



How Letting Agents Can Prepare and Maximise Profits in 2023

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Introduction

The lettings industry faces constant change, from updated legislation to a socio-economic crisis. However, it continues to be one of the most resilient and lucrative industries. Even during the pandemic – a time of great uncertainty – letting agents still prospered. In 2021, Foxtons generated £74.3 million in lettings value and landlords collectively declared £2.74 million.

Today, the market remains a fundamental enterprise. Boomin revealed that letting profits equate in agencies to 47% of the market share, generating approximately £150,000 per branch in rental income.

Around 18.5% of people privately rent. Whilst only a 2% drop from the year before, this figure could fall further due to 1 in 10 landlords retiring from the market. New regulations are becoming a burden which deters landlords. Therefore, although renting remains popular, marketing must be adapted to attract landlords and ensure supply remains steady.

This eBook will demonstrate how you can use the hurdles presented to your advantage to prepare for the year ahead. We aim to uncover landlords' motives and how to increase rapport with them to maintain a strong income flow. Finally, we'll advise where you can minimise overheads in-house to generate more profits using technology and stellar market insight.

Policy Updates

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Constant changes to legislation can be frustrating to keep up with. It seems as soon as you get to grips with a new regulation, another one strikes again. Due to the policy yo-yo, over a quarter of a million private rentals have fallen back into the sales market.

However, there are a few silver linings which could actually increase your service value as a respectable agency. Consider yourselves the knights in shining armour, fighting against landlords' distress.



Regulation Summary

We recently shared a list of all upcoming legislation on your radar to be prepared for next year. The key changes include:

- Making Tax Digital: both agencies and landlords must keep digital financial records to submit tax returns from April 2024.
- Renting Homes (Wales) Act 2016: restructures tenancies to “contracts”. Stakeholders will receive a “secure” contract for the social rented sector and a “standard” contract for the PRS.
- The Cost of Living (Tenant Protection) Bill: a rent freeze until 31st March 2023 across Scotland.
- The Residential Tenancies (Deferment of Termination Dates of Certain Tenancies) Bill 2022: pauses tenant evictions over the winter months until 31st March 2023 in Ireland.
- Updates to MEES alongside EPC regulations: proposes properties with new tenancies must have a minimum C rating by December 2025.

Strategy for Compliance

Although some of the policies won't come into effect until 2023 onwards, it's wise to stay vigilant. Follow this 3-point plan to make sure appropriate systems are in place so that it's smooth sailing from here on out.

1) Run an audit: Check your current systems to pinpoint what needs to be streamlined. How are you tracking EPC certificates and reminders? Are contracts signed and sealed? How are rents and deposits being collected or returned? If this is manual or tracked on a spreadsheet, your agency loses valuable business time, money and risks legal repercussions.

2) Research software: Several property management systems (PMS) have tools that automate the above. Hundreds of letting agents use software as a safeguard to follow the rules and stay GDPR compliant. For example, they set task reminders for property inspections and store digital certificates. This helps to ease the burden and minimises the risk of penalty.

3) Communicate with landlords: Many landlords will not have systems in place, especially if they are part-time or accidental landlords. Most live a double life, going to work whilst renting as a side hustle. They may lack the time and energy to understand their legal responsibilities as landlords; it's up to you to guide them.

Communication with Landlords

According to Rightmove's latest report, approximately 60% of landlords are looking to reduce their portfolios due to tax implications and upcoming EPC regulations. Currently, 31% of landlords don't use a letting agent; yet almost 3 in 10 would consider this a viable option if they had help navigating and understanding ever-changing regulations. This is a business opportunity right under your nose.

As reputable letting agents, be sure to communicate with existing and new landlords about their responsibilities. Landlords will likely feel safer, thereby trusting you with their portfolio and could recommend you to others in their network. Word of mouth remains a powerful lead magnet. Simply position yourselves as experts and share this knowledge so you stand out.

A foolproof system will greatly increase your service value to landlords. Ease landlord concerns by demonstrating sleek software that streamlines your compliance, effectively deals with maintenance and shares a birds-eye portfolio view with them. The fee landlords pay for peace of mind is priceless. Top tools that embed your legal expertise increase their faith to invest in your service.

Use this as part of your marketing strategy to maintain, attract and win new landlords. If they choose to sell, you can advise them on reasons to stay in the market which proves fruitful for both. Showing that you care and empathise puts you at the top.



Managing Expenses and Outgoings

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You might be unaware of the burn to your finances and profit as a result of overheads, costing you thousands per year. To help you succeed in 2023, knowing where to minimise unnecessary outgoings can in turn increase your ROI year-on-year.



Staff Costs

According to Lucy Noonan from Atomic Consultancy, 40% of your overall costs should fall to staff overheads to ensure the best profitability. Yet some agencies peak at 80% in staff costs, making their business unprofitable.

A common belief is that to improve efficiency, you need more staff. Figures show that the average cost-per-hire is £3,000 and it takes 27.5 days to hire a new worker. Not to mention the additional costs of employment, which adds another 15% plus per employee. This can easily equate to nearly £50,000 to cover one new employee.

However, investing in high-calibre property management software is a cost-efficient way to have more hands on deck, without hiring another person. This is both a time-saver during the recruitment process and instant support to manage day-to-day activities, from reference checks to repairs enquiries.

