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Establishing an evidence base for the development of a viable intermediate rent model for the Northern Ireland housing market

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Establishing an evidence base for the development of a viable intermediate rent model for the Northern Ireland housing market

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Executive Summary

1. This report was commissioned by the Department for Communities to investigate the demand for and potential design of an intermediate rent (IR) product for Northern Ireland.
2. The context for this undertaking started from a sense that social housing alone would not be able to address levels of unmet housing need in Northern Ireland (and would miss perceived market failures and gaps in rental provision above the level of social housing interventions). Furthermore, evidence and practice elsewhere in the UK points to successful interventions to provide affordable rented housing for those unlikely to have a realistic chance of accessing social housing in an area of choice, and unable to access home ownership (many may also struggle to meet market rents in the private rented sector (PRS)). An additional reason for the interest in an intermediate rent product arose from the Minister's statement in late 2020 which paved the way for such a product but made it clear that it would not be grant funded.
3. The Department for Communities undertook internal and other preliminary research on affordable renting and intermediate products. At this point they commissioned the present research.
4. The primary tasks that were to be undertaken in the project were as follows: first, assess the rental situation in different parts of Northern Ireland contrasting market rents with housing association rents for different property sizes and a sense of the degree of financial difficulty associated with those gaps in specific local markets. Second, undertake modelling to ascertain the size of the niche, that is, the level of potential demand for an intermediate rent product that sits between market and social rents. Third, provide a sense of the key issues around the design, governance and financing of an intermediate rent product for Northern Ireland. This would include a series of sense checking interviews concerned with the scope, geography, structure and design of such a product. Finally, the report would bring together these different elements and suggest recommendations to government going forward.
5. Later chapters in this report set out the key points arising from these tasks carried out by the research team. To summarise, we would make the following points.
6. First, there are considerable gaps between market and social rents in different parts of Northern Ireland, in:

- Four Local Government District (LGD) areas: Ards and North Down, Belfast, Derry City & Strabane and Lisburn & Castlereagh (where the housing association / PRS difference is at least 25% for either two- or three-bedroom properties).
 - Seven Local Government District areas: Ards and North Down, Belfast, Derry City and Strabane and Lisburn and Castlereagh, Antrim and Newtownabbey, Armagh, Banbridge and Craigavon and Newry, Mourne and Down (where the housing association / PRS difference is at least 20% for either two- or three-bedroom properties).
7. Second, there is evidence from elsewhere, particularly Scotland, that suggests that a financing model based on the combination of Financial Transactions Capital (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. It can of course be enhanced by additional subsidy flexibilities relating to the cost of land for instance, but it does appear that the core model can work.
 8. Third, the modelling work suggests that there are around 133,000 – 135,000 households privately renting in Northern Ireland. There is a sizeable cohort of private rental tenants whose affordability problems are particularly acute. We estimate that there may be 50,400 households paying 25% or more of their income in rent in the PRS and, of them, 20,000 paying more than 40%. Moreover, there is some evidence that the position may have deteriorated between 2019 and 2020 (although given small sample sizes, this is open to some error, as noted in Chapter Three). The results suggest that a 20% reduction in rent has a significant impact on rental affordability, pushing nearly a third, 16,000 tenants, back below the 25% affordability line. Further discounts to market rent continue to reduce the number in rental affordability stress, but the impacts are less pronounced.
 9. Fourth, due to the results of reviewing the earlier research for this programme and a number of interviews with experts in Northern Ireland and Scotland, it was possible to outline a number of key principles that might underpin the shape of a new intermediate rent product. These are outlined in the box below. Note that this is not meant to be a definitive statement of such a model but merely sets out underlying key principles. We suggest below that there are a number of choices for government now to consider in terms of implementation and the finer detail of the policy.
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Summary of Design and Financing Principles

Evidence suggests that the model can work delivering sub-market rents on longer than standard private rental tenancies. We favour a core simple model, one that stands financially on just public and private loans through FTC and long-term debt or equity private financing.

Additional subsidy flexibilities should be viewed as a bonus rather than a necessary element. Provisionally, State Aid issues do not seem to apply and working with transparent public procurement rules would be also important when public subsidy (FTC) is being provided to private sector economic actors. We prefer a standard five-year tenancy, for simplicity.

Intermediate Rent (IR) will contribute to meeting housing need through provision at sub market rents. How the tenancy is offered to prospective tenants also matters to this question – the use of income ceilings, affordability thresholds and perhaps evidence of insufficient social housing ‘points’ would suffice even though, as a rental market offer, the properties will be offered to the first person who applies and meets such criteria.

Creating confidence in private finance requires minimum scale and also a capacity to let properties quickly and have a clear plan to scale up. This model could work potentially across different locations, setting and solutions (stand alone, part of a mixed tenure development, new build and off the shelf, greenfield or brownfield site).

IR 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 percentage).

10. Fifth, we undertook a series of sense checking interviews with relevant experts from across Northern Ireland. This 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 is general agreement with the geography proposed for where an intermediate rent product might work. There were

also however a number of detailed issues, potential barriers, and proposals to overcome them, suggested by the range of expertise we interviewed. These points are covered in Chapter Five and we summarise the key messages from that chapter in the box below.

Key messages from sense-checking interviews

Key stakeholders generally supported an IR model in-principle, but it is not going to be for everyone and there are many issues of detail and choice to iron out.

The proposed geography seems right especially for Greater Belfast but perhaps for all the areas identified (noting that there was some minority interest in other locations).

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.

Project viability is essential, as is translating the success made of programmes in Scotland relying just on FTC and private finance to a Northern Irish and local context.

There is considerable support for testing the IR model and questions necessarily follow – how will this

be funded (i.e., will they be drawn down from a wider programme); will they be explicitly mixed tenure; and how will they relate to the bigger proposed programme to follow?

There is strong support regarding longer tenancy length.

There was much concern about clarity over the applications systems and size of the income cap for Northern Ireland (and presumably an affordability ratio threshold, if that were to be used, too). There was a clear signal that this should be demonstrably detached from social housing allocations and instead be on a first come first serve (with the income ceiling eligibility and an affordability test).

Respondents wanted clear water between the additionality of the new scheme and zero displacement of the social housing scheme, recognising, for instance that Local Development Plans (LDPs) appear to often include intermediate or affordable renting in their definition of affordable housing.

Respondents rightly made it clear that there was risk in simply replicating viable Scottish models: the IR model has to work in a Northern Ireland context and local market circumstances.

11. The concluding chapter turns to ask what were the key issues to confirm, what are our preferred views or advice on such questions and what are the range of choices to be considered by government to move this programme forward. These issues and choice are captured in the Table below. Our advice is that such a model should involve:
- A five-year tenancy and no within-tenancy reassessment of eligibility.
 - In Scotland, long term (20 years plus funding combine roughly equal shares of FTC and private finance.
 - Initial rents pitched at 67-80% of local market rents and annual uprating based on CPI & (0-1%) with a preference towards close to zero for the additional CPI plus element.
 - Eligibility to 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 Local Housing Allowance (LHA)), and clear evidence that the household’s estimated points would not be anywhere near a realistic chance of social housing in an area of choice.
 - It is finely balanced as to whether the model should be tested or rolled out quickly.

Intermediate Rent key issues, proposals and options

ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Public finance	Alternative to grant funding	FTC	FTC could be short term or longer – simple model and private finance suggests long term loan of 20 years or more
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Mix of finance	How might public and private finance combine?	FTC and long-term debt or equity private finance	Equity or debt? 20 plus years term?

ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Providers	Who can deliver IR?	Standalone or housing association subsidiary vehicles	Standalone social enterprise or charity or private subsidiary of an association?
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Regulation of providers of IR	What options given the nature of IR?	PRS, possibly charities and group structure oversight by social regulator	What balance of regulation between private renting rules, charitable rules and group structure - social regulation?
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
How are properties offered to tenants?	Essential features of the mechanism	If criteria met, first come first serve	A private tenancy and needs clear blue water from social allocations
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Eligibility criteria	Tenant thresholds at application	Income cap (£25-30K) and excess rent evidence (gross rent greater than the relevant LHA or 25% of income.	Scope for much discussion about where to land on either element of eligibility – we would argue for simplicity
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Length of standard tenancy	Preference for a tenancy longer than standard – but what should it be?	Support for three to five years; we should make it simple and keep it at five	Recognise there are trade-offs but benefits of stability/ Also questions about grounds for repossession (arrears, ASB) and within tenancy continuing eligibility checks (we would not favour this)

ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Setting the rent	Basis for starting rent and how it is thereafter increased	Range between 67-80% of local market rent; uprated by CPI + X% (X = 0-1%); we in principle would tend towards the more challenging lower end of this range	Demand evidence indicates a significant group would benefit from at least a discount of 20% but again there are trade-offs. We do support a range and flexibility re. Local market conditions. Uprate choice can be conservative or more challenging.
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Evidence of demand or unmet need?	Is there a rent gap between HA and PRS rents (where?) and are there PRS tenants with high rent : income ratios?	Evidence found in different areas of NI, especially Greater Belfast; modelling suggests large numbers of private tenants financially stretched	We have identified several indicators of unmet demand for IR and think this is sufficient to proceed, at least to test the model
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Sector acceptability	Extent of likely willingness	Not for everyone but definitely for some	IR will be contentious for some but welcomed by others; communication important as it is a publicly procured competition
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Flexibilities	Other subsidies	Land or affordable housing agreements – should not be necessary	Is it for providers to seek these out or should government support and/or encourage?

ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Affordability/ benefits to government policy	How does this policy provide direct and wider benefits to affordable housing policy	Using up FTC and allows additional investment, little impact on benefit cost and meets unmet need	Additional, placemaking, mixed tenure, reduced unaffordability, emulative effects on traditional PRS, ESG ¹ metrics, other wider role activities conceivable – all help communicating policy
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Wider benefits offered by IR	What else does IR offer as a policy?	Placemaking, place in mixed tenure, community role	Specific measures can be tied to loan acceptance, ESG conditions and LDP affordable housing agreements
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
State Aid & Public Procurement	How are these affected?	Don't think it applies but public procurement would	Formally confirm but make good use of public procurement route
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Model roll-out	Learning useful, mixed tenure but needs to fit financial design	Learning useful, mixed tenure but needs to fit financial design	Trade-offs: incremental roll out or quickly to scale; initial purchases could be off the shelf or contribute to mixed tenure projects to build momentum

List of Abbreviations

ABBREVIATION	MEANING
BRMA	Broad Rental Market Area
CPI	Consumer Price Index
DfC	Department for Communities, Northern Ireland
ESG	Environmental, Social and Governance
FRS	Family Resources Survey
FTC	Financial Transactions Capital
HA	Housing association
HAG	Housing Association Grant
HB	Housing Benefit
HMA	Housing Market Area
IR	Intermediate rent
LA	Local authority (Scotland & England)
LAR	LAR Housing Trust
LCHO	Low-cost home-ownership
LDP	Local Development Plans
LGD	Local Government District
LHA	Local Housing Allowance
MMR	Mid-Market Rent
NIFHA	Northern Ireland Federation of Housing Associations
NIHE	Northern Ireland Housing Executive
OSCR	Office of the Scottish Charity Regulator

ABBREVIATION	MEANING
PfP	Places for People group
PRS	Private rented sector
SA	State Aid
SCIO	Scottish Charitable Incorporated Organisation
SPV	Special Purpose Vehicle
UC	Universal Credit
UKHLS	UK Households Longitudinal Survey

Introduction

- 0.1 Northern Ireland has a well-defined housing tenure structure based on three main tenures, plus a long-standing and successful affordable/shared ownership product. Up until now, however, Northern Ireland has not operated a well-defined affordable rent product, unlike the other UK nations. This looks like it is to change, however, after the Communities Minister announced on November 3, 2020 that the Government would introduce a form of intermediate rent (IR) product to increase the housing options available, models for this new product were being actively examined, and that the development of such a product would not be at the expense of social housing budgets. In other words, public funding would not come from capital grant, but rather would be loan-funded through long-term Financial Transactions Capital (FTC).
- 0.2 This report provides research on scoping out what such an intermediate rent product would look like, makes an assessment of affordable rental demand under different scenarios, and suggests some of the key design, governance and financing features that such a model would need to possess. We also consider the geography of demand for such a product and how it would relate to the private market rented sector and also social housing.
- 0.3 This report has been prepared by a team from the UK Collaborative Centre for Housing Evidence (CaCHE), working with Dr Jordan Buchanan from PropertyPal. We acknowledge the help and advice we received from Maryann Dempsey and Emma Clegg, from the Department for Communities, as well as the advice and help with access to data from other colleagues in the Department for Communities, Department for the Economy and the Northern Ireland Housing Executive. We are also grateful to the Northern Ireland Statistics & Research Agency, colleagues in the Northern Ireland housing association sector, and to colleagues working in the affordable rent sector in Scotland and the Scottish Housing Regulator. We also thank a series of key actors representing different parts of the Northern Ireland housing system who agreed to participate in sense-checking interviews towards the end of this project (further discussed in the penultimate section of this report).
- 0.4 The structure of this report is in the following sections.
- A contextual discussion of the background to the potential demand and need for an intermediate rent product in Northern Ireland.
 - An analysis of current private rental

market rents by geography and property type compared to housing association rents and property types across Northern Ireland.

- A detailed modelling and scenario assessment of potential demand for affordable or intermediate renting in Northern Ireland.
- An investigation into the design, governance and financing of such a model, drawing on examples from elsewhere and also key parameters set out by the Northern Ireland government.
- Reflections on a series of sense checking interviews with key actors in the Northern Ireland housing market and policy system.
- The report finishes with a summary of key conclusions and a suggested set of next steps for the Department for Communities, Northern Ireland.

Chapter 1: Context and Background

Context

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

1.2 Table 1.1 shows tenure change in Northern Ireland between 2001 and 2016. Over this 15 years period, NIHE’s share of the housing stock has fallen by more than seven percentage points while the proportion of the stock in the private rented sector (PRS) has risen by ten percentage points alongside more modest growth in the housing association sector. Compared to GB, home ownership, although having fallen, is still a little higher in Northern Ireland, whereas the rental market is not quite as large, proportionately, as in GB. Likewise, social renting as a whole in 2016 was proportionately slightly lower in Northern Ireland (15.5% versus 17.5% in GB). The overall housing stock in Northern Ireland has grown by a fifth.

Table 1.1: Housing tenure in Northern Ireland, dwellings, 2001 and 2016 (GB 2016/17)

TENURE	NORTHERN IRELAND 2001	NORTHERN IRELAND 2016	GREAT BRITAIN 2016
Owner-occupied (% of dwellings)	66.8	63.4	62.5
PRS (% of dwellings)	7.6	17.4	19.7
Housing Association (% of dwellings)	2.8	4.6	10.3
NIHE (% of dwellings)	17.9	10.9	7.5 (1)
Vacant properties	4.9	3.7	N/A
Total (N)	647,500	780,000	27,713,000

Source: NIHE: Northern Ireland House Condition Surveys 2001 and 2016, Table 3.1 and Stephens, M et al (2020) UK Housing Review 2020, table 17c and 17d. Chartered Institute of Housing.

Notes: (1) this figure includes a small % of other public sector dwellings in GB.

