



YOUR HOLIDAY, OUR HOME?



UNDERSTANDING THE IMPACT OF HOLIDAY
HOMES ON THE PRIVATE RENTED SECTOR

May 2022

Executive Summary

There are nearly 300,000 holiday homes in Great Britain, equivalent to roughly 6 percent of the private rented sector.

Two thirds are classed for tax purposes as second homes and the remainder as commercial holiday lets. There are 115,000 individuals who declare holiday let income to HMRC.

Second homes and commercial holiday lets are concentrated in London, Scotland, Wales and South West England, with just 40 councils containing half of Great Britain's second homes.

Their numbers have increased substantially over the pandemic in holiday hotspots, with Wales and South West England seeing increases of 4% and 5% respectively between early 2020 and summer 2021.

Over this period, rental listings on Zoopla halved in Wales and South West England, and we witnessed a rise in private rents of around 16%. The increase in holiday homes in those regions was equivalent to nearly a quarter of vacancies in the rental market in February 2020.

In London, where the holiday let market crashed and did not recover in 2021, the number of second homes fell by 9%, while residential rental listings nearly doubled and market rents dropped by 25% – though London's property market was also affected by the “race for space” which has since reversed.

The growth in the holiday home sector has been fuelled by lack of regulation, tax advantages over residential lettings and a generally favourable tax system for property.

In this paper, Generation Rent argues that the government can and must take steps to incentivise landlords to let to tenants instead of tourists, by removing tax advantages from holiday lets, and giving councils powers to license holiday lets and impose council tax premiums on holiday homes.

In the longer term, Generation Rent also recommends registration of holiday homes, and a focus on building permanently affordable homes in holiday hotspots that are reserved for local residents.



Introduction

In 2021, as international flights were grounded by measures to suppress covid-19, many UK residents turned to domestic holidays, particularly in the summer.

This created demand for holiday lets in areas such as Cornwall, West Wales, the Lake District and the Scottish Highlands and Islands.

During this time, Generation Rent heard from private renters in these areas who had been served with eviction notices and were struggling to find a new place to live.

They told us that new properties were snapped up within hours, and asking rents were out of reach. They all blamed holiday homes for the shortage of supply.

For nearly ten years, AirBnB and similar platforms have offered property owners an alternative to letting to tenants, and the potential for homes to be taken out of the residential market has been a source of concern since the start.

In London, since 2015, anyone letting a property on a short-term basis for more than 90 days out of the year must have planning permission.

But broadly the government has encouraged AirBnB listings – particularly letting out rooms – as part of the “sharing economy”, and this has led to oversights in other policy areas. For example, in 2015, the then Chancellor George Osborne announced the withdrawal of mortgage interest relief from landlords’ rental income, as part of efforts to give first time buyers a greater advantage. However, this only applied to residential rental income and furnished holiday lets still qualified for the relief, then and now.

In 2019 Generation Rent started campaigning against illegal holiday lets in London, securing a ban on advertising by non-compliant platforms on the Transport for London network.¹

In summer 2021, Generation Rent launched a campaign to scrap mortgage interest relief for holiday lets.²

By 2018 the UK government had started getting concerned about the lack of council tax revenue from second homes in England, which could be registered as commercial holiday lets and qualify for small business rate relief, without the owner needing to prove it had been rented out.

It launched a consultation that year, and in January 2022, the

Department for Levelling Up, Housing and Communities announced that property owners would need to make their properties available to let for 140 days each year and actually let out for at least 70 days to qualify for business rates.³

Governments in Scotland and Wales have been more attuned to the challenges of holiday homes than in England.

Welsh councils are already able to levy a council tax premium on second homes.

Already in 2022, Holyrood has passed legislation to license holiday lets⁴ and the Welsh Government has announced plans to raise the level of the second homes premium and the threshold for non-domestic rates eligibility.⁵

With private renters being the primary beneficiary of measures to bring holiday homes back into the residential market, Generation Rent is taking a close interest in the scale of holiday homes in Great Britain and recent trends.

With a better understanding of the sector, policy makers will have a stronger chance of designing measures that will balance the interests of the tourist industry and people who need a place to live.

This paper looks at:

- what data sources are available to us on the number of holiday homes and the supply of homes in the rental market,
- what we can learn from these sources and what this information can tell us about the interaction between holiday homes and the rental market
- an exploration of the policy options and our recommendations
- need for further evidence

In this paper we refer to:

- **commercial holiday lets**, which are registered for business rates instead of council tax,
- **second homes**, which are registered as such for council tax purposes, and are not the “sole of main residence of any individual”,
- **holiday lets**, which include **commercial holiday lets** and properties listed on sites such as AirBnB (which may be registered as **second homes** for council tax purposes),
- **non-primary residences**, which include **second homes** and **commercial holiday lets**, and
- **holiday homes**, which include most **second homes** as well as **commercial holiday lets**.

1. https://www.generationrent.org/renters_celebrate_restrictions_on_holiday_let_adverts

2. <https://you.38degrees.org.uk/petitions/close-the-holiday-let-tax-loophole-1>

3. <https://www.gov.uk/government/news/gove-closes-tax-loophole-on-second-homes>

4. <https://www.gov.scot/news/short-term-lets-legislation-approved>

5. <https://gov.wales/new-tax-rules-second-homes>

A note on affordability

For Generation Rent, homes must be affordable, which we consider to involve a person spending no more than 30% of their income on rent for a home that is decent, suitable, and in a place they want to live.

If there are fewer homes available to live in, then more people will pay unaffordable rents or face living in non-decent, unsuitable homes, or in places they don't want to live.

Our overarching policy objective should therefore be to increase the number of homes available to live in.

In many parts of Great Britain, the number of homes available to live in has been suppressed by increasing numbers of people buying properties as holiday homes or to let to tourists (either through traditional self-catering market or online platforms such as AirBnB).

This behaviour is partly an outcome of many people becoming wealthier and using their wealth to buy more living space. Policy responses to this include building more affordable homes to meet demand, and reviewing the wider property tax system, as campaigns such as Fairer Share propose. But the trend has been exacerbated by policies that drive landlords to favour tourists over tenants.

Such policies make it more attractive for people who own or want to buy a second home to let to tourists, to make it work economically, so we are seeing more such activity than we would expect otherwise.

These policies include:

- the lack of regulation of holiday lets, with no registration or licensing of such properties
- the ability of landlords to deduct mortgage interest payments from their income tax liability for furnished holiday lets - but not residential tenancies, and
- the favourable tax treatment of property ownership, which can see the owner of a mansion in central London pay a similar level of council tax to the owner of a three-bed semi in County Durham.⁶

6. <https://fairershare.org.uk/>

Evidence base for the impact of holiday homes on the rental market

Number of holiday homes

There are several types of data available that help us to understand the scale of the holiday home sector; covering people who declare rental income from holiday lets, properties registered as second homes, commercial holiday lets registered for business rates, and entire property listings on popular sites such as AirBnB.

HM Revenue and Customs holds the number of individuals declaring rental income and categorises them as **people with furnished holiday lets** (FHLs) and people without FHLs.

The only data available that includes FHLs, broken down by local authority, was published in response to a parliamentary question.⁷

This is where the landlords reside, not necessarily where their properties are located. The numbers also do not include landlords that are limited companies, though it may be possible to identify these through Companies House, for England and Wales.

