

Cost of Living (Tenant Protection) (Scotland): Letting Agent Insight

propertymark

APRIL 2023

KEY FINDINGS:

94%

of agents report an increase in landlords selling property when a tenancy naturally comes to an end.

94%

of agents say their landlords are now more inclined to raise rents between tenancies as a result of the measures.

93%

of agents have had landlords express a desire to withdraw property from the PRS because of the extension of the temporary measures.

EXECUTIVE SUMMARY

The Cost of Living (Tenant Protection) (Scotland) Act came into force on 28 October 2022 making two significant changes to the law. Firstly, temporarily placing certain restrictions on evictions from residential tenancies. Secondly, restricting landlords from increasing the amount of rent they can charge on residential tenancies. The rent cap was set at 0% effectively freezing rents.

The Act was due to expire at the end of 31 March 2023. However, contained within the legislation is power for the Scottish Government, with the approval of the Scottish Parliament, to extend the requirements for two periods of six months. In January 2023, the Scottish Government announced a further six-month extension of the rules until the end of September 2023 that was approved by MSPs in March.

The changes to the Act mean that from 1 April 2023 if a private landlord chooses to increase a tenant's rent mid-tenancy, the increase will be capped at 3%. Furthermore, private landlords will be able to apply for a rent increase of up to 6% to help cover certain increases in costs in limited circumstances. Enforcement of evictions will continue to be paused except in a number of specified circumstances.

In December 2022, we responded to a call for evidence from the Scottish Government using data from a survey of PropertyMark member agents. This report is based on a follow-up survey that was open in February 2023 and looked predominantly at the impact of the extension to the temporary measures.

Continued...

In this latest survey, agents again highlighted the damage the policy is causing to landlords, tenants and agents. Rather than solve supply issues in the private rented sector, the temporary legislation appears to be alienating landlords and discouraging investment in the sector which, in turn, is inhibiting supply and causing rents to rise faster than they otherwise might have.

“ The legislation is continuing to have an effect on landlord confidence. The majority of agents are still seeing landlords exiting the market.

The crux of the housing problem is that demand is far outstripping supply, but the Cost-of-Living Act is having the opposite effect by pushing landlords out of the sector. Rent increases have never been a significant factor, yet this legislation and the threat of further rent control is forcing landlords to put up rents between tenancies to cover any future cost implications.

Timothy Douglas, Head of Policy and Campaigns at Propertymark



IMPACT OF THE ACT ON THE SCOTTISH PRIVATE RENTED SECTOR

EXTENSION OF MEASURES ENCOURAGES LANDLORDS TO SELL

93 per cent of agents reported having more landlords express a desire to withdraw their property from the Private Rented Sector specifically because of the extension of the new measures. A further 83 per cent have seen an increase in the number of landlords serving notice to sell because of the temporary measures. This is up from 69 per cent in the previous report (three months ago).

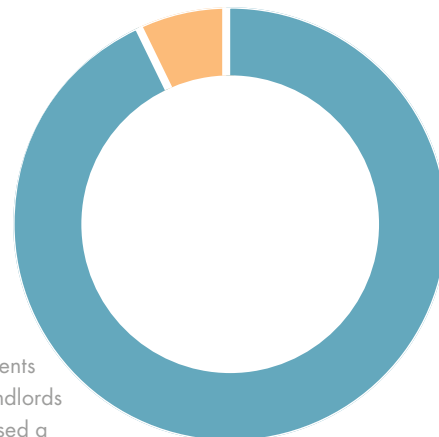


Figure 1: Agents reporting landlords have expressed a desire to sell because of the new measures.

● Landlords want to sell 93%
● No change 7%

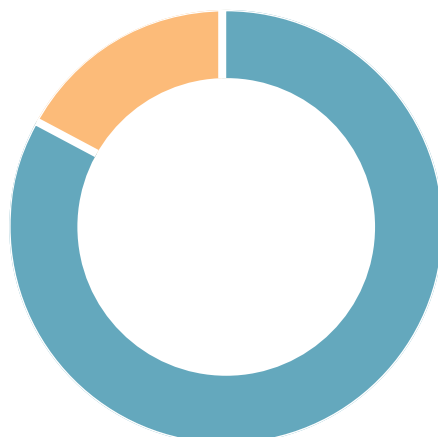


Figure 2: Agents reporting an increase in landlords serving notice in order to sell because of the temporary measures.

● Increase in landlords serving notice to sell (83%)
● No change (17%)

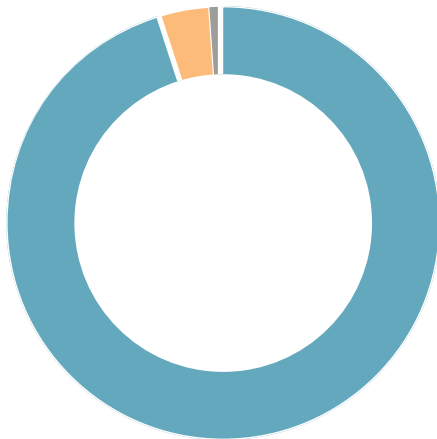
Of all the notices served to tenants, an average of 67 per cent do not meet the exemption criteria and are awaiting processing from October 2023. This is up from 44 per cent in the last report. A growing backlog is concerning. Unless additional resource is assigned to deal with the mountain of notices come October, there may be further costly delays through no fault of the parties involved.

LANDLORDS NOW MORE LIKELY TO SELL WHEN TENANCIES END

While landlords are unable to evict tenants in many circumstances, those with tenancies that have naturally come to an end are now more likely to take the chance to sell. 94 per cent of agents told us they were seeing an increase in landlords selling when tenancies naturally end.