- 1.3 The most recent evidence on housing need in Northern Ireland based on analysis undertaken in 2015 (Net Stock Model) suggested that housing need for 2011-21 was of the order of 16,000 households. Waiting list data in 2020 show a total of 41,500 applicants, 29,500 of whom are in housing stress.
- 1.4 Like housing need, affordability is a thorny concept to define and operationalise (Scottish Government, 2018; Meen and Whitehead, 2020). Both terms are normative, judgmental and tend to draw on a convention-based acceptance of a given approach. Affordability may be viewed in different ways – a target housing cost- or rent-to-income ratio, a residual income, or an income level where prevailing housing costs no longer require housing related benefits. These indicators are all sensitive to local market conditions. This is important for thinking about an affordable rent product – what is the affordability basis for setting the rent at a given level relative to the market, what affordability thresholds might apply and how would they be defined (net or gross income, net or gross housing costs, for instance)? A further challenge with affordable rent products like intermediate rent is how to set an income eligibility cap. We discuss these key dimensions in the substantive sections to follow and in the conclusions.

- 1.5 The intermediate rent proposal is part of the wider housing supply strategy for Northern Ireland and was clearly set out in a Ministerial speech to the Northern Ireland Assembly (November 3 2020). This was seen to be an important element alongside a wider set of interventions to support affordability, meet housing need, and assist households vulnerable to financial stresses from high rents and moderate but unstable incomes. As indicated in the introduction, the policy would be designed not to displace social housing and therefore would not be eligible for grant in aid, which would be retained for social housing.

Research Direction and Previous Related Work

- 1.6 The research analysis that follows is a stepping stone from work already completed by the Department for Communities (DfC), external research by CBRE and from Business Consultancy Services (BCS) within the Department of Finance. What are the key points we draw from the earlier research completed for this programme? Considerable work has been undertaken reviewing intermediate rent (IR) products elsewhere in England, Scotland, Wales and Ireland. A clear sense that rather than being part financed by capital grants the underlying funding model should be long term financial transactions loans (already used for housing interventions in Northern Ireland e.g., shared ownership products,

and in Scotland to fund help to buy and variants of mid-market rent such as LAR). Limited work thus far had been undertaken to quantify the level of demand for an IR product.

1.7 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 Area. 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 suggest further research at a more granular level. We return to these issues later.

1.8 The DfC desk-based research examines different working models of IR which digs down into the funding principles used and reflects on their implications for such models in Northern Ireland. The paper also places the potential IR product in the context of the government consultation on the definition of 'affordable housing' and recent work done by the Chartered Institute of Housing on the future of social housing in Northern Ireland. The paper concludes by arguing that the intervention needs to be developed in the light of the role it can play to address specific market failures (and which interventions can achieve this), establish rent levels and rent increase mechanisms and develop a clear idea of likely partners and providers.

1.9 The Department of Finance BCS report scopes out the data and further analysis required, which provided detail for the present tender and locate it within the wider project to bring the IR product to market. In particular, section 5 of the report (and appendix 1) sets out what they see as critical data requirements to test the scope and size of an intermediate rental market niche. Demand for such a product arises from the consequences of a larger private rented sector, concerns about affordability of both rents and the incomes among specific segments of society on low to moderate incomes in specific high-cost locations, as well as a recognition that many such people do not have sufficient points on the Common Waiting List to have a realistic chance of accessing social housing in an area of choice.

1.10 The project seeks to answer essential questions: what is the market niche being aimed for? How large is that niche and where does it exist? What is the evidence gap and how might it be filled so that reliable estimates of potential demand for an affordable rent product might be produced? What are the sorts of feasible options for this intermediate rent policy instrument and what dimensions might such a product encompass? What levels and type of engagement are required with providers and stakeholders to sense check the proposals?

1.11 The client identified the following three substantive research tasks:

- Determine a profile of target households (includes current rental analysis; size of target groups)
 - Building on the above, conduct future rent modelling of potential demand based on different rent bands, with analysis and commentary supporting different rent policies emerging from various conceivable approaches to the intermediate rent product (e.g., 80% of market; LHA level, etc.)
 - Consider the need for government intervention and how loan funding might be used, detailing a range of finance issues and engaging with potential providers – this will iterate towards a preferred delivery model and its financial design.
- The report also reflects (in both the substantive chapters and the conclusion) on the uncertainties or possible impacts that may arise as a result of the COVID-19 pandemic, in relation to an IR product for Northern Ireland. On the demand side of the market, the lockdowns have - despite the beneficial impact of furloughing and other supports - reduced incomes and employment, hitting specific sectors like retail and hospitality hardest, disproportionately impacting on younger people in private renting. While evictions have been suspended throughout this period, there is clearly a significant build-up of housing debt such that, across the UK, Governments will need to carefully and sensitively manage the unwinding of such suspensions. This of course also adds to the mental health challenges of the pandemic.

Chapter 2: Current Rents Analysis

2.1 The previous Chapter of this report outlined the background to, and policy context for, introducing an intermediate rental product in Northern Ireland. The product is designed to meet demand from applicants whose financial circumstances may exclude them from owner-occupation, who may struggle to meet the cost of rents in the private rented sector, and yet would be unlikely to attain sufficient points on the Common Waiting List to have a realistic chance of accessing social housing in an area of choice. In most cases, such individuals would be in paid employment, but being in receipt of benefits should not necessarily preclude someone from accessing intermediate rent. A key issue is the affordability and sustainability of the tenancy at a given level of rent. It is widely accepted and common in other schemes that the intermediate rents for these properties will lie between housing association rents and open market rents for any particular housing market area and will normally be higher than the Local Housing Allowance that would be set for any specific locale. Essentially, it is a product that aims to meet the need/demand of 'just managing' households for whom social housing is not necessarily an optimal, realistic or desired housing option, but who are unlikely to access homeownership (including shared ownership) in the foreseeable future.

Data Sources

2.2 Rental data for housing association (HA) properties was provided by the Northern Ireland Federation of Housing Associations (NIFHA) from their comprehensive bi-annually updated property and tenant database, which holds rental information for all social-rented properties owned and managed by regulated housing associations in Northern Ireland. In Northern Ireland there is a well-recognised historic rental differential between Northern Ireland Housing Executive (NIHE) dwellings and housing association properties that does not reflect real differences in terms of dwelling characteristics and quality. We therefore consider it appropriate in the context of Northern Ireland to focus on housing association rental data, rather than a combination of NIHE and housing association data.

2.3 The NIFHA data contained records for the financial year 2020/21 for more than 31,000 general needs dwellings. Individual records included a named settlement (e.g., city, town, village) and postcode outcode for each record, together with the number of bedrooms in the property and the associated gross rent (including rates) and service charges. Service charges were included in the analysis to maximise comparability with private rental data. The data did not include information on dwelling type (house

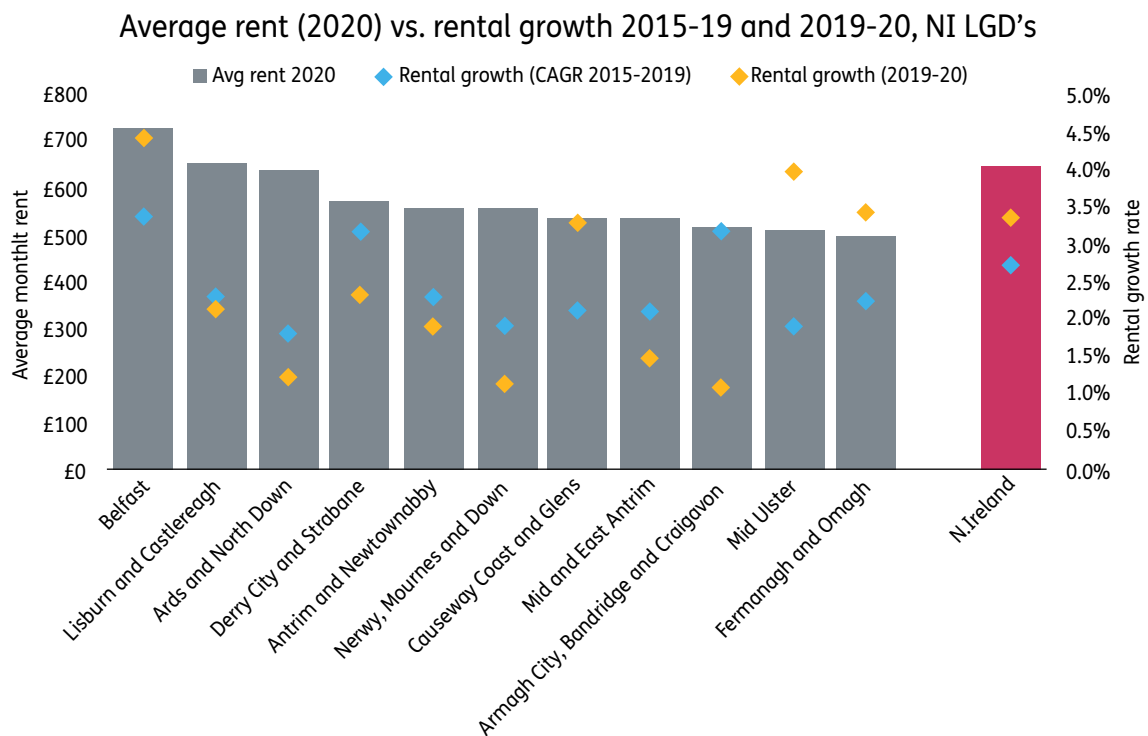
or apartment). A combination of settlement information and postcode outcode was used to ensure data was analysed on a basis consistent with the spatial framework for private rental properties. This high-quality data source is therefore considered to provide a comprehensive snapshot of all (relevant) housing association properties at a particular point in time.

2.4 Rental data on private rented sector dwellings was provided by PropertyPal from the comprehensive data it holds on rental properties advertised for letting. Data is available for six consecutive years from 2015 to 2020 (inclusive). Most of the analysis was undertaken on the basis of the most recently available data for 2020 and includes approximately 16,000 dwellings. As in the case of housing association data, PropertyPal data on rents includes rates – as this is the way in which rents are consistently advertised. It also has details on the number of bedrooms, whether it is a house or an apartment/flat and the actual full address of the

property, thus enabling geographical disaggregation of data to a range of spatial frameworks, including Local Government District (LGD), Broad Rental Market Area (BRMA), Housing Market Area and Electoral District.

2.5 Comparable data from previous years was utilised to crosscheck the analysis, notably to address the concern that private rental data may have been unrepresentative due to the COVID-19 pandemic. There was no significant evidence for this. The average annual increases for the period 2015-2019 are not significantly different from the comparable figures for 2020 on its own. In seven LGDs, the 2020 increase in average rents was lower than the average annual increase for the previous five years. For the remaining four LGDs the differential growth rates are very small. The highest differential was in Armagh, Banbridge and Craigavon, where the annual rent increase in 2020 was approximately two percentage points higher than the average for 2015-2019 (Figure 2.1).

Figure 2.1 Comparison of average annual increases in market rents: 2015-19 vs 2019-20



Source: PropertyPal

Note: Based on advertised private market rents and for 2015-2019 calculated using compound annual growth rate.

Spatial framework for analysis

2.6 Ideally, the spatial framework for analysis would be the 11 functional Housing Market Areas (HMAs) used by NIHE for its Housing Market Analysis reports since 2010, as these represent the spatial realities of the housing market in terms of consumer behaviour. HMA boundaries were updated in 2018 and will form the basis for NIHE's future anticipated Strategic Housing Market Analysis reports. However, this spatial framework is based mainly on the migration patterns of owner occupiers rather than private tenants (or indeed social tenants). Similarly, Broad Rental Market Areas are based on analysis of access to services rather than housing choice. After careful consideration, and

taking into account data limitations and timescales for project delivery, the most pragmatic spatial framework for analysis was Northern Ireland's LGDs - a decision which may also facilitate consistency in policy terms and in terms of future methodological explanation. A combination of settlement and postcode (outcode) data, included as part of the housing association data provided, enabled PropertyPal to undertake a substantially accurate alignment of all housing association properties to LGD boundaries.

2.7 Before turning to the results of the comparative analysis, one further point needs emphasising. Tenure-related differences in rental levels will vary

regionally across Northern Ireland for the following underlying reason. Housing association rents are set on a very different basis to those in the private rented sector. The former essentially reflect levels of Housing Association Grant (HAG), expected management and maintenance costs, and loan charges in a not-for-profit environment. Given that production costs (excluding land) do not exhibit significant spatial variations within the context of Northern Ireland it would be expected that housing association rents would display a considerable level of consistency across Northern Ireland. This is markedly different in the case of private rented sector rents where supply and demand play a very significant role in determining rents of dwellings that are owned and managed with profit maximisation as the primary underlying motive. The subsequent analysis confirms this view.

Comparison of Housing Association and Private Rented Sector (PRS) Rents

2.8 This section explores the degree of difference between housing association rents and market rents, and its spatial variation, on the basis of a combination of PropertyPal's comprehensive private rental data and data on housing association rents provided by NIFHA. As discussed in the previous section of this chapter,

for pragmatic reasons the analysis is undertaken on the basis of a spatial framework provided by LGD boundaries, with the exception of Belfast where a submarket analysis is required.

2.9 More than 80% (83%) of housing association properties have either two or three bedrooms. In the interests of clarity, therefore, the analysis focuses on these two dwelling sizes. The average monthly housing association rent for Northern Ireland is £422 for a two-bedroom dwelling and £462 for a three-bedroom dwelling. In the case of two-bedroom properties, this varies from £381 in Armagh, Banbridge and Craigavon, to £436 in Ards and North Down. For three-bedroom dwellings the comparable figures are £447 in Antrim and Newtownabbey and £484 in Fermanagh and Omagh. The full data tables are provided as Appendix 1 table 2.

2.10 In the private rented sector, 77% of properties have either two or three bedrooms. The average rental for a two-bedroom property is £615 (ranging from £474 in Armagh, Banbridge and Craigavon, to £676 in Belfast); for a three-bedroom property it is £669 (ranging from £540 in Fermanagh and Omagh to £826 in Belfast). Again, the full data tables are provided Appendix 1 Table 3.

Table 2.1: Key Rental Data for two-bedroom housing association and PRS properties, 2020

LGD: 2-BEDROOM HA VS MARKET RENT	HA RENT (£/MTH)	MKT RENT (£/MTH)	£ DIFFERENCE	% GAP
Antrim & Newtownabbey	419	535	116	22
Ards & North Down	436	584	148	25
Armagh, Banbridge & Craigavon	381	474	93	20
Belfast	429	676	247	37
Causeway Coast & Glens	419	517	98	19
Derry City & Strabane	408	568	159	28
Fermanagh & Omagh	423	499	76	15
Lisburn & Castlereagh	434	599	164	27
Mid & East Antrim	420	497	77	16
Mid Ulster	421	494	73	15
Newry, Mourne & Down	421	528	107	20
Northern Ireland	422	615	193	31

Source: NIFHA and PropertyPal

2.11 Table 2.1 brings together the housing association and market rental data for two-bedroom properties in each of the LGDs. It highlights the four LGDs where the percentage difference is at least 25%: Ards and North Down; Belfast; Derry City and Strabane; and Lisburn and Castlereagh. In a further

three LGDs the gap is at least 20%: Antrim and Newtownabbey; Armagh, Banbridge and Craigavon; and Newry, Mourne and Down. Six of these seven LGDs would be regarded as within commuting distance of Belfast.

