

GOODLORD E-BOOK

**EVOLVING YOUR
AGENCY TO MEET
THE NEEDS OF A
CHANGING MARKET**



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EXECUTIVE SUMMARY

BACKGROUND

UK letting agencies have had to adapt their businesses to meet the needs of a changing market. Customer behaviours have changed with the rise of the internet, while increases in regulation have meant that agencies need to change their existing processes. This e-book looks at the various challenges UK letting agencies are encountering in today's market and provides thoughts, tips and advice from agents in the hope of offering guidance to others in similar positions.

KEY MESSAGES

Fighting industry challenges

Goodlord recently surveyed one hundred agents throughout the UK and conducted hour-long interviews with ten agents to better understand the challenges they're facing.

The changing industry

Changes to the marketplace can be attributed to the growth of the internet and subsequent change in customer expectations, as well as a significant influx of investment in PropTech.

The impact of new legislation

Legislation including the Tenant Fee Ban and new taxes on home buyers has increased regulation in the industry and is now contributing to revenue losses for agents.

The rise of Generation Rent

The internet has put a new, digitally-savvy generation of tenants in the driver's seat - and competing for their business has never been harder.

Online agencies and their low costs

Online agencies are increasingly hard to compete against and impossible to price match with their low overheads and high growth due to considerable investment.

Brexit: Preparing for an uncertain future

An ongoing Brexit process is contributing to uncertainty and risk and the property industry is being increasingly affected by this sentiment.

Adapting to the future

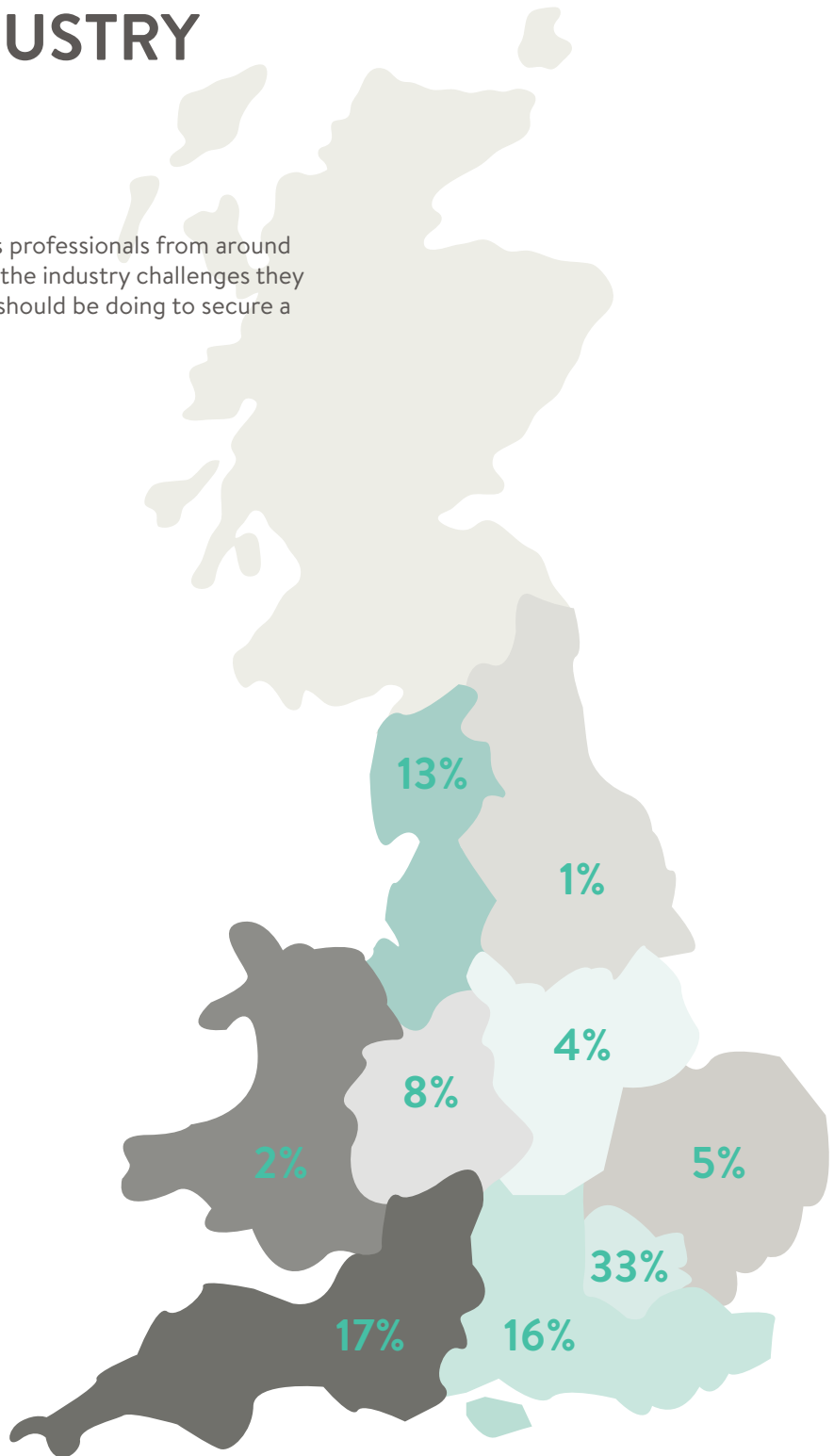
Changes and challenges are putting pressure on everyone within the industry, but the right technology can be the key to alleviating a lot of the stress and helping to keep an agency on course.