We have figures for the number of **second homes** recorded as such for council tax purposes at the local authority level in England⁸, Wales⁹ and Scotland¹⁰. In Scotland the latest data is from 2020; in the other two cases the data is from 2021.

Second homes are defined as not being the sole or main residence of any individual. Since 2013, councils have had discretion over whether to give second homes a council tax discount, and, in the case of Wales, apply a premium. Councils can also apply a council tax premium or discount on long term empty homes, which are defined as “unoccupied and substantially unfurnished”.¹¹

Where there is no council tax discount, there is no incentive for owners to register properties as second homes, so it is likely that council tax records underestimate the scale of second homes. However, the data is still valuable in helping us to compare local authority areas and regions.

The English Housing Survey estimated the number of second homes nationally in 2018-19 but drew a wider definition than council tax records, encompassing properties treated as a source of income, and former primary residences – which may be registered for business rates, or on the sale market respectively – as well as holiday homes and homes that are lived in part time due to working arrangements.

As we are interested in holiday homes, we want to understand the proportion of second homes (defined as such for council tax) that are used as holiday homes as opposed to other uses. We have used the English Housing Survey’s breakdown of the reasons for having a second home to estimate the proportion of properties registered as second homes that are holiday homes at 66%.¹² There is likely to be great variation at the regional level which is unavailable from the EHS, and limits the value of this figure to a national level.

Many of these holiday homes are rented out to tourists, but not necessarily for long enough periods to qualify for business rates and so will be found in council tax data for second homes. Many of them are homes that could otherwise be lived in as a primary residence.

There are data sources for the number of properties that are registered as **commercial holiday lets** (aka non-domestic self-catering accommodation) for the purpose of council tax/business rates, though these are not published regularly.

6. <https://fairershare.org.uk/>

7. <https://questions-statements.parliament.uk/written-questions/detail/2021-07-15/HL2081>

8. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/965829/Local_Authority_Council_Tax_base_England_2020_-_Statistical_Release_REVISED.pdf

9. <https://stats.wales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Dwellings/chargeableemptyandsecondhomesbylocalauthority>

10. <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/households/household-estimates/2020>

11. <https://researchbriefings.files.parliament.uk/documents/SN02857/SN02857.pdf>

12. See Annex

Instead we have snapshots of the situation in Wales in 2020 derived from Gwynedd Council via Simon Brooks¹³, and in 2021 from the Welsh government¹⁴, in England in spring 2020 and summer 2021 from the Altus Group¹⁵, and from Scotland in summer 2021 via a parliamentary question¹⁶. The only local breakdown we have for these is from Gwynedd Council/the Brooks report.

As a property is either liable for council tax or business rates, it cannot be registered as both a second home and a commercial holiday let. Adding the two together can give us an idea of the total number of non-primary residences in a given area, though as discussed we do not have enough information to establish how many second homes are holiday homes below national level.

We also have some data of informal **holiday lets** listed on sites such as AirBnB and aggregated on the website AirDNA.

Generation Rent collected these in August 2021, but this exercise was limited to districts in Great Britain with a large proportion of landlords declaring an income from furnished holiday lets – and it was not possible to search AirDNA by district in all cases.¹⁷

A similar dataset is available on the website Inside AirBnB, but only for London, Manchester and Edinburgh – not areas where the recent growth is of most concern.¹⁸

The Campaign for the Protection of Rural England (CPRE) obtained data from AirDNA for the number of “entire place” listings in September for each year from 2013 to 2021, for England as a whole and with breakdowns for seven holiday hotspots.¹⁹

Separate research in Scotland found figures for each district in spring 2019.²⁰ This type of data is further limited in that not all holiday lets are listed on AirBnB – this may be more common in areas with a longstanding self-catering accommodation sector.

Availability and cost of homes in the private rented sector

Rents data is patchy, and it is currently difficult to observe local trends over time.

The Office for National Statistics (ONS) publishes regional rent indices each month for the UK, but these are designed to track the entire private rented sector, including rent changes within tenancies – not current market rent levels.²¹ As a result the indices change slowly, and don't pick up short-term trends in the lettings market.

The ONS also publishes local rent data compiled by the Valuation Office Agency by district in England and Wales, around three months after it is collected.²² The Agency warns that its sampling does not support the use of its data to make comparisons over time.

Zoopla has a live table of rental data covering the number of listings and average (mean) weekly rent for each region of the UK, although representation in Northern Ireland is limited.²³ Generation Rent has tracked this every month during the pandemic, and Wayback Machine allows analysis stretching back further.²⁴ The data is relatively crude and can be volatile in some regions, but crucially allows us to observe broad trends in real time.

13. <https://gov.wales/second-homes-developing-new-policies> and <https://democracy.gwynedd.llyw.cymru/documents/s27926/Appendix%202.pdf> pages 25-26

14. <https://gov.wales/consultation-local-taxes-second-homes-and-self-catering-accommodation.html>

15. <https://www.altusgroup.com/property/insights/11500-homes-flipped-to-holiday-retreats-during-pandemic/>

16. <https://www.parliament.scot/chamber-and-committees/written-questions-and-answers/question?ref=S6W-02110>

17. https://www.generationrent.org/locals_priced_out_of_communities

18. www.insideairbnb.com

19. <https://www.cpre.org.uk/news/new-research-a-huge-rise-in-holiday-lets-is-strangling-rural-communities/> underlying data shared with Generation Rent on request

20. <https://www.gov.scot/binaries/content/documents/govscot/publications/research-and-analysis/2019/10/research-impact-short-term-lets-communities-scotland/documents/people-communities-places-research-impact-short-term-lets-communities-scotland/people-communities-places-research-impact-short-term-lets-communities-scotland.govscot%3Adocument/people-communities-places-research-impact-short-term-lets-communities-scotland.pdf>

21. <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/previousReleases>

22. <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/privaterentalmarketsummarystatisticsinengland/previousReleases>

23. <https://zoopla.co.uk/to-rent>

24. https://docs.google.com/spreadsheets/d/1Ee_Ei1AFgGGdQ4tl3oTypFYCdUpiZF2mYXRzdsUPkw/edit?usp=sharing

Findings

Rental income declared to HMRC

In 2019-20, 2,714,000 people declared rental income in their income tax return.

Of these, 115,000 declared income from furnished holiday lets, representing 4% of the total.

The largest proportions were found in Highland, with 22% of landlords declaring FHL income, and Gwynedd with 21%.

The highest figure in England was Cornwall with 15%.

Regionally, Scotland had the highest proportion with 8.1%, Wales had 7.6% and South West England with 7.2% - nearly twice the rate as other English regions except for the North East with 5.3% (which may partly be a result of the region having the smallest private rented sector).

Properties registered as second homes for council tax
The latest data shows that there were 301,000 properties registered as second homes for council tax in Great Britain, with 253,000 in England, 24,000 in Wales and 23,900 in Scotland. Assuming that 66% are used as holiday homes, based on the EHS breakdown, this is 199,000 in total.

The City of London had the largest proportion, with 22% of the total housing stock, followed by Gwynedd with 11%, and North Norfolk with 10%. Argyll & Bute has the highest proportion of second homes in Scotland, at 6%. Regionally, South West England has the highest proportion in relation to total stock, with 1.9% second homes, followed by Wales with 1.6%. London also has a relatively high concentration of second homes at 1.3%. A map in the appendix illustrates where second homes are concentrated in Great Britain, and a table sets out the 40 local authorities with the most second homes in absolute terms, accounting for half of the total.

