

DAWN OF A NEW DECADE

LETTINGS IN THE 2020s



A NEW DECADE IN LETTINGS

HOW WILL THE PRS CHANGE IN THE NEXT TEN YEARS?

The next decade is going to be one of huge growth for the private rental sector.

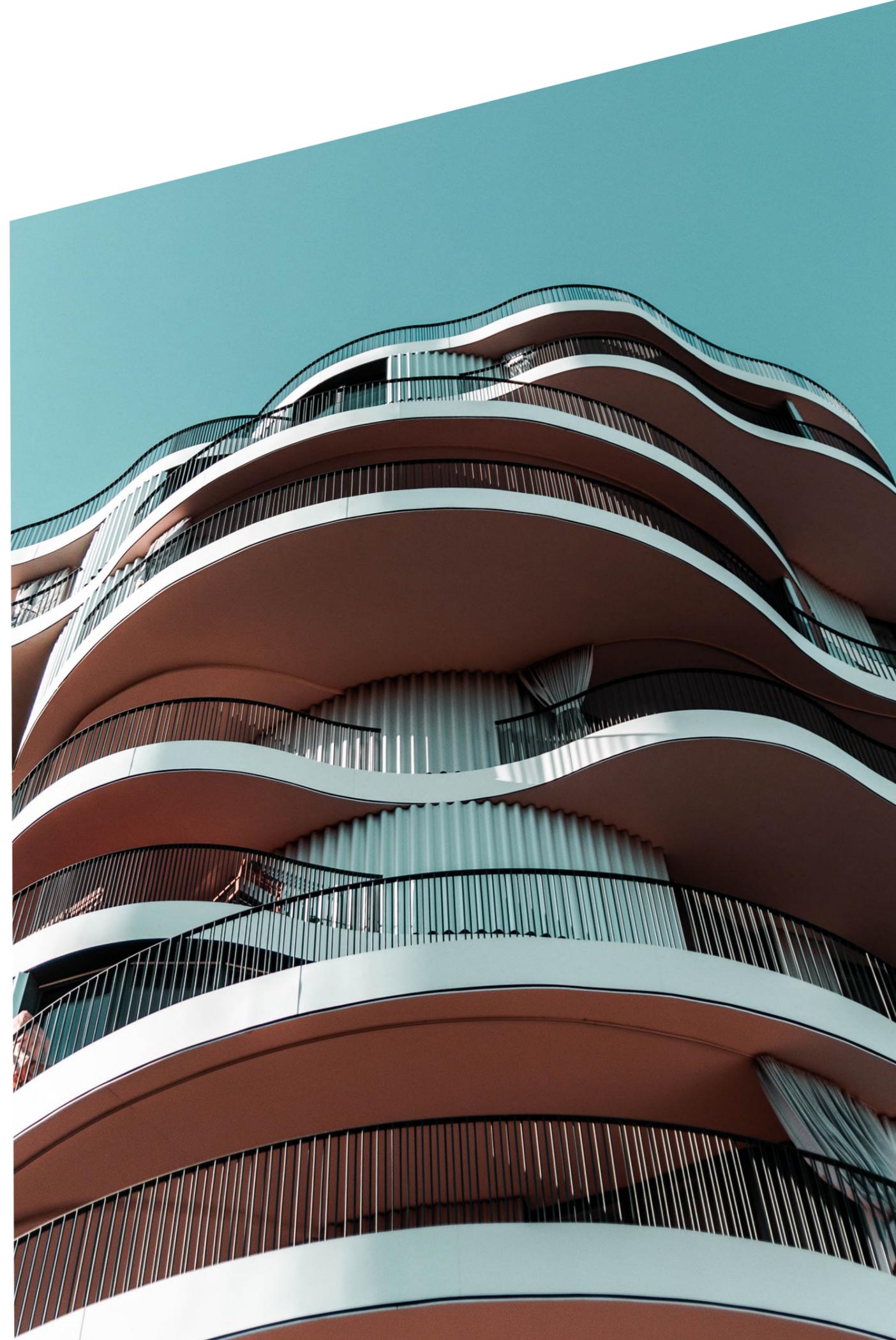
More and more people will be renting, for longer than they ever have before, with projections showing that 25% of people will be living in the private rented sector in just five years' time¹. This is good news for letting agents who want to capitalise on the myriad opportunities offered by this growing demographic.