Table 2.2: Key rental data for three-bedroom housing association and PRS properties, 2020

LGD: 3 - BEDROOM HA VS MARKET RENT	HA RENT (£/MTH)	MKT RENT (£/MTH)	£ DIFFERENCE	% GAP
Antrim & Newtownabbey	447	572	125	22
Ards & North Down	472	649	178	27
Armagh, Banbridge & Craigavon	453	549	96	17
Belfast	457	826	369	45
Causeway Coast & Glens	458	556	98	18
Derry City & Strabane	460	602	142	24
Fermanagh & Omagh	484	540	56	10
Lisburn & Castlereagh	472	678	206	30
Mid & East Antrim	455	554	99	18
Mid Ulster	474	556	82	15
Newry, Mourne & Down	476	578	103	18
Northern Ireland	462	669	208	31

Source: NIFHA and PropertyPal

2.12 In the case of three-bedroom properties, a similar pattern emerges (Table 2.2). In this case only three LGDs have a gap of at least 25%: Ards and North Down; Belfast; and Lisburn and Castlereagh. However, the gap in Derry City and Strabane is 24; and again, both Antrim and Newtownabbey; and Newry, Mourne and Down have a gap of at least 20%. It is also worth noting that in the case of Belfast the gap of 45% is significantly more than in the case of two-bedroom properties (37%).

2.13 It could also be considered somewhat counterintuitive – given its distance from Belfast – that the gap between housing association and market rents in Derry and Strabane is as large as it is. More detailed analysis, however, shows that this can be explained by the concentration of two-bedroom and three-bedroom properties at

significantly higher rents both in the Cityside and Waterside areas of Derry City, no doubt reflecting the high levels of housing need identified in the most recent Housing Investment Plan for Derry and Strabane.

2.14 Given the significant differential apparent across the broad sub-markets in Belfast, a similar analysis has been provided for North, South, West and East Belfast. Tables 2.3 and 2.4 illustrate these intra-Belfast differences. Not unexpectedly, the biggest differentials between housing association and market rents are to be found in South Belfast, where traditionally house prices and rents have been significantly higher than in the other three Belfast sub-markets.

Table 2.3: Key rental data for two-bedroom housing association and PRS properties in Belfast, 2020

LGD: 2-BEDROOM HA VS MARKET RENT (BELFAST)	HA RENT (£/MTH)	MKT RENT (£/MTH)	£ DIFFERENCE	% GAP
North Belfast	433	630	197	31
South Belfast	427	723	296	41
East Belfast	421	635	214	34
West Belfast	419	584	165	28
Belfast	429	676	247	37

Source: NIFHA and PropertyPal

Table 2.4: Key rental data for three-bedroom housing association and PRS properties in Belfast, 2020

LGD: 3-BEDROOM HA VS MARKET RENT (BELFAST)	HA RENT (£/MTH)	MKT RENT (£/MTH)	£ DIFFERENCE	% GAP
North Belfast	458	569	111	20
South Belfast	463	932	469	50
East Belfast	449	700	251	36
West Belfast	465	604	138	23
Belfast	457	826	363	45

Source: NIFHA and PropertyPal

2.15 One additional piece of analysis is worth highlighting in the context of Belfast, given that, unlike in the remaining ten LGDs, there is a disproportionate number of market rental properties that are apartments as opposed to houses. For context, approximately 63% of all apartments for rent in Northern Ireland are in Belfast compared to 41% of all houses. For two-bedroom properties in Belfast, approximately 65% are apartments and 35% houses. This pattern is broadly similar across the other LGDs, albeit with significantly fewer properties, and reflects a more general shortage of existing and new two-bedroom houses. For three-bedroom properties, 36% of properties within Belfast are apartments and 64% houses. Across the ten other LGDs, only 5% are apartments and 95% houses,

reflecting a much greater number of three-bedroom houses available.

2.16 Table 2.5 shows the gap between two-bedroom housing association houses and comparable rents for two-bedroom apartments in the private rented sector. Table 2.6 shows the comparable figures for three-bedroom dwellings. Both tables highlight that in all four sectors of Belfast there is a significant difference in the size of the percentage gap between housing association properties and apartments, and housing association properties and houses, with the gap for apartments in the private rented sector being consistently larger than for houses. This no doubt reflects the large number of private high-specification apartments that have been built in recent decades in parts of Belfast such as Laganside.

Table 2.5: Key rental data for two-bedroom housing association properties and PRS Apartments and Houses in Belfast, 2020

LGD: 2-BEDROOM HA VS MKT	HA RENT (£/MTH)	MKT RENT APTMTS (£/MTH)	£ APTMTS DIFFERENCE	% APTMTS GAP	MKT RENT HOUSES (£/MTH)	£ HOUSES DIFF.	% HOUSES GAP
North Belfast	433	753	320	43	489	57	12
South Belfast	427	759	333	44	621	194	31
West Belfast	421	703	283	40	552	131	24
East Belfast	419	617	19	32	534	115	22
Belfast	429	735	306	42	566	137	24

Source: NIFHA and PropertyPal

Table 2.6: Key rental data for three-bedroom housing association properties, and PRS apartments and houses in Belfast, 2020

LGD: 3-BEDROOM HA VS MKT	HA RENT (£/MTH)	MKT RENT APTMTS (£/MTH)	£ APTMTS DIFFERENCE	% APTMTS GAP	MKT RENT HOUSES (£/MTH)	£ HOUSES DIFF.	% HOUSES GAP
North Belfast	458	810	352	43	557	99	18
South Belfast	463	1,037	574	55	784	321	41
West Belfast	449	301	452	50	677	228	34
East Belfast	465	726	261	36	598	133	22
Belfast	457	1,008	550	55	698	241	34

Source: NIFHA and PropertyPal

2.17 The above analysis indicates that an appropriate rent (ranging between average housing association and average PRS rents) for the each of Northern Ireland’s LGDs could gravitate around the mid-point of the difference between average housing association and average market rents for two-bedroom and three-bedroom

homes by LGD (Tables 2.7 and Table 2.8 respectively). The sub-market analysis for Belfast also indicates that an intermediate rent level for schemes in Belfast should take cognisance of the significant differences in both the market rental levels in each of its four sectors and the scale of the housing association-private rental

differentials, as well as the significant differences between apartments and houses. These mid-point rents could act as a starting point for actual intermediate rental levels, which would, of course, have to take into

account other viability-related factors such as the cost of land, construction costs, ongoing management and maintenance costs, etc.

Table 2.7 Guideline for intermediate rents for two-bedroom properties

LGD: 2-BEDROOM HA VS MARKET RENT (NI)	HA RENT (£/MTH)	LHA RENT (£/MTH)	MKT RENT (£/MTH)	MID-POINT RENT (£/MTH)
Antrim & Newtownabbey	419	355	535	477
Ards and North Down	436	437	584	510
Armagh, Banbridge and Craigavon	381	401*	474	428
Belfast	429	461	676	552
Causeway Coast & Glens	419	399	517	468
Derry City & Strabane	408	434	568	488
Fermanagh & Omagh	423	368	499	461
Lisburn & Castlereagh	434	437	599	516
Mid & East Antrim	420	355	497	458
Mid Ulster	421	375*	494	458
Newry, Mourne & Down	421	422*	528	474
Northern Ireland	422	N/A	615	518

Source: NIFHA and PropertyPal

* LGDs where BRMA/LHA rents have been combined and averaged to give a 'typical' figure for that LGD.

Table 2.8 Guideline for intermediate rents for three-bedroom properties

LGD: 3-BEDROOM HA VS MARKET RENT	HA RENT (£/MTH)	LHA RENT (£/MTH)	MKT RENT (£/MTH)	MID-POINT RENT (£/MTH)
Antrim & Newtownabbey	447	404	572	510
Ards and North Down	472	498	649	561
Armagh, Banbridge and Craigavon	453	443*	549	501
Belfast	457	524	826	642
Causeway Coast & Glens	458	435	556	507
Derry City & Strabane	460	465	602	531
Fermanagh & Omagh	484	413	540	512
Lisburn & Castlereagh	472	498	678	575
Mid & East Antrim	455	404	554	505
Mid Ulster	474	422*	556	515
Newry, Mourne & Down	476	471*	578	528
Northern Ireland	462	N/A	669	566

Source: NIFHA and PropertyPal

* LGDs where BRMA/LHA rents have been combined and averaged to give a 'typical' figure for that LGD.

2.18 The analysis suggests that a number of geography-related policy options would be possible. However, it appears appropriate that an incremental approach to implementation should focus initially on the following four LGDs: Ards and North Down; Belfast; Derry City and Strabane; and Lisburn and Castlereagh (where the housing association / PRS difference is at least 25% for either two- or three-bedroom properties) with the starting point for intermediate rental calculation varying from £488 to £552 per month.

At a later stage, an additional three LGDs where the differential is more than 20% but less than 25% could be included, giving a total of seven LGDs where the differential is greater than 20% (Ards and North Down; Belfast; Derry City and Strabane; Lisburn and Castlereagh; Antrim and Newtownabbey; Armagh, Banbridge and Craigavon; and Newry, Mourne and Down). This issue will be revisited in the context of the final chapter that includes policy recommendations.

Chapter 3: Quantitative analysis of current and future demand for intermediate rental products

Introduction

3.1 This chapter of the report carries out a quantitative analysis of three datasets in order to guide the design of an appropriate intermediate rent model for Northern Ireland, and to provide some insights about the likely number of households to benefit from such a product under a range of design scenarios. The chapter begins by examining Housing Benefit (HB) claimant data records provided by NIHE, including an analysis of household composition and current affordability. It estimates the size of discounts to current / observed rent that would be necessary to render those rents affordable for the minority of Housing Benefit claimants that have a reported earned income. This helps to illustrate the size of the affordability gap, but is not intended to suggest that access to an intermediate rent product would not be available to current or future housing-related benefit recipients. The analysis throughout this chapter treats Northern Ireland as a single geographic unit. Although we know that there are considerable spatial variations in rents and incomes within Northern Ireland, none of the datasets analysed in this chapter contain

sufficient information or quantity of data below the Northern Ireland level to permit disaggregated analysis.

3.2 The chapter includes an analysis of two survey datasets: the UK Households Longitudinal Survey (UKHLS), and the Family Resources Survey (FRS, 2019). The UKHLS is our preferred dataset because its inclusion of the same individuals across numerous waves makes it possible to estimate the propensities (i.e., likelihood) of individuals to transition between various housing arrangements. For example, we can examine transitions from arrangements such as living with parents, other relatives, friends, sharing with other adults or social renting in one time period, and living as the head of an independent household in the private rented sector in a subsequent time period.

3.3 The modelling drawing on the UKHLS therefore derives two broad types of estimates. First, the numbers currently living in private rental, and who would potentially benefit from the provision of an intermediate rent product. And second, the number of newly forming households likely

to appear in subsequent years and end up renting unaffordably in the private rented sector.

- 3.4 We carry out an analysis of the Family Resources Survey in order to cross-check the UKHLS results, and to inform the design of the intermediate rental product (particularly the discount from market rental levels that would be necessary to be effective in moving households out of rental affordability stress, i.e., rental cost exceeding 25% of household income). Further details of the approach can be found in Appendix 2.

Insights from Housing Benefit data

- 3.5 The Housing Benefit dataset used for the analysis included 46,459 unique records, with details on household composition, rent, earnings, postcode, tenure and tenancy type. 209 cases (or 0.44% of the 46,459 records) had an improbably high current rent recorded (defined as in excess of £646 per person per week, or + 3 standard deviations above the mean of this measure). These cases were assumed to have recorded a monthly rent instead of the weekly rent, and so the rental variable was adjusted accordingly. The breakdown by tenure is shown in Table 3.1.

Table 3.1 Composition of the Housing Benefit dataset

TENURE / TENANCY TYPE	NUMBER OF RECORDS
Housing Executive	20,350
Housing Association	13,199
Private Rent	12,910
Total	46,459

3.6 Household size do vary but the majority of households are composed of one adult (26,072). There are 9,495 households with two members and 5,351 in which the main claimant has a partner. Other than the claimant, 5,664 households have one other adult present (not the claimant’s partner) and 1,196 have two other adults present. There are 7,830 households with children under ten years of age,

7,059 with children 10-15 years of age and 3,779 with children aged 16-17. Only 1.5% of households have six or more members, but more than 56% of these larger households include children, and only 7.6% of them include one or more adults other than the claimant and partner. Table 3.2 summarises household composition by the three main tenancy types.

Table 3.2 Household composition by tenure

TENANCY TYPE	PARTNER PRESENT	CHILDREN UNDER 10	CHILDREN 10-16	CHILDREN 16+	OTHER ADULTS PRESENT
Housing Executive	13%	12%	12%	7%	20%
Housing Association	9%	17%	17%	9%	13%
Private tenants	12%	26%	20%	9%	10%

3.7 The Housing Benefit dataset was matched to data on market rents, matching on postcode / outcode, and property size. Where data were available for house and apartment rents, the lower of the two was chosen. This ensures consistency in the analysis and avoids the need to make subjective decisions about how household preferences may vary by geography and/or household composition. The number of bedrooms required for each household in the Housing Benefit (HB) data was determined by assuming one for each couple, and one for each other household member. Those aged under ten years were assumed to share two children to one room. Although children aged 10-15 and of the same gender are also generally assumed to share two to one room, the HB data does

not include information on gender, so this refinement was not possible. Given that the PropertyPal data describe rents for dwellings with one through four bedrooms, the required number of bedrooms was truncated at four. This process established that 28,591 (61.5%) of claimants require one bedroom, 9,267 (19.9%) require two bedrooms, 5,364 (11.5%) require three bedrooms and the remaining 3,237 (7%) require four (or more). However, 903 of this latter group would, in fact, require 5-11 bedrooms based on their household composition and according to the assumptions made above. The distribution by tenure is shown in Table 3.3.

Table 3.3 Property size requirement by tenure

TENANCY TYPE	BEDROOMS NEEDED							
	1		2		3		4	
Housing Executive	12,907	(63%)	4,174	(21%)	2,082	(10%)	1,187	(6%)
Housing Association	8,298	(63%)	2,298	(17%)	1,593	(12%)	1,010	(8%)
Private tenants	7,386	(57%)	2,795	(22%)	1,689	(13%)	1,040	(8%)

Note: Based on household composition, and not a reflection on the size of property currently occupied

3.8 Comparison of HB claimants' current monthly rent with the market rent levels indicated by the PropertyPal analysis yields the distribution shown in Table 3.4 (note that although Housing Benefit entitlement is calculated as a weekly amount, the figures have been converted to calendar month to enable ease of comparison with rental data).

