Preliminary Report for the Cabinet Secretary for Housing

Welsh Government

Produced by the Wales Tourism Alliance

In association with Propertymark

November 2024

Wales Tourism Alliance
Cynghrair Twristiaeth Cymru
Communication - Consultation - Collaboration

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1. INTRODUCTION

1.1. Executive Summary

- This report has been produced by the Wales Tourism Alliance (WTA) in association with Propertymark (see Appendix 1), acting in an independent role, for submission to Jane Bryant MS, the Housing Cabinet Secretary, for discussion at a meeting scheduled to take place in Cardiff on 12 November.

- Terms of reference - to look at the housing market in Wales in areas where tourism is a significant part of the local economy and examine progress against achieving the housing aims of government policies. This report also looks at the impact of those policies on the tourism industry. The specific policy decisions covered are:
    - The introduction of the "182 day rule"
    - Increased council tax premiums on properties defined as second homes.
    - The introduction of Article 4 regulations on second homes and FHLs in Gwynedd.
    - The Renting Home (Wales) Act and subsequent changes to regulation in the private letting market.

- These policies form part of a raft of measures introduced by the Welsh Government to:
    - support - addressing affordability and availability of housing (this is the policy aim examined in this report)
    - regulatory framework and system - covering planning law and the introduction of a statutory registration scheme for holiday accommodation; and
    - a fairer contribution - using national and local taxation systems to ensure second home owners make a fair and effective contribution to the communities in which they buy.

- Wales has seen an influx of properties – specifically second homes and some FHLs – onto the open market in the past year – with some areas reporting a 300% increase in properties on the market. The reasons for this are complex but Welsh Government policy has played a part in driving this increase. Other reasons include a resettling of the housing market following the spike in demand driven by the Covid pandemic.

- Whilst some property prices are reducing as a result of increased supply and decreased demand, and the reversal of the purchase boom inspired by the pandemic, the properties available tend not to be suitable for local affordable housing occupancy

- In "honeypot" areas demand for second homes and FHLs remains high and the properties going onto the market remain unaffordable for local people. These properties continue to be recycled for holiday purposes. The Welsh Government's policies are not driving affordable supply in the way they were intended to, particularly in "honeypot" areas where tourism is the main industry and there is little alternative employment. The measures are also impacting on other related industries such as construction in these areas.

- Supply and demand economics might suggest that the introduction of Article 4 will increase second home prices and decrease primary home prices. This is because second homes will have a scarcity value – increasing their value – whereas primary homes will be seen as being restricted in potential future use thus lowering their value. However, this does not mean that all properties now restricted to use as primary dwellings will decrease in value; it will be those high specification, higher value properties which will still remain unaffordable in areas where the local economy does not support higher incomes.

- Our witnesses tell us that these measures, including the above, will lead to an increase in incoming retiring primary ownership and some returners (people returning to live in the place they grew up) rather than local primary home ownership.

1.2. Recommendations

We offer the following recommendations to the Minister:

a. That proper data be obtained in respect of second homes and FHLs, as recommended by the Brooks Report, as this distinction between leisure properties and genuine businesses is important when considering the economic impact of policy decisions.
b. A full review of the Welsh property market be undertaken to ascertain the types of properties being put on the market in areas dependent on the visitor economy, whether this is delivering an increase in affordable housing and, if not, why not.
c. That the Cabinet Secretary speaks to her Cabinet colleagues to support a review of the 182-day rule as soon as possible, on the grounds that the “three pronged approach” (a) is not working in the supply of more affordable housing in areas where there is a level of dependence on the visitor economy and (b) is damaging economic activity in those areas, reducing the ability of local people to earn enough buy or rent there
d. That a full consultation and analysis be carried out on the economic impact of introducing Article 4 regulations in Gwynedd.
e. That, rather than prioritising the non-primary home market as a solution for affordable local housing, the Welsh Government instead focuses on
    - building new affordable properties in places that they are needed,
    - returning empty properties into use and
    - bringing new employment opportunities to “honeypot” areas to reduce local economic reliance on tourism.
f. That the Welsh Government uses the analyses recommended above as the basis for revisiting guidance to local authorities on setting council tax premiums and Article 4 for planning authorities.
g. Where local economic regeneration plans are being considered, that representatives of the local visitor economy (eg private sector tourism operators) are invited to be part of that planning process. Indeed the holiday property market can help to indicate where new home building would be best focused. This is particularly relevant in cases where local authorities are still designating some development sites as “for holiday homes only”.
h. That the Welsh Government review all taxes and costs impacting the purchasing of primary and non-primary homes and how this affects the supply and demand for different tenures across Wales.