There will be challenges. It's still uncertain how Brexit will impact the lettings industry and it's likely that legislation changes will continue apace. Letting agents and private landlords will need to up their game in order to compete with the services and

amenities offered by the growing build-to-rent sector. It's also likely that there will be a push to improve the eco-credentials of housing as the threat of climate change becomes more urgent.

Prepared, progressive agencies will be ready and waiting to meet these challenges head on. They'll need to evolve, sure. But letting agencies have proven time and time again that they can adapt to a constantly changing environment, from transformatory legislation to the adoption of new technology. Why should the 2020s be any different?

¹UK housing market outlook, PWC, [pwc.co.uk](https://www.pwc.co.uk)





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01

PREDICTING THE IMPACT OF BREXIT

UNCERTAINTY ABOUNDS

The impact that Brexit will have on the lettings industry - and indeed, the United Kingdom itself - remains an unknown almost four years after the referendum.

The uncertainty caused by the drawn out negotiations, however, has already taken its toll on the private rented sector. This is reflected in the changing sentiment of institutional investors, 80% of whom now believe Brexit could be a threat to the PRS, compared to 13% just two years ago². One survey found that one in five property investors was waiting until after Brexit before they invested again³. The number of landlords taking out buy-to-let mortgages has also dropped, despite low interest rates, perhaps because it's possible

that costs could rise for buy-to-let landlords if the Bank of England increases its base rate⁴.

But it's difficult to predict the impact that Brexit could have on landlords, says the National Landlords Association, noting that the weakening appeal of UK investment could see prices drop or the continued lack of certainty could drive up interest in the relative stability of property, while the relative low value of the pound could result in an influx in investment from overseas. "It is likely that landlords with established, well-capitalised portfolios will fare reasonably well," says the National Landlords Association. "However, those heavily reliant on finance may find uncertain conditions more troubling."



Brexit is providing uncertainty on another front, too, with the government yet to provide clear guidance on how leaving the EU will impact Right to Rent checks beyond the end of 2020. This is a concern for letting agents and landlords alike, given that two-thirds of EU nationals in the UK live in the PRS⁵. On a day-to-day level, changes to immigration policy could reduce demand from those coming to the UK, or drive up interest from those taking advantage of new arrangements with states outside the EU.

The prolonged Brexit process could be putting some tenants off buying a new home until there's more certainty in the market, meaning

more tenants are renting for longer. "People aren't moving as much, and they don't think that it's a good time to upgrade, to move onto a bigger property, or to move to a different location," says David Gilson of College and County in Oxford. Will that impact demand for lettings if and when the UK finally leaves the EU? Only time will tell.

² *Multihousing 2019*, Knight Frank, knightfrank.com

³ *Is UK property headed for a post-brexit boom? If so, should investors buy now?*, National Landlords Association, landlords.org.uk

^{4,5} *What will Brexit mean for buy-to-let landlords?*, Which?, which.co.uk

LEGISLATION OF THE PRS WON'T STOP SOON

PREPARATION WILL BE KEY

Will legislation of the private rented sector slow down in the next decade? It's unlikely.

In fact, as the number of renters grows, so too does their influence on the Government, which means the lettings industry could be subject to even more new legislation in the coming decade.

That's while many letting agencies are still getting to grips with recent changes. The ban on tenant fees was the single biggest change to the lettings industry in years, overhauling long-established business models in one fell swoop. It was predicted that revenues would decrease by 30% on average for most agencies⁶. There are signs that they are beginning to feel the pressure, with estate agencies

suffering substantial closures on the high street in 2019⁷. But those that were well-prepared for the changes continue to view the ongoing impact of the Tenant Fee Ban as an opportunity. "Potentially, there are a lot of agencies who will have to substantially increase fees, and it's an opportunity to have conversations with their landlords," says David of College and County in Oxford.

Meanwhile, the repeal of Section 21 is on the horizon and the recommendations from the Regulation of Property Agents report will likely come to fruition in the next decade. These are likely to include mandatory licensing for agents and, like the Tenant Fee Ban, will require agencies to rethink the way they operate.

Beyond that, energy efficiency standards are likely to get tighter, while the introduction of rent controls has also emerged as a distinct possibility. The Mayor of London Sadiq Khan has called for the re-introduction of rent controls in the Capital, following in the footsteps of Berlin - where rents will be frozen for five years from 2020 - and Paris, which re-introduced rent controls in July, only two years after scrapping them.