Second home levels have been relatively static across each nation over the past five years, with increases of 6% and 7% in the four years to 2020-21 in England and Wales respectively, followed by falls of 4% in the latest year. Local exceptions observable in Wales include Cardiff and Powys, which saw increases of 28% and 22% respectively. Scotland's data, which stretch back to 2010, show a peak of 38,000 in 2012, and a fall of 10,000 over the two following years, when councils gained new powers over charging additional council tax on second homes.

Region	Landlords with furnished holiday lets	Total landlords	% Landlords with FHLs	Total non-primary residences	Total stock	% Homes non-primary residences
North East	3,690	69,740	5.3%	14,520	1,259,251	1.2%
North West	8,630	227,190	3.8%	35,080	3,369,180	1.0%
Yorkshire & Humber	5,470	144,510	3.8%	28,315	2,482,278	1.1%
East Midlands	6,070	182,830	3.3%	15,855	2,155,280	0.7%
West Midlands	7,250	199,350	3.6%	16,186	2,562,778	0.6%
East of England	10,440	292,760	3.6%	39,034	2,740,396	1.4%
London	10,920	474,120	2.3%	48,429	3,730,051	1.3%
South East	17,800	477,210	3.7%	47,185	3,983,102	1.2%
South West	22,640	314,650	7.2%	76,331	2,705,152	2.8%
England total	92,910	2,382,360	3.9%	320,935	24,987,468	1.3%
Wales	8,570	112,690	7.6%	33,474	1,437,568	2.3%
Scotland	12,370	151,800	8.1%	41,740	2,653,725	1.6%
GB total	113,850	2,646,850	4.3%	396,149	29,078,761	1.4%

Commercial holiday lets

As of summer 2021, there were 95,000 properties classed as non-domestic self-catering accommodation; 67,600 in England, 9,500 in Wales and 17,900 in Scotland. The largest number was in South West England, with 25,600. Other English regions with large numbers were East (8,500), and Yorkshire and the Humber (8,000). London had just 265 – possibly as a result of business rate levels being too high to warrant deregistering for council tax.

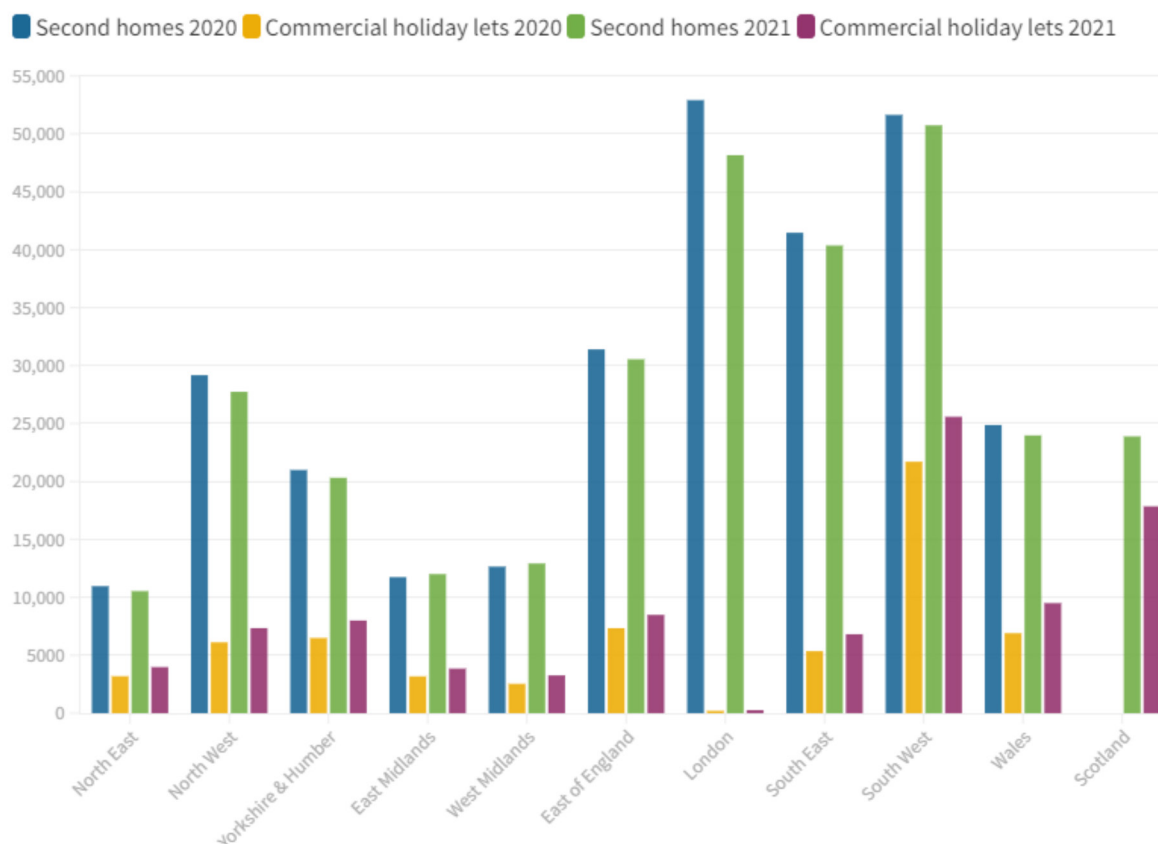
We can see that in England and Wales, there were substantial increases in the number of holiday lets registered for business rates between 2020 and 2021 – of 22% and 38% respectively. The biggest regional increase was in South West England with 3,883 new holiday lets, though this was 18% proportionately. Yorkshire and South East England saw substantial increases which were larger as a proportion of their markets.

Holiday homes and non-primary residences

Based on our estimate of 199,000 holiday homes registered as second homes, and the 95,000 commercial holiday lets, we estimate there to be 294,000 holiday homes in total. England accounts for approximately 235,000 of these.

Because the proportion of properties registered as second homes that are holiday homes will vary around the country, we can only estimate holiday homes at the national level. When making regional comparisons we can look at “non-primary residences”, comprising second homes and commercial holiday lets, and know that it is likely a minority that are used for purposes other than holiday accommodation. As a proportion of “non-primary residences”, commercial holiday lets account for 24% nationally. At a regional level, Scotland has the highest rate of these properties registered for business rates, at 43%, where more generous small business rate relief may be a factor. The figure is 21% in Wales and 17% in England. Outside London, where the proportion of commercial holiday lets is effectively zero, the South East has the lowest at 11% and the highest is in the South West with 28%.