1.3. Purpose of Report

This report has been produced by the Wales Tourism Alliance (WTA) on behalf of its destination management members in association with Propertymark, the professional body for the UK's property sector.

It has been produced for submission to Jane Bryant MS, the Housing Cabinet Secretary, for discussion at a meeting scheduled to take place in Cardiff on 12 November.

The report looks at the housing market in parts of Wales reliant on the visitor economy as it currently stands particularly in the light of recent Welsh Government policy. It also touches on the impact that this is having on the tourism industry, which accounts for 11.8% of employment in Wales.

Note that the research carried out for this report pre-dates the UK Government budget of 30 October 2024. Therefore any changes impacting the housing market announced in the budget have not been explicitly included.

1.4. Background to Report

By working with Propertymark, an independent body representing the private rented sector, the WTA aimed to gain a closer, first-hand insight from estate agents and letting agents of the effect of the legislative changes that have taken place in Wales since 2019.

Two round-table discussions were held with estate agents/letting agents from across Wales – on 7 and 8 October. These were well attended – please see Appendix 2 for details of attendees. Those attending operate in areas where tourism is a major part of the local economy but were selected, for their own area, on a first-come, first-served basis.

The round tables elicited an excellent response and engagement leading to a broad discussion covering the key elements impacting on the Welsh property market including Article 4, council tax premiums, the "182 day" rule and also the impact of increased regulation for private rental landlords.

1.5. Clarity of Terms

For the purposes of this research we found specific definitions were helpful when taking evidence from the estate agents themselves. In many cases, they used terms interchangeably with "holiday home" meaning either a second home, an FHL or a mixed use property. This report primarily focuses on Second Homes and FHLs and uses information from the Professional Association of Self Caterers (PASC) to help disaggregate "second homes" and "FHLs".

The following definitions were used:

- "Second Home": Not the owner's primary residence. Used only by the owner and friends for no commercial benefit
- "FHL" (Furnished Holiday Let): Not the owners' primary residence. Furnished holiday lets used solely for short term leisure stays at a commercial rate with no periods of owner residence; professionally run, regulated businesses. May be locally owned but not necessarily
- "Mixed use": Property bought as a second home but let casually at a commercial rate for periods to help raise income to offset costs. Not regulated businesses. We do not refer to these as 'Airbnb's as many FHLs now use that platform as well to promote their businesses alongside casual, unregulated letting of properties.
- "Rented Homes": Privately owned properties occupied by long term tenants as their primary residence.
- "Primary Homes": Privately owned properties purchased as a primary residence.

We have found getting definitive data on these different defined categories very difficult as estate agents themselves did not tend to gather their own data in a way which captured the distinct differences between these uses. It should be noted that one of the recommendations of the Brooks Report (2021) – which has been important in the development of recent Welsh housing policy – focuses on the need for more accurate data particularly in relation to second homes (leisure properties) and FHLs (businesses).

2. THE IMPACT OF SPECIFIC POLICIES

2.1. "182 Day Rule"

The Non-Domestic Rating (Amendment of Definition of Domestic Property) (Wales) Order 2022 now means that FHLs will be treated a second homes for local taxation purposes unless they are available for let for 252 days a year and occupied by guests for at least 182 days a year. This was formerly 140 days and 70 days respectively, which is still the case in England.

The measure was put in place to stop mixed use property owners using a loophole to avoid paying council tax and instead pay business rates (usually at £0 for a small business).

However unlike a second home which is not let out, or a mixed use property which is let out when not in use as a second home, an FHL is a regulated business. Our research indicates that FHLs are often owned by local people for whom, in many cases, the rental income is a significant factor in their own financial stability.

It is worth noting that the Brooks Report explicitly excludes FHLs as a target for action stating that *"holiday accommodation has as much to do with economic policy as it does with housing policy. It could be argued that it promotes prosperity in a way which is not the case for 'second homes', and that it contributes to the local economy, either because it is owned by local people or because visitors who stay in holiday lets spend money locally."*

Agents reported that, whilst 182 days of occupation can be challenging for FHLs even in areas with high year-round demand, those coming onto the market in prime locations are still selling relatively well *"Flats on the sea front…are achieving relatively good rents and relatively good occupancy throughout the year."*

Outside the honeypot areas, achieving 182 days is proving almost impossible even for the most determined owners. The agents we spoke to reported that the measure has mainly impacted on local people (who do not own portfolios of FHLs) whose one or two properties are a way to earn an income, particularly in areas where employment is scarce. This means that local people are now struggling to pay their way because they are being hit with unexpected council tax bills (including, in some cases, council tax premiums).