Khan's report called for the powers to implement a new system of rent control in London, including how existing rents could be gradually reduced and then limited within and between tenancies, as well as the powers to limit rent

increases within and between tenancies whilst the proposed system is being implemented⁸.

Preparation will remain key, says ARLA Propertymark CEO David Cox. "Agencies who embrace these changes, that are planning for them, that are getting ahead of them, they are the ones that will survive in five years' time."

⁶ Goodlord State of the Industry Report: Summer 2019, Goodlord, goodlord.co

⁷ Retailers call for action as high street store closures soar, The Guardian, theguardian.com

⁸ Reforming private renting: The mayor of London's blueprint, Mayor of London, london.gov.uk

“Agencies who embrace these changes, that are planning for them, are the ones that will survive”

03 LANDLORDS (AND THEIR AGENTS) WILL NEED TO KEEP UP WITH BTR

BTR IS SETTING THE PACE IN TENANT SERVICES

Build-to-rent looks set to dominate the private rented sector in the coming years.

There's no question that it's become more difficult to be a private landlord in the past decade. Like letting agents, landlords have had to contend with more regulation, while also being hit by increased stamp duty and the abolition of mortgage-interest tax relief, making the private rented sector a less attractive investment option for private landlords.

Given that more than half of landlords are 55 or older, a third are retired, and 63% view their property as an investment in their pension, it's not surprising that increasing numbers are exiting the private rented sector⁹

- with the number of landlords falling by more than 120,000 in less than three years¹⁰.

Meanwhile, the government has moved from subsidising buy-to-let landlords - who don't increase the overall property supply - to institutional investors. There are now 139,508 build-to-rent (BTR) homes in the UK, of which 29,416 are complete, 43,374 under construction (an increase of 40% on the previous year) and 66,718 in planning - an increase of 10% on the previous year¹¹.

⁹ *English Private Landlord Survey*, gov.uk

¹⁰ *Why Generation Rent just got older*, The Times, thetimes.co.uk

¹¹ *Building boom for UK build-to-rent housing*, British Property Federation, bpf.org.nz



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Investment in the coming years will be more focused on the regions, with 56% of development¹² by volume expected to be outside London¹³.

BTR homes are proving an attractive alternative for tenants, offering flexible, longer tenancies of up to five years, all-inclusive rent, amenities including gyms, bike storage and residents' lounges, and many allowing pet ownership¹⁴. These developments do attract a premium - an analysis by JLL found tenants in London BTR developments paid 11% more than the local average¹⁵.

Letting agents and landlords will need to up their game to stay competitive with the services offered by these new developments. The "exponential rise" of BTR developments, says JLL, will mean more of the rental population "will experience living in a fully equipped PRC and begin to understand how much amenities are worth".

"I think the market is heading towards concierge-type services for tenants, where they move in and everything is sorted for them - they

won't have to worry about anything," says Nicholas Edwards, Group Lettings Manager at Gibbs Gillespie.

"Over the next five to ten years, you will start to see tenants expecting that, on the day they move in, the bed is made, there's a towel in the bathroom and everything is ready to go," he says.

"A lot of the build-to-rent developments are already heading towards that model - maybe not to the extent of milk in the fridge, but many of those schemes have really embraced the idea of being totally ready for tenants to move in and everything working the second you step through the door. I do think that part of the market will certainly be developing further in the next few years and any good agent now has a lot of additional strengths to their bow and will already be offering a lot of the services that tenants are looking for."

^{12, 14} *Build-to-rent boom in the UK is costly for generation rent*, Financial Times, ft.com

¹³ *Multihousing 2019*, Knight Frank, knightfrank.com

¹⁵ *Will tenants pay more rent for amenities?*, JLL, residential.jll.co.uk



04 THE DEMOGRAPHIC OF TENANTS WILL KEEP CHANGING

THINKING BEYOND THE "AVERAGE TENANT"

