejecting a social housing offer. Indeed, amongst those who had turned down an offer of social housing in the past two years, approximately 60 per cent considered that the accommodation they turned down was affordable.

Rent and Incomes

6.80 The reasons why respondents did not consider the private rented sector as a permanent or long-term solution are manifold, with financial considerations being the main barriers to entering that market. Over 54 per cent of the respondents who would not consider the PRS stated that they cannot afford to pay private rents, a deposit and/or the agent fees. In addition, around 30 per cent of surveyed tenants expressed concerns in relation to the lack of security in the PRS and the possibility of being evicted by the landlord.

6.81 Among the respondents who would consider the PRS, just under half (49%) would need two bedrooms if they rented a private housing unit, 25 per cent required one bedroom and one-fifth (20%) required three bedrooms. In regard to the degree of affordability, half of those surveyed (50%) declared that they could afford no more than £300 per month for private rented accommodation and three-quarters (75%) indicated they could not afford more than £425. Only four per cent claimed that they could afford £600 or more per month for private rent.

6.82 To measure rental affordability of the respondents, we utilise the ratio of R-t-I to measure the percentage of income that the respondent spends on rent (per month). This ratio is calculated as it provides insights into how much income is being consumed relative to rents. In other words, what proportion of income is taken up by rental costs to demonstrate the level of rental (un)affordability. A higher R-t-I ratio indicates a lower degree of housing affordability.

6.83 The analysis shows the R-t-I ratio to vary across NIHE market areas with all R-t-I ratios ranging between 28% and 38% (**Table 6-7**). This indicates, that across the HMAs, there is a persistent and relatively consistent affordability gap (**Table 6-7**). At the overall level, the analysis of the survey indicates that the percentage of income consumed on rental costs is 32%. When considering the gap between what tenants can afford to pay (based on 25% of income) relative to the average rent, the analysis reveals an average shortfall of 23%. This varies across the market areas, ranging from a nine per cent gap (South Antrim) to 34 per cent in the South and East Belfast market areas.

Table 6-7 Rent, income and shortfall by region

Region	Rent (£)	Income (£)	R-t-I (%)	% shortfall (25% R-t-I)
Ards & North Down	420	1,181	35.56%	29.70%
Causeway Area	410	1,298	31.59%	20.85%
East Area	417	1,364	30.57%	18.23%
Lisburn & Castlereagh	400	1,345	29.74%	15.94%
Mid Ulster	361	1,079	33.46%	25.28%
North Belfast	391	1,314	29.76%	15.98%
South & East Belfast	718	1,907	37.65%	33.60%
South Antrim	364	1,322	27.53%	9.20%
South Area	339	1,210	28.02%	10.77%
South Down Area	419	1,154	36.31%	31.15%
West Area	332	1,161	28.60%	12.58%
West Belfast	333	1,105	30.14%	17.04%
Overall	**399**	**1,234**	**32.33%**	**22.68%**

Notes: The sample for rent to income covers 268 of all survey respondents in the private rented sector who indicated their income and rent in the survey; the sample for shortfall to income and shortfall to rent covers 183 survey respondents in the private rented sector who received housing benefit/universal credit to help with their housing costs.

6.85 Among the respondents whose Housing Benefit and/or Universal Credit did not cover their housing costs, the average shortfall per month equated to £157. Further, one-quarter (25%) of respondents stated that the shortfall was £301 or more per month. On average, the amount of shortfall equated to 32 per cent of their income, with circa 17 per cent of the respondents indicating the shortfall was as high as 50 per cent or more of their income. In addition, over half (51%) of this cohort stated that it was difficult to afford the shortfall.

6.86 Amongst the survey respondents who are renters on housing benefit/universal credit, the average value of the shortfall to income ratio is 16 per cent. This finding suggests that a typical renter who is unable to afford rental payments fully, has to look for an amount equating to 16 per cent of their income to cover the shortfall every month. For the 25 per cent most financially vulnerable respondents, the ratio is higher sitting at 18 per cent.

6.87 To manage the shortfall, 42% of the respondents who depended on housing benefit/ universal credit to make up their housing costs, claimed that they relied on other benefits, whilst 23% paid it from their wages/salaries[13]. Other means to cover the shortfall included contributions from non-dependents, assistance from family members and friends, borrowing and using pension funds.

6.85 We examine the association between the level of shortfall and the financial circumstances of surveyed tenants to examine if this impacts upon their rental affordability. Our correlation analysis reveals that the amount of shortfall and

[13] The sample for rent to income covers 268 of all survey respondents in the private rented sector who indicated their income and rent in the survey; the sample for shortfall to income and shortfall to rent covers 183 survey respondents in the private rented sector who received housing benefit/universal credit to help with their housing costs.

the personal financial circumstances of respondents are indeed closely interlinked. For example, household income tends to increase with the amount of shortfall (Correlation = 0.33). On the other hand, the amount of housing benefit the respondent receives has a positive yet statistically small effect on rental affordability, as indicated by a correlation coefficient of -0.08 between shortfall and housing benefit. In other words, a renter who receives more housing benefit, on average, tends to be more financially vulnerable in terms of rental affordability.

Private tenants only

6.86 The analysis proceeds (from this point onwards) to examine those tenants who are currently residing within the PRS and have a contractual obligation (lease), therefore removing the more transitory rental tenants contained within the HSS.[14]

6.87 The average rent for private tenants (with a fixed abode) is £437 per month (n=386). When examining the rents by employment status, those tenants within full(part)time employment display an average rent of £471 per month, with those in self-employed exhibiting an average rent of £450. Tenants not in employment (not working) show an average rent of £426 per month.

6.88 The average (mid-point) income of the surveyed private tenants is £878 per month, which when broken down by employment status shows employed (FT/PT) tenants average income of £1,056, self-employed (£1,177) and unemployed £687 per month.

6.89 Applying the R-t-I ratio to explore what proportion of income is consumed by rental costs, the analysis shows that at the overall level tenants surveyed for the HSS within the private rental system show a R-t-I ratio of 50 per cent (**Table 6-9**). Dissecting this by employment status, those tenants who are employed, on average, display a R-t-I ratio of 45 per cent, markedly beyond the 25-30 precent affordability threshold. Tenants who are self-employed exhibit a lower R-t-I ratio of 38 per cent, with those tenants who are unemployment invariably showing a much higher R-t-I ratio of 62 per cent.

[14] Those tenants within temporary accommodation, sofa-surfing or lodging are not analysed.

Table 6-9 Average rents, mid-point incomes and R-t-I ratios for HSS tenants

Employ status	Variable	N	Average (£)
Employed FT/PT	Rents	117	471
	Mid-point In	215	1056
	R-t-I ratio		44.64%
Self-employed	Rents	11	450
	Mid-point In	17	1177
	R-t-I ratio		38.26%
Unemployed/not working	Rents	283	426
	Mid-point In	531	687
	R-t-I ratio		62.10%
Overall	**Rents**	**435**	**437**
	Mid-point In	**435**	**878**
	R-t-I ratio		**49.78%**

Summary of Key insights from Housing Stress Survey

- The sample was characterised as representative across age profiles, with 37 per cent aged 34 or below and 63 per cent aged 35+; thus being mostly older, single people with a significant proportion of unemployed and / or benefit claimants. Against this, respondents were generally living in houses, and preferred to do that, even though this is rather more accommodation than strictly required.

- Respondents had generally been in the accommodation for a relatively long time. They were spread across the country, locating mainly for reasons of proximity to family and social contacts.

- As would be expected from an older, financially challenged group, they placed high value on obtaining a social tenancy.

- Despite generally finding their rent and accommodation acceptable, there was definite evidence of financial hardship caused by the unaffordable nature of private market rent payments, and a generally held belief in the value of a more ‘benevolent’ social landlord.

- Whilst generally perceiving social tenure to be acceptable and indeed desirable, as being more affordable, more secure against eviction and better maintained, there was evidence that some of the social offer is not desirable – respondents who had turned down a social housing offer cited poor location, antisocial elements and unacceptable size. PRS is less favoured due to unaffordable rents, deposits and agents fees and threat of eviction.

- The vast majority of respondents could not afford more than £425 per month in rent, which is quite low for the PRS generally and is just below the median rent charged in the sample at £450. Even at these levels, over half were paying more than 40 per cent of income on rent, a situation which generally worsens as the family size and number of bedrooms increased.

- Overall, the sample population occupied property typical of NI housing stock and what the rest of the population occupy. It was not optimal for them however, and placed considerable financial stress on what is a group with limited financial means – notably as the family size increased. They were to an extent living 'in fear' of a financial hiccup or landlord whim to find themselves effectively homeless, despite being in the main quite settled in their current accommodation. They valued the space they have and the locations they live in.

- This presents a challenge – this population would not appear to have any desire to relocate to more affordable purpose-built accommodation more suited to their needs rather than wants (i.e. single person allocated to one bedroom accommodation). They are not likely to exit the waiting list for a slightly more affordable rent, although this combined with the offer of greater security via a more 'benevolent' landlord may be tempting – although this would appear to be preferential to PRS as opposed to social housing, which is the main aim, and even offers a rare route into home ownership, via the right to buy route.

Section 7

7.0 ANALYSIS OF INTERMEDIATE RENTAL SCHEME QUESTIONNAIRE

7.1 The previous section identified key areas and issues relating to the profiling of tenants from the secondary analysis of two key datasets and identified gaps between income and rents, affordability challenges and tenant profiles to evaluate the parameters of the proposed IR model. This section presents the findings from an online survey, undertaken over a two week period in February 2022 specifically for this research project, with 488 tenants currently residing in the private rented sector. This online survey was specifically designed to obtain and provide an evidence base relating to the views and perspectives specific to the features of the proposed IR model from tenants residing within the PRS.

7.2 In undertaking primary data collection with tenants, this section provides unique data of the opinions and perspectives of tenants across NI on the features of the proposed scheme, identifying salience and benefits of the IR scheme and potential barriers. The participants were provided with information relating to the key features of the proposed Intermediate Rent homes scheme and their views sought relating to the scheme specifics including the need for the scheme, rent setting, eligibility and income, deposits and housing type. Further information and clarification of scheme proposals was provided throughout the questionnaire to inform the survey participant across the various question items.

Intermediate Rent survey characteristics of the participants

7.3 The overall questionnaire displayed a mix of tenants with varying degrees of circumstances and characteristics. **Table 7-1** (below) contains a summary of the tenant demographics. At the overall level, 42 per cent of participants are in receipt of housing related benefits which contributes towards their rent, with 57 per cent of those surveyed not in receipt of any housing related benefit. Just under one-third (29%) of participants surveyed are currently on the social housing waiting list, with just under half (47%) of the survey participants not in receipt of either housing benefits or are on the social housing waiting list. Overall, 19 per cent are in receipt of housing benefits and are on the social housing waiting list.

7.4 For those participants on the housing waiting list, 33 per cent have been on the waiting list for five or more years and 30 per cent between three to five years, with the remainder on the housing waiting list for less than three years. Considering housing points awarded for those on the housing waiting list, one-third (33%) of respondents had 70 or more housing points, 13 per cent between 30-69 housing points and 40 per cent less than 30 housing points. The survey participants also comprise a consistent representation across household composition and income profiles (**Table 7-1**). The participants pool exhibited wide geographic coverage from across key market areas and regions from across NI (**Figure 7-1**).

Table 7- 1 Summary of participant demographics and circumstances

Receive housing benefits	N	Per cent
No	278	57
Prefer not to say	6	1.2
Yes	204	41.8
Total	488	100

Waiting list for social housing	N	Per cent
No	334	68.4
Prefer not to say	15	3.1
Yes	139	28.5
Total	488	100

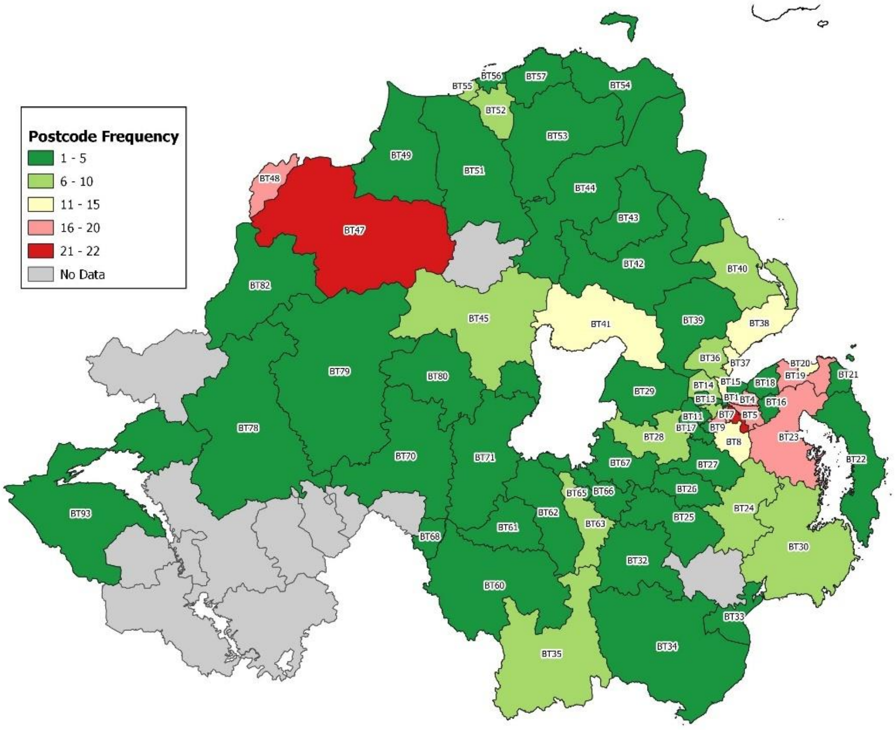
Length of time on waiting list	N	Per cent
1-2 years	34	5
3-5 years	41	6
Less than 1 year	16	2
More than 5 years	47	7
Prefer not to say	1	0
Total	139	100

Number of housing points	N	Per cent
30-69 points	19	3.9
70 points or more	47	9.6
Less than 30 points	54	11.1
Prefer not to say	19	3.9
Total	139	100

Household income	N	Per cent
£1,300 – £1,559 per month	54	11.1
£1,560 - £1,732 per month	51	10.5
£1,733 – £2,166 per month	50	10.2
£2,167 - £2,599 per month	47	9.6
£2,600 and above	72	14.8
£520 - £952 per month	60	12.3
£953 - £1,299 per month	97	19.9
Prefer not to say	28	5.7
Up to £519 per month	29	5.9
Total	488	100

Household composition	N	Per cent
Couple over 65	13	2.7
Couple under 65	74	15.2
Large adult family (3+ads; 1+ child <16)	17	3.5
Large family (2 adults; 3+ children <16)	15	3.1
Other	52	10.7
Single parent family (1 ad; 1+ child <16)	92	18.9
Single person over 65	21	4.3
Single person under 65	154	31.6
Small family (2 ads; 1/2 child under 16)	50	10.2
Total	488	100

Figure 7-1 Contributing PRS tenants to the IR survey by postcode



Tenants' perspectives on IR scheme

Requirement and Demand for IR Scheme

7.5 In relation to the views on the scheme and level of agreement pertaining to the need for the introduction of an Intermediate Rent homes scheme within NI, 93 per cent of survey respondents agreed that there is a need for this type of product, with only one per cent disagreeing that this type of scheme is needed.

7.6 Further qualitative insights identified a number of key issues which tenants raised as to why this type of IR scheme is required. The sub-section summarises the findings from the sample relating to the need for the IR scheme. Of the 488 questionnaire responses, there were 332 qualitative responses representing 68 per cent of those surveyed who provided further insights and commentary around why the introduction of an IR scheme would be beneficial. The open responses varied but were rich in both describing and framing how the participants viewed the need for, and impact of, the proposed IR scheme features.

7.7.1 Overall, the dominant finding from the qualitative data was that the proposed scheme is needed for reasons relating to lack of social housing, rent costs, issues with deposits, quality, a perceived lack of regulation within the PRS, tenure length and choice, waiting lists and housing type. In an acute sense, the perspectives of the sample highlighted many of these issues and the difficulties confronting some renters in the private rented sector:

> *I'm a single working female with no children on minimum wage, I work two jobs and I struggle every month to pay bills without house sharing. There are little two bedroom houses available and even then the rents are usually £500 upwards. I have spent 11k in rent from I started renting years ago, I have had to move 7 times due to tenancy ending with no notice, take furnished places with nowhere to store my furniture. A single person with no child struggles in a renters environment, we have no hope of saving deposits, no security in our current properties and no chance of getting on housing lists (R46)*

> *The current rental market in Northern Ireland is beyond most working families reach. The housing market in general is extortionate compared to the incomes of an average working household. Intermediate Rental homes will give the people of Northern Ireland a chance to be able to capitalise on their mediocre incomes without riding on the coat tails of the generations before them. (R76)*

7.7.2 Considerable frustration was evident from the survey responses relating to rent setting by landlords and general increases in rents across the sector as a whole, driven by lack of supply and regulation, which was making rents unaffordable for many:

> *Private landlords can charge what they like, and in the current climate there is a need for more housing. (R85)*

> *Private Landlords increase rent by too much each year which pushes the market rent rate up for everyone, it's now getting to the point where it is unsustainable (R96)*

> *There is not enough social housing for the demand. Also private rental landlords can charge whatever they want and don't get regulated at all. (R269)*

7.7.3 From the perspective of tenants surveyed, high rental cost and inflation remains the key issue where measures are required to assist low-income families. A number of tenants surveyed cited that escalating rental prices were consuming over 50 per cent of their incomes which is making it harder for them to manage increasing housing and heating costs. Other tenants identified that the cost of private rents were simply unaffordable for low-income families without support and pointing out that the cost of renting and how it was inhibiting tenure options and ability to save deposits

> *Rental costs are taking more than 50% of annual income therefore creating rent poverty. Intermediate housing would create a better quality of life mated to longer term security. (R198)*

> *Rent prices at the minute are way too high. My rent is over 60% of my wage and it's getting harder and harder to feed and heat the home (R236)*

> *Trying to raise the amount of money for both rent and deposit is almost impossible - especially with rising rent costs (R83)*

7.7.4 The lack of supply and quality of suitable rental homes, property maintenance and affordable rental housing was also identified as an issue which may be helped by the scheme:

> *I pay over the odds for my area for a home that is riddled with damp and has electric faults but there wasn't much choice and we needed somewhere to live (R108)*

Cost of private rental has spiralled in the last couple of years. It is increasingly difficult to find suitable housing stock at an affordable cost (R115)

Private rental costs are much too high for poor quality housing. People do not earn enough to be able to pay such costs. (R308)

7.7.5 For some tenants surveyed, whilst the rent discount was important and they highlighted that the 20 per cent discount would help in the short-term, they were concerned that rent inflation would effectively eradicate the discount over time and IR homes would be out of reach to the low-income family:

.

