The Impact of Taxation Reform on Private Landlords

Tom Simcock • March 2018
About the Residential Landlords Association

The home for landlords

The RLA represents the interests of landlords in the private rented sector across England and Wales. We’re home to over 50,000 landlords nationwide, with a combined portfolio of over a quarter of a million properties. A growing community of landlords who trust and rely on us to deliver day-to-day support, expert advice, government campaigning, plus a range of high-quality services relevant to their needs.

At the RLA, we understand the challenges faced by a landlord - after all, we’ve been fighting their corner for over 20 years. Providing the expertise, support and tools they need, so they can do the right thing – for themselves, their tenants and the industry as a whole.

We campaign to improve the private rented sector for both landlords and tenants, engaging with policymakers at all levels of Government. Our vision is to make renting better for everyone involved in the private rented sector. We will go the extra mile to deliver an informed, better educated and more supported membership community.

For more information about the RLA please visit https://www.rla.org.uk

You can also call us on 0161 962 0010, email info@rla.org.uk or tweet us @RLA_News

About the RLA Private Renting Evidence, Analysis and Research Lab

The home for research

PEARL, the RLA’s research-based policy exchange, was set up to provide high-quality research and analysis on the economic, social, and political issues facing the private rented sector.

The RLA believes in the importance of policy makers considering the evidence and the potential consequences in their decision-making. Through PEARL, we provide the expertise, evidence, and research, to enable evidence led policy making in the private rented sector.

Our ultimate aim is to influence decision makers in order to translate our research findings into an improved renting experience. Enabling landlords to do the right thing -for their businesses, their tenants, and the industry as a whole.

For more information about the RLA’s Private renting Evidence, Analysis & Research Lab (PEARL) please visit research.rla.org.uk

You can also call us on 0161 495 9317, email research@rla.org.uk or tweet us @RLA_PEARL
About the Author

This report is written and researched by Tom Simcock of the Residential Landlords Association.

Tom Simcock MBPsS is the Senior Researcher for the RLA. Tom leads the RLA’s research arm; the Private renting Evidence, Analysis and Research Lab (PEARL). His expertise lies in researching change in society, public policy, and quantitative and qualitative research methodologies. Tom's research on housing has received national media coverage, featuring on the front page of The Times, has influenced government policy making, and has been cited in debates in the House of Commons, House of Lords and by the London Mayor.

Disclaimer

This research report has been written to inform and stimulate policy debate. While effort has been made to ensure that the data and other information are accurate, some errors may remain. The purpose of the report is to provide information, analysis and background regarding the issues effecting landlords and the private rented sector. It is neither intended for use in advertising and promotions nor for market forecasting and no liability is accepted in either regard.

Copyright

Intellectual copyright resides with the Residential Landlords Association. However, we want to encourage the circulation of our work as widely as possible while retaining the copyright. We therefore have an open access policy which enables anyone to access this report online for free. Anyone can download, save, and distribute our work. Extracts may be quoted by the media with appropriate credit to the report author and the RLA. All copyright and registered trademarks remain the property of their owners.

Preferred citation

To cite this report, we would prefer that you use the following:

Contents

Executive Summary .................................................................................................................. 4
1. Introduction ......................................................................................................................... 5
2. Key trends in the Private Rented Sector ............................................................................ 7
3. Landlord Investment and Finances .................................................................................. 16
4. Impact of changes of Mortgage Interest Relief on the Private Rented Sector ................. 25
5. Taxation as a route to change the sector ........................................................................... 30
6. Who are Landlords? .......................................................................................................... 33
7. Who are Tenants? .............................................................................................................. 38
8. Landlord Property Portfolios ......................................................................................... 44
9. Conclusions and Recommendations .............................................................................. 48
10. References ....................................................................................................................... 51
Executive Summary

The past two decades has seen the rapid development and growth of the private rented sector in the UK. Between 2001/02 and 2011/12 the sector doubled in size, and now accounts for 20% of households in England (MHCLG, 2018). The government are implementing major changes to the taxation of the private rented sector, including changes to Mortgage Interest Relief, Stamp Duty Land Tax and Capital Gains Tax. This report builds upon our previous quarterly survey reports on the private rented sector, and provides the opportunity for a deeper understanding of the issues facing private landlords, tenants and the wider sector. The present study reports the findings from a longitudinal research project and survey data collected from 3,289 responses.