For some older people (including of working age) who are economically inactive or income-poor for a variety of valid reasons, this source of income is essential, not a "nice to have". Far from helping local people into affordable housing, this measure risks putting small FHL owners losing business viability. Any consequent drop in income threatens their ability to service a mortgage and other outgoings in their own primary home.

The policy has also hit farmers who have previously been encouraged by the Welsh Government to diversify their farm buildings for use as FHLs. Whilst excepted from any council tax premiums in certain cases, not all diversification planning permissions provide that protection.

One agent told us:

"There are an awful lot of people selling now who are locals who…invested in one holiday let to help their pension…or farmers who were encouraged by the Welsh Government to diversify and turn buildings into holiday lets…now they're absolutely crippled because those tend to be not in the prime seaside places, so they are never going to hit this target…they were encouraged by the government to convert them into holiday lets and now they're being absolutely hit by the Welsh government for the Council tax."

Increasing the threshold from 70 days was supported by the tourism industry. Increasing the threshold has helped to stop the abuse of the system by people "flipping" properties to avoid council tax and has discouraged a number of "non-professional" owners.

However, our witnesses, along with representatives of PASC in Wales and other members of the WTA believe that the threshold is now too high and is largely unachievable outside of the real tourism hotspots.

2.2. Impact of council tax premiums

FHLs are now liable to pay council tax rather than non-domestic rates if they fail to meet the thresholds referred to above, despite the fact they are genuine businesses. This means that they are also liable for council tax premiums (except for some farm building conversions) where a local authority decides to introduce them

On 1 April 2023 the maximum council tax premium for Wales was set at 300% by the Welsh Government. The purpose of this step is to encourage homeowners to:

- not leave their properties empty
- increase affordable housing and
- benefit the local community and economy.

It must be emphasised that local authorities have the discretion to decide whether to charge a premium, and the amount at which it should be set. They can also choose which types of properties to apply the premium to.

Several local authorities have chosen to set premiums on second homes (as defined by law not this report). These include:

- Ynys Mon – 100% premium from 1 April 2024
- Gwynedd – 150% premium from 1 April 2023
- Pembrokeshire – 200% premium from 1 April 2024, but cut to 150% in October 2024
- Conwy – 100% premium from 1 April 2024, due to rise to 150% from 1 April 2025
- Ceredigion – 100% premium from 1 April 2024, due to rise to 150% from 1 April 2025
- Carmarthenshire – 50% premium from 1 April 2024

For council tax purposes, a second home is defined "as a dwelling that is not a person's sole or main home, is substantially furnished and is used periodically". Using this definition in 2023-24, the estimated number of second homes in Wales where council tax is payable is 24,170 (2% of all chargeable homes). This figure has been relatively stable for the past five years.

It is important to note here that "second homes" in this context does not distinguish between what our terminology (Section 1.4) defines as a "second home" and an "FHL". Under the current policies any FHL business that does not achieve 182 let days per year becomes classed as a second home and would be liable for council tax and – if there is one – the premium too.

As outlined in section 2.1 the majority of FHL owners are local people who have purchased or inherited a local property that they have turned into a business to generate a much-needed income stream. For many paying the premium is an impossible challenge when the income from their rental is something they rely on to keep their own roof over their heads.

The exact number of second homes in Wales depends on definition and the data source one employs. The 2021 Census identified nearly 100,000 "second addresses" in Wales. However of these 10,070 were identified as being used as "holiday homes" – a rate of 6.9 holiday homes per 1,000 dwellings. 36,370 people reported using a second address as a holiday home in Wales. The same census, however, shows the number of "holiday homes" owned in the same county as the primary address, underlying the point of local ownership and income stability for those local people.

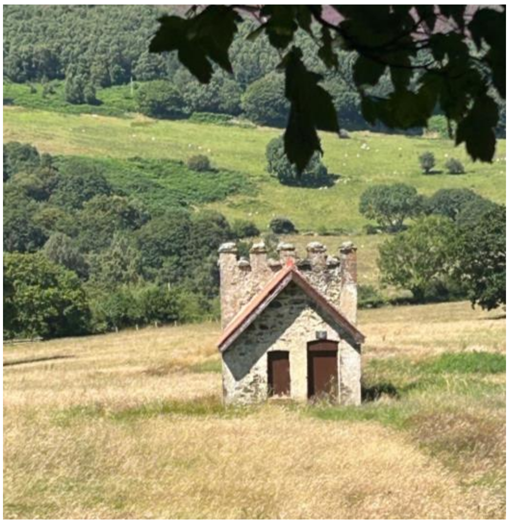
A report in the Pembrokeshire Herald about the census notes *"Comparing second home ownership and Council Tax data suggests a strong correlation between the number of people who own second homes and those who live within the local authorities covered [in Pembrokeshire, Gwynedd, Carmarthenshire, Ceredigion and Anglesey]. In other words those* *affected most by a second home premium are likelier to live in Wales than come from outside its borders".*