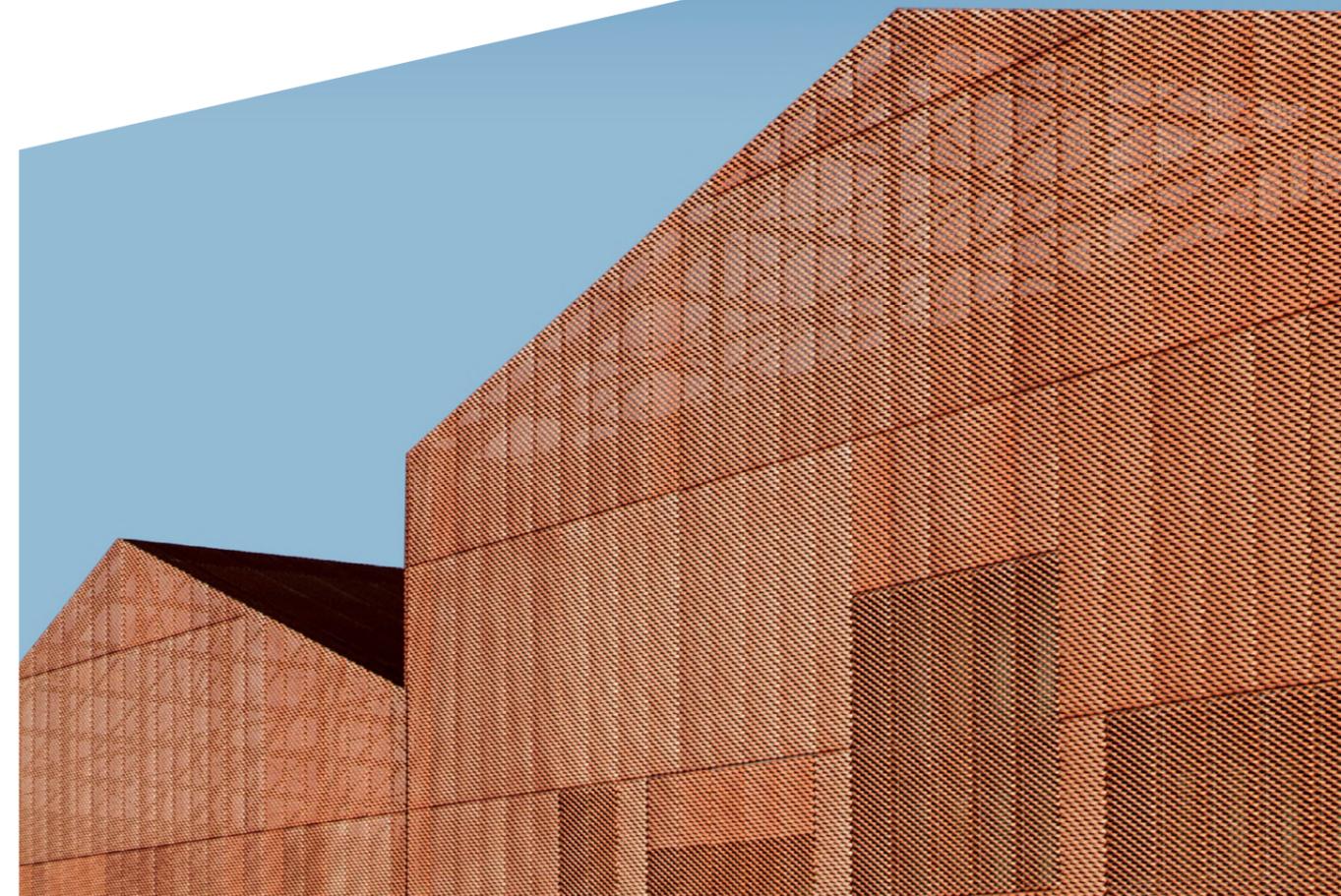
The “average tenant” no longer exists. Renting for life is becoming the norm across generations - from students right through to retirees.

This means that more people will be renting than ever before in the coming decade, with the proportion of households in the private rented sector set to rise to 25% by 2025, or 1.8 million households¹⁶.

Thirty-five to 49-year-olds are now the largest group living in the private rented sector, overtaking 25 to 34-year-olds, and the size of this group is expected to increase in the coming years, as affordability makes the prospect of owning a home increasingly difficult¹⁷.

Meanwhile, the over-50s are emerging as the fastest growing group in the private rented sector. The proportion of over-50s renting is at the highest level since records began, accounting for 15% of all rented households, up from 11% in 2012¹⁸. The Centre for Ageing Better (CfAB) is predicting that a third of people over 60 could be living in private rented accommodation by 2040¹⁹.