Key findings

- The changes to Stamp Duty Land Tax with the 3% levy for private landlords is inhibiting further investment in the private rented sector. 69% of landlords reported they were discouraged in purchasing further rental properties. This is despite the need for 1.8 million additional rented homes to meet demand (Royal Institution of Chartered Surveyors, 2016). Without reinvigorating the housing market and supporting private landlords with positive taxation policies, this need will not be met, further exacerbating the housing crisis.

- The current study found that a majority of landlords (70%) reported that the changes to mortgage interest relief would reduce their profitability as a business, with 62% of landlords reporting this would reduce their profitability by at least 20%. To mitigate the negative impact of these changes, the majority of landlords (67%) reported they would increase the rents. This finding is consistent with previous research that has indicated rents will need to increase by 20–30% to offset the negative impact (Miles, 2016).

- Landlord confidence in the sector is dropping, and is down four percentage points on the previous quarter. At the same time, the proportion of landlords that have sold properties has increased by four percentage points on the previous year, and the proportion that have bought properties has decreased by nine percentage points. 22% of landlords’ plan to sell properties within the next 12 months, while only 18% of landlords’ plan to buy properties within the next 12 months. Indicating that there could be a potential future under-supply for private rented homes.

- 43% of landlords reported they had increased rents in the past 12 months, with 31% of these landlords reporting this was due to the changes in Mortgage Interest Relief. However, 50% of landlords planned on increasing rents in the next 12 months, with 77% of landlords reporting this was due to the tax changes. These findings show that landlords are planning to take action to mitigate any negative impact of these changes, with either higher rents or reduced portfolio sizes. These consequences do not help tenants, rather, it is likely tenants will come under greater financial strain as a result. The government should reverse these changes and work with landlords to create an affordable, secure and safe private rented sector.
1. Introduction

1.1 Background and Method

The research presented in this report is part of a longitudinal research project being conducted by the Residential Landlords Association’s (RLA) Private renting Evidence, Analysis & Research Lab (PEARL) to understand the state of the private rented sector in the United Kingdom. As part of this project, RLA PEARL conducts four quarterly surveys of landlords each year, where each survey focuses on changes in different policy areas. These are Finance and Investment, Property Conditions and Energy Efficiency, Welfare Reform and Homelessness, and Regulation and Enforcement. This report presents the research relating to the finance, taxation and investment survey of 2017.

The findings of this report are based on a survey that received 3,298 responses from landlords across the UK in Autumn 2017. To recruit participants for this survey an opportunity sampling approach was utilised to ensure a large representative sample of landlords was drawn upon. This approach included contacting the RLA’s database of landlords (including over 30,000 members and associate members, and over 35,000 RLA non-member service users) with an email requesting participation in the research. The landlords were sent a further two direct emails over the course of 7 weeks. The research was also advertised to the wider landlord community across multiple third-party websites, advertised on the RLA website, the RLA Campaigns and News Centre, and was advertised on social media by the RLA and partner organisations.

These sampling methods were used to ensure the opportunity to take part in the research was available to as many landlords as possible. However, there are a number of limitations over using an opportunity sampling approach that need to be highlighted, as with all sampling approaches there is the possibility of introducing bias. As the survey and associated advertising was online, this could have biased the sample and excluded those who do not use computer regularly or have limited access to the internet. While we are currently making progress in identifying trends in demographics of landlords across the sector, there is still very little known about the general demographics of landlords across the sector and because of this it is not possible to demonstrate whether this sample is truly representative of all landlords. This should be taken into account when interpreting the results. Yet, the size of the sample in this instance and the multiple streams of attracting participants, provides us with confidence that a wide spectrum of the sector is represented in the sample. A further caveat that should be noted, is the report refers to ‘landlords’, this is done in terms of expediency and should be viewed and interpreted as ‘landlords sampled’.