FIGHTING INDUSTRY CHALLENGES

Goodlord surveyed one hundred lettings professionals from around England and Wales to gather insights on the industry challenges they are facing and what they believe others should be doing to secure a positive future for their agency.

Where is your office based?

- North West
- North East
- Wales
- West Midlands
- East Midlands
- East of England
- South West
- London
- South East

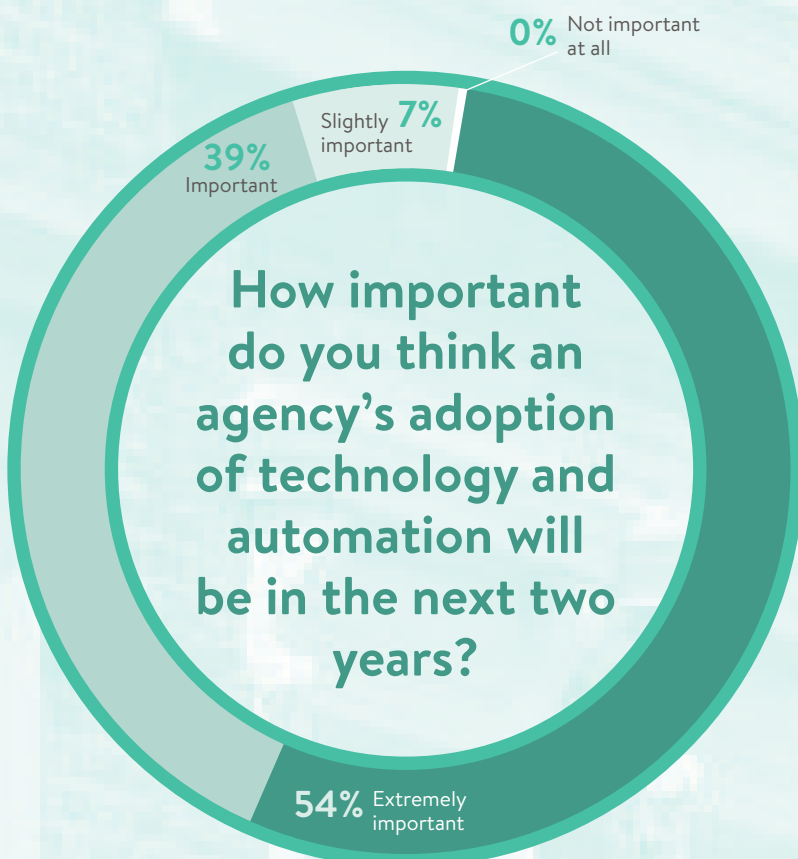
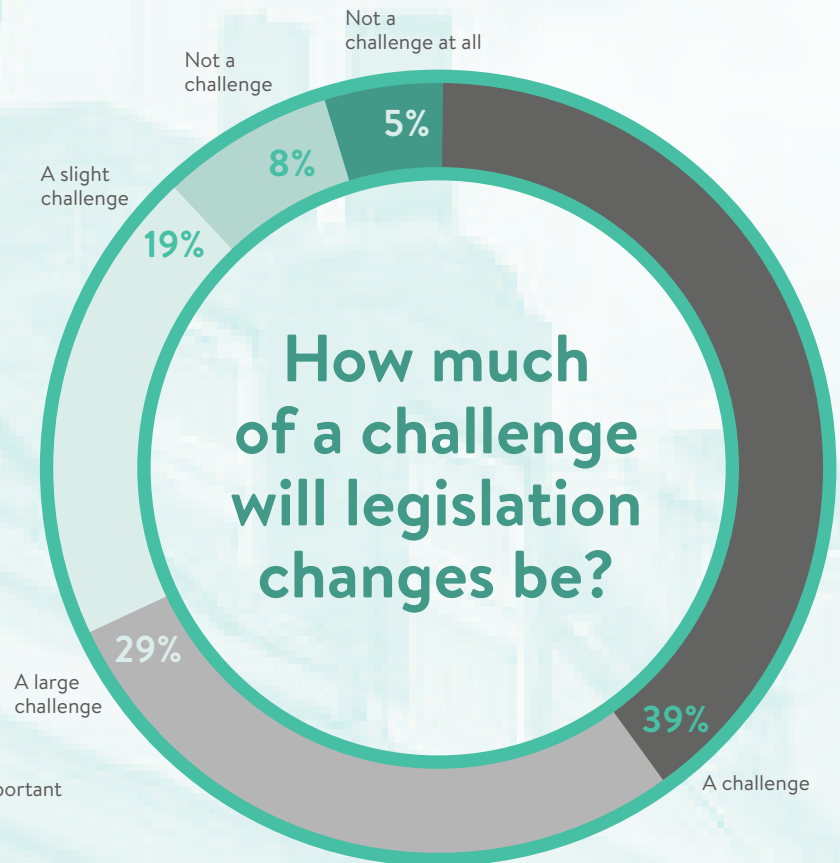
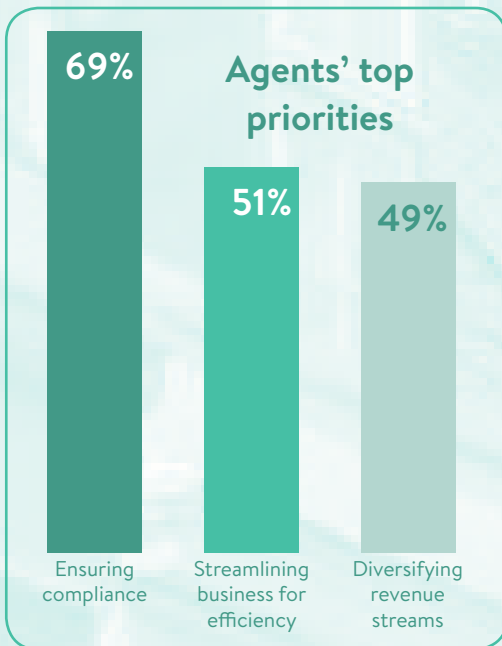


58%

of agents surveyed stated they were either concerned or very concerned with the medium to long-term future of the lettings industry.

AGENTS' THOUGHTS ON THE FUTURE

Key findings from Goodlord's survey of lettings professionals.



90%

of agents surveyed thought an agency that doesn't adapt to a changing industry will be at risk.

THE CHANGING INDUSTRY

Throughout the 1990s and early 2000s, the property market was thriving. Construction was booming and property developers had no problems offloading their supply through high street agents, who were then the best option for buyers and tenants alike. Agents, in turn, were becoming more and more profitable thanks to successful business models that matched the needs of the market.