We're not insinuating that digitisation replaces employees. Humans are still needed for that empathetic touch – technology simply bolsters your processes. It allows you to track ongoing tasks remotely, like maintenance or property viewings, and seamlessly re-assign tasks if staff are off sick or set task reminders. Thereby improving in-team communication and maximising staff output for a greater ROI.

Maintenance Fees

Research by Help Me Fix shows that rental sector maintenance costs in the UK reach £30 billion annually. Generally, landlords set aside around 1% of their overall income for repairs and maintenance costs.

Furthermore, 53% of landlords succumbed to emergency call-outs for plumbing, gas and heating issues, electrics or locks. The average emergency call-out cost is around £765 – ouch! This is usually a result of issues not being reported and exacerbating; or more likely tenants reporting issues as an “emergency” when it is low priority or their responsibility. Either way, the fee comes out of your pocket.

The good news is that you can curtail unnecessary maintenance fees. Having an online reporting tool for your tenants to use, with in-built educational videos, could prevent incompetence and expensive charges. This saves hours of time, going back and forth to log the issue, chase contractors and keep everyone in the loop. Digitally recording repairs is an effortless and surefire way to boost ROI, whilst keeping the pounds safe.

Minimising Profit Loss

You may think profit loss is inevitable in lettings – but we beg to differ. Tenancy disputes, evictions and void properties can be minimised to almost double your profitability.

Tenancy disputes and evictions are generally born out of two issues: troublesome tenants or general dissatisfaction. To avoid both, screen for ideal occupants, run background checks and ensure all documents are signed before keys are handed over. Log all communication with a clear audit trail to protect you and stakeholders.

Tenant unhappiness can result from slow resolution of repairs or poor communication with agents. This leaves tenants feeling disgruntled, so they may not renew their lease or will require constant updates that suck up your time.

Automated tools track all communication, report repairs online with a detailed overview to send directly to contractors and acquire digital signatures. With all information stored safely, this also prevents the headache of a GDPR breach.

If tenants wish to end their contracts, you can run advertisements and viewings in the background to reduce void periods so rent rolls over. This keeps your landlords happy, encouraging them to stick with your agency and even list more properties with you in the future.

How to Increase Rental Yield

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Once you've streamlined your systems to cut unnecessary outgoings and maximise your profit, you're in a strong position to think about expanding the business. This requires you to think outside the box, whilst also marketing your value to landlords who need you.



Tap into Market Trends

Start by looking into rental trends and what's popular. Research shows that HMOs are more lucrative than single-unit properties. In the North East, HMOs typically offer 109% more in capital profit (72% for London areas). Perhaps expanding your portfolio or recruiting landlords in this niche would be more worthwhile than managing dozens of single lets.

Also, think about tenants' priorities and their preferences for renting. The rise in remote workers has led to more requesting office spaces in properties. For student accommodation enquiries, are there bars and libraries nearby? Perhaps new families want pets and a local school. Occupants are on the hunt for homes, not a house, so check what amenities your area offers.

Consider the geographic location of where it's more profitable to let. For instance, branching into areas like Bristol, Liverpool and even the Scottish Highlands could be money pots at the end of a rainbow.

Adopt the Hybrid Agency

Many landlords use multiple agencies to manage their properties across the UK. However, franchising costs 12% of the monthly turnover. You may not break even if the selection of properties in the area is under 50 units.

However, overheads for online agencies are much cheaper. They can manage everything via cloud-based software remotely. You could adopt a hybrid model. This allows you to benefit from face-to-face interaction, whilst also managing properties across the country from any location. All without having to franchise or establish a new branch.

Hypothetically, imagine you work with a landlord who has 4 properties in Edinburgh, but you manage their portfolio in London. Whilst they're outsourcing this to another agency, you could use a management portal with access from anywhere. This saves your landlord time and energy negotiating with different agents. You provide them with the perception of control and safety, thereby increasing rapport. Long-term, more business opportunities will arise.

Attract New Landlords

To put it bluntly, landlords need you. This is the time to nail your value proposition and USPs that put the spotlight on your agency. What is your irresistible offer?

Perhaps your agency has stellar local knowledge; maybe you provide online and offline advertising; you might be registered with TPO or members of ARLA and RICS. This massively enhances your credibility and expertise that landlords look for. Either way, it's paramount that you get client testimonials for social proof which attracts new landlords.

Also, consider that 72% of landlords visit Rightmove once a week to research the property market. You could help them envision ways to increase their rental income as a personal advisor – make your fee worthwhile to them.

Landlords who opt out of lettings services are sceptics; yet it's no secret that personal finances, regulatory changes and needy tenants keep them up at night. If you can offer landlords golden advice – such as how to claim TAX relief or legal assistance to prevent penalties – you're winning. It signals that their business success is just as important as your own, increasing rapport and trust.



Conclusion

Your mission in the upcoming months is to get organised, especially regarding legislative changes. Then, explore options that help minimise overheads whilst increasing your service value to landlords and tenants simultaneously.

The key to tackling both of these goals – ensuring success in 2023 – is by digitally transforming your operations. This will skyrocket your efficiency, enabling you to scale your portfolio feasibly and multiply profits.

Book a demo with Arthur to see where you can reduce outgoings, boost profits and put your agency at the forefront.



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