This research helps the RLA to develop important insights into the issues affecting the sector, and the survey covered a range of topics. This included demographics of tenants, landlords and their properties. After positive feedback from respondents, the survey methodology employed is continued from the previous quarterly survey, especially with the changes to demographic questions where landlords have been asked to tick all that apply rather than asking for the most common type of property/tenant across their portfolio. The survey also included a number of questions relating to the impact of finance and tax changes, and landlord attitudes and behaviours due to these changes. Finally, the survey included key trend questions carried over from previous surveys enabling us to track and monitor important data longitudinally.
The findings of this research help to provide foundations for the RLA’s campaigning to make renting better for all. We also anticipate that this research will provide the opportunity for evidence based decisions by policy-makers and a more in-depth understanding of landlords, tenants and the private rented sector in general by journalists, academics, and the wider public.

1.2 Structure of the Report

This section of the report has provided the background to this research and the methodology used to collect the data. In the next section, the report explores the key trend data that has been tacked over the past year. Following this, we then make sense of the impact of government tax changes on landlord attitudes and behaviours, and specifically examine the changes to Mortgage Interest Relief. Finally, the next sections of the report then present the findings relating to the demographics of the landlords who participated in the research, the types of tenants who the landlord lets to, and the types of properties that form the landlords’ portfolio.
2. Key Trends in the Private Rented Sector
2. Key trends in the Private Rented Sector

In this section of this research report we provide an analysis of the key trends in the private rented sector. This includes an analysis of how plans to change the size of property portfolios have changed, planned changes to rent, and changes in tenant demand. The findings of this survey are also analysed in comparison to the findings of previous quarterly surveys that we have conducted, this enables an in-depth analysis of how attitudes and behaviours of landlords are changing in the sector over time.

Our key findings are:

- The proportion of landlords have added property to their portfolio is still in decline, and now stands at 18%, down 9 percentage points from the previous year
- The proportion of landlords that have sold properties from their portfolio is increasing, up 4 percentage points on the previous year, to 13%
- More landlords are planning to sell properties than buy additional properties, potentially meaning future under-supply of private rented homes
- The majority of landlords reported tenant demand was stable, which has remained consistent with the previous quarters
- 43% of landlords reported they had increased rents in the past 12 months, up 1 percentage point on the previous quarter
- 31% of landlords reported this rent increase was due to the changes to Mortgage Interest Relief
- Landlord confidence in the sector has dropped by 4 percentage points from the previous quarter, with only 35% of landlords confident about the PRS
- Proportion of landlords that plan to increase rents in the next 12 months has increased by 5 percentage points to 50%, 43% of landlords reported this was due to the changes in mortgage interest relief
- Proportion of landlords that plan to keep the rents the same has dropped by 6 percentage points to 49%, with 77% keeping the rent the same to keep the tenant in the property for the long-term

2.1 Trends in Landlord Portfolios

Over the last 12 months there has been a substantial decline in the number of landlords who have bought additional properties, while there has been an increase in the proportion of landlords who have sold properties.

The findings of this survey identify that 18% of landlords have bought at least 1 property in the past 12 months, this is down nine percentage points on the past 12 months. At the same time, the proportion of landlords who have sold has increased by four percentage points to 13% in comparison to the previous year.

The full findings of this question and the comparison to the previous quarterly surveys can be identified in figure 2.1 below.
Looking ahead with landlord plans for their portfolios over the next 12 months, the proportion of landlords who plan to keep their portfolio the same has remained relatively consistent with the previous quarters, however it is now down one percentage point to 60%. When it comes to plans for buying and selling properties, this has fluctuated over the past quarters. In Q3 2016 from the first survey, we identified that 20% of landlords planned to buy at least 1 property, while 19% planned to sell at least 1 property (Simcock, 2016). This left a one percentage point difference with slightly more landlords looking to buy than sell, indicating potential net growth in the sector.

However, one year on, the data is now telling a different story. The findings of this research indicate that more landlords are planning on selling properties (22%) in comparison to those who are planning to buy (18%). This leaves a net four percentage point difference indicating a decline in the proportion of private rented sector homes available to rent.

It is possible to estimate that if this is extrapolated to the wider sector and all private residential landlords, and if these landlords only reduce their portfolio by 1 property, this could equate to a net loss of 76,000 properties to rent over the next 12 months. The full
findings of this question and the quarterly comparison to the previous year can be found in figure 2.2 below.