Then, the world started moving online. Ninety per cent of adults in the UK now use the internet on a regular basis. Even more noteworthy is the increase in use of the internet amongst the older generation. In 2011, 20% of adults aged 75 and over were recent internet users, rising to 44% in 2018¹. The internet has changed the way the consumer interacts with businesses and how the world operates. Today, 81% of individuals will turn to the internet as the first step in their buying process.²

The first to capitalise on this changing marketplace in the UK was Rightmove in 2000, which was founded by four of the top UK estate agencies (Countrywide, Connells, Halifax and Sun Alliance³). People no longer had to travel to High Street offices to look for new places to live and the way the customer interacted with the industry changed instantly and forever. Online property listing portals soon popped up all around the world, including Zillow and Trulia in the United States, PropertyGuru and gohome.com.hk in Asia and, in 2007, Zoopla arrived to challenge Rightmove here in the UK. The PropTech revolution had officially begun.

Today, thousands of new companies are setting out to 'disrupt' the property industry - with London being home to many of those. Adding more fuel to the fire is the large-scale investment in these companies over the past three years. Forbes and CB insights have both reported \$3bn of venture capital investment in PropTech globally in 2017, a jump of 36% since 2016⁴.

An agent can no longer expect a customer to walk through their door purely based on their High Street location. With 1 in 5 agencies expected to go out of business in the next 5 years⁵, now is the time to adapt.



“The housing market is changing dramatically. It’s important that we do everything that we can to combat the changes.”

**Jamie Evans,
Billingham Taylor**

¹ <https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/internetusers/2018>

² <https://www.adweek.com/digital/81-shoppers-conduct-online-research-making-purchase-infographic/>

³ <https://plc.rightmove.co.uk/about-us/our-history.aspx>

⁴ <https://www.propertyweek.com/comment/PropTech-has-the-investment--now-it-needs-the-data/5094275.article>

⁵ <https://www.theguardian.com/business/2017/jul/31/one-in-five-high-street-estate-agents-risk-going-bust-study-claims>

THE IMPACT OF NEW LEGISLATION

When the Tenant Fee Ban comes into effect in April 2019, the cost to letting agents is estimated to be £157.1m in the first year - or about 22% of an agency's annual revenue⁶. Additionally, with an increasing number of renters coming into the market, the impacts could be even greater than originally expected. As the date of the ban approaches, agents need to be reviewing their processes and systems whilst thinking about ways to recoup the lost revenue.

Hannah Bookham, owner and director at MK Estates in Bournemouth, believes the Tenant Fee Ban is one of the biggest challenges facing the industry today. She argues the result will be a decrease in independent agencies throughout the UK, but it will also contribute to building a stronger community of fair and responsible agents:

"People don't understand the value of an agent in the transaction and we do incur costs in putting tenants in properties, such as Rightmove subscriptions, referencing, viewings and admin. With the ban coming into effect, we need to look at how we can best spread the costs evenly and in the most fair way."

Hannah thinks agents will need to look for alternative sources of revenue, and predicts landlords might have to incur many of the costs resulting from the Tenant Fee Ban. Ultimately, rents might need to start increasing - although this isn't the intended outcome of the fee ban, she notes. But finding other revenue streams could mitigate the need to increase rents, as well as allowing agencies to provide their landlords and tenants with better services.

Daniel Otton, owner and director at Buttercross Estates in Newark, believes the Tenant Fee Ban will hit agencies that have used high and unfair tenant fees to compensate for lower management fees for landlords the hardest.

"As a smaller agency it allows us to operate on a more even playing field and let the value we provide to landlords shine through. We see this as an opportunity to grow and continue delivering our service."

With additional legislation such as changes to Mortgage Interest Relief and Stamp Duty for second homes, other agents are suggesting some landlords are finding the industry increasingly unaffordable or no longer as profitable. Jamie Evans, Lettings Manager at Billingham Taylor in Dudley, argues that new legislation is driving a lack of stock, which means it's essential to ensure agents are retaining their landlords - and acquiring new landlords through referrals - by providing value and great customer service:

"It's important that we maintain the customer service we offer to our landlords. We keep in contact with our landlords to keep them updated on the local market, legislation changes and so on - and ultimately, this service will help us to grow in the next 12 months with the majority of our new lettings business coming now from recommendations."

Diversifying your revenue streams

The Tenant Fee Ban is going to have a significant impact on many agencies' revenues. **Daniel Otton**, owner of Buttercross Estates in Newark-on-Trent, has begun looking at ways his agency can offset this impact.