Home ownership is a dream for most as they are trapped in a vicious cycle of rising rents, inflation and a reduction in well-paying jobs. A discount to rent will help lower income households save for a mortgage, which, ultimately will help. Unfortunately, the larger issue remains that house prices are rising much faster than wages are increasing so while 20% is nice it's not realistic to suggest that this will actually help people escape the endless torment of private rentals. (R14)

7.7.7 It is also the case that there is evidence that many participants viewed the Intermediate Rent scheme as a positive initiative which can help to address many of the challenges relating to the PRS and cost of living and well-being. A number of participants also highlighted that the scheme would allow people to rent better quality homes. Furthermore, some also reported that the proposed scheme would help with rent affordability and the initial deposit on a rental home. There was also considerable support for the IR scheme from those in receipt of housing benefits with a number of respondents also stating that the scheme could help those on waiting lists and with tenure options:

Any product that can help to reduce the costs of private rental has to be a great idea, especially in today's climate. (R164)

It will help support low-income people who want to get their own places. It's a great idea. (R237)

It respects the needs of Tenants and would offer them a better chance to afford a decent house (R122)

7.7.8 However, respondents also referred to how high or unaffordable rent costs have impacted on their ability to save deposits for home ownership, and many were of the opinion that the IR Scheme would help individuals to save a deposit to buy a home or the initial deposit for a new rental property:

I think this would be a good way for people to get affordable housing. Right now the housing executive properties are out of reach for most (R58)

Private rentals are now so expensive, seriously limiting any chance of saving deposits to purchase. Social housing is nigh on impossible to access. (R302)

7.8 Of those surveyed who are currently on the waiting listing for social housing, the findings show that 84% indicated that they would consider moving to an Intermediate Rent home in preference to a Housing Executive or HA home.

7.9 Length of tenure was also a key theme which emerged from the qualitative responses. Many participants identified tenure security challenges and how this related to deposits. In this sense, many felt the proposed scheme was valuable:

> *Private renting is not secure and very expensive putting people under pressure (R68)*

> *It is very difficult to find a rental and a lot you have no long-term options to stay (R75)*

> *People need the stability of a longer tenancy especially if they have a family. Reduced rent costs would also be extremely helpful (R94)*

Rent setting for Intermediate Rent and level of discount

7.9 Tenants were provided details of eligibility criteria and informed that rents for intermediate homes would be determined by local market evidence, be subject to periodic reviews and have no requirement to track market rates. When considering the discount rate for the IR scheme, 91 per cent of tenants agreed that paying a below market rent in the region of 20 per cent for an Intermediate Rent home is a helpful discount – particularly those households on lower incomes. A number of participants did identify that the discount could be increased to take into account other factors such as property type and cost of living.

7.10 There was also the view that those with lower incomes feel (more) disadvantaged as they cannot afford quality rental homes and feel that this position will only further deteriorate with increases in market pricing levels. In total, four per cent of those surveyed disagreed, suggesting the discount should be higher or tested or that provision of social housing should be preferred. A further five per cent were unsure as to the level of discount to be applied. Notably, 71 per cent of those who agreed thought it was very important to offer a longer tenancy of five years as part of the Intermediate Rent scheme.

7.11.1 Further qualitative insights from tenants on the proposed level of discount identifies a range of issues. Of those tenants surveyed, most were of the view that a discount of 20 per cent would be helpful and generally appropriate. Across the responses received for tenants, many were in agreement that the discount would be welcomed for those in low income and could improve standard of living:

> *This would really help reduce the per centage of income to rent ratio. This would help improve the standard of living for so many families (P112)*

> *I think 20% is an extremely helpful discount (P312)*

7.11.2 Whilst there was broad consensus that the 20 per cent discount would be helpful and agreement with the discount in principle, some did point to a recurrent theme relating to the affordability of quality housing and suitable housing to meet the needs of all renters. In this sense they suggested that discount should be reflective of the property characteristics, quality or location:

> *20% is good, but honestly rents are rising every year and wages can't keep up. Good quality housing is expensive meaning lower income groups can only benefit from poorer quality housing. A 20% discount won't offer much for people really struggling and quality and availability of housing needs to be addressed (R07)*

I think 20% should be acceptable, but I think there is the potential for further need beyond that, especially with recent inflation. (R26)

25-35% due to increase in inflation, and increase in all costs including heating/gas, electric, food etc. (R343)

7.11.3 For some, the discount in itself was not seen as sufficient as the private rental sector needs greater regulation and a freeze on rents. Others who disagreed stating that the government focus should be on the provision of more social housing:

It's not enough on its own. Rent freezes and tougher regulation required. (P56)

Private sector rents require some additional form of control (R309)

7.11.4 A number of tenants did highlight concerns relating to eligibility and were vocal that the scheme eligibility needs to be means-tested and directed towards those most in need and on low-incomes and inclusive of those who are in receipt of benefits. However, there was some divergence on the eligibility issues as some tenants were of the view that an eligibility-criteria such as a points-based eligibility would exclude those who could benefit from the IR product:

I would be extremely interested but it would need to be for the lowest income families and people on benefits or top up benefits like universal credit (R41)

Means tested renting could be calculated and could be subsidised (R174)

Please ensure that it remains the same as private rental, rather than introducing a points scale, which will immediately rule out a per centage of people this type of scheme would benefit (R36)

7.12.1 In terms of rent setting and how they are calculated, the findings exhibited that 76 per cent of survey participants were in agreement with how rents would be determined, with 10 per cent disagreeing and 14 per cent remaining unsure. Further comments from tenants on the setting of Intermediate Rents likewise identified varied perspectives on the discount. Whilst the majority of those surveyed agreed with the discount rate and that the calculation was fair and straightforward and would allow for general understanding, some tenants outlined potential issues relating to property condition, location and tenant circumstances, including any complex needs:

This would be a fair way to calculate and would help people on low incomes (R178)

There are many possible ways to perform this calculation but the proposed method is fair and clear, without being excessively cumbersome. it seems to be as good a solution as can be found. (R233)

It's fair to use market value as not all areas demand the same rate of rent. For example towns and coastal areas are much higher than rural communities. (R262)

Must also take into consideration the circumstances of the current tenants (R09)

7.12.2 Consistent with research evidence relating to tenants concerns about property condition and regulation in the sector, some respondents highlighted that there is considerable variability by rental market location, the unique NI setting and property condition which needs to be considered in rent setting:

I would be mindful that Northern Ireland's property market differs massively per area so it would be important that area is considered in this calculation. (R08)

In this sort of calculation there will be an inevitable trade-off between accuracy and workability. Care should be taken that it doesn't produce a too broad-brush approach. Another issue is that even within a fairly small area there can sometimes be great divergence. For example in the patchwork quilt which is north Belfast … dwellings in very close proximity and identical in type and size can vary by as much as 30-35%... (R357)

7.12.3 There were also a range of perspectives about the specific rent calculation methodology. This included suggestions that it should be calculated on median rents or a standard deviation method. A number of respondents did not agree with the proposed method of calculating Intermediate Rents and were of the view that it should not be based on market rents but on alternative approaches. A number of different perspectives were offered such as comparative or standard cost per square foot, size of the property, average income or build cost and yield:

Median rents maybe be a more useful measure. (R07)

A standard deviation method looking at the price of the property in relation to others in the area with a discount calculated on the deviation rather than a fixed 20%. Would ensure a more competitive market rather that one based on price gouging. (R324)

It shouldn't be based on local private rentals, but based on a national surface comparison. So same costs per square foot across NI. (R16)

Rents should be based on % of average income and not the current market rates. (R56)

The rental figure should be set on the cost of property plus a regulated return on investment. (R198)

Eligibility and Income profiles

7.13 Considering income eligibility, 87 per cent of the participants expressed interest in applying for an Intermediate Rent home, with two-thirds (66%) of respondents indicating that they were interested and would be eligible to apply, and 21 per cent revealed that they would be interested but unable to apply as they fall outside the eligibility criteria (due to the income threshold set). Some six per cent of respondents indicated that they would not be interested, despite falling within the eligibility criteria, with a further seven per cent not interested due to falling beyond the proposed eligibility criteria.

7.14 When further contemplating the proposed income criteria, over two-thirds of participants (67%) agreed with the eligibility criteria income thresholds for individual and family households, however, 17 per cent disagreed with 16 per cent indifferent.

7.15.1 Participants were asked to further outline their reasons relating to the proposed eligibility criteria. Over 95 per cent of participants provided further insights into their thoughts on the (income) eligibility criteria. In the main, the majority of tenants surveyed agreed that the proposed income–based eligibility criterion thresholds were realistic and fair. For those who agreed with the criteria, many stated that the figures were in the right range for low-income families. The general narrative was that the eligibility levels were reasonable and would include a lot of low-income applicants and that the criteria reflected income levels:

I think this is a fair way of accessing the eligibility. (R106)

Completely agree, would help a lot for lower income families. (R92)

Glad to see low income earners are included. Nice window. (R93)

7.15.2 Some tenants however pointed to the need for realistic thresholds for IR scheme applications and allocation and that there needs to be a cut-off threshold. A number also suggested that thresholds should be reviewed to consider inflation and the escalating cost of living:

Part of me believes if you set limit of £30,000 you will be unlikely to set as many opportunities for the many people whose incomes are less than £20,000 like me. (R79)

Although £40,000 seems substantial, when it comes to rent, heat, feeding 5 hungry children, schooling etc it's not. It's the right level for this scheme. (R223)

I think it's a good benchmark at the moment, but the 30k/40k limits might need to be increased every few years due to the increase cost of living/gas and electricity prices. Potentially take into consideration the number of dependents as well? (R272)

7.15.3 There was more disagreement between those who felt the eligibility thresholds were too high and those who feel it should be raised. Of those tenants who considered that the thresholds were too high, responses ranged from those who viewed the thresholds as not orientated towards low-income households and therefore disadvantaging those most in need to those who said it widened the scope of the IR product too far. The general consensus from those tenants in disagreement seemed to suggest that the individual income criteria be set at a maximum of £25,000:

Too high of an income (for this amount they could just mortgage a house). (R48)

I think the upper limit of income is too high. A single person earning up to £30,000? That's a massive per centage of the single working population in NI. (R76)

Household figure is fine, but individual figure is far too high, it should be £23-25k. (R103)

7.15.4 A number of respondents more fundamentally disagreed with the criteria and stated that eligibility should be means tested or premised upon disposable income. However, there was also some divergence between respondents on the criteria in terms of priority for who would get an IR home. Some of the respondent's stated that the criteria should focus on lower income bracket and the status of the applicant, with others voicing that the criteria will lead to high volumes of applications. In contrast, others were of the view that the eligibility window opens the scheme to more people who may need it and that there should be some degree of flexibility in the eligibility thresholds:

I think it should be means tested on income plus outgoings. For example I am on a higher wage than the threshold, but I currently cannot make ends meet due to debt and living costs. (R08)

It seems generous so may lead to many applications.(R222)

Some leeway needed, often ppl earning just above criteria can be left out when their situation isn't fully considered. (R168)

7.15.5 In the alternative, a number of respondents suggested that the eligibility criteria thresholds needed to be higher, particularly the combined house income threshold, to make the product available to many families who need it. Generally, respondents highlighted that cost of living and childcare meant that they had little disposable income. Tenants were of the view that the household income for couples (families) be raised to £45,000 or £50,000 as this would not disadvantage middle income households:

I disagree with the criteria. A family of four with 40k annual income would struggle to live and many more families with earnings above the proposed limit would not qualify for the scheme. (R73)

I think for a joint income it should be slightly higher e.g. £45,000. (R321)

I think it should be £45,000 combined as my previous statements people in this bracket are not entitled to much help so have school dinners and childcare costs to cover which greatly reduces their income. (R455)

Middle income families disadvantaged. (R15)

Tenancy deposit and preference for IR house type

7.16 Considering housing preference and the type of IR home on offer, just below half (49%) of respondents indicated that they would prefer the property to be unfurnished. In contrast, 51 per cent indicating that they would like the property either ‘partly furnished’ (35%) or ‘furnished’ (16%).

7.17 Approximately 94 per cent of respondents deemed that the proposed tenancy deposit and the option to pay this in instalments over a term to mitigate up-front costs was a beneficial feature of the IR scheme. Just under two-thirds (64%) of tenants considered this to be ‘extremely helpful’, with 21 per cent viewing it as ‘very helpful’ and eight per cent ‘slightly helpful’. Alternatively, five per cent of those surveyed did not consider the option of spreading deposit costs as helpful, with a small proportion (2%) deeming this as not very helpful and 2 per cent suggesting that this was not at all helpful:

The tenancy deposit payment proposal is brilliant as when newly renting it's nearly impossible to pay both the deposit and the first month's rent at the same time. (R354)

7.18 The scheme proposes that Intermediate Rent tenancies would last for up to five years and that tenancies may also be renewed after the initial five-year period. Tenants when reviewing the tenancy length, and indeed the importance of longer tenancies as a requirement for the scheme proposals, overwhelmingly viewed this as an important feature with 95 per cent of the participants considering this to be important, of which over two-thirds (68%) of tenant responses selected ‘very important’. The findings show that just two per cent of respondents selected ‘not important’.

7.19 A range of respondents outlined security of tenure, stability and permanency for integrating into the community, especially those with families, and helping save for a deposit as key issues. A few responses did highlight that whilst fixed for five years, the tenancy should be renewed yearly at the tenants request. In addition, the survey findings notably reveal that 68 per cent of respondents preferred the suggested length of tenancy to be for five years (or more). Of this proportion, 30 per cent of participants indicated that the length of tenancy should be five years. Only six per cent of participants suggested that the preferred length of tenancy should be one year, with seven per cent selecting two years and 16 per cent of tenants preferring three years in duration.

7.20 When further considering whether there should be an option to renew the tenancy after the initial five year term, 95 per cent of respondents agreed with this aspect. Of the 95 per cent who agreed that there should be an option to renew, 71 per cent answered that this was a 'very important' aspect and that longer tenancies are offered as part of the scheme - clearly indicating that tenancies should be offered an option to renew at the end of the initial fixed terms of the lease expiration.

7.21 The type of housing offered through the scheme appears to be an important dimension for uptake and in line with tenant needs and requirements. The survey participants selected most frequently three-bedroom semi-detached and townhouse properties, followed by two-bedroom townhouses and two-bedroom apartments to be their preferred choice. Over 23 per cent of participants who selected 'other' indicated that their preference (and circumstances) necessitated a four-bedroom property and/or bungalow - citing caring for family members and having larger sized families as the reasons behind their choice.

Intermediate Rent scheme features

7.22 The ranking of importance of the proposed IR home scheme identified that, 'a Good quality rental home with response maintenance and tenancy support' obtained the highest frequency amongst survey respondents with 87 per cent selecting this feature. Just over 80 per cent of participants selected lower rent cost (20% less than market rent) as an important component, with 61 per cent indicating that secure tenancy for five years with an option to renew as most important.

7.23 Spatial analysis of tenants surveyed showed limited appetite to migrate or relocate in order to avail of an Intermediate Rent home from where they currently reside. The preference for IR housing is dominated by Belfast, with 36 per cent of participants selecting this as there preferred location, although this must be caveated by the composition of the sample.[15] The analysis does however show other key conurbations across NI (Derry, Bangor, Lisburn, Newry, Newtownabbey, Newtownards, Omagh/Dungannon, Portadown/Lurgan) show demand for the proposed IR scheme.

[15] The sample was drawn from sub-sample of the PTS. This finding is not weighted proportionally.

Rents and Income profile of survey respondents

7.24 The average rent of survey respondents is £576 with the median rent £550. The 25th percentile of rent equates to £490 with the 75th percentile £650. Approximately 68 per cent of rents range between £427 and £723. On average, 80 per cent of average market rent within the sample equates to £461. The analysis of this survey indicates that 82 per cent of market rents paid by tenants are beyond £461. This suggests that the 20 per cent discount on market rents may need to increase to capture more tenants within the PRS.

7.25 Average rents of respondents living within the Belfast region equate to £619, with average rent in the Derry market area standing at £505 and £560 on average for all other market areas across the remainder of NI. This analysis indicates that, based on the average rent, that the required discount on rents ranges between 75-90 per cent.

7.26 The income bands[16] of survey participants were compared against average rents to produce the R-t-I ratio. This ratio is calculated as it provides insights into how much income is being consumed relative to rents. In other words, what proportion of income is taken up by rental costs to demonstrated the level of rental (un)affordability. The analysis indicates that, taking the mid-point income (within each respective income band), the average R-t-I ratio is 42 per cent with the median R-t-I equating to 37 per cent. Upon further inspection, the analysis reveals that 85 per cent of survey participants spend above 25 per cent of their income on rental costs – demonstrating the acuteness of rental affordability currently within the PRS within NI.

7.27 Considering the R-t-I ratio applying the lower income values within each band, the analysis shows the average R-t-I ratio increases to 52 per cent with a median ratio of 45 per cent. This analysis exhibits that if taking the lower benchmark of income within each income band, over 95 per cent of survey respondents would spend above 25 per cent of their income on rental housing costs.

7.28 Applying the higher income values (within each income band), the average R-t-I ratio equates to 37 per cent with the median ratio equating to 36 per cent - remaining substantially beyond the 25-30 per cent affordability thresholds. The findings show that only 15 per cent of tenants pay less than 25 per cent of their income on rental costs.

7.29 The analysis further examined the sensitivity of rental prices relative to income bands. This step is undertaken to examine the severity of rental affordability when adjusting market rent and incomes. In doing so, the analysis applies the average rent per income band and uses the standard deviation of the average rent to identify the variation in rents. This variance in rental value is tested against the lower and higher income ranges within each respective income band (**Table 7-2**). The analysis therefore shows the ratio between average rent and the Lower income (R / LI), average Rent to-mid-point incomes (R / MI) and average rent to-higher income values (R / HI). Further, the variation in rental value is examined against lower (-1SD / LI)

[16] Based on total net income.

and higher (-1SD / HI) incomes, and higher rental value relative to lower (+1SD / LI) and higher (+1SD / HI) incomes.

7.30 The R / LI ratio shows there to be a particularly acute rental affordability issue across the lower incomes (**Table 7-2**).

> **Example**. As highlighted in **Table 7-2,** if we look to those tenants in the income band column of £953-£1,299 in Table 7-2, this shows that they are paying 55 per cent of their income on rent as noted in the Rent-to-lower-income column (R / LI). Those within the income band £1,733-£2,166 are expending 35 per cent of their income on rent (**Table 7-2**).

This level of unaffordability invariably decreases across the income bands when applying the mid-point income R / MI ratio,[17] however still exhibits those on incomes up to £1,733 to be paying beyond 30 per cent of income on rental costs. The level of unaffordability further reduces applying the higher income values within each band (R / HI) showing the rent-to-income ratio to range between 55 per cent and 25 per cent (**Table 7-2**).