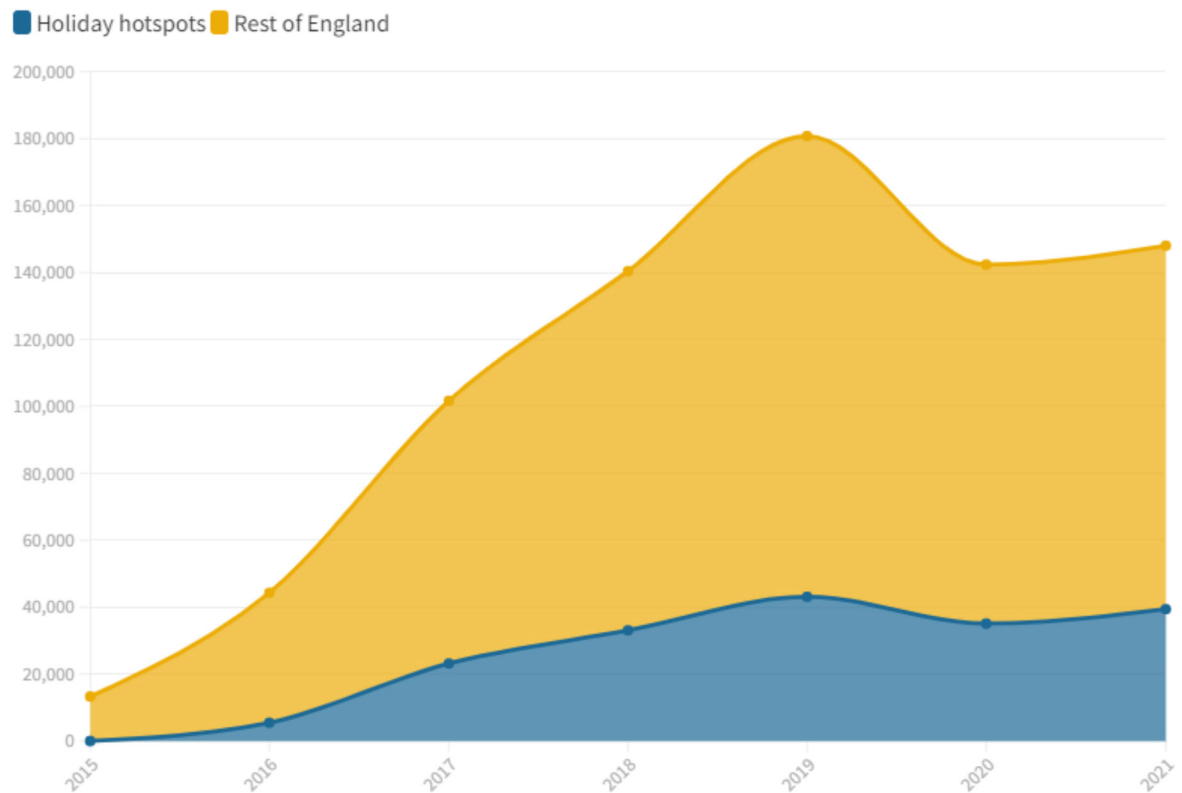
At a local level in Wales, rural and coastal districts see a larger proportion of non-primary residences registered for business rates, with 36% in Powys, 31% in Conwy and 29% in Gwynedd. Cardiff sees just 1% registered like this.



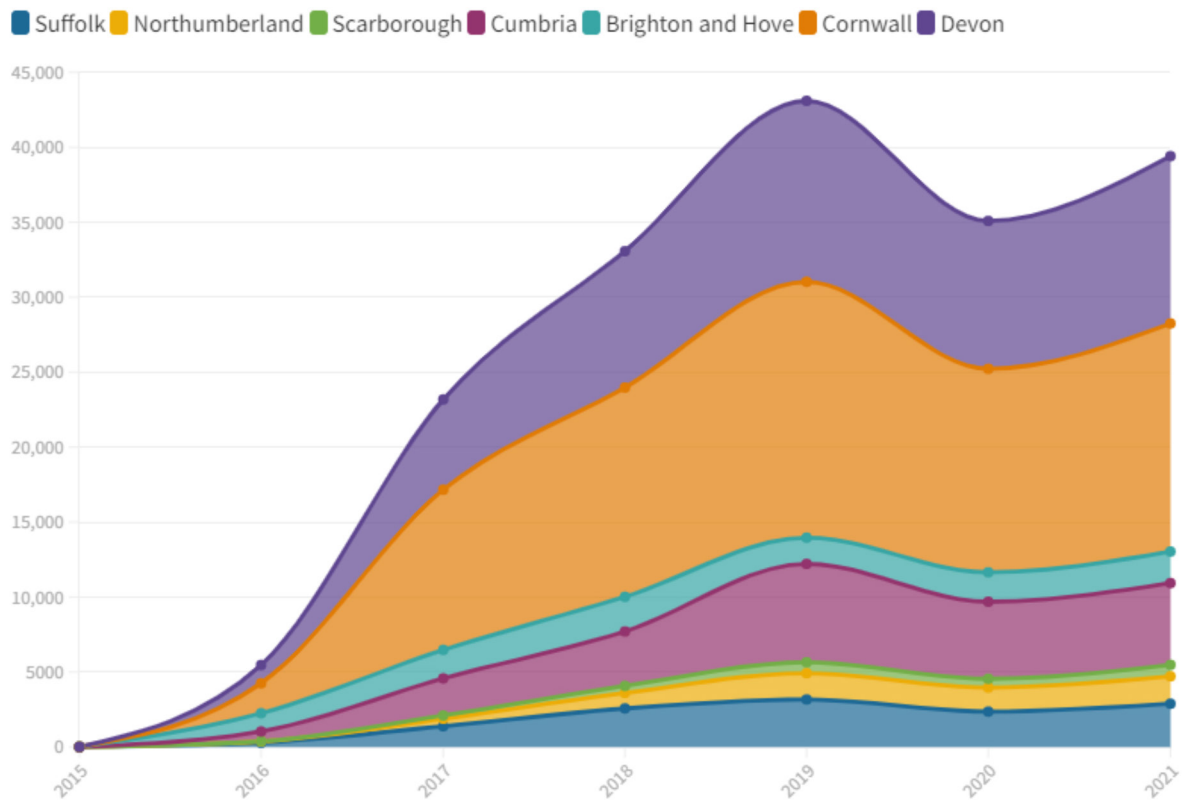
Between 2020 and 2021, England saw a 1% increase in the number of non-primary residences in total – the fall in second homes almost cancelling out the rise in commercial holiday lets. Most of the increase in the numbers of commercial holiday lets appears to be second homes being switched to commercial holiday lets – growth in the overall non-primary residence sector accounted for just 16% of the increase in commercial holiday lets. In Wales the overall increase was 5%, or 1,695 properties, and 65% of this appeared to be homes being registered directly as commercial holiday lets, rather than being switched from second homes. In South West England, the sector grew by 4%, 2,987 properties, which accounted for 76% of the registrations to commercial holiday lets. We have only one snapshot of Scotland's commercial holiday lets so cannot assess the change over time.

These substantial increases in Wales and the South West were almost exactly cancelled out by a net 4,688 properties in London leaving the non-primary residence sector – a fall of 9%.

The following chart illustrates the numbers of each type of non-primary residence by region and how these have changed in the past two years.



Source: CPRE and AirDNA



Source: CPRE and AirDNA

AirBnB listings

The CPRE's analysis of AirDNA data observes a rapid increase in properties listed on AirBnB and similar platforms, from zero in 2014 to a peak of 181,000 in 2019, before dropping to 142,000 in 2020.

By 2020, 25% of the listings were in the seven holiday hotspots of Brighton & Hove, Cornwall, Cumbria, Devon, Northumberland, Scarborough and Suffolk. Although the CPRE data cannot confirm this, it appears that a substantial part of the remainder is in London, given that at the time of writing Inside AirBnB records 37,000 entire properties available in the capital.²⁵ This figure had approximately halved compared with the eve of the pandemic, when London Councils estimated that 74,000 entire properties were listed on short term let sites.²⁶

In England as a whole, the fastest growth in online holiday let listings was between 2016 and 2017, which was also the case in Cornwall and Devon. By comparison, Brighton's holiday let sector grew fastest between 2015 and 2016, peaking before the others in 2018, while Cumbria saw its fastest growth between 2018 and 2019.