Table 3.4 Northern Ireland Housing Benefit claimants and their rent levels

TENANCY TYPE	TENANTS WHOSE CURRENT RENT IS 70%+ OF THE MARKET RENT LEVEL		TENANTS WHOSE CURRENT RENT IS 75%+ OF THE MARKET RENT LEVEL		TENANTS WHOSE CURRENT RENT IS 80%+ OF THE MARKET RENT LEVEL		TENANTS WHOSE CURRENT RENT IS 85%+ OF THE MARKET RENT LEVEL	
	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage
Housing Executive	3,919	19%	2,240	11%	1,334	7%	688	3%
Housing Association	7,966	60%	6,068	46%	4,450	34%	2,958	22%
Private tenants	10,340	80%	9,391	73%	8,234	64%	7,036	55%
Totals	22,225		17,699		14,018		10,682	

Note: percentages relate to the total number of tenancies, i.e., there are 3,919 Housing Executive tenants whose current rent is 70%+ of the estimated market rent level, and this represents 19% of the total 20,350 Housing Executive tenancies in the Housing Benefit dataset

3.9 There are 3,034 HB claimants who have a reported 'earned income'. Descriptive statistics for this variable are shown in Table 3.5, which is broken down by tenancy type.

Table 3.5 Descriptive statistics – income of Housing Benefit claimants reporting earned income

TENANCY TYPE	MEAN INCOME (£ PCM)	PERCENTILE 5	PERCENTILE 25	MEDIAN	PERCENTILE 75	PERCENTILE 95	NUMBER OF CLAIMANTS
Housing Executive	635	406	534	605	718	949	801
Housing Association	697	427	581	640	808	1,114	952
Private tenants	701	415	569	626	819	1,169	1,281

Note: Figures are £ per calendar month

3.10 The median earned income is around £600 per month, and the upper quartile in the region of £700 to £800 per month. It is clear that Housing Benefit is playing an important role in delivering rental affordability for employed tenants with low incomes – particularly in the private rented section. For example, if we examine the privately renting tenants, and consider those in the upper quartile of earned income (£819 per month), then market rents would need an average discount of 58% before they were to fall to 25% of earnings.

3.11 It should be noted that the HB data include data on earned income of claimants, and no account has been taken of earned income arising from other households members. It is therefore possible that there are ‘concealed’ households in the data, and that these could be viable

demanders of a mid-rent product, but it is impossible to quantify based on the available data.

UK household longitudinal study (UKHLS)

3.12 This strand of the analysis used waves two through ten of the UKHLS survey (sometimes referred to as the ‘Understanding Society’ survey), to examine propensities of individuals to become heads of newly-formed households living in the private rental sector. Reflecting that the survey was not designed for disaggregation (i.e., analysis at a smaller scale, such as by local geographies, or tenure types), the main analytical method is based on data for the UK. The detail is set out in Appendix 2. Briefly, propensities are estimated for the UK, and then applied to Northern Ireland data. This allows us to derive the estimates of the number of privately renting households by age group and affordability band that are summarised in Table 3.6.

Table 3.6 Estimated population of PRS households (Northern Ireland)

RENT AS PERCENTAGE OF HOUSEHOLD INCOME	HEAD OF HOUSEHOLD AGED 16-25	HEAD OF HOUSEHOLD AGED 26-39	HEAD OF HOUSEHOLD AGED 40-64	HEAD OF HOUSEHOLD AGED 65PLUS	TOTALS
>0<20%	10,125	26,019	23,388	2,708	62,240
20<25%	3,333	8,702	6,797	1,049	19,880
25<30%	2,835	5,435	4,398	1,279	13,947
30<35%	2,371	2,891	3,298	789	9,349
35<40%	2,590	1,662	2,159	299	6,710
40%plus	7,349	6,967	6,577	1,698	22,591
Total	28,603	51,676	46,617	7,822	134,717

Note: Figures are estimated using the UKHLS

3.13 It is worth reiterating that the UKHLS survey was not designed to provide estimates disaggregated to the level pursued in this analysis (region, age band, tenure, affordability level). Despite using sampling weights, some estimation errors are therefore inevitable. For example, there are around 4.7M households privately renting in the UK, but the modelling predicts 4.25M. When the propensities are applied to Northern Ireland population estimates, we arrive at 134,717 households privately renting (compared to an expected total of around 140,000). Thus, the modelling has produced slight under-estimates compared to prior expectations.

3.14 With this caveat in mind, Table 3.6 suggests that more than 52,000 households are living in the private rented sector in Northern Ireland and paying 25% or more of their household income on rent. In other words, 39% of private renter households would benefit from an intermediate rent product that lowered rents below 25% of household income. In addition, there are more than 22,000 (22,591) privately renting households who pay 40% or more of their household income on rent (this is equivalent to 16.8% of all privately renting households). For these households, the current rent levels, as a proportion of income would be regarded as severely unaffordable.

3.15 As a robustness check, the analysis above was repeated after omitting London from the UK analysis, recomputing propensities for individuals to be heads of households in the private rental sector, and those propensities re-applied to the Northern Ireland cases. When carried out in this way, the number of private renters in Northern Ireland paying 25%+ of household income in rent falls to 50,400, or 37.4% of all private rents. The number paying 40%+ of their income as rent falls to 20,900 or 15.5% of private renters. Therefore, the distortion created by the 'London effect' appears to be modest.

3.16 Table 3.7 sets out an estimate of the number of newly formed households entering the private rental sector for the first time, by age band, for Northern Ireland. The figures were produced by modelling the transition of individuals not living as head of an independent household in a previous wave, to heading a household and

living in the private rented sector in a subsequent wave. This analysis was carried out for the UK, and the resulting propensities applied to Northern Ireland population data. The results show a steady increase in the number of such households during the ten waves studied, with the most recent (2018-2020, or wave ten) suggesting that 2,240 new households formed and entered the private rented sector.

3.17 Table 3.7 highlights a very strong demographic trend. Comparing wave ten to wave two, the number of newly-formed privately renting households increased by 27% overall. However, breaking down by age band yields a very different picture. The number aged 16-25 increased by 72% and the number aged 65 plus increased by 88%. By contrast, the numbers in age bands 26-39 and 40-64 changed very modestly over the time period.

Table 3.7 Estimated annual new households in the PRS (Northern Ireland)

WAVE	APPROXIMATE TIME PERIOD COVERED	16-25	26-39	40-64	65PLUS	TOTAL
1	2010	84	183	393	120	780
2	2011	200	354	898	317	1,769
3	2012	206	325	904	353	1,788
4	2013	215	303	883	362	1,763
5	2014	206	283	850	380	1,719
6	2015	241	295	871	443	1,850
7	2016	276	297	909	474	1,956
8	2017	291	306	930	510	2,037
9	2018	313	298	933	539	2,083
10	2019	344	328	971	597	2,240
% change 2011-2019		+72%	-7%	+8%	+88%	+27%

3.18 As a final check on the UKHLS results, an analysis was carried out on the Family Resources Survey (2019). Using the 2,017 cases for Northern Ireland in that year, the number of privately renting households was estimated, together with the number paying 25% or more of household income on rent. After applying the grossing factor, the predicted number of privately renting households is similar to that obtained using the UKHLS analysis

(132,949 compared to 134,717 for the latter). However, the FRS predicts a small number of households paying more than 25% of income by way of rent (39,972 or 31% of households compared to 52,000 or 37.4% using the UKHLS). We then simulated the impact of a range of discounts on current rent (10% through 40%). The results are shown in Table 3.8.

Table 3.8 Predicted households in unaffordable private rental

NUMBER OF HOUSEHOLDS	BASE CASE	ASSUMING RENT IS 10% LOWER	ASSUMING RENT IS 20% LOWER	ASSUMING RENT IS 30% LOWER	ASSUMING RENT IS 40% LOWER
Households renting privately	132,949				
Number whose rent >= 25% of household income	39,972	29,991	24,167	18,653	12,940
Percentage of privately renting households	31%	23%	18%	14%	10%

Note: Based on analysis of the Family Resources Survey (2019)

3.19 The results suggest that a modest reduction in rent (10%) has a significant impact on rental affordability, pushing around 10,000 of the nearly 40,000 tenants back below the 25% affordability line. Further discounts to market rent continue to reduce the number in rental affordability stress, but the impacts are less pronounced. This triangulates with the results of the UKHLS analysis and suggests that there is a sizeable cohort of private rental tenants whose affordability problems are particularly acute.

Summary of the modelling results and associated predictions

3.20 The modelling in this section has drawn on three distinct datasets in order to ensure robust findings, through a triangulation of results. The modelling suggests that there are around 133,000 – 135,000 households privately renting in Northern Ireland. These numbers are

lower than expected (there are around 140,000 in more recent estimates). The divergence is partly a function of lags in the data (the UKHLS most recent wave covers 2018-2020, and the FRS relates to 2019). However, some inaccuracy is also inevitable given that neither the UKHLS nor the FRS were designed to be fully representative at regional level in the UK.

3.21 We estimate that, in 2019, there were as many as 52,000 households paying 25% or more of their income in rent in the PRS (approximately 37% of privately renting households). This number drops to 50,400 if we ignore the impact of the London effect, which causes some distortion to the analysis. However, the FRS analysis reveals a number around 40,000, which suggests either that the position has deteriorated between 2019 and 2020, or that the small sample sizes being used in the analysis are associated with a significant error.

3.22 To summarise, the analysis in this chapter shows that:

- Between 40,000 and 52,000 existing households stand to benefit from an intermediate rent product.
- 50,400 households are currently paying 25% or more of their income as rent.
- 20,000 of these households are expending 40% or more of their income on rent.
- Modelling indicates that 800-900 new households are likely to be added to this figure each year.
- Discounts on market rents would need to be in the region of 30-40% to bring those households within the 25% income on rent/housing costs bracket.

Chapter 4: A New Model: Design, Governance and Finance

Background

4.1 The project team were asked to build on existing DfC work on the options for the intermediate rent (IR) model, to come to a view about the basic principles of that model, and to sense-check this through interviews with sector leaders from across Northern Ireland. This section deals with the task on the principles of IR model design and funding. The sense-checking interviews follow after this section (Chapter Five).

4.2 The current chapter's structure is as follows:

- First, establish the principles handed down from DfC that set the parameters for the IR product. Appendix 3 summarises relevant aspects of earlier research on affordable or intermediate rent carried out for the Department and summarises our own review of the options considered in the earlier DfC work and its implications for the model
- Second, set out the principles and criteria that guide our thinking for the IR model's characteristics
- Third, draw out the key findings that inform our thinking from interviews we have conducted to fact-check and explore fundamental issues with

product design (and done prior to the overall sense-checking interviews)

- Finally, report our conclusion setting out our thinking about what the IR product might look like and its key features and their implications.

DfC Requirements Shaping the Design Parameters

4.3 Throughout our work we have been guided by a series of core issues and expectations that set several of the key parameters for the prospective IR model. What are these parameters and what are their implications for the design of the product?

4.4 The main factors are:

- Grant-funding is to be steered wholly towards social housing and that therefore the IR product should avoid grant-funding. However, it would remain desirable to construct a model that primarily made use of novel sources of finance including Financial Transactions Capital (FTC) as a form of contributory low cost/subsidised loan from Government. FTC must be directed towards private sector entities.
- Consistent with the patterns of rent differences found between housing association social rents and market

rents, consideration should be given to where initial rents are pitched so as to be affordable and, thereafter, how they are annually updated. We consider what this means in practice below.

- While the principles of the model would seek to exclude grant-funding, they would not prevent site-specific ‘flexibilities’ that would reduce development costs i.e., public land supplied at below market rate or as an in-kind contribution, affordable housing planning agreements with the relevant Local Government District (LGD) and cross subsidy surplus or reserves passed on from the parent of a subsidiary within a group structure. While helpful, these opportunities are by definition ad hoc and do not change the need to make the model work on its own terms and without additional subsidy.
- It is anticipated that new supply may be achieved primarily through specific new development or ‘off-the-shelf’ purchase of units. Whilst these could be standalone developments, IR may also form a part of larger mixed tenure schemes. Refurbishment of existing empty properties or the conversion of existing suitable properties may also add modestly to the supply of IR.
- The expectation is that the model would be provided by a private or social enterprise organisation with housing delivery experience, (and cannot be public sector if FTC is used as the primary funding mechanism). Other possible models that would meet the FTC requirements and fit the scope of

the IR model include charitable trusts.

- The product would generate private market tenancies but these would have longer than standard tenancy lengths, perhaps 3-5 years (with an expectation that the scheme operator will work with tenants to mitigate and address issues which may otherwise result in eviction – such as arrears, antisocial behaviour and so on). We discuss the case for a longer private tenancy below. What is clear however (and turns out to be critical) is that this would not be a social tenancy.
- 4.5 What are the implications of these expectations? First, in general, model choice is both shaped by the expectations set out above but also by the size of the potential affordable demand niche and where it is located. There will be a minimum threshold required for even one provider of IR and beyond that geographical considerations may suggest multiple providers. Clearly, however, there are non-trivial transactions costs to set up, administer and monitor a larger number of small loans to different providers (and the implied smaller scale may be less attractive to private finance and less likely to achieve the desired economies that create the cheaper overall financing that makes the sub-market rent possible). We discuss these trade-offs below and in the next section.
- 4.6 Second, the minimum scale will be shaped by underlying financing realities and the interplay between

FTC and private finance. Assuming that the provider is funded to develop/purchase new and second-hand units for IR (see 4.4. above), private long term debt finance will require minimum scale, a good covenant in terms of the financial strength, and track record and reputation of the provider of the homes or their parent organisation (in the case of group structures). What the minimum scale looks like will be an important question for the subsequent sense-checking interviews in Chapter Five.

4.7 Third, the model has to work within the rules and scope created by using Government loan subsidy such as FTC. FTC is a mechanism used by HM Treasury to contribute to the funding of the devolved nations. It is a well-established tool but one that comes with constraints. The money is used primarily as Barnett Consequentials tied to examples like Help to Buy funding in England. FTC must be used as support for private sector interventions (and hence State Aid rules can be triggered) and it has been much used across the devolved nations for private sector housing interventions, but also to support property development by major charities (e.g., the University of Ulster) and to provide resources for a major national investment bank in Scotland.

4.8 FTC also creates incentives. These are effectively long-term soft loans from HM Treasury with a discount on the repayment (part of which can be shared

by the Department of Finance and the policy operating Department). The FTC money for some capital projects tends to be long term, often 20-30 years in duration, but of course locally it can be on-lent and repaid sooner. Indeed, devolved governments can ask permission to recycle the FTC (though this would not apply to the long-term funding of 20 years or more likely to be required for IR). At the same time, governments such as in Northern Ireland have been able to pledge multi-year funding using FTC resources, although recently, in the context of the public finance uncertainties posed by COVID-19, there have been significant cuts in FTC from HM Treasury (for example, by 2/3 in the current draft Scottish budget published in February 2021). We recognise also that COVID-19 specifically has increased housing need through loss of income and work, illness, relationship breakdown and homelessness. These factors all increase affordable housing need across a wide range of households and strengthen the underlying case for a wider portfolio of affordable renting, including intermediate rent.

4.9 Fourth, the initial level of intermediate rents and their uprating thereafter will have to be consistent with broader affordability principles. They will also practically need to sit within the observed levels of rent paid by the market and housing association tenants for comparable properties in specific locations. They will also, fundamentally,

need to work within the constraints of the funding package assembled.