7.31 A notable finding within the analysis highlights that the one standard deviation decrease in rents sizeably increases the level of rental affordability. As observed in **Table 7.2**, a one-standard deviation reduction in rents, which ranges between £103 and £171, relative to Lower incomes within each band (-1SD/LI), reduces income expenditure on rental costs to below 29 per cent for incomes of £1,560 and above. Nonetheless, despite this one-standard deviation reduction in rents, the analysis reveals that those tenants within the lower echelons of the income bands ranging from £953 to £1,599 would still be above the 30 per cent affordability threshold (**Table 7-2**).

7.32 Accounting for a one-standard deviation reduction in rent relative to higher income within each income band (column -1SD/HI) shows that the level of rental affordability sizeably increases with only the income band below £1,300 paying above 30 per cent of income on rent (**Table 7-2**).

Table 7- 2 Rent-to-Income variations based on rental and income variance

Income band	Avg. Rent (£)	SD (£)	-1SD Rent (£)	+1SD Rent (£)	R / LI	R / MI	R / HI	-1SDR / LI	-1SDR /HI	+SDR / LI	+SDR / HI
£520 - £952	521	103	417	624	100%	71%	55%	80%	44%	120%	66%
£953 - £1,299	528	117	411	646	55%	47%	41%	43%	32%	68%	50%
£1,300 – £1,559	577	107	469	684	44%	40%	36%	36%	30%	53%	44%
£1,560 - £1,732	570	135	435	705	37%	35%	33%	28%	25%	45%	41%
£1,733 – £2,166	603	103	501	706	35%	31%	28%	29%	23%	41%	33%
£2,167 - £2,599	647	171	476	818	30%	27%	25%	22%	18%	38%	31%
£2,600+	677	154	524	831	26%			20%		32%	
N	**431**	**431**	**431**	**431**	**431**	**359**	**359**	**431**	**359**	**431**	**359**

*Note: the up to £519 band is excluded. For Midpoint and higher income analysis the £2600+ income range is excluded. SD = standard deviation. R/LI = Rent-to-Lower Income ; R/MI = Rent-to-Midpoint Income; R/HI = Rent-to-Higher Income. SDR = standard deviation of rent.

[17] excluding the £2,600+ income band

7.33 The findings indicate that based on the surveyed tenants average rent across the income bandings, applying a decrease of one-standard deviation of rent equates to between 17 per cent and 26 per cent of a discount on market rent (**Table 7-3**). Further, the analysis suggests that, on average, a 20 per cent discount on market rent generally correlates with a one-standard deviation reduction on average rents across the various income profiles with nominal differences in market value discernible (**Table 7-3**).

> **Example.** As highlighted in **Table 7-3**, examination of the £953-£1,299 income band shows that a (minus) one-standard deviation reduction in market rent (-1SD MR) equates to £117 culminating in a reduced rent of £411. Applying the proposed discount of 20 per cent of market rent would see a reduction of £106 equating to a reduced rent of £422, demonstrating that the difference between these approaches to be £11 overall. This, as evidenced in **Table 7-3**, remains consistent across the income bandings.

7.34 This finding implies that the implementation of 70%-80% of market rent falls broadly in line with the variation in rental values required for reducing affordability to below 30 per cent.

Table 7- 3 Comparison between Market Rent variance and discount rate

Income band	Avg. MR (£)	-1SD MR (£)	MR with 1SD (£)	80% MR (£)	20% Discount of MR (£)	-1SD MR	Diff. (£)
£520 - £952	521	103	418	417	104	20%	-1
£953 - £1,299	528	117	411	422	106	22%	11
£1,300 – £1,559	577	107	470	462	115	19%	-8
£1,560 - £1,732	570	135	435	456	114	24%	21
£1,733 – £2,166	603	103	500	482	121	17%	-18
£2,167 - £2,599	647	171	476	518	129	26%	42
£2,600+	677	154	523	542	135	23%	19
Base = 431							

Note: SD MR = standard deviation of market rent; Diff = the difference between minus one-standard deviation of market rent and 80% of market rent

7.35 Further examination of what tenants can afford to pay (ability to pay) based on income banding was undertaken in order to identify the gap between what they can actually pay, not currently what they pay, relative to their existing rental costs. The analysis is therefore based upon applying a percentage of incomes within each respective income banding using Lower, Mid-point and Upper income values and also testing the movement in the percentage of income used for rental cost expenditure (i.e. 25% of income; 30% of income and 35% of income). This step provides further insights into the size of the affordability gap against the per centage of income.

7.36 The analysis reveals the size of the income gap, especially for those on lower incomes is particularly acute. Across the income bands, the ability to pay does reveal that those within income bands from £1,560 and beyond (those on higher incomes) have less acute affordability challenges (**Table 7-4**). In other words, those on incomes below £1,599 appear to be in much more rental affordability stress.

> **Example.** As highlighted in **Table 7-4**, when considering what a tenant on £953 can afford to pay applying 25 per cent of their income this equates to £238. The average rent they are paying is £528 which equates to a difference of £290. This difference relative to average rents represents a 55 per cent gap. When considering what a tenant can afford to pay applying 30 and 35 per cent of their income, the difference decreases to £243 (46%) and £195 (37%).

Table 7- 4 Ability to pay based on income % and average rent

	Lower Income	£			%		
Monthly Band	**Avg. Rent (£)**	**Gap 25%**	**Gap 30%**	**Gap 35%**	**Gap 25%**	**Gap 30%**	**Gap 35%**
£520 - £952	521	-391	-365	-339	-75%	-70%	-65%
£953 - £1,299	528	-290	-243	-195	-55%	-46%	-37%
£1,300 – £1,559	577	-252	-187	-122	-44%	-32%	-21%
£1,560 - £1,732	570	-180	-102	-24	-32%	-18%	-4%
£1,733 – £2,166	603	-170	-83	3	-28%	-14%	1%
£2,167 - £2,599	647	-105	3	111	-16%	0%	17%
	Mid-point Income	**£**			**%**		
	Avg. Rent	**Gap 25%**	**Gap 30%**	**Gap 35%**	**Gap 25%**	**Gap 30%**	**Gap 35%**
£520 - £952	521	-337	-300	-263	-65%	-58%	-51%
£953 - £1,299	528	-247	-191	-134	-47%	-36%	-25%
£1,300 – £1,559	577	-215	-142	-70	-37%	-25%	-12%
£1,560 - £1,732	570	-158	-76	6	-28%	-13%	1%
£1,733 – £2,166	603	-116	-18	79	-19%	-3%	13%
£2,167 - £2,599	647	-51	68	187	-8%	11%	29%
	Higher Income	**£**			**%**		
	Avg. Rent	**Gap 25%**	**Gap 30%**	**Gap 35%**	**Gap 25%**	**Gap 30%**	**Gap 35%**
£520 - £952	521	-283	-235	-187	-54%	-45%	-36%
£953 - £1,299	528	-204	-139	-74	-39%	-26%	-14%
£1,300 – £1,559	577	-177	-97	-17	-31%	-17%	-3%
£1,560 - £1,732	570	-137	-50	37	-24%	-9%	6%
£1,733 – £2,166	603	-62	47	155	-10%	8%	26%
£2,167 - £2,599	647	3	133	263	0%	21%	41%

Note: income bands £0-521 and £2,600+ are excluded. Analysis is based on 479 rents and 361 incomes.

7.37 Applying 80 per cent of market rent, based on average market rent across income bandings, the analysis exhibits that the gap between what tenants can afford notably increases (**Table 7-5**). The results show that 80 per cent of market rent across the various income profiles of tenants reduces the affordability gap to 21 per cent for those on the mid-point scale of household income band £1,300-£1,599 and 10 per cent for those with a household income of £1,560-£1,732, with no gap evident for those on incomes beyond this income threshold. This illustrates that the introduction of a 20 per cent discount will help reduce the affordability gap, however it will not alleviate it, particularly for those tenants on low(er) income households.

7.38 In line with the overall average statistics, the analysis shows that 80 per cent of market rent may require a discount in the region of 25-32 per cent to be applied to help those on lower incomes.

Example. As highlighted in **Table 7-5**, the findings further show that tenants within the £953-£1,299 income band (earning the midpoint income of £1,126) would pay 13 per cent above what they can afford on rent costs – equating to 33 per cent of rental costs.

7.39 The analysis therefore shows that whilst applying the proposed discount of 20 per cent helps reduce the level of unaffordability, this may not go far enough and that consideration should be given to a discount between 70 per cent and 80 per cent to more widely alleviate rental affordability, particularly for those on lower incomes.

Table 7- 5 Ability to repay applying 80% of average market rent within income bands

	Lower Income		**£**			**%**		
Monthly Band	**Avg. Rent (£)**	**80% MR (£)**	**Gap 25%**	**Gap 30%**	**Gap 35%**	**Gap 25%**	**Gap 30%**	**Gap 35%**
£520 - £952	521	417	-287	-261	-235	-69%	-63%	-56%
£953 - £1,299	528	422	-189	-142	-95	-45%	-34%	-23%
£1,300 – £1,559	577	462	-137	-72	-7	-30%	-16%	-1%
£1,560 - £1,732	570	456	-66	12	90	-14%	3%	20%
£1,733 – £2,166	603	482	-49	37	124	-10%	8%	26%
£2,167 - £2,599	647	518	24	133	241	5%	26%	47%
	Mid-point Income		**£**			**%**		
	Avg. Rent (£)	**80% MR (£)**	**Gap 25%**	**Gap 30%**	**Gap 35%**	**Gap 25%**	**Gap 30%**	**Gap 35%**
£520 - £952	521	417	-233	-196	-159	-56%	-47%	-38%
£953 - £1,299	528	422	-141	-85	-28	-33%	-20%	-7%
£1,300 – £1,559	577	462	-99	-27	46	-21%	-6%	10%
£1,560 - £1,732	570	456	-45	38	120	-10%	8%	26%
£1,733 – £2,166	603	482	5	102	200	1%	21%	41%
£2,167 - £2,599	647	518	78	197	316	15%	38%	61%
	Higher Income		**£**			**%**		
	Avg. Rent (£)	**80% MR (£)**	**Gap 25%**	**Gap 30%**	**Gap 35%**	**Gap 25%**	**Gap 30%**	**Gap 35%**
£520 - £952	521	417	-179	-235	-187	-43%	-45%	-36%
£953 - £1,299	528	422	-98	-139	-74	-23%	-26%	-14%
£1,300 – £1,559	577	462	-62	-97	-17	-13%	-17%	-3%
£1,560 - £1,732	570	456	-23	-50	37	-5%	-9%	6%
£1,733 – £2,166	603	482	59	47	155	12%	8%	26%
£2,167 - £2,599	647	518	132	133	263	26%	21%	41%

Note: income bands £0-521 and £2,600+ are excluded. Analysis is based on 479 rents and 361 incomes.

7.40 Qualitative evidence from survey participants expressed concerns relating to rising rental costs and the associated financial pressures they are currently facing within the PRS - particularly with regard to tenancy renewals. Further insights from respondents revealed that increases in rental costs are in the region of 15 per cent, with respondents providing examples of their current rents increasing from £525 to £600 and £475 increasing to £550 upon renewal. This suggests that the introduction of an IR scheme initially pegged to market rent and adjusted for inflation will substantially help those renters who are experiencing heightened rental costs on renewal and inflation relative to the cost of living.

Summary insights from the Private Tenant Intermediate Rent Questionnaire

- The respondents strongly articulate that market rents are too high, giving strong support for the proposed rental reduction at the core of the Intermediate Rent product. This is supported by the quantitative analysis, with the majority of respondents reporting rents and incomes that place them firmly in the unaffordable category. This is most severe in the lowest income category, with the highest income respondents being the only group to largely avoid paying unaffordable rents. The difference between rents and mortgage costs for equivalent properties was frequently reported, indicating that this is a relatively well understood issue which makes the high level of rents feel more unjust to those struggling to pay their rent. Beyond merely allowing rent to be afforded, there was strong support for the idea that a reduction as suggested would be needed for tenants to have any ability to save for a deposit to potentially access home ownership – indicating that the IR product may be seen by some as a potential route out of the rental sector.

- There is broad support not only for reduced rents generally, but also for the actual proposed reduction of 20 per cent. Whilst some respondents feared that rapid rental inflation would erode the benefits over time, they did feel that at this point it was a helpful, welcome and appropriate level of reduction. Again, these views are borne out by the quantitative analysis of rents and incomes, which indicates that a 20 per cent reduction (equivalent to a one standard deviation reduction) would move a proportion out of an unaffordable rent situation. Only the lowest income cohort would require a larger reduction, perhaps ameliorated by the likelihood that this cohort is likely to receive the most income support and Housing Benefit.

- The need for a product supporting financial affordability was continued with strong support for the proposal to allow deposits to be paid in instalments – with many respondents providing qualitative support for the idea that high upfront costs of rent in advance and deposits make accessing rental property particularly onerous.

- Turning to tenure security, there was strong support for the availability of a five-year term, for a variety of individual reasons, but strongly including both the inevitable churn cost of moving and the threat of being forced to accept unsuitable property. This theme of supporting longer tenures was mirrored in the strong support for a right to renew for a further period at the end of the tenancy. This does suggest that despite a latent desire for some respondents to become homeowners, the vast majority view renting as the most likely medium-term reality for themselves and others in a similar position, and they are seeking increased tenure stability.

- In terms of the suggested criteria for accessing the product, there was strong support generally for the proposals, yet lower than for the other questions, with around three quarters of respondents supporting the criteria as presented. This may well be because a significant sub-set (circa 20%) would not currently qualify for the product. Given the strong support for the main features (>90%), it seems likely that those not supporting the criteria would prefer them to be altered to include their own circumstances, a natural state of affairs for a product that they view would improve their situation significantly. Of particular note, strong endorsement was given for the provision of good quality accommodation with good maintenance – this reflects poorly on the condition of the current private rental stock and the professionalism of the asset management, as there is considerable qualitative feedback that failings in the quality and upkeep of the rental stock are a significant drawback of the renting experience – at all rental price points.

- Expanding on the physical side of the product offer, most respondents – the vast majority, expressed a preference for a three-bedroom house, either semi- detached or townhouse, however this may give rise to under-occupation of IR homes. Whilst there was preference for three-bedroom units, just under a third of those tenants surveyed (31%) did indicate that two-bedroom townhouse or apartments would suit their needs. Other larger and smaller preferences were due to specific needs on family size or dictated by other health based circumstances.

- Finally, but of key importance, these results appear to be stable geographically and across the benefits spectrum, holding firm between those on housing benefit and at all points on the social housing points spectrum. The majority would exit their current accommodation for this option – that said, this was not caveated by any potential loss of housing points. A considerable sub-set of the respondents have no realistic prospect of accessing social housing, and there is also qualitative evidence that some are actively avoiding housing in Housing Executive accommodation due to negative perceptions of the life experiences for themselves and their children that may entail.

- Not unsurprisingly, the majority would appear to seek a good quality, well maintained three-bedroom house in a development setting more reminiscent of the private sector, at a more affordable rent lying within their affordable range, with tenure security into the middle range allowing them to establish stable home lives.

Section 8

8.0 FOCUS GROUPS – VIEWS OF POTENTIAL TENANTS

8.1 This section seeks to build upon the empirical analysis in section 6 and Section 7 by reporting on the findings of focus groups conducted with potential tenants on the features of the proposed IR model. The qualitative data adds a rich dataset to deepen insights and understanding of the attitudes and perspectives of potential tenants relating to the IR product and its features.

8.2 As noted in Section 4.3, potential tenants were identified using a stratification process to ensure that focus groups included a varied perspective. This stratification process (as fully detailed in Section 4.3) was undertaken to ensure that focus group participants represented two homogenous groups currently residing within the PRS and account for different circumstances to capture their views and perspectives. Two focus groups were convened via an online videocall facilitated via Zoom with 10 tenants participating in total (Seven in Focus Group 1; Three in Focus Group 2).

8.3 Focus group participants highlighted a number of difficulties they were experiencing within the PRS and the general view was that the features of the IR scheme would be helpful across the suite of issues and challenges which tenants face:

> *"It is a fantastic idea. It will be difficult to work out the logistics but [the Department] should be commended for trying to help people in the private rented sector" (FG1P04)*

Location

8.4 The proposed location of IR homes was a huge talking point with focus group participants and location was a key priority for many of the focus group participants. Many participants discussed the difficulty in finding suitable rental accommodation in their area of preference. When asked if they would be willing to relocate from the area they currently reside to avail of an IR scheme rental home, a number of participants indicated that they would not relocate for the IR product due to travel (for example walking and public transport networks) to work costs, proximity to schools, safety in the community and disabled family members:

> *"I'm not sure I would move as I need support networks around me." (FG1P05).*

> *"I wouldn't move to an area that I wouldn't want to be in." (FG2P03).*

8.5 When asked about types of IR homes and where they should located, there was broad consensus across participants that they would have no difficulty in moving into retrofitted 'pepper-potted' IR homes or purpose built IR schemes within existing housing estates. In this context, 'purpose built stock' was not an issue and many of the focus group participants agreed that retrofitted stock in existing areas or housing estates would be acceptable for the scheme, although a number of the participants did identify that the "biggest issue would be safety". This was echoed by others who stated they had no problem with an existing estate as long as there were no anti-social behaviour and the property was a good rental property in a location of preference. For others it was simply dependent upon where the property was located.

8.6 Overall, participants emphasised that some consideration should be given to where the scheme was put, but were firmly of the view that rental properties should be pepper-potted across rental locations where there was rental pressure and limited supply and that it was very important that homes are available in areas of need as this is where people have support and family connections. Others highlighted that the scheme should reflect a variety of circumstances, including the provision of rental homes for complex needs or disabilities.

8.7 A number expressed the view that the scheme was “too good to be true” and stated that there would be significant uptake if it became available and questioned the scale of scheme. As one participant stated:

> *“Demand will be through the roof. It will be over-subscribed for sure.” (FG1P02)*

Tenant deposits

8.8 Participants also discussed issues around vetting by agents relating to credit checks and references for the IR scheme. Most participants were comfortable with any potential vetting process or references that may be required for the proposed scheme, noting that they endure this with letting agents. The overall consensus between the group participants was that this was normal within the sector and was a fair approach to employ.

8.9 Some participants further stated that in some circumstances vetting could be a good thing. That said, some participants raised, and were critical of, credit reference checks and the potential impact on an application due to a lack of a credit profile, ‘bad credit’ or benefits which had previously impacted on their ability to secure a tenancy and queried whether this would likewise impact upon their ability to avail of an IR home. There was broad agreement that such checks should not be solely used for an IR scheme directed at low-income households or in housing stress.

