



RENTAL MARKET REFORMS: HOW ARE UK LANDLORDS RESPONDING?

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The UK's property market has long been a sought-after destination for domestic investors. The combination of long-term capital growth of bricks and mortar assets, along with the regular rental income the properties generate, makes them attractive for investors seeking a range of different financial outcomes.

i According to the latest Government data,

there are **2,594,720** landlords across the UK.

Collectively they own approximately **5.45 million** properties.

5.4
million
properties



Furthermore, in the past 12 months alone a number of legislative reforms have been introduced that have impacted the rental sector. The majority of these changes are aimed at protecting the interest of tenants across the UK, ensuring they do not have to pay excessive fees or live in unsuitable homes.

Yet in this constantly evolving marketplace, it is easy for landlords to fall behind the pace of change. Indeed, in the past 24 months it has become apparent to Market Financial Solutions (MFS) – as a firm that works directly with UK property investors and their brokers – that many landlords are struggling to keep abreast of the new rules that are governing the BTL space.

In light of this, in June 2019 MFS commissioned an independent survey among more than 800 UK landlords. The respondents were asked about their knowledge and understanding of the recent legislation changes that have been introduced in the private rental sector; the research also examined how many had taken necessary action in response to these reforms as well as their sentiment towards them.

In this report we explore the findings of this timely research, delivering valuable insight for property investors and landlords about how their peers are responding to significant market trends.

However, while landlordship in the UK is both hugely popular and potentially lucrative, the sector has also undergone significant changes over recent years. In particular, the Government has attempted to manage the growth of the buy-to-let (BTL) market to ensure sufficient residential real estate remains available for homebuyers while also boosting tax incomes from landlords.

Most notably, the introduction of additional stamp duty for anyone buying a second property, combined with more restrictive tax measures on landlords paying off mortgages, has seen a shift in the way landlords manage their portfolios.

REFORMS IN THE BTL MARKET

Over the last 12 months alone there have been a number of notable legislative and regulatory changes that have impacted UK landlords. Six of the most pertinent are outlined below.

1. Section 21: an amendment to prevent the unfair eviction by landlords of their tenants. The new reforms came into force on 1 June 2019.



4. Inheritance Tax: changes made to the tax-free allowance for properties that are passed down through inheritance. Came into force on 6 April 2019.



2. Tenant Fees Act: a ban on the fees charged by letting agents to tenants at the start of a rental contract. The new legislation came into force on 1 June 2019.



5. BTL Mortgage Tax Relief: reforms affecting the amount of tax relief offered on mortgage repayments for BTL properties. Came into force on 6 April 2019.



3. House in Multiple Occupation (HMO) licensing: amended regulations concerning the minimum size and standards of properties being rented out by at least three people who are not from one 'household'. The new reforms came into force on 1 October 2018.



6. Stamp Duty: changes made to the time period in which a landlord must submit a Stamp Duty Land Tax (SDLT) return and pay the duty. Came into force on 1 March 2019.



In June 2019 MFS asked more than 800 UK landlords if they were aware of the changes listed above. The survey also examined if said landlords fully understood how the changes would impact them, if they have taken action because of the reforms, and what their sentiment is towards them.

LANDLORDS STRUGGLING TO KEEP PACE WITH REFORMS

The independent research uncovered that many landlords in the UK are struggling to keep pace with the rate of change in the private rental sector.

For example, 30% of the landlords surveyed said they are not aware of or do not fully understand the new HMO licensing rules that were introduced at the end of 2018. A further 21% are unclear on how it could affect them, while 15% acknowledge that although these reforms will impact them – they have a HMO property – they have not made the necessary checks or changes to their property to ensure it complies with the new standards.

Furthermore, more than a quarter (28%) stated they do not completely understand Section 21 and what it entails. A similar number (27%) are in the dark about the ban on letting fees, with an additional 19% unsure of whether this reform would have any consequences on them.