How will letting agents and landlords cater to such a diverse group? By identifying what they have in common. One in ten tenants said that renting allowed them to live in an area they could not otherwise afford, a sentiment that was relatively constant across all age groups²⁰. Only half of renters say that



they are happy with their standard of living compared to three-quarters of homeowners²¹, which means letting agents and landlords will likely start taking their cue from BTR developments and begin promoting their properties as part of an all-encompassing lifestyle - rather than just a place to live - in the coming years.

¹⁶ UK housing market outlook, PWC, pwc.co.uk

^{17,20} Multihousing 2019, Knight Frank, knightfrank.com

¹⁸ Why Generation Rent just got older, The Times, thetimes.co.uk

¹⁹ Why the over-60s are joining 'Generation Rent', Financial Times, ft.com

²⁰ Multihousing 2019, Knight Frank, knightfrank.com

²¹ Renters vs Home Owners report, YouGov, yougov.co.uk

“More people will be renting than ever before in the coming decade, with the proportion of households in the private rented sector set to rise to 25% by 2025. How will letting agents and landlords cater to such a diverse group?”

05 THE PRS WILL NEED TO TURN GREEN, FAST

REGULATING FOR CLIMATE CHANGE

Minimum energy efficiency standards were just the beginning.

The UK has passed legislation pledging to end its contribution to global warming by 2050. The target will require the UK to bring all greenhouse gas emissions to net zero by 2050, compared with the previous target of at least 80% reduction from 1990 levels²². Net zero means any emissions would be balanced by schemes to offset an equivalent amount of greenhouse gases from the atmosphere, such as planting trees or using technology like carbon capture and storage.

It's an ambitious target and one that won't be met without the "near-complete elimination of greenhouse gas emissions from UK buildings," according to the

Committee on Climate Change²³.

Emissions reductions from the UK's 29 million homes have stalled, according to a report by the committee, while energy use in homes – which accounts for 14% of total UK emissions - has increased. One home will need to be refurbished every minute if the government is to reach its emissions reduction targets for 2050²⁴, which means it's likely that minimum energy efficiency standards for landlords will get even tougher in the coming years.

The way new homes are built and existing homes are currently retrofitted "often falls short of stated design standards," according to the Committee on Climate Change, which "deceives householders and inflicts new

costs in the future. Closing the 'performance gap' could save households in new homes between £70 and £260 in energy bills each year". They have called for an acceleration in the retrofitting of existing homes, widespread inspection and enforcement of building standards and stiffer penalties for non-compliance, noting that "the required further tightening of building standards will have little impact if these issues are left unresolved."

But there's good news for letting agents with landlords who have invested in making their properties more efficient. Not only are energy efficient homes cheaper to run and maintain, they're also more appealing to climate-conscious tenants. A study by YouGov, for

example, showed that 66% of renters would be open to having solar panels on their property²⁵ and millennials (and likely their younger counterparts) are more likely than any other generation to say that they would pay extra for eco-friendly or sustainable products²⁶. There's no reason they wouldn't pay more to live in eco-friendly houses, too.