- 4.10 Fifth, the necessary private tenancy and desire for a longer than standard length of tenancy needs to be examined, though it would appear to be a minor technical issue only to set a tenancy length as standard for IR at for example, three to five years. A related issue is IR regulation. We discuss this further below, but regulation is important for social housing in terms of good governance, financial risk management, comfort to private lenders and commercial third parties and, potentially, for quality of service provision and protection of tenants and the public interest. We assume that these IR bodies are private and therefore regulated as part of the private rented sector,

though if they are in the form of subsidiaries, the social housing regulator would have an interest in their implications for the finances, governance and service performance of the parent in the group structure.

Guiding Principles and Criteria

- 4.11 Drawing these initial stages together, what are our guiding principles and what criteria would we establish to test potential models against? We set these out in Table 4.1 below. The 11 criteria incorporate the requirements set out initially by the DfC, general aims of good public policy, deliverability and credibility, addressing governance and regulatory questions, state aid and public procurement implications.

Table 4.1 Principles and criteria

GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
Not a public grant funding model	This is the starting point for IR.
GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
Governance implication of Government loans	Government loans, such as FTC, can be readily translated into long-term low-cost loans to provider(s); funding must go to a private sector entity.
GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
Governance and structure implication of long-term private finance	Long term debt finance needs scale, strong covenant, a track record, clear demand and good management i.e., it is about the specific provider(s) characteristics as much as the product. This has implications for incremental rollout and evaluation, and the wider choice between the number of providers envisaged and the choice between multiple projects and providers and a single supplier operating to scale.
GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
Affordable rent rent-setting and uprating rules	In Scotland, MMR models have set rents using Local Housing Allowance levels, typically between the 30th and 50th percentile of private market rents in a given Broad Rental Market Area. Rents are increased annually in line with either CPI plus a given percentage, or by seeking to converge the rent level towards the median (i.e., 50th percentile) of the BRMA.
GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
Regulatory principles	Private tenancies and market subsidiary hence standard PRS regulation, plus social housing regulator if part of a group structure (indirect) and, if a charity through relevant charity regulator.
GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
Application principles	Not a waiting list/allocations process but tends to be first come first serve if eligibility criteria are met, utilising a combination of factors drawn from Income ceilings (most examples) and affordability ratio thresholds (Scottish MMR later models). Some Scottish models have gone further, nearer to social allocation (local connection, on social waiting list, facing high PRS rents and insecurity; referrals from homelessness services).
GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
Necessity of 'flexibilities' for product viability	Key point – these should be extras to a simple core framework for the product that can work where there is such demand for it, without the 'extras' – although these would of course be welcome.

GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
Market credibility to provider and market actors (and evidence of delivery to scale)	Has to be acceptance that the model will work, that there is demand and there is a simple framework for delivery to a reasonable scale – basing it on an existing model that demonstrably works makes sense. Potential to assist in viability for sites, particularly in locations where Local Development Plans adopt a requirement for a percentage of affordable housing to be delivered in new developments over a certain number of units.
GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
State Aid and Public Procurement	Post-Brexit in Northern Ireland would TCA/State Aid tests apply or not? Preliminary evidence and discussions suggest that the not all tests would stand and hence the issue would not apply – but this will need to be formally confirmed. Similarly, would public procurement rules apply (they do in GB and we anticipate they would in Northern Ireland)?
GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
Affordability to Government	FTC good VFM for Northern Ireland government and counterfactual of reducing numbers in housing stress and reducing demand on traditional PRS and minimal impact on HB expenditure
GENERAL PRINCIPLE OR CRITERION	APPLICATION TO IR IN NORTHERN IRELAND
Wider social value or net benefit	Meets unmet housing need; if built at scale can have wider benefits & potential placemaking role

Key Findings and Implications from Wider Fact-Checking Discussions

4.12 We have discussed these principles and criteria with nine representatives or organisations in both Northern Ireland and Scotland. These short meetings were fact-checking exercises with people who have direct experience of working in the Northern Ireland housing context, and/or developing and operating intermediate products and regulating them. This allowed us to clarify certain points and, in so doing, added considerably to our

understanding. We took short notes from each meeting and all took place under the umbrella ethics approval CaCHE for research projects emanating from the University of Glasgow. We thank everyone who contributed. The key points are summarised below and set out in more detail in Appendix 4:

- The combination of FTC and private finance can generate a viable intermediate product.
- A single provider may well be required because of because of scale, efficiencies

and private finance; only the largest associations would have the capacity. Lenders want to see a good covenant, high quality management and a track record (and that might be the group structure parent or a standalone provider of a long-term intermediate rent fund, as with Places for People).

- Regulation would be through private renting channels as well as charitable regulation and conceivably social regulation interest in the impact of a subsidiary on a group structure.
- LDP affordable housing agreements may be a way to access land subsidy and also promote mixed tenure development.
- While public procurement would apply, it was thought that State Aid within the EU-UK Trade and Cooperation Agreement provisions would not apply but this will need to be formally tested.

Principles of a possible IR Model for Northern Ireland

4.13 Where does this process leave us in terms of developing a feasible model that sits well with the principles and criteria established by the team and set out above? Throughout this process we have been looking to see what is being already done which would meet the necessary criteria for viability set out in Table 4.1 above. Evidence of a working model suggests that the model can work, it can be funded and can work to scale delivering sub-market rents on (longer) private rental tenancies. This is an important hurdle, albeit one where we need to recognise

that local institutional and contextual differences may matter (particularly so when we look outside of the UK).

- 4.14 Second, we stress the need for a simple core framework, upon which other flexibilities to ensure viability could be added. This core model must therefore stand financially on just public and private loans through FTC and long-term debt financing from the commercial sector (and the Scottish evidence is compelling that finding a partner with a long-term perspective such as a pension fund providing debt finance – is an advantage). Additional subsidy flexibilities should be viewed as a bonus rather than a necessary element.
- 4.15 Provisionally, it appears that State Aid issues are unlikely to be an encumbrance and, alongside that element, working with transparent public procurement rules would be also important when public subsidy (FTC) is being provided to private sector economic actors. The evidence from Scotland suggests that public procurement rules would apply (even with the charitable model). In passing, it is worth saying that these points may also allay concerns about social mission and creating different classes of tenant.
- 4.16 It is proposed that IR will contribute to meeting housing need through provision at sub-market rents. How tenancies are offered also matters to this question – the use of income ceilings and evidence of inability to access other tenures may suffice

even though as a rental market offer, the properties will be offered to the first person who applies and meets the criteria. Evidence that the intermediate rent provider is also actively engaged in wider activities in their community and placemaking would also support the long-term additionality of this model of provision.

4.17 We have seen that creating confidence in private finance requires minimum scale and also a capacity to let properties quickly and have a clear plan to scale up. This suggests an element of buying off the shelf until IR new build and for example refurbished units can come on stream (this may take a year to two years). On balance, the arguments (simplicity, activity scale, lender appetite, etc.) seem to indicate a single provider and of course Northern Ireland already has experience with a dominant single provider for low-cost home ownership provision. The core model could be either a standalone charity (as with the LAR housing trust model) or a housing association subsidiary. The parent would require a strong track record and good leadership. We also note the advantages conferred by the PfP fund model which can work potentially across different locations, setting and solutions (stand alone, part of a mixed tenure development, new build and off the shelf, greenfield or brownfield site).

4.18 IR would offer good value for money to government and the taxpayer (if there is an identifiable affordable demand

niche that is likely to last) and would protect grant in aid resources for social housing but make a wider systemic contribution to meeting housing stress in the Northern Ireland housing sector more widely. The IR product should not result in a significant increase in costs to housing-related benefits (e.g., the housing element of Universal Credit). If the LAR model was followed, tenants would be a balance of working households and the retired, as well, potentially, as homelessness nominations – HB spending might be higher for the latter group but not for the others who might see marginal savings if they qualified for Local Housing Allowance (LHA) but now faced lower rents than the market level.

4.19 Rent-setting we believe needs further work for a Northern Ireland intermediate rent product. As indicated in Chapter Two, we think that while the extensive use of LHA rates may have operated well enough in Scotland, there are several problems with its application in Northern Ireland that suggests another approach is required. The first problem is geography – there is a significant mismatch in terms of the spatial framework for Broad Rental Market Areas (BRMAs), local authorities and functional housing markets. Second, conceptually there is a problem in that BRMAs are developed on a Central Place Theory framework and therefore reflect access to services rather than functional housing geographies. Third, the data that NIHE uses for the

calculation of LHA is not PropertyPal – rather it uses a combination of sources and a methodology which is not in the public domain and where comparative analysis has indicated does not provide a realistic reflection of the overall PRS. Indeed, many landlords complain that the LHAs are far too low. Fourth, Tables 2.5 and 2.6 indicate that in some cases LHA is below average housing association rent levels – and in all cases are much closer to HA rents rather than PRS ones – which may call the whole issue of viability and purpose into question.

4.20 We propose a more pragmatic approach, and do so in the knowledge that the plan would be to set the rent setting mechanism alongside income caps and affordability thresholds (i.e., an income ceiling, one lower than in Scotland) and evidence that the current gross rent to disposable income ratio for the applicant exceeds 25%.

We propose setting the rent so that it falls within a range of 67% to 85% of the going local market rent for the same size of property, with the ratio being as low as required to meet the 25% rent to income threshold. As an illustration, Chapter Two, we used the mid-point between HA and market rents. We return to the rent level and uprating issue in the final chapter.

4.21 The balance of argument suggests going forward with either the PfP fund Mid-Market Rent (MMR) model or the LAR Housing trust MMR model either as a standalone charity model or as a subsidiary to an existing housing association (who may or may not already be a charity but could consider a charitable trust model as opposed to a commercial subsidiary, which could also work). This approach allow us to develop sense-checking questions for the elite interviews, supported by the quantitative side of the research.

Chapter 5: Sense-checking Interviews

5.1 As an initial check of the sense of the proposals that were emerging, we discussed the principles of an intermediate rent product for Northern Ireland with a cross-section of eleven leading representatives of housing policy and practice. This included trade bodies, government, the Northern Ireland Housing Executive, planning, private finance, housing associations and their subsidiaries. The responses are organised around four key themes:

- Is there a place in Northern Ireland' housing provision for an intermediate or affordable rent model?
- Where are the likely geographical 'hot spots' where such a product might operate?
- What are the key barriers and opportunities that arise thinking about the core elements of such a product?
- What other important dimensions ought to be given due consideration?

Themes

1. Is there a place in Northern Ireland for some form of affordable or intermediate rent?

5.2 The planning stakeholder argued that historically, Northern Ireland has been characterised by the main tenures and then also Low-Cost Home-Ownership (LCHO) only. This proposed innovation would help promote and deliver mixed tenure, consistent with proposed new planning policy around Local Development Plans seeking to deliver affordable housing, including intermediate products. This would also fit with the potential

injection of Build to Rent schemes in Northern Ireland, which in other cities have tended to follow the building of city-centre student housing.

5.3 The PRS stakeholder recognised the in-principle case for widening and deepening secure and quality housing, but wondered who would qualify for it, where the demand is and that it might be a small niche it serves across the rental sector as a whole. A third

sector representative argued that the objective of intermediate rent had to be very clear, as would how it is targeted and to ensure that it does not disadvantage social housing or those in higher levels of need.

- 5.4 A cross-industry representative argued that an intermediate rent product could play an important affordability role, help deliver more mixed tenure (a goal of the NI strategic planning policy statement) and also address public antipathy to social housing. They concluded that ‘yes, there is definitely a market for it’.
- 5.5 One provider argued that there is a market for the product, but care needs to be taken with rent-setting, aligning with rents in local markets and not leading to market distortions. Another provider argued that emerging development plans are increasingly mixed tenure in character and there is increasing sector awareness and comfort with Financial Transactions Capital – i.e., there is at the same time a market niche, a planning opportunity and growing provider experience with the type of funding that would be used.
- 5.6 An economist working in the banking sector said that intermediate rent is an innovation worth exploring, one that can make a contribution to helping

with affordability and one that can lever private finance into the system through the judicious use of FTC. The stakeholder also argued that it could be possible and desirable to link the programme to the social mission or social value of lending by the private sector, similar to experience in NI of pension funds contributing investment to public policy goals, including green finance examples. A representative of the banking sector argued that it could play an important role in mixed tenure development and hence placemaking,

- 5.7 The representatives for the Housing Executive thought that there was a place for this product in Northern Ireland and that the timing was good currently, given unmet need, affordability problems particularly in terms of stagnant incomes (a point also made by the economist above). This was reinforced by the government stakeholder who argued that social housing programmes will not meet all of the identified housing need and would not address all of the changing affordability issues emerging from a dynamic housing system where specific groups suffered from market failures. Providing a mid-point rental solution will provide extra choice and help address these more underserved groups.

2. Our evidence suggests there is potential demand for intermediate renting that would operate with rents that lie between the housing association rents and private rented sector rents typical of particular housing market areas within NI. The in-demand locations for this new product are likely to be the Greater Belfast Area (including Lisburn and Castlereagh), Derry/Londonderry and Ards and North Down initially. Does this sound reasonable to you and what is your immediate reaction to such evidence?

- 5.8 There was a strong sense that locations within Greater Belfast would be promising candidates for such a product, although even so, there would be local areas of Belfast where it would not be viable (even with grant). Much of the focus was on South Belfast and Lisburn. It was recognised that there may be a cohort of people struggling to afford market rental housing in Belfast (PRS stakeholder). Two stakeholders argued that pilots could be done in parts of Belfast where there is a strong sense of a ‘squeezed middle’ to help build an evidence base and also draw lessons from tailoring interventions to the specific housing market conditions of the locale.
- 5.9 A provider concluded that the proposed priorities based on our evidence of significant differentials between housing association and market rents ‘instinctively sounds right’. However, other contributors remarked with surprise about the gap found in Derry/Londonderry (e.g., given the inclusion in that area of Strabane), while others were comfortable with its inclusion. Similarly, the inclusion of Ards and North Down was supported by some and questioned by others.
- 5.10 While recognising the importance of the core areas we identified, two of the stakeholders raised the importance of longstanding attachments to rural housing and commutable market towns, in relation to understanding individuals’ housing choices and aspirations. There were also specific examples of housing pressures in areas such as Dungannon, Newry and Omagh. However, the majority of respondents focused on larger urban settings.
- 5.11 One provider operating in the rental market did give specific evidence supporting the rent differentials found in the rent analysis (and evidence of affordability problems based on applicants struggling with affordability checks) for both Greater Belfast and for Ards and North Down.

3. After studying similar products that have worked, we think a model based on long term financial transactions capital lending (and private loans) could work, and would have the following features:

- a private tenancy with submarket rents and longer standard tenancies
- the provider(s) could be the subsidiary of a successful HA or group structure
- these subsidiary(ies) would likely come under non-profit charitable governance as well as private renting regulations
- additional flexibilities in the form of land supplied at below market rate or as an in-kind contribution, cross subsidy or local planning agreements for affordable housing could also be included but would not be necessary conditions
- would be tenants would apply for available properties but would have to demonstrate their income is below a ceiling or cap, meet an affordability threshold, and that they are unlikely to be housed through social alternatives
- the intermediate rent product would not be a stepping stone directly to home ownership
- the subsidiary(ies) could also engage in placemaking and wider community activities consistent with long term operations and quickly seeking scale of operations
- we believe the model should not face remove state aid rules concerns for the provider.