8.10 Consistent with questionnaire findings, the tenants highlighted difficulties with deposit returns in the PRS and were strongly in support of a flexible deposit which was described as “*a really good idea*” (FG2P02). When asked about the length of time, the consensus across the focus groups was that a period of 6-12 months would be fair to spread the cost of the deposit, with some preferring 6 months to avoid a debt hanging over them.

8.11 Overall, the focus group participants were very supportive of the flexible deposit with perspectives ranging from 6 to 12 months with the option of earlier payment if possible.

8.12 Related to the need for deposit flexibility were challenges relating to existing deposits. Some participants described how they had to move home a number of times and required their deposit for the next property urgently, but it was not returned in time (in some case for 3 months) meaning they lost a rental property of choice. Other described how landlords were demanding two months’ rent in advance which they struggled to afford up-front. Participants therefore welcomed and stressed the benefits and importance of the proposed flexibility. It is notable however that the IR scheme will be delivered by an approved and regulated provider and further the implementation of new legislation[18] for the private rented sector will prohibit the practice of requiring more than one month's rent in advance.

8.13 Participants also queried how tenant deposit will work with the IR scheme and asked for additional clarity. Overall, the group indicated that the IR Scheme should ensure the deposit is protected and that the scheme should ensure a timely return of deposits to tenants who may need money quickly. Indeed, the participants were unanimous that deposits should be returned within Seven days of inspection, with some stating that it should be returned immediately upon inspection. This was for a variety of reasons, not least they didn't have sufficient funds and required them to secure a new property:

> *"I think the deposit idea is fantastic. I have three young kids and could not afford the deposit. Only my dad stepped in I could not have afforded it and would not have my house." (FG1P05)*
>
> *"It's a good idea, you need your money back to move quickly and sometimes people don't want to go guarantor." (FG2P01)*

8.14 Participants also referred to credit checks and the need for guarantors, indicating that this was something which they would oppose if required for the scheme. Some described how it was difficult to ask and find people, even family members, to act as guarantor. Others described how landlords or letting agents were asking for their bank statements and using this to make a decision on their suitability to rent a home. They found this practice to be highly invasive of their financial affairs and privacy but felt they had no option otherwise they would not be considered for the property. In a similar vein, decisions on suitability were made by reference to receipt of benefits and the stigma associated with this.

8.15 Participants passionately stated that the IR scheme should not take these factors into account if it was to help those with low-income in the private rented sector with most agreeing that it should be based on references from previous landlords as to whether they were a 'good tenant'.

Tenure Length

8.16 Participants were asked about the proposed tenure length of five years. Unsurprisingly, tenancy length was seen as a key aspect of the proposed scheme by focus group participants. The participants detailed numerous and varied experiences of having to 'tenancy hop' every year with the challenges of finding a suitable property and the ongoing application process and associated upfront costs of annual tenancies, with some highlighting that they had moved a number of times due to landlords selling the property or increasing rents to levels they could not afford.

[18] Private Tenancies Act 2022 which will limit deposits to 1 months' rent.

8.17 Participants strongly approved of the proposed five-year tenancy length stating that the proposal was very attractive and offered much needed stability and security of tenure. As one participant stated:

> *"This is the big appeal, knowing you have a home for five years." (FG2P02)*

8.18 One participant also described how they had to list her previous rental addresses in applications and as she had moved four times in the last five years, this (they felt) had prejudiced her application for a property in a location of choice (FG1P04). This was echoed by other participants who stated:

> *"I think five years is great, it gets rid of uncertainty." (FG2P01)*

> *"It's a good idea and allows you to put your stamp on the house and make it a home. Where I live is not a home as I don't know if I will be here in four months' time. It happened to me before, I was there 6 years and then the landlord sold my home." (FG1P07)*

8.19 Whilst there was strong support for increased tenancy length, the participants varied on their preferences. Some were of the view that a two-to-five-year tenancy should be offered to allow for some flexibility, with some participants suggested that the tenancy be offered for an initial two-year period with the option to continue to the five years. Others were a little more cautious that they would be 'locked' into a property location they may not like or may need to move. They suggested there could be an option of an introductory period of a year at which time they could take up the option of the five year or seek to change to another property.

8.20 Likewise, the focus group participants were in agreement that the IR scheme should consider a renewal after five years, although the group diverged as to whether this should be for a further five years or reviewed annually after the initial period.

8.21 It was interesting that a number of the participants raised the issue of tenure flexibility and transfer. In this context, participants voiced that a longer-term transferable tenancy would be a good option also if their circumstances changed and suggested that there could be increased flexibility with tenure and circumstances. Discussion of this flexibility included allowing those on the scheme to 'house swap' or to transfer the tenancy to relocate to an alternative IR rental home during the tenure without having to re-apply. Others also asked about leaving the tenancy before the five years and whether this would incur any penalty.

Rent Setting

8.22 Rent setting was also seen as an important issue with participants all citing ongoing increases in rental costs as a fundamental challenge. Participants discussed the proposed 20 per cent rent discount and were in agreement that this seemed generally "*fair*" and a "*good help*" as this could be the difference in heating their home and would provide some security in respect of inflationary pressures in that their rent which would not significantly increase even where their wages remained the same. In this context, and wedded to the five-year tenure proposal, the participants unanimously agreed that a 20 per cent reduction would help, because "*Rents are* *absolutely crazy*", but not completely alleviate the mounting affordability pressures, and some could not afford the property they needed for medical or disability needs:

> *"Twenty per cent is practical. It is a good amount and realistic. It would help people like myself." (FG202)*

8.23 Following this, there was considerable discussion about rent increases in the sector and participants were firmly of the view that the proposed IR scheme should follow inflation and not indexed to market rent movements in the area, a key feature of the proposed IR scheme.

> *"Rents are increasing every year and it's difficult. I can't afford my rent and I can't afford to keep moving house. There are no social accommodation in the area I live." (FG1P03)*

8.24 Some identified location as relevant to the potential discount to be applied for some areas. Indeed, whiles some participants said the 20 per cent discount was a good starting point, they suggested that it could be stretched to 30 per cent, particularly in market areas such as South Belfast where rents are generally higher.

> *"Twenty per cent would help but may not be enough. It depends on the area." (FG1P01)*

8.25 Some participants did however query how the property rent would be re-based after the five-year tenancy - for example, one participant queried whether the rent would be re-set to market levels after the five-year tenancy or continue to follow inflation from time of first letting and that this may have an impact on renewals. Some participants also queried rates and whether the scheme proposals of discounted rent included property rates as they were not supported though housing benefits. These participants stated that if rates are not included this would erode the 20% discount. The participants sought further detail and clarity on this issue.

Eligibility

8.26 Discussion turned to the eligibility thresholds for individuals and households. The proposed income eligibility criteria was generally accepted by the focus group participants and there was also agreement that there should be no minimum threshold but, as above, a number queried affordability checks. Others stated that the threshold was at a good income level and seemed to be quite generous – a point relating to whether it truly helped low income individuals and those single parents in more rental stress and hardship. This, it was felt, would lead to strong demand:

> *"I think it is good at present to hold it on that criteria to start with, but I would be concerned that there will be too many people applying." (FG2P03)*

8.27 Deeper discussion of the eligibility criteria also raised a number of comments as to how those eligible would be selected and specifically whether those in more acute housing stress or with low incomes would be prioritised from those at the upper end of the eligibility income band. In this sense they averred to the concern of an overly financial focus which could take away from those most in need. Participants also expressed concern that those towards the higher end of the income eligibility threshold would be preferred as tenants because they would be viewed as less of a risk; they also questioned whether the scheme could be abused by those in areas of higher rents to obtain a discount.

8.28 There was also discussion as to whether the criteria should incorporate demographics, location and individual circumstances and participants were vocal that consideration of a weighting system be implemented to help those on lower incomes, and potentially a points-based system applied for those on social housing waiting lists, to 'weight' applications. One participant suggested that this needed to be tightly reviewed as this could be subject to abuse and there was considerable discussion of the difference between households with single income, joint income and those with housing benefits.

Views of Scheme and Roll-out

8.29 Considering the benefits of the scheme, participants averred to the scheme as "too good to be true" and viewed it as a panacea for many of the issues tenant's faced in the private rental sector. This raised considerable discussion as to the scale and roll-out of the any potential scheme as when asked if they would be interested the overwhelming responses was "*definitely*", although this was caveated by location. One participant did highlight that the attractive scheme features would be sought by many and raised the issue of demand and supply.

8.30 It was also queried whether the scheme roll-out and scale could be improved through the provision of affordable housing in new developments employing tenure blind approach and that this would help in terms of mixed communities and inclusiveness of tenure options and potentially location options. It was also recognised that there would be an element of 'trial and error' of the scheme. Others recognised the logistical difficulties relating to eligibility and how those most in need or with low incomes could be prioritised or ranked and questioned how many individuals could be helped by the scheme before there was saturation.

Summary insights from the focus groups

- **Location** is a key aspect – whilst the respondents applauded the proposed product, viewing it as almost 'too good to be true', they were generally *unlikely* to move out of their preferred area for it – citing support mechanisms, schools and transport issues as major inertial factors. This is perhaps unsurprising, as the need to stay in a particular area is a key part of the difficulties they face in getting suitable accommodation at present. The general consensus is that the product should be spread out, across the areas where there is identified housing need. Given these location concerns, there were, perhaps surprisingly, no real issues raised in terms of 'pepper-potting' the properties in existing housing estates and development schemes – understandably caveated by a wish to avoid extant anti-social behaviour. There was support for inclusion within schemes in a 'tenure blind' approach.

- **Property type** is of concern – the provision of new build property was not viewed as essential however welcomed by tenants who also offered broad support for renovated (quality) housing within existing estates and locations. There was an identified need for a variety of accommodation types, to meet different and special needs, provided within the areas of housing need.

- **Affordability and credit checking** was considered to be acceptable, normal, indeed required for landlords. However for participants credit checking was a more contentious issue, especially for those with poor credit ratings. The consensus was that the vetting process should not be overly invasive and should largely rest on references and evidence of being a 'good tenant', although there was acknowledgement that credit checking in relation to affordability are a standard requirement within the PRS.

- **Deposit flexibility** very welcomed and needed – with stress on the importance of rapid reimbursement when moving on.

- **Tenure security** was strongly endorsed, with the transient nature of the PRS a major concern. There was strong support for the five year term, and the options to renew, as long as leaving early is not penalised.

- **Rent reduction** at 20 per cent was strongly endorsed, with suggestion that this could be increased in the areas of acute rental stress. The main caveats related to rental uplifts, the consensus being that this should be linked to inflation, not local rents. This carries over to lease renewal, with concern raised over the formula for rebasing after the initial five years, which again was viewed as ideally linked to inflation, to avoid a significant (and unaffordable) rental uplift at that point. There were also concerns raised as to whether rates would be inclusive, as this affects the overall cost of renting and rates are not covered by Housing Benefit, although it must be acknowledged that those on low income may be entitled to housing benefits, rate relief or both.

- **Eligibility** was a key concern. There was a generally positive response to the scheme proposals, however, there were concerns that it may be a victim of its own success. There were concerns regarding the scale and timing of the roll-out. It was perceived as being likely to be heavily oversubscribed, putting pressure on the tenant selection process. Questions centred on issues of short listing: Would better off (less risky tenants) be preferred? If so then this presents difficulties for the worst off and single parents. To counter this, there was support for a 'points based system'.

Section 9

9.0 INTERVIEWS - VIEWS OF STAKEHOLDERS/PROVIDERS

9.1 As a central element to this research project, key stakeholders were approached for their views on the Intermediate Rent 'in principle' model suggested by CaCHE. It was recognised that delivery of the IR product was a key issue which required further exploration of the precise mechanisms through which the product could be implemented. In this sense, there were a number of questions, perceived barriers and options which need to be considered by government and specific questions for potential stakeholders relating to willingness, specification, regulation, management and delivering an IR product in practical terms. A range of organisations representing views from local Housing Associations, local charities and investors took part in semi-structured interviews. The interviews explored the utility of, and interest in, an IR product with the hope that views collected would help to inform and shape the strategic delivery of an IR product for NI.

9.2 In total, 14 Interviews were conducted with an array of key stakeholders and potential providers in March 2022. The interviews included five Northern Ireland based Housing Associations. Four of the five HAs had private development companies within their corporate structure. Two GB based HAs were interviewed to garner operator experienced insights of IR provision as part of a portfolio of tenure options. Two charitable organisations with experience of sourcing and/or providing tenant accommodation in Northern Ireland were also consulted to ascertain their views on IR provision as well as to determine their appetite to perform an operational role within the confines of the IR scheme. The final series of interviews were conducted with stakeholders from within the investment and financial services sector comprising a mix of London based institutional investors and local and national banking institutions. Appendix 4 provides a full breakdown of the organisations who contributed to the research.

NI based Housing Association views

Views on the Overall IR Concept

9.3 There were conflicting views amongst Housing Associations (HAs) on the 'need' for an IR product. The primary benefits of IR were considered to be the likely improved quality of stock provision and the better regulated governance structure. While some HAs felt that there was a market need for a more affordable rental product this was not a universal perspective, with some interviewees not fully convinced that an IR product is needed in Northern Ireland. One interviewee stated:

> *"We have one of the most 'affordable' rental markets in the UK. We need to build more social housing to meet the levels of demand. Perhaps better governance and regulation of the private rented sector is needed rather than the IR pricing point." (I05)*

Related to this view was the belief of some interviewees that there are only certain locations in NI where there may be need for an IR product. Indeed, the majority of interviewees felt only Belfast and Derry offered the scale and levels of demand. It was also felt that the IR scheme needed to be fully piloted and 'road tested' in order to determine financial viability.

9.4 All contributors agreed on the need for improved governance within the private rented sector highlighting that the quality of rental stock at the lower price points is very poor and the lower end of the market seems to be more adversely impacted by the lack of proper landlord regulation – the prevailing sense was that the poorest households are the ones being most exploited. On that premise alone, the case for a properly regulated IR product was fully justifiable.

9.5 Interviewees called for greater clarity on the tenant eligibility criteria for IR provision and the selection strategy. It was felt that potential tenant criteria and affordability determinants availing of the IR scheme, including the identity of the organisation that would manage (and be adequately equipped) to manage the criteria and selection process lacked detail. Questions posed by interviewees included if the criteria evaluation and tenant selection process fell within the remit of the operator of the IR scheme? Interviewees suggested that the lack of detail around the tenant selection process would heighten the risk profile of the IR concept and lessen its appeal amongst prospective providers and investors. One interviewee suggested that the NIHE could potentially serve as a central body as this would heighten credibility amongst prospective financiers. Turning to rent-setting, both HAs and investors identified that 80 per cent of market rent was a standard approach to rent-setting across many IR schemes in England, Wales and Scotland. This 'in principle' was appropriate, however, a number of HAs stated that the Northern Ireland market is different and that the discount rate would affect overall viability. We discuss market rents further below. Providers also sought additional clarity on the CPI plus percentage uprating formula element.

9.6 Providers were supportive of the tenancy length proposals as this provides better security for tenants and the ability to plan in terms of operational asset management and maintenance. Likewise, investors were also supportive of the longer tenancy term for an IR scheme as they indicated that this provides increased stability and transparency in terms of financial modelling and risk and an inflation hedged investment option (upon entry). The issue of tenancy renewal was seen as more complex with both providers and investors requiring further clarification around the specifics of the renewal process. Investors in particular require more information around whether the end of the fixed tenancy (upon vacant possession) would see a reversion back to 80 per cent of market rent, and if this was not the case questioned what incentive would there to be to provide private capital if the discount was substantially higher than the established benchmark of 80 per cent after this period.

Funding and subsidisation requirements

9.7 Interviewees highlighted that the private arms of HAs are not developing any new housing units at this time due to a lack of development viability and market failure. A number stated that unsubsidised development by HAs is not voluminous or at scale – a challenge compounded by the current escalation in labour and material costs. It was stated that this is why residential development appraisals, complicit with economic appraisals, simply do not 'stack-up' for unsubsidised development at this time. Two of the NI HAs interviewed provided an overview of typical build costs for their private sector development arms as follows:

- Land cost per unit - £40k
- Build costs per unit - £130k
- Legal and other professional fees - £20k.

They estimate that, on average, it will cost circa £190k to build a typical semi-detached house (3 beds). If we assume an IR of £480 per month i.e. £5,760 per annum. Their return on investment based on these figures would be 3 per cent (nb this does not account for rates liability). Based on a 35-year funding model, it would simply not be financially viable to deliver IR schemes.

9.8 It was highlighted that if the IR model is premised on private sector borrowings aligned to future revenue (rents), then there is an issue as currently capital costs have increased to such an extent that rental income at 80% of market value will not 'stack up' in terms of financial viability. The interviewees indicated that it is just not practical without further government support and no housing association will expose their business model and take on more borrowing to deliver units which will achieve less than market rents. This view was echoed within the financial sector with participants questioning the rationale for lending on a product that commanded less than full market rent and which was conceivably a higher risk than standard BTR schemes by virtue of the short term tenancies and prospective higher void rates.

9.9 In addition, prospective providers highlighted the need to ensure that the IR concept factored in not just the upfront capital costs of construction but that suitable provision was made to ensure adequate financial resource for proficient tenant and asset management – which has been a failing of many previous programmes historically and the legacy of inadequate funding is borne out in the quality of product provision. The interviewees questioned if the level of CPI+ element would be enough, and that further details would be required to fully examine financial viability.

9.10 Further, it would seem that the private arms of HAs are borne out of corporate necessity with the planning system for example often insisting on HAs bringing forward mixed-use schemes – the non-residential components of which cannot be retained within the parent association structure.

9.11 The consensus of opinion amongst the NI HAs interviewed was that public subsidy will be needed to make this happen. Thoughts on the nature and magnitude of subsidisation required varied across participants and would need to be explored within a detailed financial appraisal. The discussions pertaining to Financial Transaction Capital (FTC) indicated that this form of capital subsidy would be beneficial, helping to deliver the provision of the IR scheme. However, it was noted by some of the interviewees that even with FTC subsidy, viability would be questionable. Their view was that the proposed scheme would undoubtedly require further 'in-kind' subsidisation such as nil cost land transfers. Some interviewees were of the opinion that incentives such as nil-cost land transfers need to happen – otherwise, in their view, IR will never get beyond the concept stage, even with FTC.

9.12 Aligned to this, it should be noted that interviewees strongly advocated the view that more needs to be done in terms of transparency of land holdings and the Public Sector Surplus Lands register, specifically those holdings to be made available for social and affordable housing provision. A number of interviewees commented that this could perhaps help with the land transfer process which may be the most amenable way of making any potential IR scheme viable.