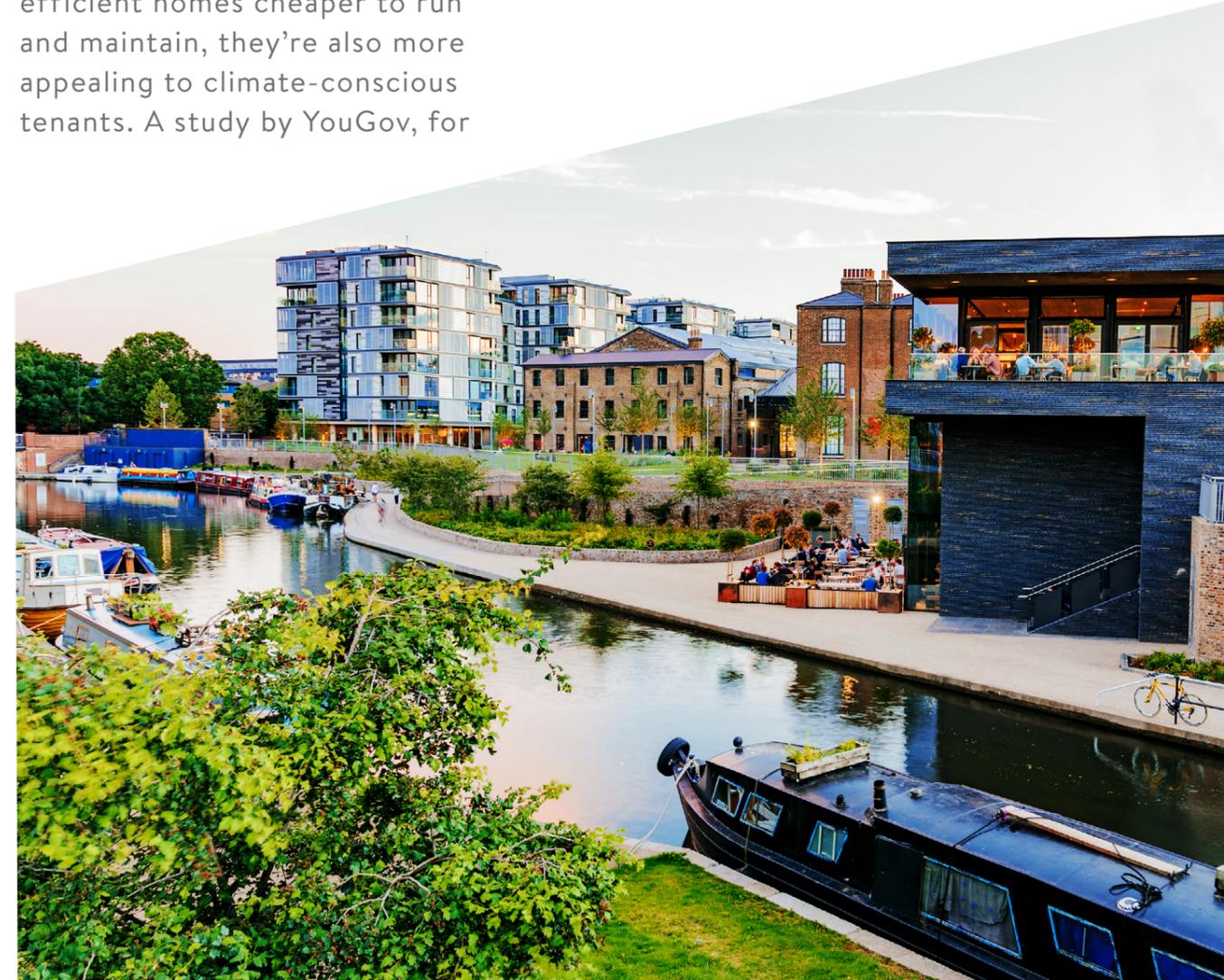
²² UK becomes first major economy to pass net zero emissions law, gov.uk

²³ UK homes unfit for the challenges of climate change, CCC says, Committee on Climate Change, theccc.org

²⁴ How will we live in the 2020s?, Financial Times, ft.com

²⁵ Renters vs Home Owners report, YouGov, yougov.co.uk

²⁶ The Rise of Green Consumerism: What do Brands Need to Know?, Global Web Index, blog.globalwebindex.com



06 THE AGENCY OF THE FUTURE

TECHNOLOGY CRUCIAL TO MAINTAINING RELATIONSHIPS

Technology has completely transformed the lettings landscape over the past decade, but perhaps not in the way many expected it would.