The concentrations of holiday homes are greatest in Gwynedd, Isle of Anglesey and Pembrokeshire – all of which are tourism hotspots. There have been a number of press reports concerning the impact these premiums have had on the housing market in these areas

In September 2024 it was reported that the number of second homes in Gwynedd had fallen by 5% over the previous year with 232 fewer second homes registered for council tax in the county in April 2024 compared with the same month in 2023.

In the same month the number of second homes for sale in Pembrokeshire was reported to have trebled since council tax increased to 200%. There were 135 Pembrokeshire second homes on the market in July compared to 38 the previous year.

The latest data from the Principality Building Society's Wales House Price Index (Q3 2024) indicates that prices on Ynys Mon have dropped by 12%, Gwynedd by 7% and Carmarthenshire by nearly 6% in the past year.



Note, again, the lack of distinction between second homes, mixed use and FHLs here, confirming the point that estate agents themselves may not have that level of detail.

Our round tables confirmed that:

"Nearly all of [the houses] coming back onto the market are second homes".

"[Last year] I didn't have any second homes to sell…and this year I've got a 15% increase in Carmarthenshire and a 25% increase in Pembrokeshire."

On the face of it, the influx of property on the market and lowering of prices would appear to be achieving the Welsh Government's aims outline previously.

However research carried out by Hilber/ Schöni in 2020 ("On the economic impacts of constraining second home investments") found that in seasonal tourist locations primary and second homes are not close substitutes. This means that a second home is not always likely to be a viable permanent home for a variety of reasons. This was borne out by the witnesses at our round table meetings:

"[These are properties] without a garden, no parking…not necessarily suitable for a local family."

"They're chocolate box pretty…look lovely…but actually damp and dark to live in all winter…no gardens, no parking, no storage…"

"The properties com ing onto the market don't fulfil that affordable housing policy aim. It's a combination of they're just too big, and too expensive and in the wrong place."

Or they are unaffordable because there is limited local employment that would give local people the means to buy them:

"Even if these houses were half the price…there's no jobs and people can't get a mortgage…they can't buy."

"Even if they were half the price they still wouldn't be affordable locally…because there's no jobs."

Our discussions found that higher value "holiday homes" that enter the market are sold on for use as second homes, mixed use or FHLs. They are not coming into the primary occupation market. Even in locations with high second home ownership there are towns and villages nearby with more affordable properties.

In the "honeypot" areas like Ynys Mon, Gwynedd and Pembrokeshire the dearth of good-quality well-paid local jobs remains a significant major barrier to home ownership and a reason for migration away from local communities.

We spoke with one estate agent in Rhosneigr, Ynys Mon, who told us *"There is stock available at an affordable level at this particular moment of time in our areas…not necessarily in the honeypots, but there is plenty of houses…In Holyhead you can buy a two bedroom terrace property for around £100,000. You cannot buy a two bedroom terrace property for £100,000 in Rhosneigr. But that's the case everywhere in the UK."*

Research carried out by Suher (2016) explored the response of non-resident owners of second homes in New York City to targeted annual property taxes and found that non-resident buyers have a significant impact on house prices within a subset of highly desirable neighbourhoods, but no impact outside of these areas. This would suggest that – as we are finding – the prices of properties in highly desirable neighbourhoods do eventually fall (except for the very highest) when there is taxation on second home ownership . However, the drop in prices is still not sufficient to bring them into any measure of local affordability. Also, in areas which already have affordable properties there is unlikely to be a knock-on Without employment in "highly desirable" areas to provide the income for locals to purchase property there is unlikely to be a corresponding increase in local primary home ownership. Also, in areas which already have affordable properties there is unlikely to be a knock-on impact on property prices.

2.3. Impact of Article 4 (Gwynedd) and anticipated impact of Article 4 (elsewhere)

In September 2024 Gwynedd Council was the first council to introduce new rules which mean that property owners must gain planning permission before changing the use of a main home into a second home or short-term holiday accommodation. This means that planning permission is required for any of the following:

- Change of use of a main residence into a second home or short-term holiday let
- Change of use of a second home to a short-term holiday let
- Change of use from a short-term holiday let to a second home

This move has led to claims that the council is playing "Russian Roulette" with locals who may no longer be able to get an "open market value" on their properties.