HAs as Providers/Operators of IR

9.13 There were a number of discussions pertaining to the legislation surrounding HAs within NI, and their relative uniqueness in comparison with GB equivalents. Despite being the entity seemingly best placed to deliver IR homes, HAs in NI under current legislation are not permitted to be the operators of IR due to the statutory requirement to provide a 'secure' tenancy, which the proposed IR scheme does not allow for. Some interviewees did indicate that there does appear to be an opportunity for HAs to work with an IR Landlord in some form of Joint Venture (JV), to deliver the assets and permit the partner landlord to manage the assets. However, interviewees indicated that this presents challenges in terms of operational asset management and ownership of the units – the HA or the operator. They questioned who would have control, why a JV would be needed and that further clarity is required around this aspect.

9.14 Existing governance precludes Housing Associations - the entities best placed to deliver IR for NI as they have the necessary skills sets and competence to operate and manage the schemes and would also be best placed to oversee the construction phase. However, there appears some contention on the interpretation of the governance framework and the specific legislation which precludes HAs in NI from being operators of IR schemes. HAs remain uncertain as to the interpretation of the legislation, particularly around 'security of tenure' and lease length. This is a point which seems to require clarification and we return to this within the conclusions section.[19]

9.15 Additionally, from an investment risk perspective and considering the medium to long-term need to attract private (institutional) capital, this requires the parent organisation to be the operators of IR schemes, as this would ensure familiarity and consistency with the wider GB model. Institutional investors in GB have a track record of collaboration and JV on IR provision in England and Scotland – with the HA assuming responsibility for operational management of IR schemes.

9.16 As evidenced in the CaCHE research, a good parent company with a good reputation and strong covenant would be acceptable for a JV set-up with the institutional investment community. This is challenging for the NI market, particularly with the private arms (subsidiaries) of HAs, being small in scale, lacking established procurement and operational asset management. In simple terms, the parent association has the proven track record and scale to attract institutional capital – the private development arms have a much reduced appeal within the investment community and associated capital markets. The approach of using subsidiaries of HAs in NI adds a new layer of risk, moving away from a tried and tested process and parent entity would mean that the NI IR model is distinct from the 'tried and tested' GB concept. Interviewees suggested that in the interests of external investment

[19] We note there are legislative exemptions, however these would not apply to the proposed IR product. As is discussed below, we understand it is the Departments intention to review the legislation and provide clarification.

appeal ensuring that the features and specifications of the NI model were as closely aligned as possible to existing GB framework would be hugely advantageous.

9.17 Further to this, interviewees highlighted that adding new/bespoke features would add that additional layer of risk, requiring model specific due diligence and would inevitably delay uptake and lessen appeal within the institutional investment community. Any potential upscaling of the IR model going forward will require institutional capital. This could potentially also reduce levels of reliance on government subsidy over the medium to longer term – so the concept should be as investor cognisant as possible in terms of specification, features and governance.

9.18 One further cautionary note was highlighted by two of the interviewees who suggested that enabling HAs to serve as IR operators had the propensity to ‘dilute’ focus and generate possible conflicts in scheme allocations between social and IR provision. That said, it is hard to conceive how any other competent entity would be willing to bring this forward in NI at present – and the drive towards mix-tenure development within planning legislation would offer HAs the opportunity to achieve this.

Provision of New IR Units

9.19 A number of interviewees brought up the current challenges pertaining to build costs and also highlighted the need to be mindful of build specifications. Presently, the expectation appears for the new IR units to push toward a net zero standard – if this is to be attained, the insights from the potential providers suggested that the Department needs to acknowledge the additional costs associated with both the build and recurring maintenance and management of such specification for the provider. There is of course a need for a balanced approach when considering new build specification of IR stock and to take cognisance of the cost reductions (financial and environmental) which could be realised, both to the landlord and tenant, of a reduced requirement to retrofit, reduced energy bills (elongating the quality standard of the property) etc. The ‘payback’ to both tenant and landlord need to be further explored and modelled to ensure robust cost-benefit analysis.

9.20 Contributors from the NI HAs highlighted that providers in GB attain a large volume of IR units by virtue of s106 agreements which require affordable homes to be provided, the ownership of which is often auctioned off. Planning legislation around s76 in NI does not consider onsite housing developer contributions to be (at present) a materiality. While IR has come under the umbrella of the definition of affordable housing, there is a complete lack of affordable housing provision being delivered in NI via planning regulation.

9.21 In NI, there is an evidence base which suggests there is a hesitancy amongst private developers to deliver such mixed tenure schemes. Interview evidence suggested that IR may be a more ‘palatable’ option with one interviewee stating:

> *“Unless, under section 76 agreements IR becomes the ‘affordable’ option for private developers – this may be a preferable ‘tenure’ option for them but I would see little uptake unless enforced through S76.” (I03)*

Market Rents

9.22 Interviewees were also vocal about the rental levels in the Belfast and Derry City & Strabane BRMAs which the CBRE report[20] proposed for initial implementation (within a test and learn approach) the scheme. In sub-markets within these HMAs the interviewees suggested that there are many examples of social rent being greater than private market rent – so to pitch against 80% of 'market' rent in areas where social rent levels surpass the private market does not make economic sense from an operator viewpoint. Further, some interviewees indicated that the proposed IR rent discount needed to align with local market conditions and geography and set at a level which takes into consideration the features of the IR model, specifically quality maintained housing with a longer tenancy. For this reason, some were of the view that 20 per cent could be at the ceiling of the level of discount and that this requires further consideration.

9.23 In addition, it was felt that there is a need for IR to be at a distinct pricing point from social rents in any given location – otherwise as one interviewee commented *"what is the point of the product?"* If that is the case, it was implied that the department would just be better off building more social units. Interviewees were minded that the IR product needs an 'identity' and it needs to support prospective tenants beyond just those unlikely to be allocated a social housing unit. Equally, it was noted that rental affordability is not confined to low(er) income households or areas with high social housing waiting lists. The interviewees called for the eligibility criteria and selection strategies of potential IR tenants to be reviewed and clarified so product 'identity' can be determined.

Institutional Investors/GB Housing Association Views

9.24 Institutional investors are willing to take a long-term yield on IR schemes as it 'ticks' a lot of boxes particularly with increased emphasis on Environmental, Social and Governance (ESG) mandates. A number of institutional investors have partnered with Housing Associations in GB to provide both social and affordable housing solutions – and this includes IR. The HAs tend to be large scale operators and positioned within key urban markets. This enables the institutional investors 'exposure' to the housing sector/residential market, and by entering into a Joint Venture partnership with an established HA, the risk of investment is greatly reduced.

9.25 In many cities (particularly in London and the South East) there are acute housing affordability pressures, where demand for IR greatly exceeds supply – so there are very low vacancy rates, and even at 80% market rents, investors can generate attractive yields on their investment while also enhancing their ESG mandate.

9.26 The GB HAs highlighted that much of their IR stock is acquired through s106 agreements – so there is an established supply pipeline of units coming through and it is known how these will be funded. There has been some criticism of the s106 model given that HAs 'bid' for stock – this can become quite intensive in areas of very

[20] Which also cover some of the territory identified in the CaCHE report as being locations where the affordability gap between HA and Market rents is most pronounced

high demand – so this has raised questions around the value for money derived via the s106 process.

9.27 In England, a number of IR products are offered as ‘Rent-to-Own’ with an initial reduced rental lead-in period but, in reality, there is no real onus on the tenant purchasing. It is common for tenants to have resided in their property for over 15 years – so in that respect it is a very different from the Rent-to-Own model that Co-Ownership administer.

9.28 Investors indicated that the potential yields for Northern Ireland do not stack up even at full market rent, therefore this makes Intermediate Rent even more challenging. The current market dynamics simply do not warrant entry into what is an untested market – even when considered on a medium-long term view.

9.29 Institutional investors currently investing or looking to invest in residential in NI (Belfast) are currently focused on BTR schemes – which are at the premium end of the rental market. To some extent even this market is ‘untested’ in Belfast so it will be some time before investors would consider IR which on the face of it would be considered a more ‘social’ investment opportunity.

Charitable Sector Views

9.30 Perhaps understandably, awareness levels within the charitable sector on the ongoing consultation on IR and indeed how the IR model would be deployed was not as well advanced in comparison to other stakeholder groupings. Nonetheless, those interviewed from within the charitable sector were highly supportive of the IR concept highlighting the ongoing challenges they encounter finding suitable, stable accommodation provision.

9.31 All charitable groups interviewed highlighted that the escalation in living costs in recent months is going to make the situation even more acute and precarious for those on low(er) incomes including many that fall into more vulnerable groupings that they are seeking to house. There is a particular need for one bedroom apartments from prospective tenants who have been declared homeless or in urgent need to housing.

9.32 One particular organisation highlighted that through their Housing First Model (HFM) they had historically worked with private sector landlords, however stated that this activity had decreased more recently and they have experienced much less scope to work with the PRS As most tenants being facilitated into accommodation via the HFM are dependent upon housing benefit, and some require special dispensation, it is difficult to find suitable accommodation.

9.33 It was evident that a number of organisations within the charitable sector have established links with Housing Associations and have worked pro-actively to transform vacant housing stock into use. The links between HAs and the charitable sector could be further enhanced through the additional rental provision that IR would theoretically offer.

9.34 The interviews identified strong appetite amongst the charitable sector to potentially undertake the role of 'Landlord' of the IR scheme within Northern Ireland. Further clarification will nonetheless be required on the specific nature and functions of the landlord. If, as proposed, the role will also include asset management responsibilities, it is clear that this would require the charities interviewed to expand the scope of their business operations, as well as garner new competencies and skills – which in some cases exist within some parent organisations but not at NI level currently.

9.30 Interviewees from the charitable sector all highlighted the poor quality of housing provision at the 'lower' end of the rental market – this did not always mean cheaper rents but given the profile of some of the tenants they seek to accommodate the quality of provision remains a key issue. Governance of the private rented sector was a theme, which also featured prominently in all interviews with charitable organisations.

9.31 Charities were also very supportive of the idea that the scheme would bring new additional stock into the rental market rather than 'swallowing up' existing stock which is already inadequate to meet demand levels within key rental locations.

Key insights from the interviews with stakeholders and potential scheme providers

- **Is the Concept Needed?** There was some debate as to whether the IR price point is required in NI. The real perceived scheme benefits from the provider perspective are the quality stock and professional landlordism – particularly at the lowest end of the market which witnesses the worst stock, worst behaviour and the poorest households. It was felt that this may be better addressed via better regulation and governance. In terms of the rent rebate central to the IR 'offer', in some sub-markets social rents exceed market rents -so a 'one size fits all' rebate on market rent level appears challenging. It may also require to be linked to prevailing social rents. That said, this sentiment was linked to a suggestion that more social housing would be a better fit in many locations, which is not under debate.

- **How to Fund?** The interviewees were unanimous in their view that the proposed IR scheme needs to be supported via further subsidy, grant or via some other mechanism such as transfers of publicly held development land – otherwise the proposals may not be financially viable. It was accepted that FTC funding as a mechanism (subsidy) would reduce capital outlay and costs, but that this may not be enough and that further subsidy would be required. Further financial modelling is needed to determine the level of viability, particularly in the current climate given escalation in raw material and labour costs.

- **Housing Association Provision?** HA's appear precluded from acting as IR landlord due to the statutory requirement to (in all but limited exceptions) provide HA tenants with a secure tenancy (effectively a lifetime tenancy), but this could be further explored, as HA's have stated that they can issue leases without statutory security of tenure. In GB, HA's are the main providers of IR products, and would be the ideal choice in NI if the legislation was amended to permit this. 'Pepper potting' across HA schemes from different HA’s may present asset management challenges for the nominated IR provider. At present, unsupported development by HA’s is deemed unviable due to cost increases, precluding activity from HA private development ‘arms’. This would prevent HA involvement in an IR scheme where capital value was restricted. Whilst there is evidence of IR provision in GB linked to ‘co-ownership’ and ‘rent to buy’ initiatives, there was no appetite for involvement from the primary NI based HAs in this sphere.

- **Charitable Provision?** Charitable organisations have a long history of working with both HA’s and private landlords in NI to bring vacant property into use and to provide housing for some of the most vulnerable members of society. There was strong support for the IR concept from the charitable sector, particularly the idea of additional stock and good quality stock being added to the rental market. There was some interest in providing an IR product, albeit against a relatively low awareness of the sector and its requirements. There does not appear to be the capacity at present to deliver and manage an IR product, from the construction or from a practical asset management perspective, although this does exist elsewhere in the parent bodies of some of the contributing organisations, who would in any case be more likely to partner with other organisations in such an endeavour.

- **Private sector Provision?** involvement of the private sector at this time appears extremely unlikely, unless a strong regime of s76 agreements is put in place. In that scenario, IR products may be viewed more positively, and could elicit private sector interest. Institutional Investors are active in this space in GB, but this is supported by an active s106 marketplace and other policy initiatives. These initiatives allow Institutional investors to partner with HA’s to provide exposure to residential markets at a relatively attractive long-term yield. This is not the case in NI, where the yield profiles are not yet established as viable, which has traditionally been challenging for high-end BTR schemes. This suggests that the viability of, and appetite for, an IR product from a private capital perspective remains low.

Section 10

10.0 CONCLUSIONS & OPTIONS

10.1 The research sets out the findings from market research into the proposed IR scheme for Northern Ireland. The research was commissioned to provide further market research as existing research highlighted the need for additional market research which could profile tenants from existing data and gauge the interest of potential tenants and providers in the scheme.

102. Existing research on the private rental market (UURPI) and annual affordability analysis has identified that the rental market is experiencing significant pressures which is causing acute affordability challenges for tenants across Northern Ireland, with many paying substantially more on rent costs relative to their incomes.

10.3 The literature review (Section 5), taking into account existing research evidence, both external and internal, has identified that an IR Scheme is needed in NI due to rental affordability pressures across the NI rental market. A number of rental locations were identified in the affordability analysis, which is relevant to the proposed model design and roll-out. This is discussed below.

10.4 Section 6 undertook a secondary analysis of existing data-sets, specifically the PTS and HSS, with an emphasis on profiling tenants and consider affordability and housing stress and demographics. Whilst it was recommended to undertake this analysis in previous research to elicit these further insights, it is important to emphasise the limitations in this analysis as these datasets were not specific to the IR scheme and thus an element of caution must be applied when interpreting the findings relative to the proposed IR scheme. That said, it was however possible to profile tenants, assess elements of tenant affordability and established housing need and stress from these surveys. The findings showed that there are acute affordability pressures for tenants residing within the PRS.

10.5 The findings identified that tenants generally lack awareness and knowledge surrounding the legislation and their rights within the PRS and did also indicate that there was, to a certain degree, dissatisfaction with landlords and the level of management. The findings also noted that tenants generally struggle to find suitable properties within the PRS citing affordability as a key determinant. The survey evidence also highlighted an issue with the quality of stock within the PRS with respondents citing poor state of repair and associated problems with the lack of professionalism of landlords in relation to repairs and maintenance. This limited availability of 'quality' rental stock appears to be a contributory factor in terms of unaffordability, with the evidence indicating that tenants within the PRS have limited options or choice and are therefore having to pay for properties which are beyond what they require. In this regard, the findings revealed that 49 per cent would require two-bedroom properties.

10.6 The research employed primary data collection through an online questionnaire survey with potential tenants in the PRS to extrapolate more tailored views on the features of the proposed IR scheme. This IR scheme questionnaire with tenants in the PRS has added valuable and unique data relating to the provision of an IR scheme in NI and was able to profile potential tenants by their interest in the IR scheme and to understand the circumstances of different groups of tenants on the IR scheme features. The findings also confirm there to be a niche group, in terms of income and affordability, who would benefit most from the IR scheme. The questionnaire findings also support previous research as to the affordability pressures and market segments where the scheme could be employed and further profiling of the affordability gap for tenants in the PRS.

Tenant sentiment on the proposed features of the IR model was also surveyed to understand areas where the potential IR scheme aligns to the needs of potential tenants and areas where challenges and barriers may remain. The findings show overwhelming support for the need for the IR scheme amongst tenants surveyed and there is general consensus in relation to the proposed features of the proposed IR model, although there are some important take away messages for government which may be useful in refining the features to meet potential tenants needs. Key issues that can be considered by government relate to the scheme application and scheme selection, eligibility and rent-setting. Each of these is discussed in further detail below.

10.7 This report also presents the findings from the focus groups with potential tenants (Section 8) and interviews with potential providers (Section 9) of the proposed IR product for Northern Ireland to explore interest in the proposed IR product and develop an evidence base to consider, in practical terms, the proposed IR product features, implementation and delivery in the local context. The focus groups conducted with potential tenants, stratified by their different circumstances, augmented the findings from the specific IR scheme questionnaire and provided a rich and deeper insight on the key features of the scheme. We conclude that there is interest in the IR scheme from potential tenants who see it as a welcome and necessary intervention for low income families in view of escalating private rents and poor sectoral regulation and housing quality. We also found there to be issues which may benefit from additional detail or refinement to meet potential tenants needs.

10.8 Through interview evidence with key stakeholders, the research has also been able to explore the interest and capacity of stakeholders/providers to provide the proposed IR product in Northern Ireland. For providers, the findings were somewhat mixed with interest diversified by key issues relating to finance, subsidisation and governance. The findings highlight a number of challenges relating to the operation of an IR scheme by potential providers in Northern Ireland, many of which, it was generally asserted, rendered delivery of the proposed IR scheme currently unviable.

10.9 Taken together, the empirical findings from the primary and secondary data analysis have provided further research evidence to inform the features and design and delivery of the proposed IR model for Northern Ireland. We now turn to examine our findings and conclusions for potential tenants and potential providers/operators.

CONCLUSIONS FROM RESEARCH INTO POTENTIAL TENANTS

10.10 The first objective of the research was to develop a comprehensive understanding of the characteristics of potential intermediate rental tenants in Northern Ireland. The empirical analysis across the surveys investigated illustrated that unaffordability was widespread across NI, and that there was an appetite for any potential IR scheme across the entirety of NI. The acute nature of rental costs relative to income is a paramount issue, and allied with lack of (quality) stock, suggests that the implementation of an IR scheme would be well received in any location. The findings further showed that tenants in receipt of benefits had more acute shortfalls of income to rents and depended on other means to cover the shortfall. Across the surveys analysed, a significant proportion of tenants were beyond the rental affordability threshold of 25 percent, and there appears to be a sizeable gap between what tenants can *afford* to pay and what they *are* paying in rent.

10.11 We conclude that there is a niche profile of tenants within this sector than can avail of the IR scheme. The findings from across the surveys examined were consistent, revealing that tenants are paying approximately 18 per cent of their income above the suggested affordability threshold of 25 per cent – exhibiting that they are paying 43 per cent of their income, on average, on rental costs. This level of unaffordability markedly increases when examining the lower (quartile) incomes which indicated that a number of tenants surveyed were paying beyond 60 per cent of their income on rental costs.

10.12 Turning to housing needs, the findings indicated there may be underoccupancy in terms of renters housing options and tenure, with almost one third (31%) requiring a two-bedroom unit. Further research on the quality and size of rental stock relative to tenants demographics is required. However, on the basis of the empirical analysis, we recommend that the IR scheme, where it relates to the construction of units, should have architype of two- and three bedroom properties.