"Even though we're on the lower end of what agents charge, it's still going to have an impact on us and we're looking at ways we can mitigate the loss of income. One of the ways is looking at other income streams - insurance products and other services that we can bolt onto our customer journey."

Agents need to make it as easy as possible for their landlords and tenants to purchase additional services, such as insurance or utility and media switching. Websites and online platforms that digitise the lettings process can provide agents with a shop front to offer additional products that can be purchased with the click of a button, increasing conversion rates and revenue.



⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/704295/Tenant_Fees_Bill_Impact_Assessment.pdf

THE RISE OF GENERATION RENT

By 2025, it's predicted that half of those in the 20-39 year old age group will rent within the UK for a variety of reasons, including rising housing prices, lack of housing supply and a desire for more mobility⁷. This volume and the increased importance of tenants is being noticed by agents, with 84% surveyed by Goodlord saying that providing tenants with a positive experience was extremely important - compared to 93% saying the same about their landlords.

Generation Rent expect a seamless, digital-first proposition from businesses and services - and their expectations are getting higher all the time, with 66% of 18-34-year-olds saying they have higher expectations for customer service than they had a year ago⁸. If an experience doesn't meet the expectations of Generation Rent, they're not afraid to speak up either, with 47% of 18-34-year-old consumers having used social media to complain about a brand's service⁹.

"We put an importance on our online reputation because more and more young people are renting, and that younger generation is using online portals and online in general to get an idea of companies before they use them, so we're very proud of the fact that we have strong reviews on Google and on Facebook," says **Simon Buckingham** of Wallers Estate Agents.

Jamie Evans from Billingham Taylor in Dudley argues that due to Generation Rent's higher expectations and with

more options than ever to take their business elsewhere, it is important to adapt to and prioritise their needs.

"Feedback is vital - we regularly carry out surveys to gather feedback that allows us to look forward for the next 12 months and at how we can input changes that will ultimately benefit the clients in the long run."

The team at Billingham Taylor ensure they retain their tenants and landlords through good customer service including:

1. Hiring staff that are trusted local experts
2. Retaining employees by empowering them with training such as ARLA and NAEA
3. Ensuring that contact with clients is transparent and regular
4. Providing honest advice to clients that is in their best interest
5. Providing value through high class marketing material
6. Asking for reviews to grow their online reputation
7. Engaging with clients on social media
8. Gathering feedback from clients and evolving their offering based on the results
9. Streamlining processes with technology and providing a better experience

⁷ <https://www.pwc.co.uk/assets/pdf/ukey-section3-housing-market-july-2015.pdf>

⁸ <http://info.microsoft.com/rs/157-GQE-382/images/EN-CNTNT-Report-DynService-2017-global-state-customer-service-en-gb.pdf>

⁹ <https://www.salesforce.com/blog/2017/08/how-millennials-are-redefining-customer-service.html>



ONLINE AGENCIES

Since 2011, online agencies such as Purplebricks, Tepilo, Yopa and Emoov have taken business from traditional estate and letting agents all around the UK. Online agents increased their market share to 6% in 2017 - an increase of 61% year-on-year ¹⁰.

Mohammed Wasity, director of Canary Properties in Central London, argues that to ensure the longevity of the High Street agent, it is vital to provide a service online agents cannot.

Mohammed has identified the areas to provide value to his customers where online agencies can't in order to combat the effect they've had on his business. Offering quality services and ensuring customer satisfaction means new and old customers are willing to pay the often higher fees quoted by High Street agencies:

"They can reduce their prices, purely because they do not have as many costs as us. We cannot compete with prices like these ... People that have let their property from us, we want them to give us another property. People who have rented through us, we want them to keep renting through us. By offering a quality and trusted experience, that's what differentiates us from the online agencies."

Mohammed has also prioritised developing and maintaining an engaging social media strategy on Facebook, Twitter and Instagram. The result has been a larger exposure to those who are accustomed to an online community.

Websites, social media and digital platforms can help letting agents to compete with online agencies, by providing the 24/7 service that customers expect.

"It's important we maintain very good contact with our clients and give them the option to engage with us 24/7," says **Jamie Evans** of Billingham Taylor. "Social media platforms and technology allow them to do so."

Simon Buckingham from Wallers Estates Agents believes being actively involved in the local community is a way to set online and high street agencies apart.