These findings are noteworthy for both landlords and tenants in the UK. On the one hand, many BTL investors are evidently not suitably educated on these major changes that have been brought into the rental sector – as such, they are not sure if they must take action to remain compliant with the reforms.

Moreover, the lack of awareness regarding the new HMO licensing and the amendment to remove Section 21 has more far-reaching consequences for tenants across the country. These reforms have been introduced to ensure tenants are protected; both in preventing unfair evictions and ensuring higher housing standards are met.

Evidently more education across the public and private sectors is required to make sure landlords remain abreast of – and compliant with – significant changes such as these.



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Furthermore, more than a quarter (**28%**) stated they do not completely understand Section 21 and what it entails. A similar number (**27%**) are in the dark about the ban on letting fees.





TAXING CHANGES

MFS' research also demonstrated a lack of awareness when it came to the aforementioned tax reforms that are affecting UK landlords.

While this carries fewer societal consequences in that it will not adversely affect tenants, failure to keep pace with taxation changes will make it increasingly difficult for landlords to effectively manage their finances and real estate portfolios.

The survey found that a **quarter (25%) of UK landlords are not fully up-to-date** with the latest changes to reduce tax relief on buy-to-let mortgage repayments. **Meanwhile, an even greater number (28%) do not understand the reforms to inheritance tax** with regards to the tax-free allowance for properties that are passed down.



Both of these changes came into effect at the start of the 2019-20 tax year on Monday 6th April 2019. However, three months on from this date and landlords are still struggling to truly understand what the reforms entail or how they may need to respond to them.

Again, while landlords themselves must seek out the necessary information to ensure this is not the case, both the government and service providers who work with BTL investors must also be more active in providing education about such reforms.



REFORMS RECEIVE MIXED RESPONSE

It has already been stated that many of the reforms outlined in this report have been introduced with the best interests of tenants firmly in mind. That is something the vast majority of landlords would fundamentally agree with.

However, set within the context of several years of reforms that have financially targeted UK landlords to force them to pay more tax, the MFS research also uncovered an understandable degree of frustration among this audience.



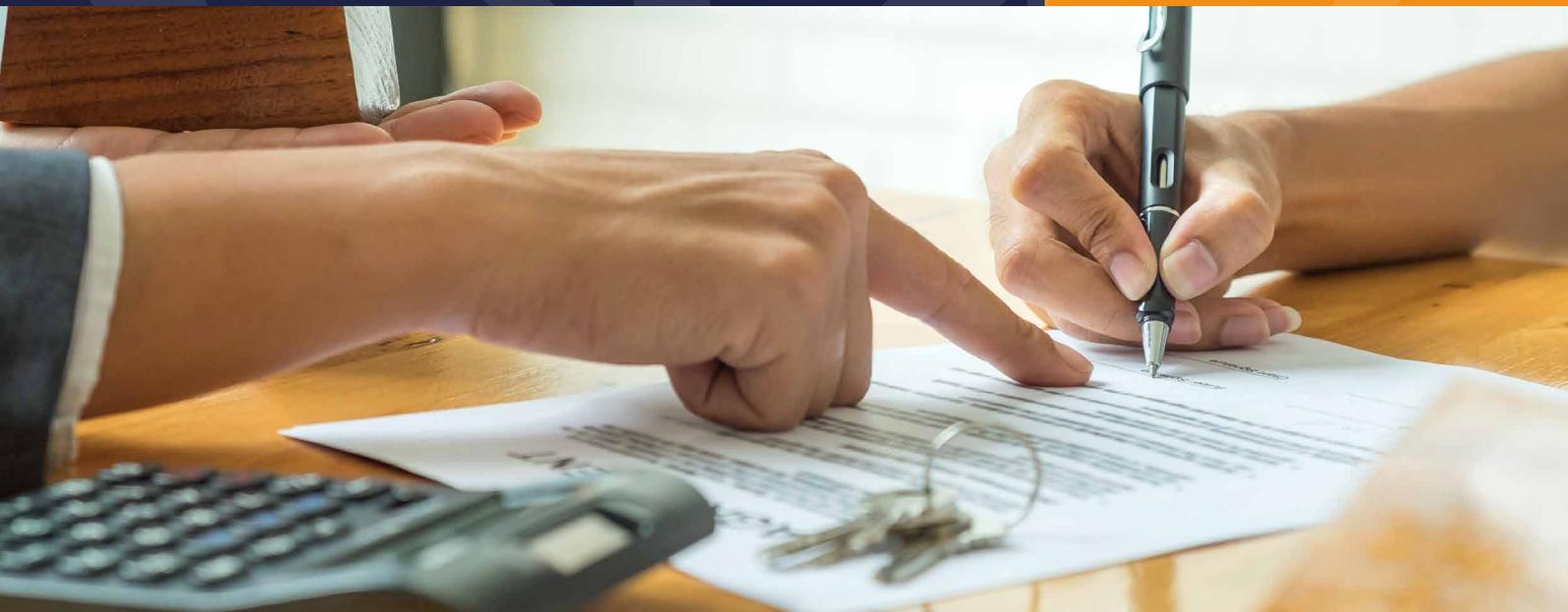
For example, more than two-fifths (44%) of the landlords surveyed said they are against the ban on tenant fees, compared to 23% who are in favour. The abolition of Section 21 (37% against, 16% for), and the changes to buy-to-let mortgage relief (48% against, 16% for) attracted similar levels of disapproval.