Whilst it is too early for data to demonstrate the impact of this move, the agents we spoke to were deeply concerned about it and in particular the impact it would have on local businesses. Our witnesses told us that they do not see the ordinary domestic market being affected by this move – a £150k house will still be a £150k house. What it is doing instead is devaluing the higher priced properties to a level where they are still unaffordable for local people but become very attractive to returners and retirees migrating into Wales.

Article 4 has only been implemented in Gwynedd to date. However other councils are known to be considering the step – including Ynys Mon where representatives told us that there was a great deal of concern amongst local people. Their view was that it would impact negatively on jobs and the higher end primary occupation house prices whilst increasing the scarcity – and therefore price – of second homes.

The lower end of the domestic market would be unaffected; the higher end of the second home market would become more expensive but still active; a number of the more modestly priced second homes would move up into that bracket as a result of scarcity of supply but most would enter the domestic market at a price point which is still outside the concept of local affordability. These would remain empty for up to a year, benefiting from council tax relief but bringing nothing into the economy, and then begin discounting to achieve a sale. This would still not take them within reach of a meaningful number of local residents due to the low-wage local economies but would be attractive to returners and retirees from wealthier areas.

Research carried out by Hilber/ Schöni (On the economic impacts of constraining second home) found that an example of second home ownership constraint in a tourist area of Switzerland delivered a reduction in prices of primary homes (15%) but that this was offset by the growth in local unemployment rates because the primary local industry was tourism.

One agent in Gwynedd told us:

"Local businesses don't agree with the policy either because they've seen a significant reduction in business and trade from people whom they deem as semi-local because they spend half the year there."

The paper "Temporary residents and permanent jobs? Second-home tourism and job creation in the construction sector" (Back/Hane-Weijman/Hoogendoorn) researched the impact of second-home ownership on the local construction labour market – ie beyond the tourism sector.

Using a combination of registry data and official tax records, the study explored the labour market effects of second-home owners investing in those homes. It found a positive and significant correlation between the number of second homes and the size of the construction sector within local economies and showed that second home owners who do not live locally are more likely to employ local construction providers and workers than local owners (who are more likely to do work themselves).

In our discussions one agent told us:

The second home person will always spend money on their property and they'll bring in local tradesmen to do all the work. It's all local trades people – electricians, plumbers, painters, decorates, winter cleaners…they're always doing work or maintenance on the property."

Our roundtables also expressed the concern that this policy would lead to a two-market situation in which properties already designated as FHLs or second homes will become even more expensive and desirable because their supply has now been limited, whereas primary home values may reduce because of the restrictions they are under. Locals are also concerned that this may impact their ability to get mortgages in the future. As one agent put it:

"Second home owners will be looking at having disproportionately increased prices and the owner occupiers quite the reverse."

Indeed the Brooks Report confirmed the agents predictions above, stating that *"In Welsh-speaking coastal communities in an area such as Dwyfor where 20% and more of the housing stock are second homes, converting second homes into principal residencies in an uncontrolled manner could be catastrophic."* This is because of the risk that reducing property prices to turn second homes into primary homes will simply encourage inward migration rather than bolster the housing stock for local people.

This was confirmed by our witnesses, one of whom said:

"Most of the enquiries for permanent homes are from people from different parts of England rather than local people migrating locally – it's not 100% but it's a great percentage."

If primary house prices are artificially depressed as outlined above this is likely to encourage more inward migration from non-local people seeking affordable rural retirement properties.

In 2021, 44% of the population of Gwynedd was over 50, compared to 40% in 2011. This is already putting significant pressure on local health and care services which will only get worse if retirement ownership increases.

In their research paper "Destination and place: social sustainability and social innovation in second-home tourism" Wistveen, Breiby and Mei found that where locals and second home owners are viewed as distinct, destination development becomes incoherent and generates community impacts and challenges. Whereas using an innovative collaborative social approach – recognising the outcomes of tourism and those it benefits, focusing on involvement and participation of both locals and second home owners can develop a more mutually beneficial approach. It emphasises a focus on sustainable development for destination and place rather than focusing on the barriers between locals and second home owners.