**Figure 2.2.** Quarterly changes in landlord plans for their portfolios

Over 2017, the majority of landlords reported that for the past three months tenant demand had remained stable and this stayed around 55% to 56% of landlords.

**Figure 2.3.** Quarterly changes in reported tenant demand for private rented properties
On the previous quarter, the proportion of landlords that reported tenant demand to be decreasing has remained consistent at 15%, however, the proportion who reported increasing tenant demand has increased by two percentage points. Overall, the majority of landlords reported increasing or stable tenant demand, indicating that there was no wide-spread decrease in demand for privately rented homes from tenants.

The findings of this survey identify that the gap between the proportion of landlords who are confident and those who are not confident is tightening. This survey found that 35% of landlords reported they were confident in the private rented sector, four percentage points down from the previous quarter (Simcock, 2017a). At the same time, the proportion of landlords who reported they were not confident increased by six percentage points on the previous quarter to 32%.
2.2 Trends in Rents

More landlords reported that in the past 12 months they had kept the rents the same (52%), compared to those who reported increasing the rent (43%). In comparison to the previous quarter, the proportion of landlords who reported they had kept the rents at the same level had decreased by two percentage points. The full findings and comparison to the previous quarterly surveys can be found in figure 2.5 below.

**Figure 2.5.** Quarterly changes in proportion of landlords changing their rent levels in the past 12 months

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Decreased Rents</th>
<th>Kept rents the same</th>
<th>Increased rents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2017 (N=2,755)</td>
<td>4%</td>
<td>53%</td>
<td>43%</td>
</tr>
<tr>
<td>Q2 2017 (N=2,671)</td>
<td>4%</td>
<td>54%</td>
<td>42%</td>
</tr>
<tr>
<td>Q3 2017 (N=3,106)</td>
<td>5%</td>
<td>52%</td>
<td>43%</td>
</tr>
</tbody>
</table>

**Figure 2.6** The primary reasons why landlords had increased rents in the past 12 months

- Because of the changes to Mortgage Interest Relief: 31%
- To keep the rent in line with market rents: 26%
- Because it is a new tenancy: 15%
- So I can meet increasing costs: 13%
- Because it has been a while since I increased rents: 10%
- So I can make improvements to the property: 2%
- I was advised to do so: 2%
- To keep my rents competitive: 2%
- To help my tenants: 1%
When asked why they had increased rents in the past 12 months, the most common reason was identified as the changes to Mortgage Interest Relief (31%). This was followed by keeping the rents in line with market rents (26%) and then because it was a new tenancy (15%). While these findings highlight a wide-range of factors that were influencing why landlords had increased the rent in the past 12 months, it is concerning that nearly 1 in 3 landlords have increased rents due to the changing rules regarding mortgage interest relief. Nevertheless, the latest Index of Private Housing Rental Prices for Great Britain shows that rental price growth is slowing, with rental prices increasing by 1.1% in the year to January 2018 (Office for National Statistics, 2018). This does pose some questions for the potential discrepancies between the rental indices and the reported actions of landlords. It is likely that while landlords have been increasing rents, the level to which they have increased could be in-line with the government data. In previous research, we did find that a large proportion of landlords (55%) planned to keep the rent the same, with 68% of landlords reporting this was to keep their tenant in the property for the long-term (Simcock, 2017a). Therefore, it is also possible that parts of the sector are paying below ‘market rents’ and landlords could be increasing their rents to this level, which would not necessarily be identified in the numerous rental indices.

Figure 2.7. Quarterly changes in landlord plans for the rent over the next 12 months

The final part of this report examines the plans for the rents landlords charge over the next 12 months. From the analysis of the data, it is clear that there have been changes in the plans of landlords in comparison to the previous quarter. Where in the previous quarter, more landlords planned to keep the rents the same (55%) in comparison to those who planned to increase the rent (45%) (Simcock, 2017a). In this quarterly survey, landlord plans have now changed dramatically, the proportion of landlords that plan to
increase rents has grown by five percentage points to 50%, while the proportion of landlords who plan to keep the rents the same has decreased by six percentage points to 49%. The full findings can be seen in figure 2.7 above.

