



**EVERYTHING
LETTING
AGENTS
SHOULD KNOW
BEFORE 2023**

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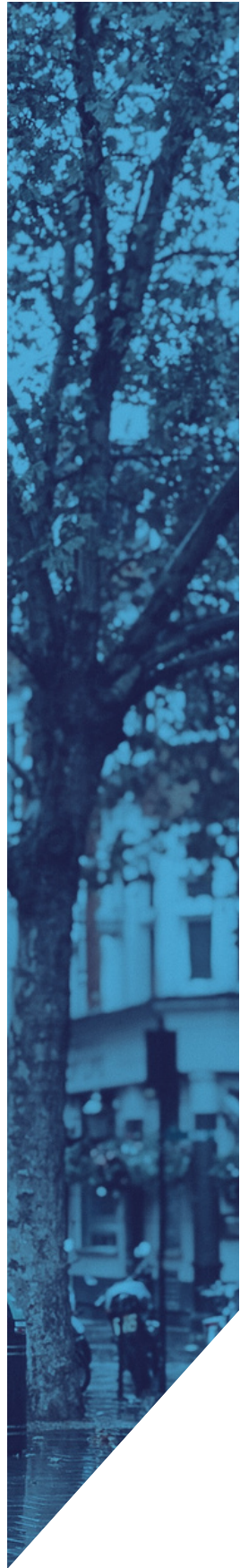
Introduction

As we approach the season of pumpkin spice and Christmas delights, it's time to reveal what's in store for you. This guide contains everything you need to know for the remaining year, including policy updates, trends in tenants and landlords, as well as insights into the current state of the property market.

In the last year, we've witnessed war, inflation and a rising cost of living. Astronomical energy bills that would make Greta Thunberg's jaw drop. The downfall of Boris Johnson leaving Liz Truss to spearhead the UK, who must deliver clear guidance on the property infrastructure and plans for affordable housing.

The Rental Reform Bill, amendments to the Minimum Energy Efficiency Standards (MEES) and Digital Tax, are just some of the policies affecting letting agents. Not to mention, the influx of renters with limited homes available.

Fortunately, prospects are looking profitable for the letting agents. Now, your focus is to stay vigilant and agile, in order to appeal to tenant preferences and solve landlord challenges.



Section 1:

Rental Market: Supply and Demand

Rental Market: Supply and Demand

Long story short, it's a renters market. You'll be pleased to know that it's profitable to invest and scale your portfolio now. Why? Because there's currently a high demand and a low supply, especially in London.

Inflation is at 8.8% – salaries have not increased in tandem. This economic strain means people are more likely to save pennies than become homeowners with fluctuating mortgage rates.

In good news: a complete property crash is unlikely. Rightmove predicts house prices may fall to 7% towards the end of 2022. Capital Economics believe mortgage rates will rise to 3.6%, but house prices may fall by 5% in 2023. For you, this means an increased interest in renting. However, this causes three potential problems: tight supply, high rent, and a very competitive market.



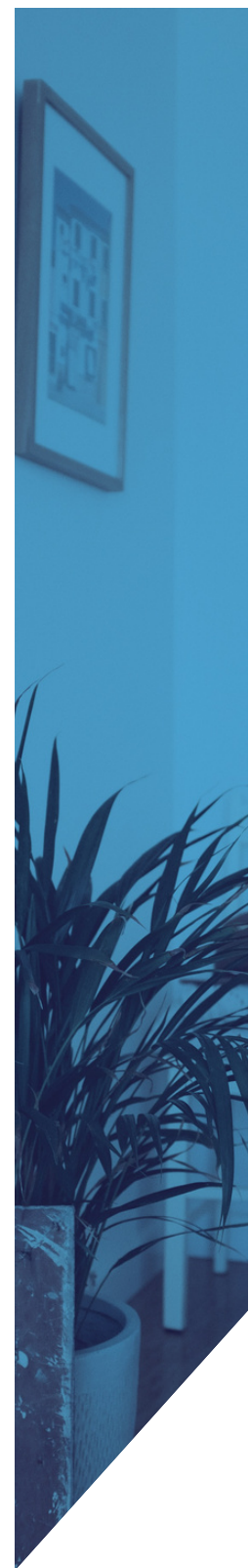
Tight Supply

The UK Residential Market Survey revealed a strong renters demand – a whopping +36% net balance. In short, this means respondents predict an overall positive market for new and existing renters.

However, supply is tight. The Ukraine War meant overseas investors and international buyers pulled out of the market due to uncertainty. Plus, the general cost of living is worrisome. Nevertheless, this means fewer void properties as your tenants will likely renew their leases.