It says *"as such, there are shortcomings in the social sustainability approach due to the absence of collaborative processes, citizen involvement, resources, and poor information flow, hindering social innovations and new practices. The goal should be to mitigate negative* *impacts and maximize social outcomes benefitting the communities, residents, and visitors of popular tourist destinations."*

2.4. Impact of Rent Smart Wales

Our witnesses noted that there has been an increase in private rental properties either being flipped to FHLs or put on the open market in the past couple of years. This, they said, whilst recognising the need for regulation in this sector to avoid rogue landlords, was a result of the "onerous" and "bureaucratic" regulation brought in through Rent Smart Wales. These policies have led to a decrease in available private rental properties aimed at local people.

We were told:

"Probably 25% of my landlords have said that's enough."

"In the central part of Wales, there's probably a 50% chance the landlord's going to sell up at the point of a tenant wishing to vacate purely because of the amount of policy and regulation they have to follow…a large proportion of [that] stock isn't what people are looking for in terms of owner occupiers."

This is reducing the supply of affordable property on the rental market and agents noted that market rents have increased as a result of the reduced supply: *"Pre-Covid you could get a three bedroom semi for £400 – now you're looking at probably £750."*

2.5. Housing Policies Impact on Tourism and Related Industries

This report has been conducted by the WTA in conjunction with Propertymark because we wanted to understand the wider implications of housing policies on the wider economy and specifically the tourism industry. This industry is responsible for 11% of employment in Wales and significantly contributes to our local, regional and national economies.

However, we recognised the need for an independent perspective on this. In short, there is a substantial body of evidence now on the effect that the "three pronged approach" has had on tourism providers working in one of Wales foundation economy industries. Collateral damage is to be expected in almost any policy change, but it is easier to accept if that policy's primary aim is being achieved. That is what we explored

This report has already referenced the impact of the "182 day rule" on local people and businesses. We feel that it is important to recognise the contribution that FHLs make to the Welsh economy to put this in context.

A survey by PASC – the organisation representing professional self-catering owners - in 2023 found that more than 40% of FHL owners were considering putting their property on the market as a result of the 182 day rule.   70% of respondents had been forced to discount prices to try to achieve the target but only 50% had actually achieved it.

Like second home owners, FHL owners employ local people for a range of services from maintenance, gardening and cleaning to administration and trades. A review by Sykes Holiday Cottages and Oxford Economics in 2022 found that:

- The share of visitor spending linked to short term letting activity accounted for 23% of total spending by tourists in 2021, compared to 14% in 2019.
- In 2021, the short term letting industry contributed £27.7 billion to UK GDP, sustained nearly half a million jobs across the country, and boosted the UK Exchequer to the tune of £4.6 billion.
- The short term letting market had an impact equivalent to 1.4% of UK GDP in 2021 and the same share of total employment. Around 383,000 jobs, or 77% of this employment, is generated in rural locations. The economic and employment impact is significant for Wales – as can be seen from the diagrams below.

Fig. 11: Jobs supported by STL-linked tourism by region, 2021

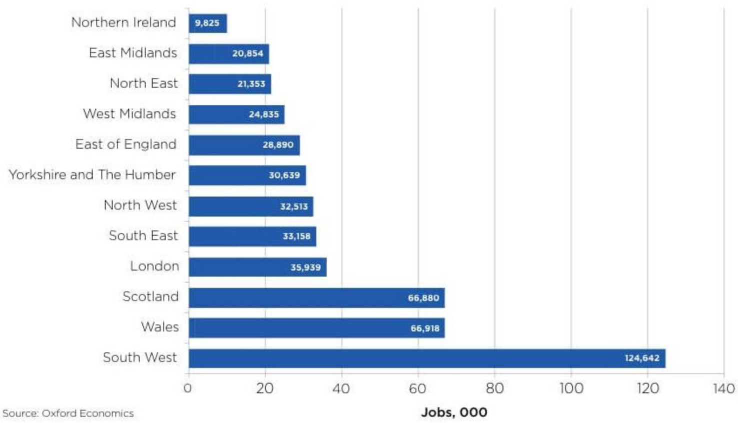
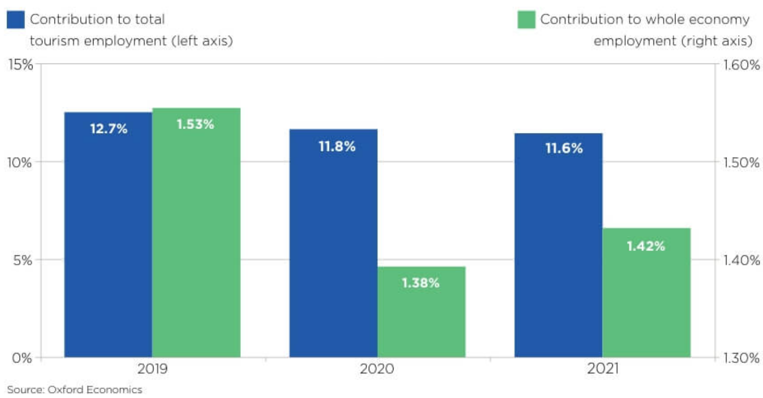