10.13 The research also sought to review the specific proposals of the IR model design and ascertain what would be required to meet the target tenant group’s housing needs and provide additional tenure choice and options. On tenure choice, a key consideration is location. We conclude that tenure choice and location preference can be met through retrofitting in existing rental locations and through building in areas of acute demand. The findings therefore support a strategy of pepper-potting of the IR scheme across urban and rural locations in additional to bringing units to the market through development. We suggest that the scheme roll-out can be linked to Local Development Plans and in line with private rental market evidence and that it would provide a valuable mix-tenure option.

10.14 Tenants raised the ability to transfer or ‘port’ the IR tenancy to another property. This is an option government may want to consider, although it must be recognised that this will require further detail as to how this would work to allow operators to maintain a balanced supply, scheme and portfolio asset management and avoid undue complexity. There may be an opportunity for government to consider the potential for IR transfers under certain circumstances.

10.15 Considering housing quality and regulation, our findings point to a distinct lack of quality in terms of rental properties currently within the PRS, and lack of landlord engagement for maintenance and repairs. This in turn, raises the question of sectoral regulation. Tenants were in support of the proposed model of a professional landlord with maintenance. We therefore conclude that the proposed IR scheme would provide increased regulation and standards for tenants and regulatory principles can be aligned to PRS and social housing regulator principles.

10.16 Turning to length of tenure, a prominent finding from the survey evidence highlighted security of tenure as a foremost concern for tenants, a high majority of which have been residing within the PRS for three or more years with over a third for over five years – a consistent issue across NI. The analysis also found that tenants generally want to remain within the PRS, required longer-term tenancies and indicated that their ideal tenancy would be either three to five years or five years (or more). Our market research findings therefore find widescale support for a tenancy length of five years to provide security of tenure for tenants within an IR scheme. Some tenants proposed additional flexibility through the ability to leave the fixed tenancy period without penalty. Our findings showed support for an introductory period to the tenancy. We suggest that government could explore whether an introductory phase to the five year tenancy term is feasible.

10.17 The issue of renewal of the five year tenancy was also prominent. Our findings indicate that tenants would like the option to renew the tenancy after the five year period. We do not conclude that this should be an automatic renewal; rather this is an ‘option’ which allows the parties to freely enter into a new tenancy period. This, however, will bring additional considerations in the context of whether the rent is rebased. We consider this further below. The length of the tenancy renewal also ranged from yearly rolling renewal to a fixed five year renewal. This is an important question in relation to portfolio management and for government to consider.

10.18 Tenancy deposits was also a key issue, particularly upfront tenancy deposit costs and deposit returns. The tenants surveyed were critical of landlords requiring more than one month’s rent in advance and failing to return deposits in full or in a timely manner which has consequences for securing a new rental home. In the main, our empirical findings indicate that most tenants surveyed supported the flexible deposit proposal. This was echoed by the evidence from focus groups. In terms of timeframe, tenants sought flexibility which ranged from three to twelve months. We therefore conclude that the flexible deposit proposal should be offered and that this flexibility should be implemented up to a twelve month period, with instalments potentially added to monthly rent payments or made periodically. Turning the quantum of the advance rental deposit, we do not consider this to be problematic for a number of reasons. First, the IR scheme would be delivered by a professional benevolent landlord within an IR scheme with clear parameters set on such rental deposits. Second, we also note that the recent introduction of legislation which limits the deposit in a private tenancy to one month's rent in advance.[21] Likewise, on the issue of deposit returns we note that the scheme would be operated by a professional landlord who will comply with legal and regulatory requirements. For these reasons, we do not envisage these issues to materialise within the proposed IR scheme.

10.19 The third objective was to undertake an examination of the outline rent setting and tenant eligibility proposals. The findings provided rich data on these issues. Considering scheme eligibility, our headline finding is that two thirds of those surveyed (67%) were in agreement with the proposed income ceilings of £30,000 for single households and £40,000 for combined household income. Thus, this aspect of the proposed IR model has strong support amongst tenants. That said, some tenants did highlight concerns relating to the proposed scheme eligibility and stated that it should be means-tested, consider social housing points, and directed towards those most in need and on low(er)-incomes by adjusting the thresholds. Our view, in light of the affordability analysis, is that the income thresholds may need further alignment to household circumstances and affordability. With this in mind, we favour an approach that allows for flexibility based on circumstances (such as dependants) through an income ceiling range for single and combined applicants. There was also some evidence from tenants which suggested that a housing points system could be employed in the application process to distinguish and rank applicants. Unlike some comparable schemes in other UK regions, we do not consider that the IR scheme should employ or utilise a points based scheme as this moves towards a social allocation approach which is complex to deliver and out of line with the private housing system. We do however consider that there should be further consultation and review of any refined eligibility proposals which could consider these options.

10.20 A further issue that emerged from our empirical research were tenant perspectives on credit checks. Tenants voiced opposition to credit checking. Whilst we fully understand tenant sentiment on this issue, particularly those from lower income bands, we note, as with most housing transactions in the private sector, that credit checks are standard practice and in many cases an essential requirement of the housing sector. We stress that this was acknowledged in our empirical data with tenants surveyed accepting that this is a feature of the rental market to ensure affordability on the part of the tenant and risk mitigation for providers. We therefore see no reason why this important aspect of affordability would operate differently as this would seem to be out place with how the private housing sector operates and, in this case, to ensure their financial circumstances are as well matched as possible to the financial responsibilities of the IR property. Finally, tenants survey sought clarity on the role of guarantor and queried whether the scheme will accept a guarantor under the eligibility criteria. This is a choice for government and something which government may want to consider further in refining the proposed model and when assessing affordability.

10.21 In addition to our affordability analysis, we also found there to be ongoing financial pressures on tenants with respect to rent increases within the sector, with less than

[21] Private Tenancies Act (Northern Ireland) 2022, Art 4.

one-fifth stating that they could afford an increase of around 10 per cent. The concern around rent inflation was also apparent in our qualitative data. Unsurprisingly, the overwhelming majority of tenants survey (91 per cent) agreed that paying a below market rent in the region of 20 per cent for an Intermediate Rent home was a helpful discount – particularly those households on lower incomes. A number of participants did identify that the discount could be increased to take into account other factors such as property type, location and further means tested.

10.22 On rent setting, and the discount to be applied to market rent, our market analysis shows overwhelming support for the proposed discount of market rent at 20% as many tenants welcomed any discount that could alleviate rental stress. However, some tenants indicated that the discount should be higher in rental locations of high demand and pricing structure. This range is supported by our profiling on tenants incomes and rents in the private sector across the three surveys outlined above and our finding that 82 per cent of market rent paid by tenants are beyond the 20 per cent discount proposed. Our analysis suggests that applying a decrease of one standard deviation on rent may equate to between 17-26 per cent of a discount on market rent. Our analysis also reveals that a 20 per cent discount on market rent correlates with a one standard deviation reduction in average market rent and we estimate that applying one standard deviation reduction would allow 34% of the sampled tenants from the IR questionnaire survey to access the IR scheme and alleviate the affordability gap.

10.23 Taking into account our affordability gap analysis, our analysis shows that the proposed uniform and simplistic discount of 20 per cent will help across the board but may not be enough for those on lower incomes. Our analysis finds that applying 80 per cent of market rent may require a discount in the range of 25-32 per cent to be applied to help those on lower incomes. Thus, we conclude that the discount on market rent may need some degree of flexibility. We therefore recommend that government considers the rent setting and that this may need to be increased to 25-30 per cent for low(er) income applicants earning less than £1,300 per month. We also consider that the rent setting discount could be expanded and offer more flexibility or set relative to an affordability or income assessment and market location, once the initial rent setting proof of concept is achieved. This allows for clarity, both for the tenant and any potential provider.

10.24 Turning to the uprating of rents, our market research indicates that tenants supported the proposal of indexing rent increases to CPI plus a percentage. Tenants were firm in their belief that rent uplift should be linked to inflation and not the performance of the PRS. The issue of uprating is more problematic after a five year tenancy concludes and consideration as to whether the rent should be rebased to market rents or continue to be uprated in reference to CPI plus approach upon potential tenancy renewal. Our market evidence indicates that tenants do not want rents rebased upon renewal and suggested that rent should continue to be uprated to CPI to avoid a potentially significant (and unaffordable) rental uplift at that point in time which may lead to arrears, eviction and homelessness. This issue is delicate and is a key policy decision for the IR model in terms of effective asset management of the IR scheme portfolio. We discuss this further below in respect of providers.

10.25 Considering the benefits and the value of an intermediate rental home, we found that the proposed IR scheme is clearly supported by those tenants surveyed who are currently residing within the PRS. Overall, tenants expressed a diverse range of opinions as to the benefits of the proposed IR scheme evidence which was gathered through qualitative empirical evidence in the questionnaire and focus groups. Our research has found that the scheme offers access to much needed affordable quality housing and provides increased security of tenure and stability and a sense of place making for tenants. Our analysis clearly identified that tenants would benefit from the reduction of upfront costs for accessing the PRS and that a rent reduction would provide much needed help with other living costs and financial wellbeing. A professionally regulated landlord was seen by tenants as a key factor for maintenance and repairs.

10.26 Turning to the barriers which may prevent potential tenants to accessing an intermediate rental home, our research noted potential barriers in terms of scheme demand and eligibility. In this context, our findings suggest that the scheme features will invariably result in huge demand and oversubscription for the proposed IR scheme, particularly on a first come first serve basis. The application and selection process was therefore seen by tenants as a key issue which may prevent access to an IR rental home. Further, whilst tenants generally accepted the level of rent discount and income eligibility proposals, some saw these features to be more problematic and described how this may act as potential barriers in terms of affordability or that the scheme may be exclusionary of those in rental stress as they fall below the proposed income caps.

10.27 Overall, in scoping attitudes to participation in an intermediate rental agreement among the tenants surveyed, we found strong evidence of demand and acceptability from the online IR scheme questionnaire and through focus groups. Indeed, 90 per cent of tenants surveyed agreed for the need for IR scheme in NI and our findings also point to the need for scalability in the scheme. The research findings highlighted latent need for an IR product in NI due to affordability and sectoral challenges in terms of regulation and housing quality. The findings from the primary and secondary data analysis clearly show acute affordability pressures within the PRS and tenant profiling from the questionnaire clearly identified a need for IR product – with gaps and affordability pressures across a number of rental locations. Further, market evidence of acceleration in average rents and rental affordability analysis indicates that the situation for many tenants will only deteriorate going forward. This underlies the need for IR provision. In this sense, appetite for, and interest in, the proposed IR scheme amongst tenants was strong.

10.28 Therefore, for many of the reasons set out above, we conclude that there is widescale support amongst tenants within the PRS for the proposed IR model including many of the proposed features of the model. As identified above, the market research has identified areas where government many want to consider adjusting or refining the proposals to meet tenants needs and expectations and, with these in mind, we have made a number of recommendations relating to key issues. These are set out in Table 10.1 below.

RECOMMENDATIONS

10.29 The evidence from the primary and secondary data with potential tenants provides the basis for a number of suggestions and recommendations relating to the IR proposed features which may help to recalibrate and refine the proposed IR model. The key findings, conclusions and suggestions are presented in Table 10.1 below.

Table 10- 1 Key findings, conclusions and recommendations from potential tenants

IR features	Research Findings	Conclusions	Recommendations
Tenancy Length	• 95% of tenants surveyed agreed with need to offer longer tenancy • 68% of tenants sought tenancy term of 5 years or more • 87% suggested tenancy of 3 years or more • 95% of tenants agreed that there should be option to renew tenancy • Tenancy renewal could be periodic or fixed for 5 years • Tenants sought additional flexibility during tenancy term	• The vast majority of tenants support a tenancy length of 3 or more years • The proposal of 5 year tenancy term has strong support. • Include an introductory period to the tenancy • The option to renew the fixed tenancy was supported by most of those tenants surveyed • Tenancy renewal is an important issue and should be flexible.	• 5 Years tenancy term • Consider an introductory period • Not 'automatic' renewal but the 'option' to renew after 5 years • Length of renewal should be optional as either periodic or fixed term.
Deposit	• 94% tenant's state flexible deposit is helpful. • Reduces upfront costs • Instalments range up to a 12 month period	• Proposed flexible deposit is supported. • Some tenants preferred to pay the deposit over a shorter period of time. • Timescale from 3-12 months	• Flexible deposit for one month rent over a period up to 12 months should be implemented.
Eligibility criteria	• Broad support for proposed income ceilings (67%). • Some support for adjusting income thresholds to reflect	• The income thresholds may need further alignment to household circumstances and affordability.	• Review the income caps for single and combined applicants to tailor the IR product. • Further consultation and review of the

IR features	Research Findings	Conclusions	Recommendations
	family circumstances. • Some support for additional eligibility aspects such as points system.	• Further flexibility based on circumstances (such as dependants) through an income ceiling range for single and combined applicants. • Points system or means-based tests should be avoided if possible.	refined eligibility proposals
Rent Setting & Uprating	• 76% of tenants agreed with the rent setting proposal of 20% discount • 91% agreed that 20% discount helpful • Some evidence of need for further discount • Affordability analysis shows need for wider discount range • Analysis shows affordability income gap above 80% of market rent • Tenants support rent linked to inflation • Tenancy renewal should continue at CPI+%	• Support for rents set at 80% • Analysis shows range of 70%-80% discount required • The proposed 20% may not be enough for those on lower incomes • Applying 80% of market rent may require a discount in the range of 25-32 per cent to be applied to help those on lower incomes • The discount on market rent may need some degree of flexibility • Tenants support rent linked to CPI+% and not PRS performance	• Investigate setting rent set at one standard deviation of market rent • Consider discount up to 25-30% for low income • Flexible discount rate linked to affordability/ income • Rent uplifted by CPI+% • Upon tenancy renewal rent setting status quo should remain and rent uplifted using CPI+% • Flexibility on whether rents are re-based to the local market where vacant possession occurs

IR features	Research Findings	Conclusions	Recommendations
Location	• Location is a key issue for tenants • Tenants are content for retrofitting to meet scheme demand and locational preference	• There is strong demand and IR Scheme will be over-subscribed • Affordability analysis shows pressures including urban and rural locations.	• IR scheme all rental locations but targeted to areas of need within LDPs and NIHE

CONCLUSIONS FROM POTENTIAL IR PROVIDERS

10.30 A key aspect in evaluating the proposed IR model was to obtain empirical data from potential providers/investors relating to the delivery mechanism and interest in the proposed IR product. Section 9 of the report undertook a series of market research interviews with a mix of potential providers and stakeholders to scope, in practical terms, views on the proposed design and delivery of the IR model. This workstream was guided by five research objectives which provided qualitative data about the key issues relating to design parameters, funding and implementation of the proposed model. The views reported, key issues identified and our reflections on these are set out in the paragraphs below. Whilst these advance a number of considerations and options, we are clear that the views espoused and options are ultimately a matter for government.

10.31 The first objectives was to review the proposals relating to the design and barriers of the proposed IR model and ascertain whether the proposed product and funding model will be viable and attractive for providers to deliver and operate, including stakeholder viewpoints on the funding mix. On this objective, we reach the following conclusions. The proposed model does not meet the requirements of specific housing associations and many would not be in a position to deliver the product from a financial or legislative perspective. Regarding finance, flexibilities and subsidisation a number of the HA's interviewed stated that FTC would be beneficial as a starting point for the provision of an IR scheme but indicated that this was not sufficient to make a scheme financially viable in Northern Ireland. Therefore, as it stands, potential providers do not consider the proposed model viable citing FTC subsidy as not sufficient without additional or further 'in-kind' subsidisation.

In this context, a number of potential providers stated that capital costs have increased to such an extent that rental income at 80 per cent of market value is not financially viable. They further identified that incentives such as nil-cost land transfers would be required, even with FTC subsidy. This points to the need for further subsidisation through in-kind land contributions to strengthen the position of the model. Related to this issue is the potential transfer and flexibilities of developable public land. Our findings indicate some contention on this aspect in that land availability and supply are constrained in key urban areas and land values are also prohibitive to development, even at full market rent. First, as CaCHE have noted, the public land potentially available is held by different agencies and may not be developable as it may be in the wrong places and/or not suitable for residential or affordable housing development. Second, our market research indicates that there needs to be more transparency of land holdings on the Public Sector Surplus Lands register which could be made available for social and affordable housing provision to support IR viability. Third, some HAs pointed to the need to develop more social housing on public developable land, rather than transfer to an IR scheme which could displace social housing delivery.

10.32 Our market research therefore suggests that the model requires strengthening through flexibilities to enhance viability and attractiveness to the potential providers in Northern Ireland. We conclude that further mechanisms, including additional subsidisation, will need to be explored to meet the requirements of those providers who may be best placed to deliver the IR product. With this in mind, we think that government will need to further investigate financial viability with HAs through viability appraisals (nil land cost and FTC capital) and financial modelling. We also consider that low-cost and 'in-kind' land contributions should be explored and developable land identified in locations where the IR scheme could be placed. Overall, our market research suggests that scheme viability remains a key issue and that FTC remains at the margins. Land transfer in itself may not be sufficient to create and ensure financial viability. Both aspects need to be explored further.

10.33 Turning to the funding mix of FTC and private financing arrangements, we found that this is challenging in the Northern Ireland market for a number of reasons. First, institutional Investors able to take a longer view are barely active in NI and will require costs and yields to be proven viable in the mainstream market and require regulatory certainty, before even investigating the IR sector in NI. Further, financial (borrowing) costs relative to the yield that can be generated on IR product appear incongruent, even on a long-term structure. Second, the Northern Ireland market remains relatively untested and unattractive to investors and lacks consistency with the GB funding models on IR provision. Whilst there are some models which could be followed such as some Scottish models, the private subsidiaries of HAs in NI are small in scale and lack established procurement and operational asset management. Investors preference would be to enter into a joint venture with the parent HA, however, HAs are reluctant due to what they consider to be governance and legislative barriers in NI. Third, many of the private subsidiaries of HAs are not actively building at scale due to lack of financial viability relating to, inter alia, build cost and land value. We therefore consider that further measures would be required to make an IR scheme attractive to potential providers and investors. This includes consideration that the delivery of an IR scheme in NI, may, similar to the Scottish experience, require initial grant funding to bring the product to market and demonstrate viability before a sustainable funding mix may be achieved. We consider this further below.

10.34 Considering the risks or barriers which may prevent potential providers from delivering or operating intermediate rental homes in Northern Ireland, as we have noted above, our findings recognise a number of key barriers to the delivery and operation of the proposed IR model and the proposed design and funding model in terms of IR product delivery, viability and feasibility. We conclude from our market research that the key barriers to implementation and delivery are financial, governance and market uncertainty and scalability. There does not appear to be an obvious candidate to act as or form the IR provider envisioned in the proposals. This may necessitate government exploring further options such as a standalone social enterprise or charity.