Bruce Collinson (chartered surveyor from Adair Paxton, Leeds), comments: “Tenant demand has been very strong for 12 months. If, as predicted, up to 300,000 private landlords exit the market because of proposed changes to [legislation], with nobody else filling the gap, rents might rise sharply.”

Subsequently, you may become responsible for more properties, scaling your portfolio. It's now paramount to speak with landlords and tenants to understand their motives. From here, you'll know how you can support them during this uncertainty. For new renters, you will need to optimise the application process to ensure only viable candidates are considered that match your landlord's expectations.



High Rents

According to Zoopla, the average rent is £995 per month – which has increased by 11% in the last year. Hence it's likely that lettings will bring in a higher yield on their portfolio.

However, house prices across the UK are rising exponentially. RICS found that the net balance for new buyer enquiries dropped to -27% in sales. This might make it more difficult to scale and invest smartly. Moreover, Scotland has placed a rent freeze to support tenants struggling with high bills. So, if your gameplay for ROI is high rent, you will need to incentivise renters.

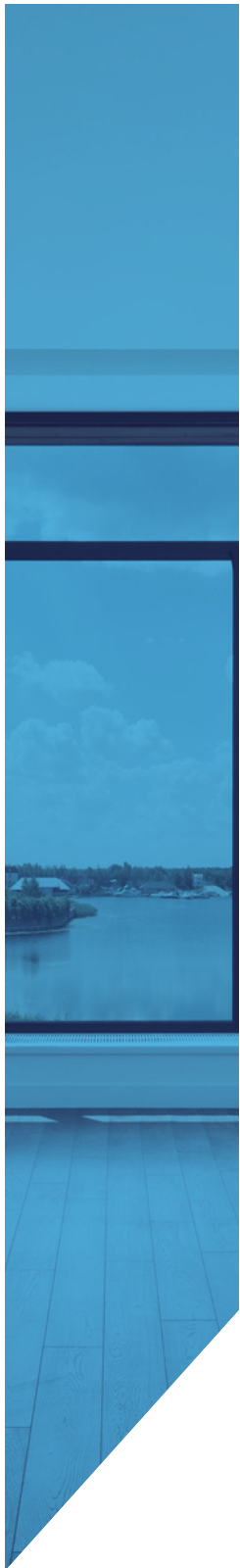
The UK's rural areas seem more affordable – and therefore desirable. Newcastle's rent is the lowest in the UK, averaging at £659 pcm. Belfast, Glasgow, Birmingham, Leeds and Nottingham are looking pretty trendy right now, with the average monthly rate ranging between £600 to £720. It might be wise to consider expanding your portfolio and connecting with landlords in these locations.

Take into consideration the tenant's ability to rent. As Sarah Evans (Managing Director at Cardea Lettings) points out: “There are landlords renting a single room out (bills included) for £1,000 a month. Affordability is counted on 3x the monthly rent. So that single person has to be on at least £30,000 a year to rent that room.”



High Rents

Tenants will likely stay put in their current residence or move out to rural and less popular areas of the UK where rent is cheaper. To attract tenants, you need reasons that make you stand out. For instance, slick processes for repairs and maintenance or digital rent payments. Smooth systems and higher tenant satisfaction can be valid strategies for justifying the rent increase.



Competitive Market

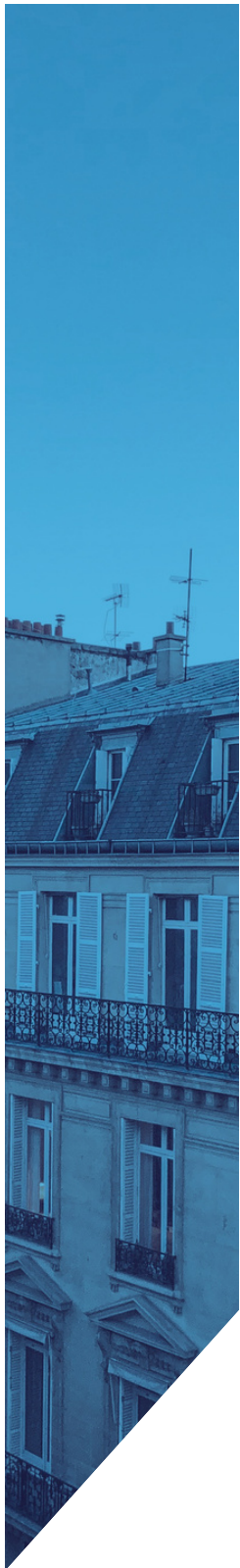
We're seeing historically higher property prices than ever before, but limited rental properties. This means tenants are becoming desperate and will haggle for a home that is available and affordable.

It's likely that in an attempt to secure a property, prospective tenants may enter bidding wars. Speaking to Sarah Evans, she disclosed:

"I don't think I've ever in my 15 years – even during the property crash in '07 – seen this with supply and demand. I put a room to rent on the market on Monday afternoon around 2 o'clock... I got 37 messages in the first 2 hours. So then it becomes a really tough job on which applicants you put through to viewing."