Figure 2.8. Primary reasons for landlords increasing rents in the next 12 months

When asked why they planned to increase rents in the next 12 months, the most common reason was the changes to Mortgage Interest Relief (43%). This is not unexpected, with the gradual removal of this relief by 25% each year over four years, landlords will in the next 12 months only be able to claim 50% relief on their finance interest. This will increase the outgoings of many landlords and from these findings a large proportion will be seeking to recover any potential loss of income through rental price increases. The second most common reason for future rental price increases was to keep the rent in line with market rent (21%) and then so the landlord can meet increasing costs (16%).
The majority of landlords who plan to keep the rents the same in the next 12 months reported this was to keep their tenant in their property for the long-term (77%). This has increased by 14 percentage points since Q1 2017. This shows that landlords are looking for stability and certainty from across their portfolios, and rather than risking costly void periods at a time where there is greater political, regulative, and economic uncertainty. The full findings can be identified in figure 2.9 above.

In relation to the 1% of landlords that planned to decrease rents in the next 12 months, the most common reason was to keep the rents competitive (67% of landlords), followed by 22% of landlords saying that this was to help their tenant.
3. Landlord Investment and Government Tax Changes
3. Landlord Investment and Finances

In this section of this research report we provide an analysis of key indicators on the strengths of landlord investments and finances, but also landlord investment actions specifically when landlords are looking to maintain their investment till. The findings of this section are anticipated to provide much further understanding of the attitudes and intentions of a diverse group of private landlords.

**Key findings:**

- The majority of landlords (53%) reported adding to their portfolio in over the last three years
- 70% of landlords do not plan on further investment in rental property
- 70% of landlord’s plan to keep their investment in rental property for over 10 years
- 40% of landlords have experienced their tenant not pay the final month’s rent in the past 3 years
- The majority of landlords (51%) perceive that rents could be reasonably increased by 1-3% in the next 12 months

3.1 Landlord Investment and Portfolios

This first part of this chapter explores landlord investment intentions and actions and also compares the findings with the previous quarterly survey on finance and taxation of the sector from 2016.

![Figure 3.1. Time since landlords last added property to their portfolio](image_url)
When landlords were asked when they had last added property to their portfolio, 18% reported that this was less than 1 year ago. This is down nine percentage points on the previous year. Indicating, that some landlords have been put off from investing further in their property portfolios in the short-term. While the majority of landlords reported they had last added properties to their portfolios in over 3 years (53%). The full findings can be found in figure 3.1 above.

**Figure 3.2. Landlord plans for further investment in their property portfolio**

While the majority of landlords have not bought additional properties in the last three years, a significant proportion of landlords also do not plan on purchasing any additional properties (70%). This is up four percentage points in comparison to the previous year (Simcock, 2016). Of those that do plan to purchase additional properties, the majority of these plan to purchase within the next 3 years (25%) in comparison to the 4% for over 3 years.
Figure 3.3. The amount of time landlords intends to remain invested in the private rented sector

While landlords may not be willing in general to increase their investment into the sector and add additional properties to the market. The majority of landlords are looking to stay in the market for the long-term, with 70% intending to hold onto their investments for over 10 years. The full findings are available in figure 3.3 above.

Figure 3.4. Average Loan to Value (LTV) ratio across landlord property portfolios

Figure 3.4 above identifies the average Loan to Value (LTV) ratio across landlord property portfolios. A quarter of landlords reported they did not have a mortgage on any of their properties, a one percentage point increase on the previous year. In addition, the
The proportion of landlords who reported an average LTV of between 50-75% and 76-89% decreased in comparison to the previous year. While the proportion of landlords with an LTV of between 25-49% has increased by four percentage points. These findings indicate that landlords are reducing the amount of finance leveraged against their properties. It is likely that this could be due to the changes in mortgage interest relief, and by reducing the LTV against their property portfolio, landlords are seeking to minimise the impact of these changes.