5.12 We asked what respondents thought of this outline model and asked what might be missing and what might be a major stumbling block.

5.13 A first thing to say is that only one respondent raised regulation as a problem in the context of worrying about comparatively weak regulation in the private rental market. Respondents did not raise group structures operating subsidiaries or charities/subsidiaries operating in the private rented sector. The PRS stakeholder argued that regulation and compliance in Northern Ireland works relatively well and, by extension that this policy development may help, through competition, to improve compliance and standards.

5.14 Several respondents discussed the 'flexibilities' of public land being supplied at below market rate or as

an in-kind contribution, benefitting from affordable planning obligations or cross subsidy flowing from the parent in a group structure. The planning stakeholder noted that there was potential for public land that could play a role in Belfast, as well as planning gain opportunities more widely. This raises wider issues about the granular viability of the product, and whether public land could be repaid over time rather than with an upfront cash payment. It was also stressed by one respondent that we should not expect the cross-subsidy cash to flow from social to private operations but in the other direction. There was concern expressed that intermediate rent might displace social renting within affordable housing agreements on LDPs, as part of a wider set of questions raised by a third sector stakeholder who was concerned about intermediate rent being developed at the expense of social housing and households in greater need.

5.15 Stakeholders also raised more fundamental questions about the suitability of this sort of product for housing associations to be involved in delivering. Whilst under the current legislative framework, housing associations could not directly offer to provide a PRS product of the type envisaged in intermediate rent, it would be possible to deliver this via a subsidiary (e.g., as part of a housing association group structure), or separate charitable organisation, There are examples of housing associations

in Northern Ireland already doing this. The IR model is not for everyone and association boards are entitled to not pursue such an opportunity, for example because they see it as outside of their social mission. Others will wish to explore it because they perceive it as part of that mission. A further group of providers may be ok with the notion of intermediate rent but require it to clearly address a real problem, be additional and not to displace social housing. Communicating the policy, identifying the upside for housing association participation and its impacts on communities, etc. will be an important part of the policy process. Interestingly, the representative from the private landlords was less worried about potential competition from the new model because it could help drive up standards and the 'offer' to tenants.

5.16 A banking representative raised doubts about the efficiency of housing associations to deliver the product and argued strongly for a single provider on the basis that only a single efficient provider with scale economies could tackle the three 'C's of 'cost, complexity and critical mass'. This is about keeping costs to a minimum to aid viability, squeezing out overhead costs through scale and helping to make the product as simple and as transparent as possible for applicants and private finance alike.

5.17 The principle of a longer than standard length of tenancy was generally welcomed (including by the private

renting spokesperson, provided standard flexibilities for tenants to move or grounds for landlords to regain possession continued) but for several respondents the issue of no-fault evictions remained a challenge. A respondent from the third sector argued for five year tenancies as a key part of making this attractive to tenants, and a key way to make the product distinctive (provided this did not happen at the expense of social housing and those in such need). Another respondent noted that while four to five year tenancies are in principle good for tenants, they need to be able to trust their provider. That said, one provider argued that there may be an eligibility issue across the tenancy if income or circumstances change. They argued that there could be an annual check on income relative to the ceiling. We return to this key (continuing eligibility and subsequent checking) issue in the last section below and in the final chapter.

5.18 A key point of debate was the applications procedure. There was general support that this should be clearly distinguished, indeed completely disconnected from the social housing allocations system. It was clear from the range of respondents' views that the process for offering intermediate rent properties to prospective tenants has to be very clear to all. Most interviewees proposed a first come first serve approach around a simple set of eligibility criteria, including an income ceiling. This might also

include an affordability threshold and be marketed to people in work but struggling with affordability (though others may also be included such as older, retired households). One respondent argued that there should be an affordability test similar to those applying for a home loan, which is more about provider risk than high rents. One respondent proposed Local Government District-level interviews after initial expression of interest (but this might be bureaucratic and seems a distance from the principles of the market sector's applications process). It was also pointed out that the income caps in Northern Ireland would need to be carefully considered, probably set at a Northern Ireland level but would need to be lower than those operating in Scotland. We return to these critical issues in the final chapter.

5.19 There was considerable interest in the opportunity IR provides to help develop effective mixed tenure developments. Linked to this was the notion that this could also contribute to stronger design principles and better urban master-planning. This was viewed as an important possible positive spillover effect from the policy. This also suggested that partnership – with developers, Local Government Districts and lenders/investors – was also critical. This was just one of the reasons why many of the stakeholders proposed piloting of the model to learn lessons. One respondent noted the tension between social and intermediate renting in terms

of securing planning gain and where the de facto subsidy goes – raising the question of how the policy can be made attractive to secure local buy-in (another argument for an incremental approach to implementation and clear evaluation criteria in terms of the aims of the product).

5.20 It is clear that several of the stakeholders were concerned about the choices surrounding how the product would be rolled out. Should it be piloted and how? The majority clearly thought it should be piloted and then evaluated, but this is closely linked to how the model would then be ramped up to the desired scale of operations. One stakeholder suggested holding a couple of pilots, e.g., one as a standalone development and one as a mixed tenure offering. Alongside this could be a well marketed plan to hold a competition for a single provider mode of longer-term provision (and this might roll up the pilots into the financing of the bigger model). There was a concern about running the FTC model to a large number of different providers and several stakeholders supported the case for a single provider, but it was not unanimously supported. There was also a question about whether a subsidiary would have the focus to deliver a programme at scale, compared to a bespoke IR provider.

5.21 One provider respondent raised several important practical delivery questions that a policy based on a parent-subsidiary model would need to answer:

- Clarity over the specification and design standards of the buildings.
- Will the properties be furnished or turnkey?
- Will the management be outsourced or does existing HA management have the capacity and expertise?
- Can the profits be gift-aided back to the HA parent?
- Is the FTC funding going to be ring-fenced?
- Is there going to be an eligibility requirement that earned income pays for a minimum share of the rent (and not HB/UC) i.e., 50%?
- Will the product be limited to houses or to apartments as well?
- Will it be targeted at key workers?

5.22 The questions are of course all important but beg wider questions about a hierarchy of prior model choices which have ramifications for these sort of delivery questions. We return to these issues in the final chapter of the report.

5.23 One respondent made the important point that there is a macroeconomic reason to support these sorts of schemes – using FTC to assist economic recovery through more building and property investment (and this was the rationale of the original mid-market rent model in Scotland – the

National Housing Trust - piloted by the Scottish Futures Trust). However, as one stakeholder made clear, it is obviously essential and a necessary condition, that the model is viable, i.e., an FTC/private finance investment can generate a product that sits below market rent in certain areas (without land subsidy). Rents levels

and how they are updated are a key consideration. A provider argued that the rents should not be too far below the market level, since the tenant is paying for quality, security, a longer tenancy and a good landlord. Two interviewees cautioned against slavishly copying models from elsewhere without customising to local circumstances and institutions, and market context.

4. What wider implications and ramifications would you highlight?

5.24 Finally, we asked stakeholders if they had any other points they wanted to make, and these were largely in the form of conclusions to the discussion (some of their more substantive points have been included in the above subsection). They made statements such as: keep it simple and don't over-complicate the product; make it a long-term commitment; new build may be easier and less distorting as a form of investment as compared to operating in the currently volatile second hand market; make sure the product is suitable for Northern Ireland's idiosyncratic features; keep IR as distinct from and additional to social housing investment and the meeting of housing need, as possible; and, don't use IR as a blunt instrument, but rather have the scope to apply it in different ways in different local markets. A

recurring theme was that there is considerable devil in the details and trade-offs to recognise and manage.

Key messages

5.25 We note that:

- Stakeholders in general supported in principle, but it is not going to be for everyone and there are many issues of detail and choice to iron out.
- The proposed geography seems right especially for Greater Belfast but perhaps for all four areas identified (noting that there were some minority interests in other locations)
- 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.

- Clearly, project viability is essential, and this must translate the success made of programmes in Scotland (relying just on FTC and private finance) to a Northern Irish and local context.
 - There is considerable support for piloting the IR model and questions necessarily follow from that – how will the pilots be funded (i.e., will they be drawn down from a wider programme); will they be explicitly mixed tenure; and how will they relate to the bigger proposed programme to follow?
 - There is strong support regarding longer tenancy length but there was an important query over the no-fault evictions operating in the standard PRS. Assuming that a provider is charged to provide this as a form of meeting housing need, we assume that this would not arise and evictions would be only on the basis of standard reasons (rent arrears, anti-social behaviour and the like).
 - There was much concern about clarity over the applications systems and size of the income cap for Northern Ireland (and presumably the affordability ratio threshold, if that were to be used, too). There was a clear signal that this should be demonstrably detached from social housing allocations and on a first come first serve basis (with the income ceiling eligibility).
 - Respondents wanted to clarify that there would be clear water between the additionality of the new scheme and zero displacement of the social housing scheme, recognising, for instance that Local Development Plans appear to often include intermediate or affordable renting in their definition of affordable housing.
- 5.26 The sense-check interviews raised a number of important points for the design choices around the model. These will be discussed in the final chapter but involve:
- The scope for housing association subsidiaries providing the intermediate rent model, given their wider social mission and the desire to keep this completely separate from and not displacing social housing.
 - How would properties be offered to eligible potential tenants, what would eligibility consist of and would that eligibility be regularly checked or only at the formal end of lease?
 - What is the balance between a well-organised incremental roll-out and moving to a significant level of scale of operations?
 - How would rents be set and updated?
 - How will a number of practical delivery issues be addressed?
-

Chapter 6: Conclusions

Conclusions

- 6.1 The empirical part of this project assembled data (Chapter Two) on rents in the private rented sector (PRS) and housing association sector across Northern Ireland and by property size, indicating where market rents were considerably higher than for housing association tenancies. These are the prima facie locations for an intermediate rent product. Chapter Three undertook a range of modelling tasks that indicated that a considerable number of private tenants are struggling to pay their rents (more than 50,000 are paying in excess of 25% of their disposable income; of these some 20,000 are paying more than 40%). An FTC funded product could help meet affordable need for this cohort and do it without displacing social renting investment.
- 6.2 We drew on earlier work for this workstream, both external and internal, and took guidance on the parameters of a potential model. This was then fact-checked by practitioners in both Northern Ireland and Scotland (where there are live examples of such FTC funded models), before it was sense-checked through semi-structured interviews with stakeholders.
- 6.3 We reach the following conclusions. There is a potentially viable model for intermediate rent in Northern Ireland that meets the key criteria that we were set. It appears that a model can be developed just using financial transactions capital in terms of subsidy. It would be further strengthened by local flexibilities should they exist on specific proposed sites.
- 6.4 An intermediate rent product should be understood as an additional tool in the armoury of interventions that helps address niche market failures or problems in the housing market. While it would not be on the scale of social housing interventions, it could make a significant difference to those households struggling financially to enable them to consume a higher quality of housing at below market rent and with greater security.
- 6.5 There is interest from the sector regarding taking this product forward. But we recognise that it will not necessarily meet either the requirements of specific housing associations given their social mission, as well as others who would not be able to deliver such a product. However, it is clearly worth exploring mechanisms by which such an intervention could be made.
- 6.6 We are clear that there are a number of questions and options or choices that need to be considered by government and how they take forward the intermediate rent

product. We will cover these in the final part of this chapter where we consider a series of recommended actions potential choices and our own view on how to move forward.

how we conclude the model should proceed, but also poses questions for stakeholders to discuss further in taking the model forwards in practical terms. In this way we seek to set parameters and offer advice to government as to how they might proceed and make the necessary choices that can lead to the implementation of an intermediate rent model. We explore these issues further in the final paragraphs.

Recommended Actions

6.7 We conclude that the Northern Ireland government working with key stakeholders should now go forward to build on the intermediate rent in-principle model suggested in this report. Table 6.1 returns us to the key issues in Table 4.1 and both sets to

Table 6.1 Intermediate rent key issues, proposals and options

ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Public finance	Alternative to grant funding	FTC	FTC could be short term or longer – simple model and private finance suggests long term loan of 20 years or more
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Mix of finance	How might public and private finance combine?	FTC and long-term debt or equity private finance	Equity or debt? 20 plus years term?
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Providers	Who can deliver IR?	Standalone vehicles or HA subsidiaries	Standalone social enterprise or charity or private subsidiary of an association?

ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Regulation of providers of IR	What options given the nature of IR?	PRS, possibly charities and group structure oversight by social regulator	What balance of regulation between private renting rules, charitable rules and group structure - social regulation?
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
How are properties offered to tenants?	Essential features of the mechanism	If criteria met, first come first serve	A private tenancy and needs clear blue water from social allocations
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Eligibility criteria	Tenant thresholds at application	Income cap (£25-30K) and excess rent evidence (gross rent greater than the relevant LHA or 25% of income.	Scope for much discussion about where to land on either element of eligibility – we would argue for simplicity
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Length of standard tenancy	Preference for a tenancy longer than standard – but what should it be?	Support for three to five years; we should make it simple and keep it at five	Recognise there are trade-offs but benefits of stability. Also questions about grounds for repossession (arrears, ASB) and within tenancy continuing eligibility checks (we would not favour this)

ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Setting the rent	Basis for starting rent and how it is thereafter increased	Range between 67-80% of local market rent; uprated by CPI + X% (X = 0-1%); we in principle would tend towards the more challenging lower end of this range	Demand evidence indicates a significant group would benefit from at least a discount of 20% but again there are trade-offs, but we do support a range and flexibility re. local market conditions. Uprate choice can be conservative or more challenging.
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Evidence of demand or unmet need?	Is there a rent gap between HA and PRS rents (where?) and are there PRS tenants with high rent: income ratios?	Evidence found is different areas of NI, especially Greater Belfast; modelling suggests large numbers of private tenants financially stretched	We have identified several indicators of unmet demand for IR and think this is sufficient to proceed, at least to test the model
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Sector acceptability	Extent of likely willingness	Not for everyone but definitely for some	IR will be contentious for some but welcomed by others; communication important as it is a publicly procured competition

ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Flexibilities	Other subsidies	Land or affordable housing agreements – should not be necessary	Is it for providers to seek these out or should government support and/or encourage?
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Affordability/ benefits to government policy	How does this policy provide direct and wider benefits to affordable housing policy	Using up FTC and allows additional investment, little impact on benefit cost and meets unmet need	Additional, placemaking, mixed tenure, reduced unaffordability, emulative effects on traditional PRS, ESG metrics, other wider role activities conceivable – all arguments to use communicating the policy
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Wider benefits offered by IR	What else does IR offer as a policy?	Placemaking, place in mixed tenure, community role	Specific measures can be tied to loan acceptance, ESG conditions and LDP affordable housing agreements
ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
State Aid & Public Procurement	How are these affected?	Don't think it applies but public procurement would	Formally confirm but make good use of public procurement route

ISSUE	DESCRIPTION	OUR PROPOSAL	OPTIONS FOR GOVERNMENT
Model roll-out	Incremental v larger push	Learning useful, mixed tenure but needs to fit financial design	Trade-offs: incremental roll out or quickly to scale; initial purchases could be off the shelf or contribute to mixed tenure projects to build momentum

6.8 We think that working with these basic principles will then require a considerable number of important decisions and choices to be made about the precise form and rollout or implementation of the product. Below, we identify the key issues and propose our own reflections on those choices, but we are clear that these are ultimately a matter for government and stakeholders as to how they are taken forward. We discuss the key elements in Table 6.1, grouped together functionally, in the following paragraphs.