The applicant process becomes doubly competitive. Sarah continues: "Applicants are finding now that they're getting grilled before even viewing a property. It's kind of like applying for a job now... A lot of applicants have no chance." This cuts time by finding top candidates to schedule viewings accordingly.

With all these factors combined, rent is expected to spike to 4.5% (excluding London). The next step is to consider who your ideal tenant is. To streamline this, create a personalised form for applicants that meet these requirements, and filter out time-wasters. Also, it would be worthwhile refurbishing existing properties to suit current and new tenants' preferences. This will minimise void properties and keep tenants happy.



Section 2:

New Policy and Regulatory Changes

New Policy and Regulatory Changes

There are several upcoming changes that letting agents should be clued up on between now and 2024. Whilst some policies are targeted at landlords, it remains your responsibility to ensure compliance.





February 2022

Making Tax Digital (MTD) for VAT-registered businesses and landlords has been postponed until April 2024. Landlords must regularly submit financial information and records if they earn a profitable income of over £10,000 annually each quarter.



June 2022

The Coronavirus Recovery Reform Bill (Scotland) passed in June 2022 removes mandatory evictions. They can only be “ruled as reasonable” by a tribunal instead of public services. Secondary to this, retaliatory evictions due to rent arrears must follow a pre-action protocol (specific steps before proceedings).

Following the case of *Byrne v Harwood-Delgado*, property managers must provide a valid gas certificate before the tenancy begins, or they will forfeit their right to serve a Section 21.



June 2022

Renters Reform Bill: Although the Bill is not planned to come into effect until 2024 onwards, significant changes could rock the rental market. This includes:

- Abolishing Section 21 where landlords must have a reasonable justification.
- Scrapping shorthold tenancies (fixed-term contracts) to periodic tenancies.
- A new Property Ombudsman which all landlords must register for.
- Amendments to the Tenant Fees Act (2019) for pet-friendly properties. Landlords will be able to require pet insurance so any damage to their property is covered.
- The Decent Homes Standard (DHS) requires all properties to be fit for living. They must be free from health and safety hazards, with appropriate and sensible facilities, including heating and noise insulation.
- Online Property Portal to help landlords comply with responsibilities, as well as giving councils more information and power to challenge problematic “criminal” landlords.



September 2022

End of the covid-adjusted right to rent checks. During the pandemic, tenants could show original documents via a video call, send photos or scanned copies. New Right to Rent protocols will require letting agents (and landlords) to check physical documents in-person for new renters. This will come into effect from September 30th 2022.



October 2022

Smoke and Carbon Monoxide Alarm Regulations new amendment requires all rental properties have a carbon monoxide alarm installed where there is a combustion appliance (except gas cookers). Landlords are responsible to install, repair and replace alarms. Testing the alarms falls under tenant responsibility. This will come into effect from October 1st 2022 for England and Wales.

Minimum Energy Performance of Buildings (No2) Bill: is currently in its second stage of reading at the House of Commons which affects EPC ratings. The Bill falls under the Government's targets to achieve net-zero carbon emissions by optimising properties to reduce energy bills. Currently, the MEES requires a minimum E rating for rented properties; this will change to a minimum C rating for new tenancies from December 2025. Failure to comply may result in a penalty of £30,000.



December 2022

Renting Homes (Wales) Act: tenancy agreements to change from assured shorthold and secure tenancies to a “standard occupation contract”. This factors in whether the property is owned by a private landlord, council or housing association. Properties must be “fit for human habitation” (FFHH), passing electrical checks, fitting smoke and carbon monoxide detectors, and with functional use of gas, water, and electrical appliances.

- Changes to Section 21 will mean no-fault evictions cannot be served until a minimum of 6 months into tenancy. This protects renters for 12 months into their tenure from the date they move in.

Section 3:

Changing Trends in Tenants and Landlords

Tenant Priorities

Unsurprisingly, tenant priorities have changed as a result of the pandemic and the cost of living. Renters are now looking for appropriate working-from-home spaces and pet-friendly homes (of which only 7% of properties currently facilitate). Searches for terraces and outdoor areas also increased by 204% – a huge request for 2022.

In a recent tenant survey, common preferences include:

- WFH: 26% are on the hunt for better spaces that cater to remote working.
- Energy efficiency: 84% of tenants believe a property's energy efficiency status is essential or important.
- Pets: 28% felt pet-friendly homes were essential.
- Broadband: Over 60% felt high-speed broadband was essential.

Adapting your property to match these tenant preferences could make you stand out. The top three to consider are: pets, energy efficiency and permission to decorate properties. (Note: these preferences also fall in line with the Government's Leveling Up white paper.)