After a dip in listings in 2020, there was an overall increase of 4% in England as a whole, but this was concentrated in CPRE's seven hotspots, which saw a 12% increase, compared with a 1% increase in the rest of England. While the size of the holiday let sector in England grew by 5,650 properties, more than half of this growth was in Cornwall and Devon, with a rise of 2,932 properties (very similar to the figure for non-primary residences recorded above for the South West).

Comparing AirBnB listings with tax records

Using CPRE's figures for England as a whole and our estimate of 235,000 holiday homes in England, the proportion let out in recent years has ranged from 60% in 2020 to 77% in 2019.

In Wales we can look at the relationship between actual holiday let listings found by Generation Rent on AirDNA in 2021 with the estimated number of non-primary residences (from 2020). This figure ranges from 55% in Anglesey to 84% in Conwy, and even beyond – 109% in Powys. This suggests that Anglesey contains a lot of second homes that are not let out, and self-catering accommodation let through traditional channels, while many Powys residents are letting out their primary residence part-time – or underreporting second home status.

At the local level in England and Scotland, we only have second homes data to compare with AirDNA data on listings – not commercial holiday lets. In England we have data for nine hotspots (combining Generation Rent and CPRE research), where the proportion of listings to second homes ranges from 19% in Scarborough to 115% in Cornwall – though the average is 75%. It is not surprising that Cornwall has more listings than

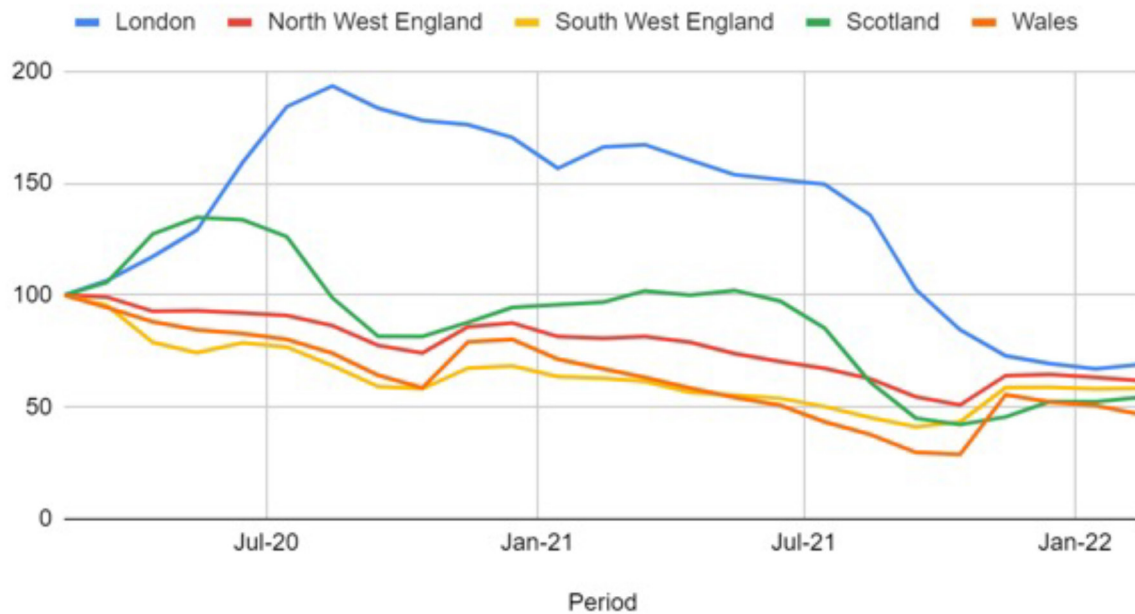
second homes as we know there is a large proportion of commercial holiday lets at the regional level.

For Scotland we have data via Indigo House for all districts, including cities, which provide a stark contrast. While listings in Highland represent 106% of second homes, and in Argyll & Bute 50% (a more typical figure for rural and coastal regions), Glasgow has three times as many listings as second homes and Edinburgh four times as many.

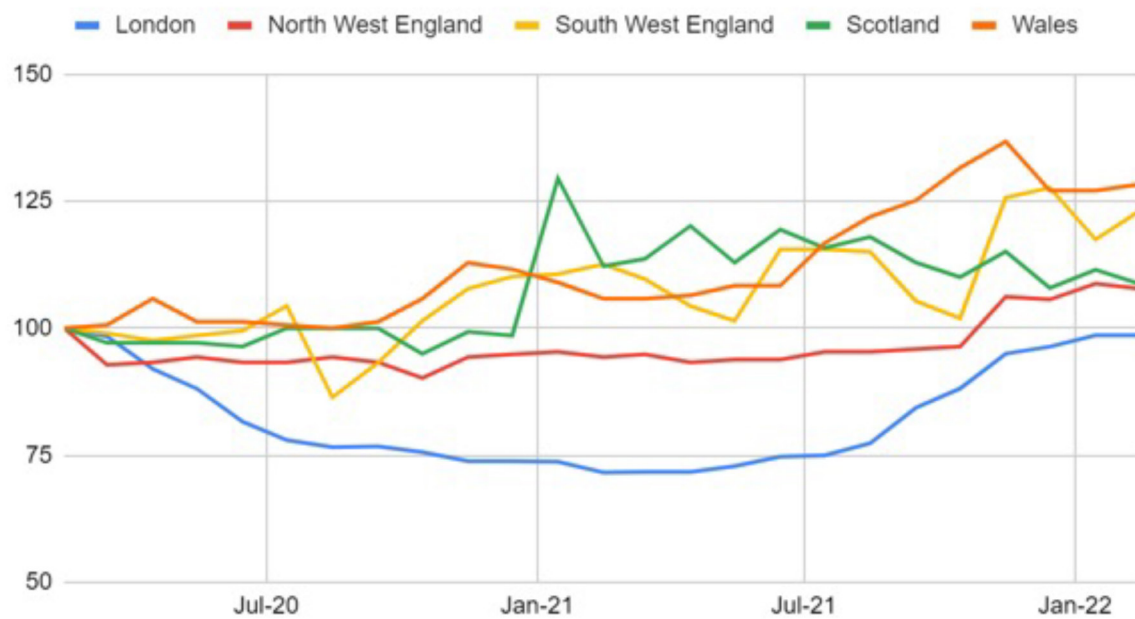
25. <http://insideairbnb.com/london> accessed 4 March 2022

26. <https://www.londoncouncils.gov.uk/press-release/22-january-2020/%E2%80%98one-50%E2%80%99-london-homes-potentially-used-short-term-let>

Listings index



Rent index



Private rental listings and rents

In the private rental market, we might take February 2020 as the benchmark – before the housing market was closed down and the effects of the pandemic played out.

There was a total of 211,000 rental listings on Zoopla in Great Britain as a whole, with 33% in London. Mean weekly rents ranged from £799 in London to £139 in Scotland. Over the past two years, listings nationally hit a high of 256,000 in July 2020 and a low of 132,000 in October 2021. In February 2022 they stood at 139,000.