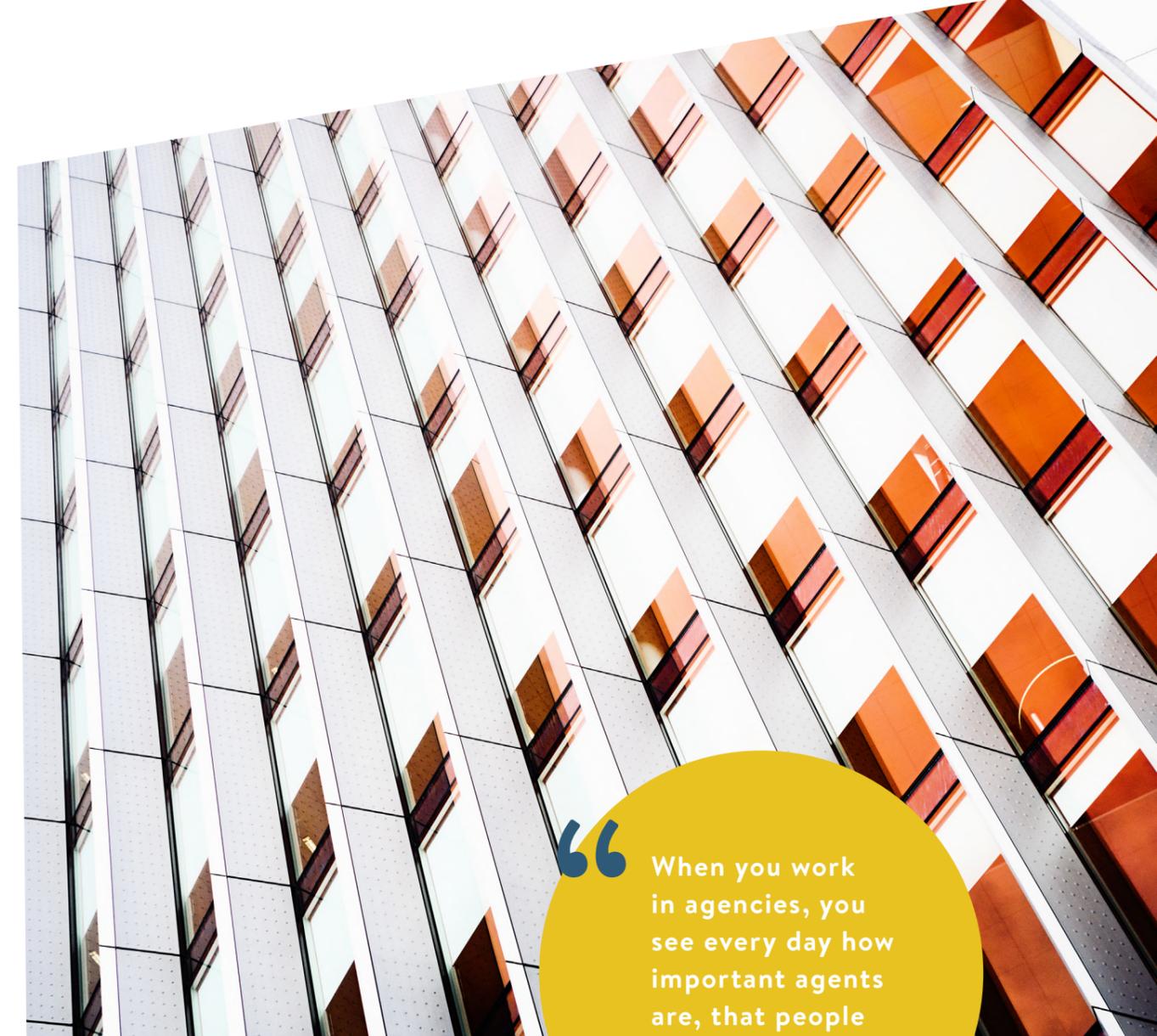
Letting agents have spent the past ten years contending with near-constant predictions that the end of the traditional agency was nigh, after a flurry of online-agencies arrived to challenge the idea of the traditional brick-and-mortar agency itself (in fact, one online agency even staged a mock funeral in the streets of London proclaiming its death).

This was coupled with an influx of investment in the emerging field of PropTech, with hundreds of start-ups setting out to improve efficiencies in the property sector, from lettings through to

property management, although most of these companies set out to help - rather than replace - the traditional agency.

Defying predictions, the traditional agency has survived. But successful agencies do look somewhat different to what they did a decade ago. Investment in technology that was once viewed with suspicion is now considered essential in order for traditional agencies to concentrate on what sets them apart from their virtual competitors: relationships.

“When you work in agencies, you see every day how important the agents are, that people still want to deal with people, and that it’s people who make things happen,” says Jaimie Beers, Managing Director of Madley Property



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Services in London. “Technology assists the people to do that, by streamlining processes.”

David Gilson, Lettings Director of College and Country in Oxford, agrees. “The value that comes from a traditional agency is the relationships, making sure that there’s an understanding from both the tenant and the landlord’s point of view, and there being a clear, flexible approach to the way that you work together.

That’s when you’re providing an enhanced service that actually has some real value above an online-only offering,” he says. “The thing that can’t be replaced by modern technology is the relationships.”



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