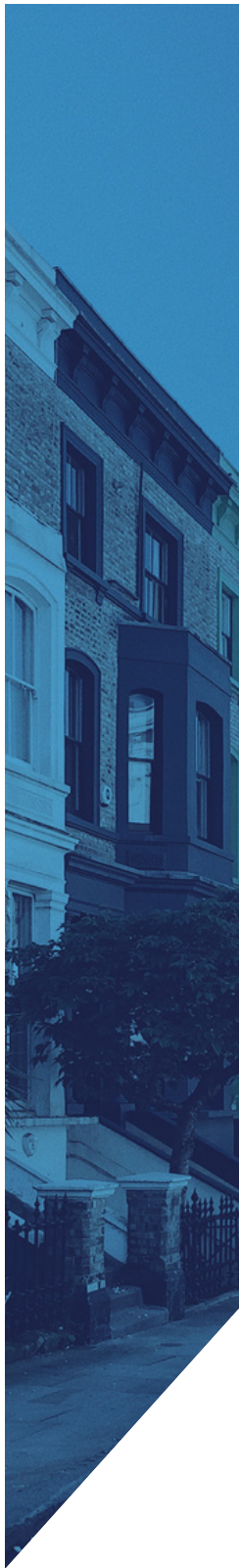
Landlord Motives

Reece Devlin (Property Investment Broker at Thomas Bradley Homes, Glasgow) believes the change in supply and demand could be lucrative, especially for investors.

He said: “It’s very buoyant in the rental market right now... There are not enough properties on the market at all, but there are so many renters out there. People are wanting to rent rather than buy because the Residential Sales side is so over-inflated. Even the student-let is going sky-high, and that in turn is bringing HMOs to Scotland... Investors are now seeing this as an investment vehicle.”

However, many feel the proposed legislation is very “anti-landlord” and “pro-tenant”. If the statutory regulations are deemed unfavourable, landlords may consider selling their portfolios.

“We’ve lost half a million houses in the PRS this year alone with landlords selling up and moving out of the industry,” Sarah says. “We were at 4.4 million houses in December [2021], and by June this year, we were at 3.9 [million]. So that’s half a million families that have now been displaced. This has a massive knock-on effect for people.”



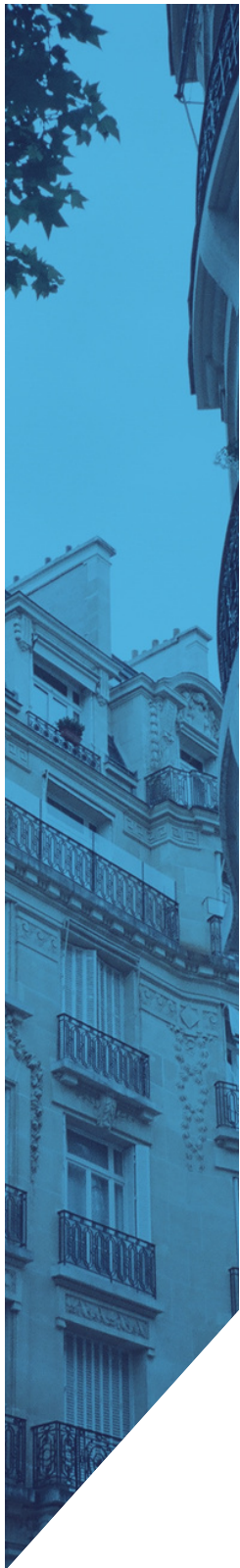
Letting Agents' Responses

Letting Agents now face more responsibility. The onus could fall on you to take on more properties due to landlords dropping out. With regards to repairs and maintenance, this is only going to add to the workload and outgoings.

Sarah: “With inflation and the cost of living crisis alone, maintenance costs have almost doubled. The materials are higher, and the labourer has to charge more because their petrol, insurance and utilities have gone up, so the hourly rate goes up.”

Many agents believe it's the Government's responsibility to support the Private Rented Sector (PRS) and Social Rented Sector.

“The PRS is made up of 23% of tenants who should be in social housing. So putting those types of tenants into the PRS has increased the demand which is getting out of hand. Therefore, there needs to be more social housing. This will take pressure off the PRS, as well as new homeowners.”



Conclusion

The post-pandemic transition and economic crisis continue to affect the property industry. Although the economic and political climate may feel uncertain, staying compliant and on-trend will work in your favour. Understanding this information can help you win over new landlords and clients.

To offset any challenges (especially with upcoming legislation) and continue being efficient in property management, it's essential to be prepared. Invest in digital tools and proptech that will streamline processes across your property portfolio. In turn, you'll stay efficient, protected against sanctions and double your return on investment.





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