Fig. 10: UK tourism STL-linked economic impact as a share of total tourism and whole economy employment



At the moment, because of the confusion between mixed use and FHLs in particular, supply outstrips demand. The factors are largely external (eg weather/cost of living) but the policies referred to in this report have also been implicated in Welsh Government's own research. In fact, they have only recently been identified by the FHL sector as the primary threat to business viability.

If the argument is that threatened properties will either come back into the domestic market as affordable units, or lower the value of the market generally, this is only partly borne out. “Covid regret” has seen the return of properties back to the market, as has loss of business confidence in the FHL and mixed use sector. This, along with other factors such as mortgage costs, second property purchase taxes and, until recently, slow wage growth, have seen a reduction in the overall value of some counties’ available stock.

However, as already pointed out, that stock is not meeting local need as being either still too expensive (including running costs), in the wrong place or unattractive for other reasons. The damage being done to tourism providers is disproportionate to the level of success being achieved against the affordability of housing aim.

Demand remains high in honeypot areas and recycling high specification, high value properties in those areas is doing nothing for locals, even if the county’s overall housing market prices have dropped. Such drops are attributable to the prices of middle-value holiday homes (of all three types) starting to drop along with reducing prices in locations where people do not want to live, eg too remote

In a BBC article (6 September) Emma Downey, who owns Tides Kitchen and Wine Bar in Newport, Pembrokeshire, said *"People who have second homes here are desperately angry at the charges they're now facing, and a lot of them simply are putting them on the market because they’ve had enough,"*

Even Hedd Ladd Lewis, a campaigner for housing market reform, said the increase in the number of second homes on sale was "encouraging", but questioned whether local people could afford them. *"What we have is an open market and local people who earn wages - on average around £28,000 a year - will not be able to compete [for houses],"*

In the same article Cllr Aled Thomas of Pembrokeshire noted the impact that this was having on tourism when he said: *"Tourism is one of the things that brings money into the economy, but people are going out of business because of these policies. What we need to do is to build more houses.”*

The loss of local trade is hitting local businesses beyond tourism with tradespeople also seeing a downtick in demand.

One agent told us:

“We did our own survey and we found that over a three year period the average holiday home owner spent £33,000 in the local economy.”

In September, Pembrokeshire was the first council to recognise and respond to the hit on the tourism industry in Wales when it reduced its council tax premium from 200% to 150% just five months after implementing it. Speaking at the council meeting at which the decision was made, Cllr Rhys Jordan said:

"I was always told the 182-day policy and the 100, 200, 300 council tax premium was to tackle homelessness…It hasn't done that, all it's done is hit our tourist economy.”

There is also a view, voiced in our discussions and also in the quote used in the press from Pembrokeshire's Cllr Clements, that the message this policy is giving out is that second home owners are not welcome in Wales. She said: "This policy is a blunt tool, for me it's about fairness and proportionality. *"In relation to second home-owners the message [we send] is clear: 'We don't want you'."*

This is a dangerous message and stands to damage our tourism industry as well as other local trades.

Many of these "honeypot" areas are reliant upon the tourist industry for local employment and to keep the local economy alive. In 2022 over 20% of employment in Pembrokeshire and Anglesey was in tourism industries. With limited alternative employment, whilst house prices may fall, the ability of local people to buy them will fall with it because the tourist trade will suffer and there is nothing to replace it.

2.6. Empty Homes and Affordable Housing

It is worth, at this point, highlighting the provision of affordable housing away from the second home market.

In 2021, there were 120,450 unoccupied dwellings in Wales, with 85.4% of them being truly vacant and 14.6% being second homes. This is 8.2% of all dwellings in Wales.

Between April 2023 and March 2024 just 4,756 new homes were completed in Wales. This represents an 18% *decrease* from the previous year. This is the second lowest number of new home completions since 1974/75, when Stats Wales started keeping records.

In this context returning second homes (which make up 2% of Welsh housing stock) to the housing market is a drop in the ocean.

Quotes from our roundtables included:

"[There's been] a lot of negativity from a local level…people are seeing these innovations from the Welsh Government and councils to discourage second home ownership, but there is no alternative for affordable housing anywhere."