6.9 Regarding finance, flexibilities and subsidy, the key issues with FTC are that it can work (as is shown in Scotland) as a long-term loan (i.e., 20 years or longer) and this longer approach helps with a simple long term private financing arrangement, either equity or debt. FTC also implies funding by government to a private entity and that also supports the private tenancy proposed for intermediate rent. This simple product can be enhanced by subsidy flexibilities such as low-

cost public land or, in the future, through the prospect of LDP planning agreements around affordable housing. While we advise focusing on the plain model, we do recognise that these additional flexibilities may arise and the question for government is whether they would support and or encourage such agreements around mixed tenure developments, which could be by social landlords working with its private subsidiaries, or the sole provider model working in partnership with social landlords. This might be useful if government chose to run some early testing of the model.

6.10 This paragraph groups together the questions of provider types, State Aid, procurement and regulation. We see the intermediate rent model as one operating fundamentally in the private rented sector and funding rules require a private entity. We think there are economies of scale and private finance arguments that would support a single provider (but that is for further discussion with government). The type of provider could, it follows, be a

private subsidiary of a regulated social landlord (such a precedent already exists in Northern Ireland) or could be a sole provider directly operating as a social enterprise or charity. The primary source of regulation will come from the rules operating in the private rented sector but it could also include charity regulation, if that model is used, and, should the provider be a subsidiary, the government should consider allowing group structure parent regulation to include the impact of the subsidiary on the parent. We consider that public procurement sends strong signals and would help the intermediate rent model develop and that has been the case in Scotland. We also note that government will need to formally confirm that State Aid rules do not apply.

6.11 Turning to applications and eligibility, this is an essential set of issues for the model. The model is a private tenancy and properties should be offered on that basis (i.e., first come, first serve) and they should not be in any way a direct alternative to social housing or make any use of the housing list for prioritising applications. The criteria we would use drawing from Scotland is to set an income ceiling and evidence that current gross rent are excessive. For simplicity we would adopt a national (Northern Ireland) income ceiling for one earner households (£25,000) and (two earner households £30,000) and look for evidence that current rent to income ratios, so defined, are in excess of 25% – based on the

empirical evidence in Chapter Three. Alternatively, we think it would also be reasonable to use the relevant Local Housing Allowance to judge whether the current rent was excessive. This would be a choice for Government to consider further. Government may also consider whether a short test of likely housing lists points should confirm that the applicant has no realistic chance of social housing, although determining such a threshold level may be relatively complex in practice.

6.12 We think that standard tenancies, again for simplicity, should be five years (we recognise that government may wish to consider the options for a shorter standard). On reflection we do not support within tenancy eligibility re-checks, which goes against the spirit of the offered tenancy and seems out of place with how we operate in the rest of the housing system. This is a matter for landlords and tenant at the end of the standard tenancy. That is our advice – government may want to consider other options, but we do not think there should be automatic renewal – it is what the two parties want that matters.

6.13 On rent-setting, we favour a range of rents sitting between 80% and as low 67% of market rents. This will only apply in areas where sufficient market gaps in HA and PRS rents exist (see Chapter Two) and will have a lower rent ceiling where demand is greatest. The 80% ceiling reflects the evidence of the volume of private tenants who would stand to benefit

in affordability terms if rents were 80% or less than current rents (see Chapter Three). Of course, these will have to meet any financial viability test for any given development. Rents should then be uprated by a simple formula consistent across Northern Ireland which allows rents to rise annually by CPI plus a small additional percentage. We would suggest making that additional element close to zero – this works perfectly well for the Places for People fund and we think it is another affordability protection and discipline on providers. Providers should also be entitled to raise rents by less than the uprating formula.

6.14 Evidence of demand, policy benefits and sector acceptability. We have indicated that there is a demand for this niche of affordable housing that can be generated without grant subsidy. This will not be for all potential providers and we should expect elements of the housing association sector to oppose on social mission and dilution grounds. However, this serves to stress the importance of communicating what the model will achieve (i.e., meeting unmet need, additionality and not displacing funding or tenants for social housing) and can potentially achieve (placemaking, support mixed tenure, wider local social activities). This will allow government to allocate FTC for private entities which help develop a better working housing system as a whole and make a material difference to unaffordability. Anecdotal Scottish evidence suggests that

intermediate products positively change management within subsidiaries of housing associations and also challenge the PRS to perform better.

6.15 A final question for government concerns the best way to roll-out and deliver the Intermediate Rent model. Our sense-checking interviews supported both initial testing of the model but also most supported the idea of a single provider at scale (even if they disagreed over what that scale would be). An initial roll-out on a smaller scale in high demand areas could be organised alongside a competition for a single provider to operate at scale so that lessons could be learned for the larger scale programme. However, this would delay the impact of the programme and would require separate funding for the testing stage (even if this was later rolled up into the bigger programme, at least financially). The alternative would be to support the sole provider at scale model from the outset. There are arguments for both but we think it is primarily a balance between sector credibility and the good practice of testing before roll-out, versus the simplicity and speed of a sole provider competition from the outset. This is a critical judgment for government. Scotland did have several smaller scale mid-market rent projects in place funded by grant before either LAR or PfP became involved through FTC and generated finance for 1000 homes in each case at LHA level rents.

6.16 This project has taken place against the backdrop of the COVID-19 pandemic which has heightened uncertainties regarding household income, tenure security and in particular over how current provisions supporting tenancies (e.g., suspension of evictions) will unwind post-lockdown. The economic shocks associated with the unprecedented experiences occurring globally since the beginning of 2020 also create public finance uncertainties as witnessed by the sharp decline in FTC funding in the

recent budget round. We know that job loss and working time loss has been disproportionately impacting on working age households in the PRS and we must anticipate growing need for social housing. This is why this niche product can help those people caught up in increasingly unaffordable private renting, while not displacing funding for social housing. A key reason for supporting an intermediate rent product is that it offers more policy choices in such difficult times.

Appendices

Appendix 1 Rental Data (Relating to Chapter Two)

A1 Table 1: Key rental data for HA and PRS one-bedroom properties

NO. OF HA DWELLINGS BY NO. OF BEDROOMS BY LGD	HA (NO.)	HA RENT (£/ MTH)	PRS (NO.)	PRS RENT (£/ MTH)	£ DIFFERENCE	% DIFFERENCE
Antrim & Newtownabbey	90	364	32	406	43	11
Ards & North Down	249	384	92	457	73	16
Armagh, Banbridge & Craigavon	191	334	37	383	49	13
Belfast	1,883	362	977	581	219	38
Causeway Coast & Glens	136	357	39	414	57	14
Derry City & Strabane	577	333	16	454	121	27
Fermanagh & Omagh	33	377	18	418	42	10
Lisburn & Castlereagh	171	374	31	514	140	27
Mid & East Antrim	247	367	44	402	34	9
Mid Ulster	44	357	23	409	52	13
Newry, Mourne & Down	94	348	23	415	67	16
Northern Ireland	3,715	358	1,332	535	177	33

Source: NIFHA & PropertyPal

A1 Table 2: Distribution of property database used for rental analysis (housing associations)

NO. OF HA DWELLINGS BY NO. OF BEDROOMS BY LGD	1-BED	2-BED	3-BED	4-BED	5+ BED	TOTAL
Antrim & Newtownabbey	90	681	568	42	9	1,390
Ards & North Down	249	1,579	548	31	3	2,410
Armagh, Banbridge & Craigavon	191	730	504	27	1	1,453
Belfast	1,883	6,205	4,439	791	117	13,435
Causeway Coast & Glens	136	387	385	30	8	946
Derry City & Strabane	577	1,955	2,135	202	21	4,890
Fermanagh & Omagh	33	251	346	34	7	671
Lisburn & Castlereagh	171	927	952	79	2	2,131
Mid & East Antrim	247	580	318	17	3	1,165
Mid Ulster	44	477	598	59	13	1,191
Newry, Mourne & Down	94	853	956	60	11	1,974
Northern Ireland	3,715	14,625	11,749	1,372	195	31,656

Source: NIFHA

A1 Table 3: Distribution of property database used for rental analysis (PRS)

NO. OF PRS DWELLINGS BY NO. OF BEDROOMS BY LGD	1-BED	2-BED	3-BED	4-BED	5+ BED	TOTAL
Antrim & Newtownabbey	32	341	447	50	9	879
Ards & North Down	92	500	421	85	18	1,116
Armagh, Banbridge & Craigavon	37	197	672	95	14	1,015
Belfast	977	3,681	2,463	745	635	8,501
Causeway Coast & Glens	39	223	371	109	28	770
Derry City & Strabane	16	107	161	68	15	367
Fermanagh & Omagh	18	71	119	31	4	243
Lisburn & Castlereagh	31	362	471	97	19	980
Mid & East Antrim	44	345	432	43	14	878
Mid Ulster	23	84	277	64	11	459
Newry, Mourne & Down	23	199	268	64	18	572
Northern Ireland	1,332	6,110	6,102	1,451	785	15,780

Source: PropertyPal

Appendix 2 UKHLS Modelling Approach (Relating to Chapter Three)

The UKHLS is designed to be representative for the UK, although it is possible to make some observations on a regional basis. However, the number of newly forming households each year is relatively small compared to the number of pre-existing households. Furthermore, the number entering the private rental sector is only a fraction of this number, and the proportion paying an unaffordable rent burden and therefore potentially in-scope for a targeted mid-market rental product is smaller still. On that basis, the analysis has a UK focus, but the resulting propensities (headship rates) are applied to Northern Ireland population data in order to form estimates for Northern Ireland.

Waves two through ten roughly cover the time period 2010-2020, but there is some imprecision because the surveys for each wave were not carried out within a single calendar year. So, more accurately, the time period is (2010 through 2012) to (2018 through 2020). Table 1 sets out the predicted total number of households, by age group and rental affordability band, for the UK. The figures emphasise that the survey is not designed for disaggregation below the UK level, at least in terms of the household formation and tenure choice analysis being undertaken here.

A2 Table 1: Total number of PRS households in the UK

RENT AS PERCENTAGE OF HOUSEHOLD INCOME	HEAD OF HOUSEHOLD AGED 16-25	HEAD OF HOUSEHOLD AGED 26-39	HEAD OF HOUSEHOLD AGED 40-64	HEAD OF HOUSEHOLD AGED 65PLUS	TOTALS
>0<20%	344,485	895,763	644,308	72,998	1,957,554
20<25%	113,393	299,583	187,235	28,272	628,483
25<30%	96,456	187,115	121,152	34,471	439,194
30<35%	80,667	99,529	90,864	21,262	292,322
35<40%	88,131	57,229	59,475	8,053	212,888
40%plus	250,039	239,866	181,177	45,769	716,850
Total	973,171	1,779,085	1,284,211	210,825	4,247,291

Note: Figures are estimated using the UKHLS

The figures summarised in Table 1 relate to waves of the UKHLS. Each wave corresponds to a three-year survey period as shown in Figure 1, with wave ten being the most recent and corresponding to survey data collected in the period 2018-2020.

A2 Figure 1 The UK Household Longitudinal Survey timeline

UKHLS 2017-19			UKHLS Wave 9
UKHLS 2016-18			UKHLS Wave 8
UKHLS 2015-17			UKHLS Wave 7
UKHLS 2014-16			UKHLS Wave 6
UKHLS 2013-15			UKHLS Wave 5
UKHLS 2012-14			UKHLS Wave 4
UKHLS 2011-13			UKHLS Wave 3
UKHLS 2010-12			UKHLS Wave 2
UKHLS 2009-11			UKHLS Wave 1

Note: Reproduced from <https://www.understandingsociety.ac.uk/documentation/mainstage/survey-timeline>, accessed 8th March 2021

The estimates of household numbers, and their proportions living in the private rented sector, for Northern Ireland are generated by applying propensities observed for the UK overall. The propensities are applied to population estimates, by age, for Northern Ireland. This produces the numbers shown in Chapter Three (table 3.7).

Experimentation with regional controls during the modelling exercise did not suggest that there are significant differences between propensities for individuals to form households in the private rental sector

in Northern Ireland as compared with elsewhere in the UK. For example, when dropping London from the analysis and repeating the modelling work, the number of households predicted to be renting privately and paying 25% or more of income as rent in Northern Ireland falls from 52,000 to 50,400. This is a modest change and strengthens our confidence in the results.

We also derive some comfort in the robustness of the findings from the fact that the UKHLS analysis shows that the number of new households forming in the

private rental sector is growing fairly quickly from year to year (nearly 8% between 2019 and 2020). We note that both the UKHLS and FRS surveys show that there is a substantial cohort of tenants in more severe affordability stress. The UKHLS analysis suggests that there are over 20,000 tenants paying 40% or more of income on rent, and the FRS analysis suggests that discounts on market rents would need to be in the region of 30-40% to reduce the number of households paying 25% of their income on rent by around that number. So, the messages between the independent strands of analysis and data are very consistent.

Appendix 3 Review of Earlier Work on Intermediate Rent

This research project follows on from earlier stages of internal policy development and research intelligence work which yielded three useful pieces of analysis, which we have drawn on and then gone back to look further at the models assessed both by the two internal government studies and the earlier external (CBRE) research.

The analysis considered a range of products in different places (Scotland, Wales, England, Republic of Ireland). The Table below looks at seven relatively generic models found in England, Scotland, Wales and the Republic of Ireland. This is not as long a list as that examined by the three earlier research papers, but they contain the key elements that we need to consider in more depth for the Northern Ireland IR product, namely: public funding, rent-setting and uplift, governance approach and issues arising, and specific relevant insights. We see that several of the models rely on up-front grant funding, one is linked to an option for sitting tenants to purchase and rents are in the broad range of 70-85% of market rent and/or linked to the Local Housing Allowance in the rental market sector. Many are carved out as subsidiaries of group structures but there is also a charitable trust model and a special purpose vehicle. It is also important

to note that all of the schemes bar the low-cost model in Ireland (still at the pilot stage but with plans for further development) have achieved a degree of scale in the number of lettings they were ultimately able to generate (for example, a minimum of several hundred to a maximum of more than a thousand).

The models indicate that it is possible to generate affordable rents with a judicious combination of public loans and private loans only, and that this can be reinforced through additional in-kind subsidy or provider equity/reserves/surpluses. One example of this is the LAR housing trust in Scotland – the purist model of mid-market rent entirely reliant on public and private loans, supported by a charitable trust governance approach and long-term private tenancy arrangements to secure an affordable rent model at scale.

A second example is the Places for People (Castle Rock Edinvar HA) version of the Scottish Mid-Market Rent model. This is similar to the other Scottish models but with distinctive features and more potential variation than the LAR variant – Places for People (PFP) does however use FTC, private finance and the organisation's covenant strength and reputation to generate a viable intermediate rent product.