Figure 3: Agents reporting an increase in landlords selling property when a tenancy naturally comes to an end.



- More landlords raising rents between tenancies (95%)
- No change (4%)
- Don't know (1%)

Many that do not sell when a tenancy ends, are taking the opportunity to make sure that their future financial position is secure by raising rents. 94 per cent of agents responding to the survey said that they are finding landlords more inclined to raise rents between tenancies as a result of the Act.

Figure 4: Agents reporting an increase in landlords are now more inclined to raise rents between tenancies as a result of the Act.

This is perhaps unsurprising given that rent raises have been capped at 3% at a time when interest rates have sent mortgage payments skyrocketing. 93 per cent of agents responding to our survey told us that the 3% cap was not enough to cover landlords increasing costs.

93%

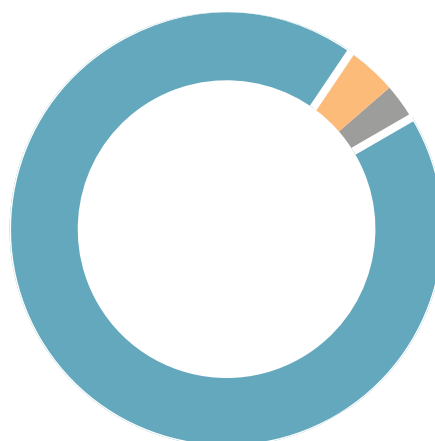


Figure 5. Agents reporting the rent cap rise to three per cent is enough to cover landlords increasing costs.

- Not enough (93%)
- Enough (4%)
- Don't know (3%)

AGENTS' COMMENTS:



"No one wants to lose a good tenant and the Scottish Government should be reviewing Housing Benefits to help."

"There seems to be more protection for tenants and not a lot of support for landlords, which is encouraging them to leave the industry."

"All of this legislation has done nothing more than push up rents and drive good landlords out of the PRS."

"Most landlords appreciate the issues around the cost of living; however, one landlord has had an increase in mortgage payments from £151 to £560. So even 6% does not even dent his additional costs. Many landlords had not increased rents during 2020-2022 due to COVID and tenants getting back on their feet. Having had no prior notice of legislation in September 2022, landlords feel that their efforts to help tenants have now worked against them as they can't now even cover their increased costs. Landlords are increasing rents on new lets to try and factor in the lack of ability to increase rents with sitting tenants. So, the legislation is actually driving rents up rather than helping the situation. Dropping stock and higher demand will always drive rents up. It is clear the Government doesn't understand the PRS."

"In reality, I don't think many landlords raise rents by much more than 3% annually; however, these actions are causing them to panic. I have one landlord who is between tenancies and, as her fixed term mortgage is due to end in 15 months, she has increased the rent now in expectation of the impending rise in 15 months. She doesn't need or want the additional rent now but she's afraid she won't be able to ask for it next year when she does need it. The tenant is therefore paying an extra £35/month from now instead of in 15 months' time."

"Landlords face rising costs with compliance and repairs. If they are not selling now, they will be considering it in the near future."

"Between the safety certificates and now the Cost of Living (Tenant Protection) (Scotland) Act 2022, this is off putting for new landlords entering the sector and encouraging current landlords to sell."

"This act has increased workload, especially admin, in every aspect of Lettings. Which is costing the company more money."

"The little increase on rent that they are allowed, means that they are being encouraged to increase the rent on a yearly basis."

"1. We recently advertised a flat in Glasgow. We received 100 requests to view it within 3 hours of going live. My question to government would be, how does their policy protect those 99 who did not get the property and are still looking? 2. A house in Westhill, Aberdeenshire - on the market for 1 day and we received over 30 requests from families to view it. How is government policy helping those other 29 families who are still looking for a rental home. 3. During the latter part of 2022 we received a high volume of enquiries from students who had relocated to Aberdeen from West Africa. Many of them told us that they were having to stay in guest houses or Airbnb's at considerable expense because they couldn't find accommodation in the city. Again, how is government policy protecting them?"

"Why do the government not listen to people in the industry? With every private rented property that leaves the sector, the rent on every other property goes up"

"On the basis of our experience: All our landlords are looking to uplift by the 3%. Many wouldn't have other than for the legislation. Many of our landlords have not previously raised rent through COVID etc. and are now being penalised by the 3% cap. Nearly all our landlords, when their tenants have given notice, have discussed the option of selling. Every property going back to the market is having a rent uplift. Every change-over we are uplifting rent. This legislation has totally backfired and is costing the tenant dearly."

"Long standing (20 years) clients are fearful of policy direction and are signalling an intention to sell portfolios. The prospect of rent control is promoting rent increases at tenancy changeover. The full diet of taxation and market interference is causing unnecessary restrictions on supply. I strongly advocate a fair taxation policy (i.e. on profit not turnover, and a level playing field for LBTT) along with freedom for market rents. Although at a tangent, there remains a significant number of DIY landlords that continue to breach multiple safety regulations. A policy that followed tighter enforcement around existing requirements whilst simultaneously allowing responsible landlords the opportunity to make worthwhile investments would see an increase in good quality accommodation and, in turn, the market would naturally self-regulate rents in response to more balanced supply and demand."

MISERY FOR AGENT INDUSTRY

While the rent cap and eviction ban continues, agents businesses have been hit. Aside from the additional workload, landlords selling up and being forced to keep rents artificially low has restricted revenue just when wages are rising at their fastest rate since comparable records began in 2001.

In our latest survey 94 per cent of respondents said that they were concerned about the impact of the rent caps on the future of your business.

ABOUT PROPERTYMARK



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EDITOR NOTES

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