Rental listings are down in every region of Great Britain compared with the eve of the pandemic, while average rents as measured by Zoopla have risen almost everywhere, after having fallen almost everywhere. There are two clear regional trends that complicate this national story: in London and in the three regions most affected by holiday homes.

London saw listings on Zoopla almost double by August 2020, sending rents down by more than 25% - a slump that lasted just over a year, as listings remained 50% higher until summer 2021. Since August listings have plummeted to levels 30% lower than pre-pandemic levels and rents have surged, almost back to levels we saw in February 2020. As of February 2022, it appears that listings have bottomed out and the increase has slowed to a peak 1.4% lower than the pre-pandemic high.

In Wales, Scotland and South West England, listings fell in the first year of the pandemic and rents did not fall by as much as other regions. In fact, in Wales rents have not fallen below the pre-pandemic level at all, while the South West was seeing increases by October 2020. By July 2021, listings in Wales and the South West were at half the level they were in February 2020 – having fallen by 3,560 and 5,801 respectively – and along with Scotland, were seeing rents 16-17% higher.

At the same point in summer 2021, the South East, Yorkshire and the North West were still enjoying suppressed rents. Listings there fell substantially through summer and into autumn, hitting a low point in October, which was then followed by a spike in rents recorded in November 2021. Rents in Wales had kept rising and hit 37% compared with February 2020. The South West saw rents higher by 25%, but the West Midlands and North East were also suffering similar rises by this point.

Commentary

A clear link between holiday homes and rents

There are a number of reasons why we saw the changes we did in listings and average rents during the pandemic. Due to fears of spreading covid-19 and lost income, fewer people were willing and able to move to a more suitable home. As a result there were fewer vacancies in most of the country – but as demand was also lower this resulted in depressed rents.

London (and other cities to a smaller extent) was subject to a “race for space”, where people who needed to work from home and had been able to save money due to fewer opportunities for discretionary spending, moved to a larger home. Invariably for many this meant moving away from inner city flats to homes in suburbs, commuter belts and, indeed, holiday hotspots.

The decline in non-primary residence numbers in London could be attributed to tourist demand in the capital being wiped out in 2020 and then failing to benefit from the domestic tourism revival in 2021, while international tourism remained suppressed. Owners of AirBnBs which were classed as second homes would have switched to the residential market in order to service their mortgages – or sold up.

In English regions outside London and the South West, private rental listings fell by 26% between February 2020 and June 2021. If we had seen a similar fall in the South West, listings would have been at 9,299, about 2,522 higher than the figure we saw. If Wales had seen a similar fall to most of England, its listings would have been at 5,355 by June 2021 – 1,678 higher than the actual figure. Both these figures are uncannily similar to the increases in the number of holiday homes in each region: 2,987 in South West England and 1,695 in Wales. Although these properties represent a small fraction of the total housing stock in these regions, removing them from the residential

market appears to have made a substantial difference to the number of vacant homes available to rent, which pushed up rent levels in the short term.

Although the opposite effect appears to have taken place in London, it is difficult to make a direct comparison because of the separate effect of the “race for space” which led to a slump in demand for London rentals.

A rural-urban split

Although nationally there is a ratio of three second homes to every one commercial holiday let, there is wide variation regionally and locally. In traditional self-catering accommodation markets such as Scotland and the South West we see a higher representation of commercial holiday lets, while in the South East there are six second homes for every commercial holiday let.

In cities the difference is even starker with barely any homes registered for business rates – in Cardiff as well as London. This is likely due to valuations for commercial property in cities being much higher than they would be in rural Britain. A holiday let operator would be liable for more in business rates – even with small business relief – than they would pay in council tax.

This exposes the limits of using business rates as a tool to drive behaviour within the holiday let sector.

Glasgow and Edinburgh show something slightly different – there are many more AirBnBs than there are second homes. This may be because a third of listings are private rooms in larger properties (where the owner may reside), while many home owners let out their primary residences only for limited periods, such as the Edinburgh Festival.

Second homes cannot be ignored

Based on the CPRE figures for England as a whole, and our estimates based on tax records and the EHS, it appears that the majority of holiday homes are used as holiday lets – though a substantial minority are not, and most holiday home owners have not been tempted to register for business rates.

The government's imposition of new criteria for eligibility for business rates is welcome in closing a loophole, but will not affect second home owners who are already paying council tax, except, perhaps, to discourage owners from registering as commercial holiday lets. It will be interesting to see what impact it will have on numbers of commercial holiday lets – but given the sums involved and the wealth of the individuals it is unlikely that needing to pay council tax prompts second home owners to sell up.

In our view, landlords of holiday lets are more likely to make their homes available to live in as a result of changes to these policies than second home owners, on the basis that the former are more sensitive to economic incentives as they are currently running a business.

Some second home owners may be encouraged to make their properties available to live in, i.e. by selling or letting to tenants, but what may be more important is to build new homes that are unavailable to second home buyers, to prevent further rises in their numbers, particularly if those homes are available on below market prices or rents. This provision of new homes could be funded, at least in part, by taxes on second home owners.

Policy options

Higher Stamp Duty for second homes

One way of reducing the number of properties becoming second homes is by making it harder to buy them, so increasing the stamp duty surcharge could make an impact in England. The government could consider allowing councils to set an element of this. This move would primarily favour owner occupiers and disadvantage all people who already owned property and wished to buy an additional one, including those who planned to let out their purchase. That means second home purchasers and landlords would be affected in the same way and this would not have an effect on the availability of rented homes in relation to holiday lets. There are other options that are more targeted.

Council tax premium for second homes

One way of bringing second homes back into the residential market is to make it more costly to own one. As there are few ongoing costs to owning a property, a council tax premium is one of the few ways of raising these costs, and it would more efficiently target homes that are not being lived in than the stamp duty surcharge. The government should consider devolving the decision to charge a premium, and the size of the premium itself (100% of council tax or more), to councils themselves. It is appropriate for councils to make a decision, based on local need, on the level of tax second home owners must bear. These funds would go to the local council, but the government should consider requiring them to be spent on new affordable homes.

Business rates and relief for holiday lets

Holiday lets are much more lucrative than residential tenancies; anecdotally we hear that what a property might make from a tenant in a year could be brought in over three months or less from holidaymakers.

One incentive that encourages landlords to switch from residential letting to holiday lets is that the exemption from council tax, combined with the small business rates relief, resulting in a local tax bill of zero, means they can break even on an even shorter period of letting during the year. In his report for the Welsh Government, Dr Brooks also notes that some second home owners in Wales are avoiding the council tax premium by registering their property as a holiday let.

It is therefore important to ensure that holiday let operators pay enough tax, both to contribute fairly to the local community and to persuade as many as possible to either switch to residential tenancies or sell up.

There are a few options, including:

- withdrawing small business rates relief from holiday lets, leaving them liable for full non-domestic rates, or
- withdrawing eligibility for non-domestic rates, leaving them to pay council tax.

We are in principle supportive of replacing council tax and stamp duty with a proportional property tax, which the Fairer Share campaign has developed. However, in the absence of more thorough reform, the government should make holiday lets liable for council tax and consider giving councils the ability to levy a premium they determine on holiday lets, particularly if this will already apply to second homes. Councils would have a calculation to make as to the differential in order to find the right mix of incentives to encourage holiday home owners to make accommodation available to holidaymakers and nudge existing holiday let operators to switch to residential tenancies.