A3 Table 1: Approaches elsewhere to intermediate or affordable rent

COUNTRY	MODEL	MAIN SUBSIDY	RENT APPROACH	GOVERNANCE	RELEVANT?
England	Affordable Rent Programme	Upfront Grant and cross subsidy from relet existing stock	80% of market rent but varies inversely to demand (lower % in London)	Provided by regulated social landlords with social tenancies	No; apart from rent approach
COUNTRY	MODEL	MAIN SUBSIDY	RENT APPROACH	GOVERNANCE	RELEVANT?
England	Affordable rent/ intermediate rent (various)	Grant	80% of market rent, typically	Examples run by regulated housing association group structures with subsidiaries	Rent arrangements relevant
COUNTRY	MODEL	MAIN SUBSIDY	RENT APPROACH	GOVERNANCE	RELEVANT?
Scotland	Mid-market rent	Upfront Grant (plus a non-grant version by Castle Rock Edinvar HA/Places for People)	Linked to LHA – initial rent 30th percentile of BRMA rent over time rising to no more than median (50th percentile)	Generally run by regulated group structures as subsidiary	Rent arrangements relevant
COUNTRY	MODEL	MAIN SUBSIDY	RENT APPROACH	GOVERNANCE	RELEVANT?
Scotland	National Housing Trust	LA loan and state guarantee	Originally 80%-85% market, later as MMR	SPV partnership of developer and LA; subsequently LA only model	Funding and rent setting relevant but early exit route – 5-10 years only)
COUNTRY	MODEL	MAIN SUBSIDY	RENT APPROACH	GOVERNANCE	RELEVANT?
Scotland	LAR housing trust	FTC loan	Similar to MMR but 30th percentile is initial rent cap	SCIO charitable trust model regulated by OSCR	Funding, renting and governance all relevant
COUNTRY	MODEL	MAIN SUBSIDY	RENT APPROACH	GOVERNANCE	RELEVANT?
Wales	Rent First	Upfront grant	80% of market or 100% of LHA	Option to purchase	Rent setting
COUNTRY	MODEL	MAIN SUBSIDY	RENT APPROACH	GOVERNANCE	RELEVANT?
Republic of Ireland	Cost Rental (pilot) closely linked to Austrian limited profit model	Land in kind and public loan	70% of market rent but linked to construction & finance costs	Pilot stage delivered by housing association partnering with councils & the housing agency	Rent setting

The key features of this model are:

- Pfp established a mid-market rent fund combining Scottish Government FTC and equity funding, for instance, from local authority pension funds, and established that they would invest in affordable rent products on standard mid-market rent terms (affordable rent, client group eligibility, etc.) and draw down funds as they identified mid-market opportunities, primarily in the Glasgow and Edinburgh markets.
- In principle, this opportunity-driven fund could invest in long term intermediate rent as a standalone development, part of a mixed tenure programme (with clear separate funding streams), new build or off the shelf. Rents operate initially at LHA levels with an uprating of CPI only.

The Irish cost rental model is a pilot proposal (though one where there is growing support if initial results are positive for wider take-

up). It is a hybrid, piloting public loans and in-kind subsidy. Cost Rental is housing for rent where the rents charged cover only the costs incurred in delivering, managing and maintaining the homes. The objective is affordability for households on moderate incomes, who might otherwise experience financial difficulty accessing housing or meeting the ongoing cost of accommodation. A key feature of the model is therefore the development of a stronger rental sector available to a mix of households and incomes. In Ireland, there are a number of further projects post-pilot under appraisal, involving partnerships between developers, providers, land holders, and government. This is closely related to the Austrian limited profit rental housing model that caps costs and rents and relies on combining public and commercial loans in order to provide rented housing to a broad range of income. Like the Irish case and the suite of Scottish Mid-Market Rent products, there are formal applicant income ceilings.

Appendix 4 Further Details of Fact-Checking Interviews (Relating to Chapter Four)

We discussed the intermediate rent proposal with nine representatives or organisations in both Northern Ireland and Scotland. These short meetings were fact-checking exercises with people who have direct experience of working in the Northern Ireland housing context, and/or developing and operating intermediate products and regulating them. This allowed us to clarify certain points and, in so doing, added considerably to our understanding. We took short notes from each meeting and all took place under the umbrella ethics approval CaCHE for research projects from the University of Glasgow. We thank all who contributed.

What were the key takeaways?

First, in the Northern Ireland Co-ownership model, currently the rental share of the shared ownership model is 60% funded by FTC on a 23-year loan at an attractive interest rate (and operates within the public procurement route). They have four years' certainty of finance from this FTC approach (subject to annual budgets and consequent FTC availability). That certainty of forward funding and their track record helps greatly with securing private finance (note that the majority of funding is FTC). Off the shelf purchases also avoids new build premia. Their initial reaction was that the combination of FTC and private finance can produce a viable IR product. They did think however that the method of allotting housing may be a material consideration for state aid rules (see below for more discussion this point,

and actions required). They prefer a single provider, either as a subsidiary or perhaps a standalone charity would work best because of scale and private finance requirements.

Second, the Northern Ireland (Social) Housing Regulator believed that the scale issue meant that only the largest associations (by size) in Northern Ireland could look at this additional provision. As a regulator of social housing, they are likely to only be interested in subsidiaries for private rent, etc. in relation to the group structure and the regulated parent (e.g., in terms of established regulatory concerns around good governance, financial viability, risk management, etc.). They also expressed concern about commercial subsidiaries possibly diluting or being perceived to dilute social mission and reputation. Concerns were also expressed about the potential for creating two 'classes' of tenant, e.g., within shared housing developments which featured housing for social and intermediate rent (depending on the service standards that are to be met). The Scottish Housing Regulator also talked about their experience with affordable rent – making the same point about group structures and subsidiaries. They also noted that it is important not to set up subsidiaries just to achieve cross subsidy. You need to know the market you are entering well and have the capacity to succeed in it. Second, successful affordable rent providers go beyond the commercial rental market and make

wider contributions to their communities, placemaking and wider role activities. They identified that OSCR (the Scottish Charities Regulator) only cover governance, not financial risk or service performance that social housing regulators would consider.

Third, one issue that arose was the scope for land to be supplied at below market rate or as an in-kind contribution to strengthen the financial position of the model (an additional flexibility). We talked to government expertise and while there is public land held by different agencies and which is potentially available, it is often in the wrong places and not suitable for residential, let alone affordable, development. Of more relevance will be the opportunities for intermediate as well as social housing arising from affordable housing agreements as part of Local Development Plans (LDP); ideas which are being independently tested currently through the proposals contained in the Belfast LDP.

Fourth, discussion with the Scottish Futures Trust focused on the LAR charitable housing trust, the background to the model and how it was made to work. It is a single provider model – an independent (non-subsidiary) SCIO housing trust regulated by OSCR. This allowed it to access £65m FTC for 20 years at a very low interest (alongside £55m loan from Scottish Widows – the overall package created sufficient capital to finance intermediate rents). Key issues to overcome were governance (a subsidiary of a strong association would also be viable), state aid rules, public procurement and the chicken and egg of timing with the private loan and getting income generating tenanted properties up and running (suggesting

purchasing suitable off the shelf units before new build could come on stream). Treating the private finance senior debt (first to be repaid) is helpful in sourcing long term finance but Government must agree. If it is a subsidiary, make sure the parent has a strong track record and covenant, and don't underestimate the value of excellent leadership.

Fifth, the PfP fund representatives explained the features of their FTC-long term equity investment model, which indicates the scope to build up the property portfolio over time and to blend it across different kinds of development, off the shelf purchases, mixed tenure developments and geographical spread – all consistent with the aims of the programme in terms of long-term affordable outcomes.

Finally, there is the question of State Aid (and the peculiarly Northern Irish post-Brexit version of State Aid). We talked to civil servants responsible for these matters to get a sense of the position. In essence, for an intervention to raise state aid issues a number of explicit tests need to be met. While some of these clearly would be flagged e.g., it is an economic activity and provides a subsidy – critically, it fails one of the tests: the notion of a significant impact on investment and trade flows across UK and EU borders. It was felt that this criterion would not be sustained for an activity such as intermediate renting in Northern Ireland. Because all four tests have to be met, the provisional conclusion, and one for formal testing by the Department (for Communities) when the final version of the IR product is established, is to assess the presence or otherwise of State Aid and take any required action accordingly.

Endnotes

- 1 ESG – Environmental, Social and Governance
- 2 <https://www.communities-ni.gov.uk/sites/default/files/publications/communities/dfc-housing-market-symposium-report-2017.pdf>
- 3 Scottish Government (2019) Rent Affordability in the Affordable Housing Sector: A Literature Review. Scottish Government: Edinburgh. Meen, G and Whitehead, C (2020) Understanding Affordability: The Economics of the Housing Market. Bristol University Press: Bristol.
- 4 For more information on the consultation, see: **Definition of Affordable Housing | Department for Communities (communities-ni.gov.uk)**
- 5 See: Judge, L and Pacitti, C ‘Coping with housing costs: six months on’, Resolution Foundation: London <https://www.resolutionfoundation.org/publications/coping-with-housing-costs-six-months-on/>
- 6 The most recent comprehensive analysis of this was undertaken in 2010 and indicates that the rent for a three-bed housing association house was £30 per week higher than for a comparable NIHE dwelling (Young, G, Orr, A, Gibb, K, Wilcox S and Redmond, D (2012) Review of Social Rent Setting in Northern Ireland: Updating the 2007 Research Project. Belfast: NIHE/ DSD). A somewhat cruder, though much more recent, indicator would suggest that this gap has not closed. The average weekly rent for all NIHE dwellings in 2019/2020 was £66.59 <https://www.communities-ni.gov.uk/publications/northern-ireland-housing-statistics-2019-20>. The average housing association rent for Northern Ireland from the NIFHA dataset used for this report is £100.73, i.e., approximately £34 higher.
- 7 Accessed November 2020.
- 8 PropertyPal’s knowledge, gathered from agents/landlords, is that they tend to advertise their properties at rates which cover additional housing costs such as rates and, where applicable, service charges.
- 9 Young, G., O’Sullivan, T. and Gibb, K. (2010) Northern Ireland Housing Market Areas. Downloaded 14 March 2021 at: <https://www.nihe.gov.uk/getmedia/498836cc-ed78-4ca3-b49d-2a534e6b92b0/Northern-Ireland-Housing-Market-Areas.pdf.aspx?ext=.pdf>
- 10 Young G. and Cookson, D. (2018) Mapping Northern Ireland’s Housing Market Areas. Downloaded 14 March 2021 at: <https://www.nihe.gov.uk/getmedia/4ae016fe-6702-4080-983e-dac39738b342/Mapping-Northern-Ireland-Housing-Market-Areas.pdf.aspx?ext=.pdf>
- 11 Housing Association properties (31,656 dwellings) were attributed to an LGD using a combination of the postcode (outcode) data and in some instances, an additional geographical indicator provided via ‘Town’ title. Some BT outcodes cover multiple LGDs including: BT5, BT6, BT8, BT16, BT17, BT23, BT24, BT25, BT29, BT31, BT39, BT44, BT60, BT74. Full breakdown of Central Postcode Database file provided total proportions of outcode within wider LGD boundaries. For example, BT5 comprised 95% Belfast LGD postcodes and 5% Lisburn and

Castlereagh postcodes. In this example the BT5 housing association dataset is weighted to manually allocate 5% of records to Lisburn & Castlereagh LGD, i.e., of 1,085 records in BT5, 54 were manually assigned to Lisburn and Castlereagh. If additional town detail is provided, i.e., a town area of Lisburn and Castlereagh was provided within the BT5 allocation, the LGD was changed to correctly allocate the dwelling to Lisburn and Castlereagh. If no town data was provided, data was randomly allocated based on the wider LGD housing association bedroom profile. In this example, there was no additional town detail provided in BT5 - the 54 records were allocated randomly across 12 (1 bed), 27 (2 bed), 12 (3 bed) and 3 (4 bed) properties across the entire BT5 dataset. Additional town detail for several postcodes meant there was no random allocation required. Manual assignment was required for BT5 (54 records/5% of dataset), BT6 (18 records/2% of dataset), BT8 (50 records/22% of dataset) and BT17 (309 records/25% of dataset). BT17's manual allocation accounted for 72% of all manual entries. Across the entire housing association dataset for 2020/21, there were 430 records manually assigned out of 31,656 records, equivalent to only 1.4% of all records.

- ¹² One-bedroom properties are considered important from a policy point of view, given the preponderance of single person households on the Common Waiting List for social housing. However, in reality the number of cases included in both the NIFHA and PropertyPal data for one-bedroom properties (included at Appendix 1 Table 1) is very small at LGD level (NIFHA: 3715 for NI of which 1883 are in Belfast; PropertyPal: 1332 for NI, of which 977 are in Belfast). It was considered appropriate, therefore, that for largely statistical reasons, these properties should be excluded from the main analysis.
- ¹³ NIHE (2019) Derry City and Strabane: Housing Investment Plan 2019-2023. Downloaded 15 March 2021 at: <https://www.nihe.gov.uk/Documents/Housing-Investment-Plans/Derry-Strabane-housing-investment-plan-2019-23.aspx>
- ¹⁴ Dwelling type was not provided in the NIFHA dataset.
- ¹⁵ Northern Ireland is rolling-out Universal Credit (UC) but so far, the majority of working age claimants remain on legacy benefits like Housing Benefit. So far UC only applies to new claims or changed circumstances, though this is thought to have increased significantly in the wake of the Covid-19 pandemic before settling down to the pre-pandemic level of around 7000 new cases a month. Given the previous slow transition on to UC for those receiving help with housing cost, we deduce that many of the new claimants are not receiving help with housing costs, see p.3-5 of: <https://www.communities-ni.gov.uk/publications/universal-credit-statistics-november-2020>
- ¹⁶ In the rest of the UK, such affordable rent models are typically provided by private subsidiaries within group structures of housing associations. Indeed, there are examples of such models in Northern Ireland's housing association sector.
- ¹⁷ Noting that issues, such as rent arrears, anti-social behaviour and the like, would remain grounds for eviction.
- ¹⁸ On the same basis as FTC funding of Mid-Market Rent in Scotland, in part the result of seeking longer term affordable rent in perpetuity.

- ¹⁹ Presumably, any successful Intermediate Rent tenancy for a previously homeless person would also generate considerable housing savings to the public purse. Where full homelessness duty applies, there is future potential that this duty can be discharged through the acceptance of an offer of social or private housing.
- ²⁰ CBRE (2020) Affordable Housing Market – establishing the need for Affordable rent providers for the Northern Ireland housing market, May 2020; DfC (2020) Intermediate (Affordable) Rent Desk Research, May 2020; Business Consultancy Services (2020) Intermediate Rent Product Scope Development Scoping Phase, September.
- ²¹ Part of the Places for People group and hereafter called the PfP fund
- ²² Deutsch, E, Lawson, J and Oberhuber, A (2012) International Measures to Channel Investment toward Affordable Rented Housing: Austrian Case study. AHURI: Melbourne.
- ²³ Scottish charitable incorporated organisation

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