10.35 Potential providers identified financial viability as a key challenge, particularly in the current climate with escalating build costs and, as a private subsidiary, it is unlikely that HAs can meet scale, mitigating private finance risk. There could potentially be a mismatch between the proposed IR scheme roll out and both how it is supplied and the level of supply. A key challenge identified by investors inferred that the IR scheme needs to be introduced at scale to be attractive; it is not clear how this can be aligned in frontal view of questions relating to supply and specifically no unitary entity displaying a willingness or interest to deliver it. This is a barrier to private capital market finance and undermines the funding mix approach to the IR model in Northern Ireland.

10.36 In terms of governance, NI has a different legislative and regulatory track compared with other regions of the UK. We conclude that the current legislation could be prohibitive in allowing the parent HAs to deliver the IR scheme and not in line with GB which ultimately impacts in potential delivery partners and finance. We therefore suggest that government consider either legislative reform or exemption (if possible), to permit HAs to operate subsidised IR in the future. This also related to investors and their willingness to fund IR provision in NI. We believe that affording HAs the opportunity to incorporate IR units within their schemes would seem prudent. There is a clear need for additional forms of tenure and for improved governance within the private rental sector. In GB, IR is offered by HAs as part of a wider portfolio of tenure options and does not detract from social housing provision. As proposed in NI the different forms of tenure would be supported via distinct funding streams/sources. That said, synergies in tenure mix must be explored and optimised to drive value for money and enhanced levels of provision – serving to reinforce the case for HAs as prospective IR providers. Further, HAs in NI have the scalability and corporate profile to attract institutional capital. The existing legislative framework serves to detract from the potential 'scalability' of the initiative.

10.37 Thus, our findings indicate that legislative divergence is a barrier to investment and potential scale. In this context, interviewees considered legislative change as a key facet for the implementation and delivery of IR provision in NI. Such legislative change would likely have a long lead in time and could take a number of years to achieve. This presents challenges to government in terms of the provision of IR in the immediate future. We consider that a limited number of options exist which would not require legislative change and may permit delivery through HAs. We believe that a set-up permitting HAs to build IR units entering into a JV with their subsidiaries (or a new entity for example comprising a pool of subsidiaries) who asset manage and operate the units may be seen as a viable approach. We consider that it may be possible for HA's to buy land and build property, before entering into a JV with a subsidiary / third party provider to let the property under the IR Scheme. They could potentially access finance to do this, benefitting from their strong financial covenant. If the HA develops the property and then enters into a JV to let, this will present as the HA taking on all the development cost and risk whilst retaining ownership. This would require the majority of the rental income to be returned to the HA to finance the activity. Regardless of the wording of any such JV, the subsidiary / third party would, in effect, be acting as a managing agent for the HA and retaining a fee from the rental income for doing so. This could be viewed as a legal artifice with the effect of avoiding the requirement of HA's to provide secure tenancies. It should be recognised that this could be subject to legal challenge which may, ultimately, result in collapse of the scheme. At the very least a legal investigation would be advisable.

10.38 An alternative route would be a JV starting at an earlier stage, covering the land purchase and / or (most probably and) construction phase, with economies of scale and risk shared between the HA and the subsidiary / third party. This would clearly delineate the legal relationships and would avoid the legal question of the ultimate Landlord and Tenant relationship. The subsidiary / third party provider would then be free to let the property under the auspices of the IR Scheme. However, there is currently nothing to prevent this from happening. A subsidiary / third party provider is fully able to JV with HA's and enter into lease covenants to proxy the IR proposals as presented. The reality, from our current evidence, is they are not deemed viable, even without the rent discount, so it is hard to see how the initiation of the IR scheme would change that situation. These are matters which government could explore with HAs, noting that HA operational structures and the complexity of JV may detract from this approach. This would need to be explored further and legal advice obtained. Further, whether an institutional investor would be willing, on a long-term view, to enter into a JV with a HA under such an arrangement will also require further exploration.

10.39 As above, our evidence indicates a preference amongst potential providers and investors for similar legislative governance structures that exist in GB. A further barrier noted by providers is the lack of 'on-site' developer contributions akin to English and Scottish equivalents is also problematic. Contributors from the NI HAs highlighted that providers in GB attain a large volume of IR units by virtue of s106 agreements. Interview evidence would suggest that IR units may be deemed a more 'attractive' mixed tenure housing medium for private sector developers – particularly if these could be 'sold-off' upon completion to a reputable IR operator. Planning legislation around s76 in NI does not consider onsite housing developer contributions to be (at present) a materiality and there is a lack of affordable housing provision being delivered in NI via the planning regime. Key issues and challenges therefore remain as to how government can ensure on-site provision of IR units through developer contributions moving forward to achieve the policy of mix-use development and tenure. Although it may appear that this enlarges the issue beyond the scope of IR provision and presents wider issues for consideration by government, we believe that this is front and centre in IR implementation and delivery. In this context, it is our view that the s76 issue is key to the context within which an IR product is likely to thrive in NI. We feel that consideration of this is a key component in understanding the viability of the IR proposal from the provider perspective:

- In GB, section 106 requirements to provide affordable homes creates a discounted product, which is made available by developers via a form of auction, whereby the properties are sold at a substantial discount to full market value on the basis that they be used for some purpose falling within the definition of 'affordable housing'.
- These properties can be purchased (typically by HA's), and then let out at rents that are at a discount to market rent. This activity is largely self-financing, due to the discounted 'buy in' price.

- In these auctions, IR provision is the 'affordable' approach that can justify the highest bids for the buildings, as they can generally be sure of a higher rent and a more secure tenant covenant, in comparison to traditional social housing or the secure, affordable housing options traditionally provided.
- NI does not currently have an active section 76 'market' akin to the GB section 106 market, as few, if any, developers are required to provide an affordable element to their scheme.
- This is due to the economic situation resulting in most schemes being unviable if social housing requirements were applied, and due to the lack of clear and consistent policies in place regarding developer obligations. It is also apparent that there does not appear to be a working mechanism to adequately reduce land values to fund such developer obligations, whilst still facilitating actual deals to make the land available for development.
- As a result, there is no extant economic driver to generate stock at below market value that can be brought into an IR scheme at a cost that would allow a discounted rent product to be viable.
- This is a critical difference to the understanding of the viability of IR from the provider perspective between NI and GB, where IR has become well established.

10.40 The empirical research has also scoped attitudes to participation in delivery of intermediate rental homes among potential providers, particularly the proposal to procure a single IR Programme Operator to deliver IR homes. In consideration of sectoral attitudes relating to demand and sector acceptability, we conclude that there is sectoral support for the IR scheme concept although, for some, this would dilute focus on their social mission and could generate possible conflicts. Whilst the IR concept is theoretically supported, there is limited, if any, interest from the potential providers (private subsidiary of HAs) to take the product forward in its current form. Questions therefore persist on who can supply the IR product and our findings show, decisively, that there is no unitary (private) provider within NI who is currently willing and able to deliver and operate the proposed IR model.

10.41 The market research also sought to undertake an examination of the outline rent setting, lease length and tenant eligibility proposals. Turning to eligibility, a number of the interviewees asked for greater clarity on the tenant eligibility criteria and the selection strategy. It was felt that potential tenant criteria and affordability determinants availing of the IR scheme, including the identity of the organisation that would manage this, lacked detail. This potential ambiguity would heighten the risk profile of the IR concept and its appeal amongst prospective providers and investors. There is a need for greater detail around the monitoring and evaluation of tenant eligibility criteria and the tenant selection process. Specifically, there remain critical questions around the administrative and operational costs and who bears these.

10.42 Potential providers did not raise any issues with the income cap, although some noted that these need to be pitched at the appropriate level for NI. Taking into consideration providers and investors views, we suggest that flexible income ceilings are adopted for the proposed IR scheme but that, as would be expected, there needs to be an affordability assessment at the rent discount level.

10.43 On the issue of tenancy length, and renewal, fixed medium-term tenancies (of five years) provide some sense of security and stability for both the tenant and operator/investors within these types of schemes. Our findings show that this is therefore appropriate and viable. Nonetheless, the direction of travel from that point forward, in terms of tenancy renewal, is something which both potential operators and investors raised.

10.44 For practical purposes, it seems reasonable to peg the ‘current rent’ to an established rental analysis process already in place, and to use the rent level in place at the time of letting, despite the myriad of valuation based considerations outlined. This ensures transparency in the rent setting process for the IR scheme. It also establishes a clear and robust process of rent setting, against which the agreed discount can be applied. In terms of *when* this discounted rent should be applied, the crucial factor appears to be whether this IR product is viewed as an intermediate rental product fundamentally linked to the market, or fundamentally linked to the concept of affordability. Whilst affordability is a key consideration, this seems to be a matter of applying an appropriate discount to the market and thus a fundamentally market linked product. This would also be important for efforts to attract market based capital, as opposed to government subsidy by way of grant funding – which is not available. As such, there is a strong justification in applying the market based discounted rent at the start of every tenancy. This allows incoming tenants to assess their ‘ability to pay’ the discounted rent, with the knowledge that future increases will be limited to inflation, which will also affect all their other outgoings, and to an extent their income. It also allows the provider to provide a market linked product with an inflation hedged income stream, which will facilitate scheme finance and even potential securitisation with the aim of reprocessing scheme finance.

10.45 ‘Current Market Rent’ linkage does warrant some further elaboration and investigation, such as how this is, ultimately, determined. Points of note include the date underpinning the concept of ‘current’ which could be set for periods of time or allowed to ‘float’. In principle, any date could be used as a base date for the rent, with inflation uplift from that date, for all future rent setting. The base date could be at any point, including antecedent base dates established in the past (as for the Rating system), allowing a clearer understanding of the market.

10.46 Considering the determination of ‘market rent’, there are issues in terms of the actual market analysis process undertaken and the price point utilised, valuation procedure itself and the appropriate delineation of the relevant market sector. Material considerations are that the market rent basis will be pegged to the established market rental area rent analysis and that new rentals will be based on these rents in place at the time. This in itself creates the potential for temporal anomalies, between lettings (which can happen at any time) established towards the end of one rent setting period, in comparison with early in the next, which may have significant rental implications. There is also the issue of spatial anomalies, for properties letting at the edges of adjoining established market areas, which may have different market rents derived from the geography chosen, despite being effectively identical in market circumstances and more correctly having similar rental values.

10.47 This issue of whether the renewal should be rebased to market rent, applying a discount at that point in time was something investors raised in the instance of vacant possession. The investors perspective is generally positive in relation to the IR scheme from an entry perspective. They indicated that if the entity can obtain the stock and asset manage it in an effective manner with an operating margin which covers capital outlay/costs on a net rent basis, then linking tenants initial rents to CPI is not a problem from an investment perspective, particularly if there is an opportunity to rebase upon vacant possession. In this regard, they view the IR scheme as an inflation hedged income (upon commencement). However, they foresee that any break in tenancy requires a movement away from CPI plus percentage approach and rebased to market rents at that time. Their view is that there will be ancillary costs for refurbishment and upgrade of the property and also the potential for an artificially lower rent which may create a scenario favouring one tenant (applicant) over another based on their point of entry. They also see this as an opportunity to crystallise the asset and revolve the capital upon disposal into new IR unit investment or towards the costs of refurbishment or development of new units.

10.48 In terms of potential future alterations to the scheme to reflect changing circumstances, this research can only 'pressure test' the basic structure, the basic scheme parameters for setting and renewing the lease covenants over the life of a letting. Retaining the same structure into the future (particularly the percentage market link and inflation linked uplift) has the potential to advantage or disadvantage existing versus new entries, dependent upon the relationship between market rental performance and that of the rest of the economy (as proxied by the specific inflation metric used). Changing the scheme structure in the future also has the potential to advantage or disadvantage existing versus new entries, again dependent upon the differential between market rent performance and inflation, but this time also dependent upon the nature and extent of the scheme changes, unless retrospective adjustments are also made to the existing lettings. It is also assumed that through time, new properties will be brought into the scheme, at the prevailing 'buy in' rate, fundamentally linked to the market (albeit at some internally/externally 'subsidised'/discounted rate).

10.49 Turning to rent uprating, potential providers and investors both queried uprating of rents at inception and during the renewal stage and sought further clarification around this aspect of the proposed scheme. As noted above, our market evidence is that tenants do not wish for rents to be rebased to market rents upon renewal and prefer rents to continue to be indexed to the CPI plus percentage approach. Thus, a key issue is whether the rent should be re-based after the 5 year tenancy term. Re-basing could leave rent unaffordable and result in arrears and eviction. At the same time, there also has to be internal fairness equitability and some consistency across a subsidised IR scheme operated by a benevolent landlord and sufficient yields on the return for investors. The equity, fairness and affordability issues are important, multifaceted and subject to the vagaries of the future economic circumstances and we therefore consider this below. The two main driving principles we see as ensuring acceptable conditions for existing tenants, whilst facilitating appropriate asset management of the stock by the provider.

10.50 In terms of rental uplift during the currency of tenancy and at renewal to the same tenant, it seems appropriate to retain the CPI plus approach, and *not* to rebase to current market rent on lease renewal. This ensures certainty to the tenant as to the cost base of occupancy. It is also generally acceptable to the provider, who can effectively 'securitise' this inflation proofed investment, albeit allocating some of the income to the provision of medium and longer term expenditure on the building fabric in the case of a tenancy continuing for an extended period of time. Rebasing when a property falls vacant is a separate matter.

10.51 A key event in the IR product cycle is the times when a tenancy expires or is ended and the tenant vacates, with the landlord obtaining vacant possession of the property. This is a crucial point for the landlord in the asset management cycle. The landlord will wish to assess the property for both its physical condition and also in terms of its position in the IR portfolio. In terms of *condition*, the landlord may require (or wish) to expend capital to repair or upgrade the property, prior to reletting. This may involve significant expenditure, against a cost base that is linked to inflation, but also to the performance of the property market. In terms of the *position* of the property in the IR portfolio, if the value of the asset has risen above the average level, the landlord may wish to crystalise asset value increases that have occurred locally and use the proceeds to improve other properties and/or build or acquire new property for the IR portfolio. They may also wish to dispose of properties that are more difficult to manage (for various reasons) or for which there is relatively less demand from their prospective tenants. This reflective process is a vital element of effective asset management, allowing the provider to refocus the capital in areas of need and opportunity. Both of these asset management concerns require the provider to have a relatively free hand with the vacant IR portfolio stock – allowing disposal at market value and rebasing rents up to the current market discounted scheme level, if deemed necessary and appropriate for the overall financial health of the IR scheme.

10.52 An additional reason for the ability to rebase vacant stock to the current market discount level when vacant is how this would play out practically in the letting process. When the vacant stock is offered to potential tenants, it is important that it is offered at similar rates and on similar terms and conditions as new stock that is being offered to let for the first time, at the same time, to potentially the same prospective tenants. The alternative would be that there would be potentially significant pricing level differences between new stock (80% of Market Rent) and old stock (base rent inflated by CPI plus for the duration of the previous tenancy), creating the risk of unintended competition and outcomes. The only differences between the asking rents for vacant to let IR properties should be those due to location, condition and specification, rather than any historic differential between market rent growth and inflation.

10.53 Rebasing at new letting does introduce elements of rental disparity between sitting and new tenants, in the same way as any medium to long term letting which does not regularly rebase to market, but it is argued that this is entirely appropriate and acceptable and to an extent essential for the operation of the IR Product without grant funding. Indeed, there may be other ways to overcome these issues and to provide a more specifically affordable product, but they increasingly move away from a market oriented model, with commensurate issues raised regarding the capacity for the scheme to be delivered and to be financed from market sources. It is within this context that the research has been carried out and alternatives fall outside of the remit of this research.

10.54 All things considered, and for simplicity, on rent setting we suggest an approach where rents are reappraised upon vacant possession and rebased to local market rents to offer the same discount as other newly let properties in an area. However, we do recognise that rebasing may not always be optimal and therefore recommend that the scheme retains some flexibility on rent setting at vacant possession to allow the operator to consider all the circumstances and market conditions. We further suggest that in the circumstances where there is a renewal of a tenancy after a fixed period, the rent should, for that existing tenant, continue to be uprated by reference to CPI plus percentage approach or rental inflation – again allowing the operator to take account of the circumstances and market conditions. This, we consider, will provide an element of flexibility and judgment to providers/investors of the scheme to ensure the IR scheme does not become disconnected from the market and providers/investors risk models. We consider that this will be necessary to effectively asset manage the portfolio but recognise that there are other options available. These are our suggestions on this issue although government may want to consider other options.

10.55 There are a number of considerations for government on the empirical evidence from both tenant's and providers. Government may, in firming proposals, prefer those options which get the scheme up and running. In this context, revisions and amendments to the scheme may be required to attract capital investment and scheme sustainability and scalability. We therefore believe that government should retain a degree of flexibility in the scheme features moving forward in order to calibrate and optimise an IR scheme for NI.

10.56 In our discussion above, we identified that potential providers and stakeholders raised issues relating to developable land availability, land cost, 'in kind' contributions and potential legislative reform and s. 76 planning obligations. These issues are tied to scheme location and viability. Potential providers identified that IR provision needs tailored towards land availability and in areas where demand was most acute. Generally, they supported a pilot testing strategy within the two major population conurbations of Belfast and Derry, which could then be rolled out further.

RECOMMENDATIONS

10.57 Many of these issues are for government in how they recalibrate or amend any IR model. However, there are a number of suggestions or recommendations which can be outlined to steer potential choices and actions to advance this with potential providers. These are set out in Table 10-2.