Mortgage interest relief for holiday lets

Another advantage of switching from residential to holiday lets is that mortgage interest relief can be deducted from the rental income used to calculate income tax. One element of the relief was withdrawn from residential landlords between 2017 and 2020 in order to give first time buyers an advantage in the sales market. But the relief remains in place for holiday lets, creating a potent incentive for landlords to switch where local conditions allow. As well as depriving renters of homes, this loophole means first time buyers in the areas affected are now competing not with landlords but with holiday let operators.

Withdrawing mortgage interest relief from furnished holiday lets entirely would make renting to tenants more attractive overnight and could see a rapid increase in the number of lettings available to people who need a home. This may be sufficient in some areas to address local housing crises, but councils need other measures in their toolboxes if the economics still favour holiday lets.

Registration of second homes and holiday lets

Without accurate data on the number of homes that are unavailable to live in, further iterations of policy will continue to be made in the dark. It is essential for the Government to start a registration system of second homes and holiday lets, and while we welcome plans to consult on a register of tourist accommodation, we recommend that it be integrated as far as possible with a national landlord register. One outcome of this would be that someone checking a property on the landlord register would be able to find out if the property was registered as a holiday let or a private residential let, and therefore know whether the landlord was complying with the law.

This could be important if some landlords tried to register inaccurately in order to avoid certain obligations. For example, letting to a tenant may involve compliance with paperwork and safety checks that letting to a tourist does not. An unscrupulous landlord may register as a holiday let in order to appear to be above board while also collecting rent from someone who is living in their property long term and so would be legally entitled to greater security of tenure. By being able to check how their landlord is registered and what their rights are, the tenant can more effectively exercise them. An integrated system is essential to avoid crooks slipping through gaps.

Planning use classes

Some voices have called for second homes and holiday lets to have certain planning permission. This would have the benefit of allowing the council to set a cap on the number of these properties there are permitted to be, and to enforce this.

However, because planning permission is usually permanent and the system envisaged creates scarcity, one of the outcomes will be to make homes with special planning permission even more valuable. This may benefit people who already own holiday homes, who are more likely not to come from the community, and so would create resentment among local people who are less likely to benefit from artificially inflated property values. There is also an element of a lottery where the gains from planning permission in terms of property value are far in excess of what the owner has paid in application fees. This could fuel corruption to secure planning permission, and reduce the chance that those particular properties will ever come back to the residential market.

Instead, the Government should consider a system of time-limited licences for holiday lets, which, if they were limited in number, could be auctioned as a way of finding what price landlords are willing to put on the right to let to tourists, and raise funds for the council to put back into the community.

Favouring homes to live in

Whereas holiday let operators can be regulated as businesses, with incentives and caps to direct them into making favourable decisions, there are few levers available to bring other holiday homes back into use. If some homes are essentially banned from being second homes through planning controls, then the unquenched demand for second homes from Britain's wealthy will simply drive up the price of the few permitted second homes there are left, making winners of a lucky few who sell properties with the right planning class to the highest bidder.

Simply allowing the market to build is also not the answer when we hear, via Tim Farron MP, that 80% of sales in the Lake District in 2021 were for second homes.²⁷ There may be a good case to build homes specifically for the holiday market; as the demand for holiday accommodation is not going to disappear. But allowing private developers to build and sell to whoever offers the most will only result in local people fighting over the scraps, more ghost towns, and market prices and rents at the same high level. To ensure that new homes meet housing need and contribute to the community, they need to be targeted: built as affordable and then let to people on the waiting list or sold to first time buyers with a covenant that they are sold back into the community, such as on a community land trust basis. Those homes would never be available to second home owners so should secure greater political support. That requires funding and land from councils and the government – the former could be raised from owners of holiday homes in tax revenues.

27. <https://www.theyworkforyou.com/whall/?id=2022-01-06a.83.1#g84.1>

Recommendations

Generation Rent recommends that governments in Westminster, Holyrood and Cardiff take the following steps to bring more homes into the residential market:

- Withdraw mortgage interest relief from furnished holiday lets.
This policy is set at the UK level.
- Require all holiday lets to be registered for council tax and create powers for councils to levy council tax premiums on second homes and commercial holiday lets.
The Welsh government has already done this for second homes.
- Require registration of all second homes and commercial holiday lets and create the power for councils to issue limited numbers of licences for holiday lets.
The Scottish government has already taken steps to do this for holiday lets.
- Expand funding of permanently affordable homes to rent and buy in areas with high numbers of holiday homes.
This power lies with governments and local authorities.

Further work needed

Greater understanding is needed of the holiday homes sector in the UK, and we have identified the following gaps in the data available, much of which is held by the UK government and local authorities.

1. The exact number of holiday lets advertised in the country as a whole and how this compares with the figures we have for people declaring holiday let income and holiday homes. Inside AirBnB appears to have this data but not in a publicly accessible format. In addition, the English Housing Survey suggests that there are 25% more non-primary residences than tax records indicate, so it is possible that even more are not on the authorities' radar.
2. Local breakdowns of the number of properties registered as holiday lets for business rates over time would help us observe the change in their numbers and how they respond to policy changes and conditions such as those the UK tourist market experienced in 2021. We still do not know how many properties have been registered for business rates in the years when we saw the dramatic rise in AirBnB listings.
3. Having HM Revenue & Customs data for the number of landlords declaring holiday let income stretching back to 2014 would allow us to better understand long term trends and how both the advent of AirBnB and the withdrawal of mortgage interest relief on residential buy-to-let policy has affected the sector.
4. In London, the low number of properties registered for non-domestic rates indicate that owners are choosing to remain within the council tax system rather than pay business rates. We need to understand if this is because rates are indeed too high to allow them to benefit from small business rate relief. There are requirements to seek planning permission for homes which are let out for more than 90 days in the year, but we do not have data indicating how many properties this applies to. We should also consider whether councils need powers to force holiday let operators to abide by certain tax regimes.
5. We need better understanding of the relationship between long term empty homes and second homes, how councils in tourist hotspots and elsewhere treat them in terms of council tax, and the flows between different sectors, including the private rented sector. While individual councils will hold tax treatment data, analysis of flows may only be possible on a granular level that could only be achieved with an integrated register of private rented properties and holiday homes, as set out above.

Census and Stamp Duty data may also be a fruitful source for future research. Cornwall Council recently explored both, including HM Revenue & Customs data on Higher Rate Stamp Duty on Additional Dwellings. This includes the number of homes bought as second homes or buy-to-let, but does not allow a breakdown. Cornwall Council found that it was in the top 20% of councils for the proportion of property transactions paid at the higher rate.²⁸ Census data records the number of people reporting a second address and households without a usual resident. We eagerly await the Census 2021 data.

28. https://www.cornwall.gov.uk/media/k2vaas1v/cornwall_secondhomes_2021.pdf

Appendix 1

Estimating the proportion of second homes that are holiday homes

The English Housing Survey 2018-19 defined second homes as “homes mainly used by family/friends as holiday home, let to others as a holiday let, for occupation while working away from home, rented or other”.

The total number of households with second homes was estimated to be 814,000 – though only 495,000 second homes were located in the UK.