Elsewhere, though, only 29% of the respondents said they were against the new HMO licensing laws – it was the most welcomed of all the reforms.

Paresh Raja, CEO of MFS, commented: “The legislation and regulation governing the UK’s rental market is constantly evolving, and our research clearly shows landlords are struggling to keep pace with the changes. From HMO regulations to the abolition of Section 21, these are significant reforms that, for the most part, are rightly designed to protect tenants.

“Nevertheless, there’s evidently frustration among landlords who feel they are being unfairly targeted, particularly when it comes to the stricter taxes being introduced. It’s essential that anyone renting out a property – even if they would not consider themselves a landlord by profession – understands all the new reforms and takes action to ensure their properties meet the necessary standards and their finances are structured in line with the changes.”





PROMPT ACTION IS REQUIRED

Too often the relationship between tenants and landlords is drawn in an overly simplistic manner, with landlords presented as characters who seek to squeeze out profit at the expense of tenants. In reality this is rarely the case; while there are commercial interests at stake, most landlords are interested in providing safe and comfortable places to live for renters – and the vast majority do just that.

Nevertheless, the Government's attempts to target the BTL market with tax and regulatory reforms have created new pressures on landlords. And with over 2.5 million people across the UK securing an income from renting out one or more residential properties to tenants, the number of people affected is vast.

MFS' timely research shows that the pace at which new reforms have been introduced in the past 12 months is a cause for concern, with many landlords unable to keep up. From the legislation dictating the fundamental terms by which a tenancy is managed, through to fiscal reforms changing how and when taxes are paid, a significant proportion of landlords are in the dark about the rules currently governing the rental market.

The survey should act as a call to action for all involved. On the one hand, some landlords clearly must take a more proactive approach to monitor reforms in the BTL market and educate themselves accordingly.

However, at the same time, the Government must do more to pass down the necessary information to tenants and landlords alike, in turn making sure both parties are aware of the fundamental changes taking place in the rental sector. And finally, the private sector – including financial and professional service providers – must also help their clients stay up-to-date with any reforms that could affect them.

MFS prides itself on doing just that, and this latest research report is further evidence of this. Our team of property investment, BTL and bridging experts work closely with landlords to help them effectively manage their portfolios, and we welcome any enquiries from those who require insight around pertinent issues in the real estate sector.



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