"The properties coming on the market don't fulfil that affordable housing policy aim…there's no affordable home scheme…there's no new developments being built…so those [affordable home] house prices are increasing due to a shortage of quality supply and number of properties."

3. SUMMING UP

3.1. Conclusion

The findings in this report clearly point to the need for urgent review of the housing and taxation policies being implemented across Wales. It would be easy to say that early indications show that the measures have been in part successful in as much as there has certainly been an influx of property onto the market, particularly in some parts of rural Wales.

However, using this as a measure is a very blunt tool and one needs to look at the type of property, its suitability for local affordable housing and the impact of this upheaval on the local labour market. It is, after all, the local labour market that will determine what kind of property local people are able to afford – not the proliferation of property available to them. This kind of analysis requires the kind of qualitative assessment that we have begun to undertake.

Our findings indicate that much of the property being placed on the market is not suitable for affordable primary home ownership. Further the areas seeing the greatest impact are the "honeypot" destinations like Trearddur Bay (Anglesey), Abersoch (Gwynedd) and Newport (Pembrokeshire). Further these places tend to have high levels of employment in the tourism industry and limited alternative employment opportunities so the loss of tourism accommodation will impact on the ability of local people to find local employment and therefore stay living locally.

There is also evidence to suggest that the 182 day rule is also having an adverse impact on local people who have invested in a business but are now being hit by council tax and premiums because they cannot meet the 182 day rule.

3.2. Recommendations

We offer the following recommendations to the Minister:

a. That proper data be obtained in respect of second homes and FHLs, as recommended by the Brooks Report, as this distinction between leisure properties and genuine businesses is important when considering the economic impact of policy decisions.
b. A full review of the Welsh property market be undertaken to ascertain the types of properties being put on the market in areas dependent on the visitor economy, whether this is delivering an increase in affordable housing and, if not, why not.
c. That the Cabinet Secretary speaks to her Cabinet colleagues to support a review of the 182-day rule as soon as possible, on the grounds that the "three pronged approach" (a) is not working in the supply of more affordable housing in areas where there is a level of dependence on the visitor economy and (b) is damaging economic activity in those areas, reducing the ability of local people to earn enough buy or rent there
d. That a full consultation and analysis be carried out on the economic impact of introducing Article 4 regulations in Gwynedd.
e. That, rather than prioritising the non-primary home market as a solution for affordable local housing, the Welsh Government instead focuses on
    - building new affordable properties in places that they are needed,
    - returning empty properties into use and
    - bringing new employment opportunities to "honeypot" areas to reduce local economic reliance on tourism.

f. That the Welsh Government uses the analyses recommended above as the basis for revisiting guidance to local authorities on setting council tax premiums and Article 4 for planning authorities.
g. Where local economic regeneration plans are being considered, that representatives of the local visitor economy (eg private sector tourism operators) are invited to be part of that planning process. Indeed the holiday property market can help to indicate where new home building would be best focused. This is particularly relevant in cases where local authorities are still designating some development sites as “for holiday homes only”.
h. That the Welsh Government review all taxes and costs impacting the purchasing of homes and second homes and how this impacts the supply and demand for different of tenures across Wales.

Appendix 1

Propertymark

Propertymark is the UK's leading professional body for estate and letting agents, property inventory service providers, commercial agents, auctioneers and valuers, comprising over 18,000 members representing over 12,800 branches. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry-leading training programme and mandatory Continuing Professional Development. Members benefit from guidance, advice, and research as well as a comprehensive programme of workshops, conferences and events and we regulate members' activity according to a code of conduct and rules, with disciplinary action for instances of non-compliance.

Appendix 2

Round Table Attendees

7 November 2024

- Yvonne Astles – Bryce & Co – Pembrokeshire
- Carol Peaks – West Wales Property – Carmarthenshire
- Martin Adams – Fletcher and Poole – Conwy
- Trevor Morgan – Morgan and Co – Llandrindod Wells
- Andrew Fenton – Chris Davies Estate Agent – Vale of Glamorgan
- Jonathan Morrison – Chartered Surveyor
- Mike Tanner – Dafydd Hardy – North Wales
- Martin Lewthwaite – Beresford Adams - Abersoch

8 November 2024

- Dan Fernandes – Rhosneigr Property - Anglesey
- Roger Shoesmith – Rhosneigr Property – Anglesey
- Nigel Salmon – Fine and Country
- Huw Evans – Morris Marshall and Poole – Llanidloes
- Melfyn Williams – Williams & Goodwin – North Wales
- Tim Goodwin – Williams & Goodwin – North Wales