The EHS asked respondents who had a second home what the reason for having it was. Respondents could choose more than one answer. The findings were:

Reason for having a second home	Estimated households
As a long-term investment and/or source of income	282,000
To use (eventually) as a retirement home	71,000
To use as a holiday home or weekend cottage	316,000
For someone working away from home	37,000
For someone living away from home (not for work)	26,000
Marital breakdown	6,000
Previously main home	133,000
Other	93,000

We wanted to understand what proportion of properties registered as second homes for council tax are used as holiday homes. It was not straightforward to simply use the 316,000 holiday home figure as there could be significant overlap with the 282,000 source of income figure, where the home could be primarily a holiday let.

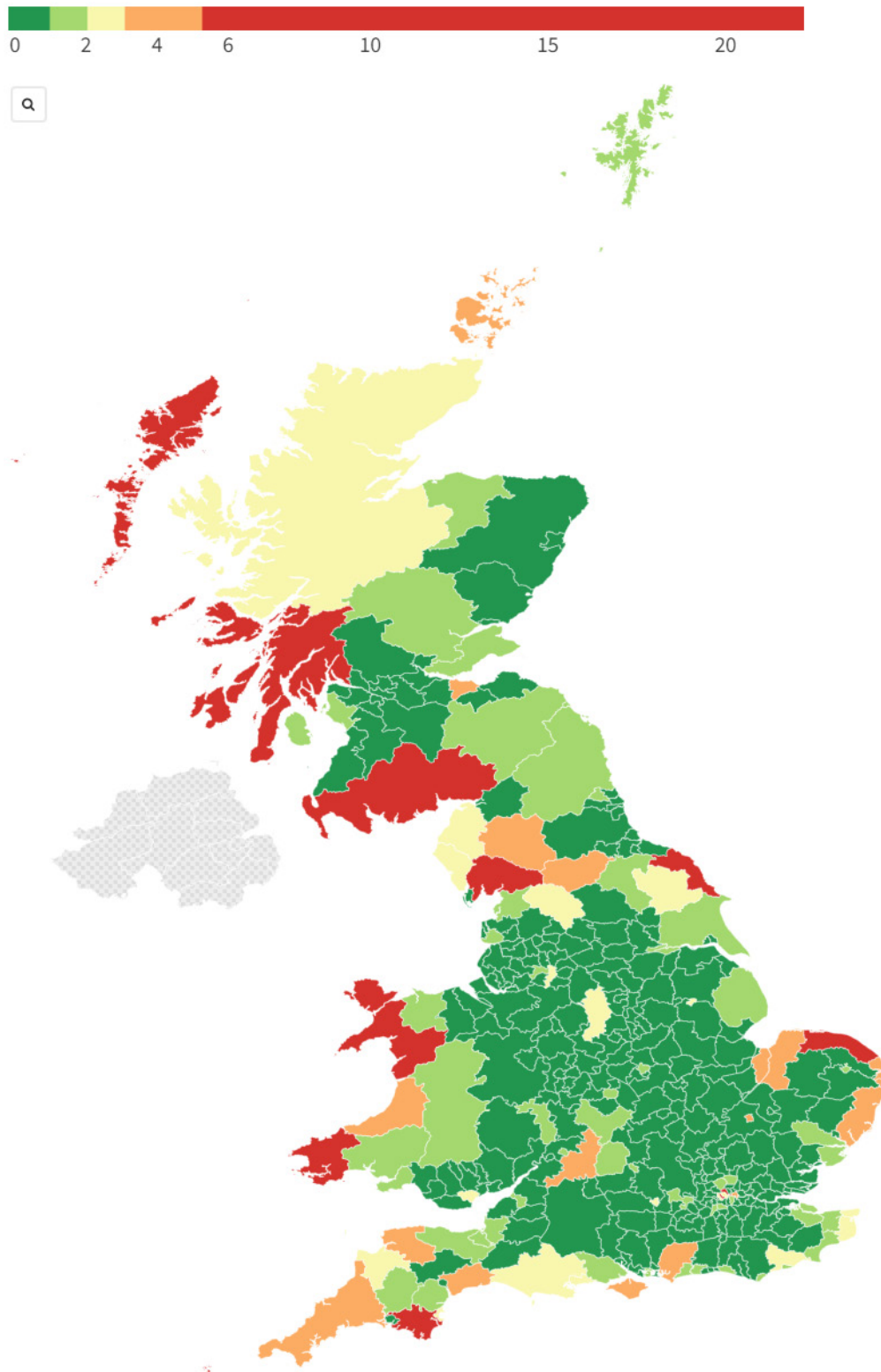
First, we assumed that previous homes and former marital homes would not be registered as second homes and would be on the sale market in the near future. This reduced the total to 675,000 households.

Then we categorised as non-holiday homes anything used for retirement, work arrangements and other living arrangements (including Other), which was 227,000 in total.

This left 448,000 holiday homes out of 675,000 properties that could be registered as second homes, or 66%.

Appendix 2

Appendix 2: second homes at local authority level 2020-21



Source: ONS Geography Open Data

Appendix 3

Half of Great Britain's dwellings registered as second homes for council tax purposes are located in just 40 local authorities. English and Welsh data are from 2021 and Scottish data from 2020.

Local authority	Total second homes	Total dwellings	Second homes as % of total dwellings
Cornwall	13,260	277,512	4.8%
Kensington and Chelsea	8,035	89,542	9.0%
Camden	7,648	111,968	6.8%
Tower Hamlets	6,530	142,728	4.6%
Manchester	5,894	241,190	2.4%
Dorset	5,726	181,702	3.2%
North Norfolk	5,397	55,754	9.7%
Bournemouth, Christchurch and Poole	5,147	187,858	2.7%
Gwynedd	5,098	62,581	8.1%
East Suffolk	4,113	119,727	3.4%
Pembrokeshire	4,068	63,034	6.5%
Scarborough	4,028	58,008	6.9%
Highland	3,736	119,918	3.1%
South Lakeland	3,703	53,808	6.9%
Northumberland	3,538	157,461	2.2%
Cardiff	3,477	153,365	2.3%
South Hams	3,455	45,606	7.6%
King's Lynn and West Norfolk	3,228	74,550	4.3%
Chichester	3,187	59,111	5.4%
Southwark	3,168	144,584	2.2%
Westminster	2,971	129,380	2.3%
Argyll & Bute	2,952	48,199	6.1%
Isle of Wight	2,946	71,825	4.1%
Barnet	2,775	155,910	1.8%
Coventry	2,670	148,218	1.8%
Newcastle upon Tyne	2,650	136,635	1.9%
Bristol	2,627	206,073	1.3%
Bradford	2,530	220,088	1.1%
East Devon	2,348	72,115	3.3%
Great Yarmouth	2,325	48,760	4.8%
Fife	2,306	179,232	1.3%
Leeds	2,164	364,076	0.6%
Isle of Anglesey	2,139	35,036	6.1%
Hammersmith and Fulham	2,112	92,148	2.3%
Swansea	2,104	112,072	1.9%
Leicester	2,064	142,003	1.5%
Brighton and Hove	2,034	131,581	1.5%
Reading	2,023	74,523	2.7%
Cambridge	2,001	58,993	3.4%
Salford	1,938	125,204	1.5%



Generation Rent

71, Howard Street
North Shields
NE30 1AF

More Information

✉ dan@generationrent.org
☎ 07753 369 555

✉ info@generationrent.org
🐦 [@genrentuk](https://twitter.com/genrentuk)
📘 [Generation Rent UK](#)