"We get involved in the community quite a lot, sponsoring local sports teams, local schools and fairs, and we feel that that differentiates us from other corporate agencies. We feel that this benefits us because we are localised to our community and we know our local area very well and get involved with the people that count, who are the people next door to us and down the road from us."

Lessons from the travel industry

Letting agents could look to the growth of online travel agencies over the past decade for an indication of how online letting agents might continue to expand their market share:

- In 2006, 56% of British travel was booked in store
- In 2013, Thomas Cook closed 195 high street stores
- 2017, 17% of travel was booked in store, 83% booked online



¹⁰ <http://www.propertyindustryeye.com/online-agents-market-share-grew-by-almost-60-in-2017-while-high-street-agent/>

BREXIT: PREPARING FOR AN UNCERTAIN FUTURE

The housing market has begun to see the impact of the uncertainty and risk caused by an ongoing Brexit process. Up to two-thirds of offers in progress on the day of the referendum were withdrawn or renegotiated. Although London was initially the hardest hit by slowing or falling prices, the rest of the nation is now seeing the effect, too

Agents throughout the UK have noticed a decrease in sales transactions. This is reflected in data from the Land Registry and HM Revenue & Customs¹¹ showing that, within the last four years, the number of completed sales transactions in London has declined by 20%¹², with the rest of the country averaging at 14%.

Since the referendum, fears surrounding new tax policy implications and freedom of movement in the EU have caused foreign investment to slow to a halt, and many UK residents are choosing to continue renting or to put off selling their house until the market stabilises.

Mohammed Wasity of Canary Properties said the effects of Brexit were immediate, with half of his deals that were nearing completion stage on 23rd June 2016 falling through as a direct result of the referendum. However, he has noticed an increase in people renting and has experienced a flourishing lettings side of the business in the last two years. Mohammed places a focus on implementing technology and offering a streamlined experience in order to capitalise on the full opportunity.

Hannah Bookham of MK Estates says she can't see the lettings market slowing in the near future. "I think ultimately we are going to be a renting generation and that's going to continue for some time."

She notes that lettings is administration-heavy and can be very time consuming - and with more and more tenancy agreements to be expected in the future, it is important to know how you will deal with the increase in administrative tasks.

"There's a lot of paperwork that comes with lettings, there's a lot of boxes that need to be ticked, and we need to make sure we're doing it correctly from the word go. You have to get it right, there's no room for error, and anything you can have that's going to speed up that process of that admin, is going to be a huge bonus," says Hannah.

Agencies can mitigate the impact of Brexit and capitalise on the flourishing lettings market by seeking out technology that can free them of the paper-based admin process and, in turn, allow them to focus on the tasks that will help them gain more business.

¹¹ <https://www.gov.uk/government/statistics/monthly-property-transactions-completed-in-the-uk-with-value-40000-or-above>

¹² <https://www.ft.com/content/45cd72fa-05b8-11e8-9650-9c0ad2d7c5b5>



HOW TO ADAPT TO THE FUTURE

Agencies who want to survive and thrive in this new era are going to need to evolve their businesses with the changing times.

A significant increase in the number of renters will see administration consuming more and more of an agent's time, while increasing regulation and changing legislation will make compliance increasingly difficult for agencies who want to operate legally and responsibly. Agencies will need to find ways to streamline or automate existing processes to counteract the increased administrative burden.

The way agencies make money is also going to change. They will no longer be able to charge tenant fees, which currently account for up to 20% of revenue, and will need to look for ways to counterbalance this loss.

Agencies that have already begun evolving their businesses for this new future have the same recommendations for those who are at the beginning of the process:

1. Provide more value to your customers and prove that your service provides a higher return - become a local and industry expert
2. Look to diversify your revenue to mitigate the losses
3. Use technology to save you more time to focus on your business - growing your existing customer base and bringing on new business

Simon Buckingham of Waller Estates says embracing new technology has allowed his agents to spend more time with their landlords, reduced costs and, ultimately, helped to continue growing their business.

“Technology can make it much easier for you to run your lettings business, so why wouldn't you use it?”

Simon Buckingham, Wallers Estate Agents

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CAN HELP YOUR AGENCY
ADAPT TO THE FUTURE

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