Table 10- 2 Key findings, conclusions and options from potential providers / stakeholders

IR features	Research Findings	Conclusions	Recommendations
Unitary Provider	• Sectoral support for the IR scheme concept • No unitary provider willing to deliver proposed IR scheme in NI	• No unitary provider to deliver proposed IR scheme in current form • Financially viability is the main concern of potential providers • Current legislative framework is prohibitive for HAs	• Further research with HAs to clarify the governance and legislative framework of HAs in NI. • Consider legislative reform or exemption to permit HAs in NI to operate subsidised IR scheme • Consideration of social enterprise or housing/ charitable trust
Public Finance	• Potential providers do not see IR scheme as economically viable at 80% of MR without additional subsidy • FTC beneficial • • Further subsidy such as grant 'in-kind' may be required • Contention over developable public land	• FTC beneficial but not enough to deliver IR Scheme in NI • Need for additional flexibilities and subsidies including 'in kind' land to strengthen model	• Undertake viability appraisals (grant in kind in the form of public land contribution and FTC capital) with HAs • Explore with HAs and other key stakeholders potential of land for future housing supply • Further subsidisation could be explored • Consider initial grant funding to bring product to market • Explore 'in-kind' land contributions • Developable land identified
Mix of finance	• Funding mix challenging in NI • Market untested and yields not attractive • Private subsidiaries of HAs lack scalability for IR	• Private capital entering into IR products require scalability, strong covenant and asset management • IR scheme offers an inflation hedge which would be attractive to private finance.	• Consider initial grant funding to bring product to market (early Scotland experience) • Consider legislative reform or exemption to permit HAs to operate subsidised IR scheme

IR features	Research Findings	Conclusions	Recommendations
	• Investors seek strong covenants and established • track records for operational/asset management		
Tenancy Length	• There is support for 5 year tenancy proposal	• 5 year tenancy is acceptable to potential providers and investors	• The proposed 5 year tenancy term could be implemented
Eligibility criteria	• Interviewees wanted clarity on the tenant eligibility criteria • Income cap seems fine and pitched at NI level • Needs to be affordability assessments	• Providers and investors want more information • Lack of detail on eligibility criteria heightens the risk profile of the IR concept	• Further detail around the selection process is needed for providers/investors • Flexible income ceilings adopted for the proposed IR scheme with affordability assessment at the rent discount level.
Rent Setting & Uprating	• 80% market rent is consistent with other IR schemes • 80% is likely at the margin in terms of financial viability • CPI+% approach acceptable but more clarity required	• The rent approach of 80% is generally accepted but queries remain as to viability • Rebasing of rent presents challenges and complexities for the IR scheme and could detract from capital investment	• Rent reviewed periodically • Flexibility on whether rents are re-based to the market where vacant possession occurs. • Tenancy renewal continues under CPI plus • Further clarity on the percentage element of CPI plus.
Location	• In areas of demand and acute rental stress • •	• More transparency in land holdings to support IR viability • Developable land should be identified in locations where	• Review the land transfer process • Make the Public Sector Surplus Lands register more readily available/accessible to HAs

IR features	Research Findings	Conclusions	Recommendations
	• Where yields will attract private finance. • Areas of land availability	the IR scheme could be placed • IR supported through planning regime (LDPs)	

Appendices

Appendix 1: Intermediate Rent Questionnaire

Private Rental Tenants Views on Intermediate Rent Homes Scheme for NI

This survey will take approximately 7 minutes to complete.

At the end of the survey you will be offered the chance to win a £50 gift voucher.

* Required

Features of the proposed Intermediate Rent Homes Scheme

The Government proposes to set up an Intermediate Rent Homes scheme in Northern Ireland which will offer:

Reduced rental costs set at around 20% less than the current market rent (for example: if a typical 3 bedroom terraced house costs £500 to rent in your area then the intermediate rent for a 3 bedroom terraced house would be set at £400)

The option to pay a tenancy deposit in installments

A longer term tenancy of 5 years

Good quality housing with response maintenance and tenancy support services

Your views on the need for Intermediate Rent Scheme

You would access intermediate rent homes in the same way you would access private rental homes (by application, providing a tenancy deposit, providing reference(s), rental agreement etc.)

1. Do you agree that there is a need for intermediate rent homes in Northern Ireland? *

   ◯ Agree

   ◯ Neither agree nor disagree

   ◯ Disagree

2. Please provide any further comments on the need for intermediate rental homes in Northern Ireland

3. There will be a limit on how much the rent can be discounted. Do you agree that paying a below market rent (e.g. around 20% less) for an Intermediate rent home is a helpful discount for households on a lower income? *

   ◯ Agree

   ◯ Neither agree nor disagree

   ◯ Disagree

4. Please provide any further comments on the proposed rent discount for households on a lower income

RENT SETTING FOR INTERMEDIATE RENT

Reduced rents for intermediate homes would be calculated by using the average cost of private rental properties in a particular area. The size and type of property would also be considered.

Intermediate rents would be reviewed regularly with a limit on how much the rent can be increased. Intermediate Rent will not track the market rate on an ongoing basis.

5. Intermediate rents will be calculated using average rents for similar properties in the private rental market within a particular area and then applying a 20% discount. Do you agree with **how** intermediate rents will be calculated? *

- ◯ Agree
- ◯ Neither agree nor disagree
- ◯ Disagree

6. Please provide any further comments on how intermediate rents will be calculated

ELIGIBILITY

To be eligible to access an Intermediate Rent home your income would need to meet the criteria below:

An individual living on their own with an income up to £30,000 could apply for an intermediate rent home.

A household (couple/family etc.) with a combined income of up to £40,000 could also apply for an intermediate rent home.

7. Thinking about your income and whether you would be able to apply for an intermediate rent home, which option best describes your interest in an Intermediate Rental home. Select one option. *

- ◯ I am interested and would be eligible to apply for an IR home
- ◯ I am not interested and would be eligible to apply for an IR home
- ◯ I am interested and would not be eligible to apply for an IR home
- ◯ I am not interested and would not be eligible to apply for an IR home

8. Do you agree with the proposed income eligibility criteria? *

- ◯ Agree
- ◯ Neither agree nor disagree
- ◯ Disagree

9. Please outline the reasons for your answer relating to the proposed eligibility criteria *

TENANCY DEPOSIT

It is proposed that Intermediate Rent tenants can choose to pay their deposit (usually equivalent to one month's rent) over the first 6-12 months of the tenancy, spreading the cost. Tenants can also choose to pay the deposit in full.

10. How helpful is the option to pay a deposit over the first 6-12 months of a tenancy? *

- ◯ Extremely helpful
- ◯ Very helpful
- ◯ Slightly helpful
- ◯ Not very helpful
- ◯ Not at all helpful
- ◯ No opinion

11. Would you prefer the intermediate rent home to be: *

- ◯ Furnished
- ◯ Partly Furnished
- ◯ Unfurnished

TENANCY LENGTH

Intermediate rent tenancies would last for up to 5 years. Tenancies may also be renewed after the 5 year period.

12. How important do you feel it is to offer a longer tenancy such as 5 years as part of the intermediate rent scheme? *

- ◯ Very Important
- ◯ Fairly important
- ◯ Important
- ◯ Slightly Important
- ◯ Not at all important
- ◯ No opinion

13. Please outline the reasons for your response relating to a longer tenancy, such as 5 years *

14. What would be your preferred length of tenancy for an Intermediate Rental home be? *

- ◯ 1 Year
- ◯ 2 Years
- ◯ 3 Years
- ◯ 4 Years
- ◯ 5 Years
- ◯ More than 5 Years

15. Do you think there should be an option to renew the tenancy after 5 Years? *

- ◯ Yes
- ◯ No
- ◯ I'm not sure

HOUSING TYPE

16. What type of Intermediate Rental home would be suitable for your needs? Please select all that apply: *

- ☐ One bedroom apartment
- ☐ Two-bedroom apartment
- ☐ Three-bedroom apartment
- ☐ Two-bedroom Townhouse
- ☐ Three-bedroom Townhouse
- ☐ Three bedroom Semi-detached
- ☐ Other

17. If you selected Other, please state what type of property would suit your needs

18. Where would your preferred location for an intermediate rent home be?
(Please just tell us the town or the area of the city that you would consider)
*

19. What do you feel are the **three most important features** of the proposed intermediate rent scheme? Select three options. *

- [ ] Professional (Regulated) landlord
- [ ] Secure tenancy for 5 years with option to renew
- [ ] Good quality rental home with response maintenance and tenancy support
- [ ] Lower rent cost (20% less than market rent)
- [ ] Flexible Deposit Option

A LITTLE BIT ABOUT YOUR CIRCUMSTANCES:

All information you provide in this survey is entirely confidential and anonymous.

20. What are the first 2 digits of the postcode of your current address? (for example BT36)

21. Do you receive any housing related benefits towards your rent? *

- ◯ Yes
- ◯ No
- ◯ Prefer not to say

22. Are you on the waiting listing for social housing? *

- ◯ Yes
- ◯ No
- ◯ Prefer not to say

23. How long have you been on the waiting list? *

- ◯ Less than 1 year
- ◯ 1-2 years
- ◯ 3-5 years
- ◯ More than 5 years
- ◯ Prefer not to say

24. How many housing points you have been awarded? *

- Less than 30 points
- 30-69 points
- 70 points or more
- Prefer not to say

25. Would you consider moving to an intermediate rent home in preference to a Housing Executive or Housing Association home? *

- Yes
- No
- Prefer not to say

26. How much is your rent per month (this is the amount you are charged by your landlord for the property)?

27. What is your households’ total net income per month (including any benefits you receive)?

- ◯ Up to £519 per month
- ◯ £520 - £952 per month
- ◯ £953 - £1,299 per month
- ◯ £1,300 – £1,559 per month
- ◯ £1,560 - £1,732 per month
- ◯ £1,733 – £2,166 per month
- ◯ £2,167 - £2,599 per month
- ◯ £2,600 and above
- ◯ Prefer not to say

28. Can you please indicate the type of household you live in? Please select one option *

- ◯ Single person under 65
- ◯ Single person over 65
- ◯ Couple under 65
- ◯ Couple over 65
- ◯ Single parent family (1 adult with 1 or more children under 16)
- ◯ Small family (2 adults with 1 or 2 children under 16)
- ◯ Large family (2 adults with 3 or more children under 16)
- ◯ Large adult family (3 or more adults with 1 or more children under 16)
- ◯ Other

29. Please indicate your household type

Prize Draw

As a thank you for taking the time to complete this survey, you will be entered into a prize draw where you can win a £50 One 4 All e-gift card.

30. Please enter your email if you wish to take part in the prize draw *

- ○ Yes, I consent to entry into the prize draw and contact via email regarding the outcome of the prize draw.
- ○ No, I do not wish to take part in the prize draw

31. Please provide your email address *

Participate in a Focus group and receive a £50 One 4 All e-gift card

We would like to speak to a small group of survey respondents via an online focus group.

All participants in the focus group will receive a £50 One 4 All E-gift card for taking part.

The focus group will further explore your views on the proposed intermediate rent scheme.

32. If you would be interested in taking part in a focus group please provide your consent and we will be in touch to arrange *

◯ I would like to take part in a focus group and permit use of my contact information for this purpose

◯ I do not wish to take part in the focus group

33. Confirm your email address and/or telephone number *

THANK YOU FOR COMPLETING THE SURVEY

Appendix 2: Semi-structured Interview Schedule Private Tenants Focus Groups

WELCOME

Warm welcome and thank you for agreeing to attend this focus group about the proposed IR scheme for Northern Ireland. The focus group will last no longer than one-hour and we will keep strictly to the time limit.

Before we begin, we just want to remind you that all information and your responses will be treated confidentially and held in strict accordance with Data Protection legislation and GDPR. Also, if we quote anything you say you will not be identified in any way in the research.

BACKGROUND UU

The research is being conducted by researchers from Ulster University. The commissioned research is independent, and the aim is to undertake research into potential tenants and providers views and perspectives on the proposed IR Scheme.

BACKGROUND TO THE SCHEME

Communities Minister announced an ambition and expansive housing programme which included the development of new products to provide a wider range of affordable housing options to increase supply and meet housing need. This included consideration of an Intermediate Rent product to improve rental options. Following this, research has begun to consider how an IR scheme could be delivered and operate. A number of research projects have already considered the proposed scheme and Department for Communities has undertaken a public consultation on the scheme.

This market research is specifically focused on the views of potential tenants of the proposed scheme and also potential providers of the scheme. So, the purpose of this focus group is to find out a little bit more about your views on the scheme and potential benefits and challenges of the proposed features.

RESEARCH CONTEXT

As you are aware, we have surveyed a number of participants, including each of you, about the proposed IR Scheme and its features. We have gathered a considerable number of responses (almost 500 in total) and we would like to build on those response in this focus group to garner some further insights on the proposed IR scheme. Before proceedings, we would just like to remind you of the proposed scheme features:

The Government proposes to set up an Intermediate Rent Homes scheme in Northern Ireland which will offer:

- Reduced rental costs set at around 20% less than the current market rent (for example: if a typical 3 bedroom terraced house costs £500 to rent in your area then the intermediate rent for a 3 bedroom terraced house would be set at £400)
- The option to pay a tenancy deposit in instalments
- A longer term tenancy of 5 years
- Good quality housing with response maintenance and tenancy support services

Also, it is proposed that there will be one provider will manage property tenure, maintenance, tenancy deposit etc.

This is a tailored product to try and help households with low income and is not a substitute for the social housing provision or to remedy substantive issues within the Private Rented Sector.

We also understand and recognise that there are a number of issues and challenges within the PRS relating to rents, regulation and maintenance and repair – however, please bear in mind that this research is to focus on the proposed scheme features and its delivery.

TENANCY DEPOSIT – proposed IR approach similar approach to entering PRS will apply. Views on key issues:

- Credit/references and thoughts on affordability checking?
- Views on flexible deposit proposal. Over what period?
- Deposit return?

TENANCY LENGTH **–** support for 5 year tenancy and renewal. Like further thoughts on potential tenancy agreements:

- Views on the proposed 5 years – reasons, flexibility.
- Thoughts on option to renew tenancy of 5 years. What does that look like?

RENT SETTING – Proposals are for 20% discount and rents reviewed regularly with a limit on how much the rent can be increased. Intermediate Rent will not track the market rate on an ongoing basis.

- What are your views on this – can you tell us a little more?
- How should rents be set? Aligned to local market rents?
- How should rents be uplifted each year? Market, flat rate, inflation.
- Rates included/discounted?
- Is there anything in addition to 20% discount that would help in terms of rent setting?

REGULATED LANDLORD – considerable number of research participants identified issues relating to landlords and specifically, property condition, maintenance and repairs. This research focused on the proposed IR model and the benefits it may bring though an approved unitary provider who will operate something like a housing association. So thinking about a professional, regulated landlord:

- What are the key benefits to this?
- Maintenance – what should a potential provider be responsible for?
- How do you think Inspections and maintenance should work?

ELIGIBILITY – set at £30,000 single applicants or £40,000 for household applicants. Many potential applicants will have different circumstances:

- Anymore thoughts on this?
- What are your views on the application process?
- What are your views on the threshold?

HOUSING TYPE – Any potential provider will need to retrofit or build the product for the scheme.

- What needs to be built and where?
- Would you be prepared to move for an IR rental home?
- May be retrofitting NIHE stock, or public land near an estate – would this affect your desire to avail of IR rental home?
- Would you be prepared to move to Housing Association area / NIHE area?
- It is important that it would be purpose built?
- Do you think that Intermediate rental homes should be built as part of new developments?
- What is most important to you, housing quality and maintenance or rent cost?

OVERALL VIEWS/COMMENTS ON THE PROPOSED IR SCHEME

- Is there anything that you think the proposed scheme could include or improve on?
- Are there any features you would like to see that are not included?
- Who do you think should be the target of this proposed scheme?

Appendix 3: Semi-structured Interview Schedule Stakeholders

Project Context:
Department for Communities (DfC) has proposed to introduce an Intermediate Rent product in Northern Ireland. It is envisaged that the IR model will be positioned at 80% of market rents. The expectation is that the scheme will see new rental units being developed and provided as IR stock. Ulster University has been commissioned to explore the level of need for an IR product in Northern Ireland and to liaise with key stakeholders and prospective operators/providers in order to determine the levels of appetite/willingness to become involved in IR provision.

Questions:

1. In your opinion is there a need for an IR product in Northern Ireland? Could the proposed budget for IR be better spent enhancing other forms of housing tenure for example?

2. There are two broad roles to be performed when it comes to the provision of an IR model for Northern Ireland. Firstly, there is the provision of stock (the model is premised on additional/new rental units becoming available through IR). Would your organisation have an interest in the development of new IR units? Perhaps as part of a wider social scheme for example? What would you perceive to be the primary barriers to new IR stock provision in Northern Ireland?

3. The second component of IR would be the operational management of the IR product both in terms of administration and asset management. Is this role something your organisation would consider undertaking? What do you envisage to be the primary barriers to your organisation taking on such a role?

4. The Dept is ideally wanting a single operator to come in and serve as an operator – how realistic is this aspiration? Is this something that your organisation would consider providing as part of their private development arm?

5. It is proposed that the IR scheme would be funded by FTC and of funding for the IR scheme from the Dept. In the absence of grant funding is the IR proposition viable? Are flexibilities or other subsidies needed?

6. If FTC is not viable to deliver the scheme in NI what other measures could be/should be introduced to make the scheme more palatable for providers? How might FTC and private finance combine?

7. The eligibility criteria is £30,000 for single and £40,000 for combined. What are your views on this?

8. Rents are proposed to be set at 80% of market rent. What are your views on this proposal. Is it viable? How should the rent be uplifted? Should it be rebased at 5 years?

9. The proposed tenancy length is 5 years, what is your view on this? Should the tenancy renew and how do you think that would work?

10. In GB a large percentage of IR units come forward via Section 106 agreements and are classified as the affordable component of a scheme. Would such a framework work within NI? Provide reasons why this would/would not work here in NI?

11. Do you anticipate the roll-out of Local Developments Plans with increased emphasis on Section 76 provision will have an impact on IR provision?

Financing and Investment in IR Provision in Northern Ireland Context:
It is envisaged that no government grant funding will be made available to fund IR provision. As such, the IR operator will be required to finance development costs and associated operational costs.

1. As an investor/lender can you discuss the specific appeal as well as the perceived risks of IR schemes?

2. Does increased emphasis on ESG fundamentals within the financial services sector mean that IR schemes offer opportunities over and beyond purely financial?

3. To what extent do ESG factors come into the decision making equation – how are they weighted relative to financial returns?

4. Your institution is already involved in financing or has invested in IR schemes – how has this been facilitated? Direct investment? JVs?

5. What level of returns/borrowing costs would you envisage for IR within the NI context?

6. To what extent does having an 'untested' market impact the risk assessment process? How can this be best mitigated/managed?

7. Investors and financiers discuss at length covenant strength – how crucial is that covenant strength and track record of delivery when making a decision to lend/invest?

8. The eligibility criteria is £30,000 for single and £40,000 for combined. What are your views on this?

9. Rents are proposed to be set at 80% of market rent. What are your views on this proposal. Is it viable? How should the rent be uplifted? Should it be rebased at 5 years?

10. The proposed tenancy length is 5 years, what is your view on this? Should the tenancy renew and how do you think that would work?

All interview responses will be anonymised in the final report with views an opinions non-attributable to any individual. Contributions will be acknowledged at organisational level only.

Appendix 4: List of Interviewee Organisations

- Apex Housing Association
- Choice Housing Association
- Clanmil Housing Association
- Radius Housing Association
- Co-Ownership Housing
- Danske Bank
- DePaul
- Lloyds Banking Group
- Newlon Housing Trust
- Network Homes
- Prudential Real Estate Investors
- Savills Financial
- Simon Community
- Willis Towers Watson

This report can be found on the Housing Executive website: www.nihe.gov.uk

For any information on Exploring the Provision of an Intermediate Rent Product for Northern Ireland Report, please contact:

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