*Figure 3.5. Proportion of landlords (with mortgages) that have conditions stipulating tenancy length and type of tenants*

While not directly related to landlord investment behaviours and attitudes, we asked landlords if they had mortgages on properties that had conditions that stipulate the maximum length of tenancy and whether the landlord can let to certain types of tenants such as benefit tenants. A surprising finding is that over 1 in 2 landlords reported mortgage conditions that prevented them from letting to certain types of tenants, such as those on benefits. A further surprising finding is that 44% of landlords have mortgage conditions that limit the maximum length of tenancy that can be offered. If the Government would like to encourage private landlords to house tenants on benefits or provide longer term tenancies, it would be worthwhile the government exploring the conditions imposed by mortgage companies. The full findings are available in figure 3.5 above.
The penultimate question in this section explored whether landlords thought that investing in private rental property was better than other types of investment. The proportion of landlords that did not think investing in the PRS was better increased by five percentage points on the previous year, indicating that landlord confidence in the PRS as an investment is decreasing. At the same time, the proportion of those who think that investing in PRS is better than other types of investment decreased by six percentage points in comparison to the previous year.
The final question of this section explored whether landlords had invested in new build properties in the past three years and whether they had development new housing themselves. Overall, the findings indicate that the majority of landlords had not invested in a new build property (94%). Similarly, 90% reported that they had not developed new housing for the PRS in the past 3 years.

*Figure 3.7. Landlord investment in new build properties and development of new properties*
3.2 Landlord Portfolios and Rents

This section of the chapter examines rents and landlord portfolios. The first question investigates how much rent covers a landlord’s costs. Only 59% of landlords reported that their rent covered 80-100% of their costs. The findings show that 41% of landlords’ rental income covers less than 79% of their costs associated with their rental business. This is worrying, especially with the changes to mortgage interest relief (MIR), as it indicates that more and more landlords could operate at a loss each year as the changes progress. This question will be a key indicator in the potential impact of the changes to MIR. The full findings are displayed in figure 3.8 below.

![Figure 3.8. The proportion of rent that covers landlord costs](image)

The next question asked landlords whether they had ever experienced their tenants not paying their final month’s rent in the past three years. The majority of landlords responded that they had not experienced this (60%), however, at 40% of landlords who have experienced this, this is still a significant issue. This is especially concerning with the proposed cap on deposits that is included in the proposed legislation on the agent fee ban. This could mean that some landlords are left with a loss at the end of a tenancy, especially if the tenant causes significant damage to the property.

![Figure 3.9. Proportion of landlords that have experienced tenants not paying the final month’s rent in the past 3 years (N= 2,990)](image)
The final question of this section examines landlord perceptions on how much they think rents can be reasonably raised in the next 12 months. 17% of landlords think that they will not be able to increase rents, up two percentage points on the previous year. The majority of landlords (51%), however, reported they believed rents could be increased by 1-3% in the next 12 months. This is up 14 percentage points on the previous year. The proportion of landlords that perceived rents could be increased by above 4% in the next 12 months, decreased in comparison to the previous year. Indicating landlords seeing less opportunity for growth in rental prices in the near future.

Figure 3.10. Landlord perceptions on the extent to which rents can be reasonably raised in the next 12 months
4. Impact of changes to Mortgage Interest Relief on the Private Rented Sector
4. Impact of changes of Mortgage Interest Relief on the Private Rented Sector

This section of the report examines the impact of the changes to Mortgage Interest Relief for landlords on the private rented sector.

Key findings:

- 36% of landlords reported that the removal of mortgage interest relief would result in them making a loss on their rental properties
- The 3% increase in Stamp Duty is putting 69% of landlords from purchasing further rental properties
- 67% of landlords reported that the finance changes have made them consider reducing further investment in their rental properties
- 70% of landlords reported that the changes to mortgage interest relief would reduce their profitability, with 62% reporting that this would be by at least 20%

Figure 4.1. The impact of tax changes on landlord portfolios and investment decisions

The above figure presents the findings of answers to three statements, where landlords were asked to respond on a 5-point Likert scale from strongly disagree to strong agree. In relation to the first statement, the analysis of the responses indicates that 36% of landlords believe that the removal of Mortgage Interest Relief will result in them making a loss on their rental properties.
The changes to Stamp Duty Land Tax (SDLT) with the additional 3% levy for private landlords has been a significant change for the private rented sector, and the responses to this survey show that it is putting off a majority of property investors (69%) from further investing in rental property. Furthermore, 67% of landlords reported that the finance changes in general were making them consider reducing further investment in their rental properties. These findings reveal that the wider fiscal and taxation policy towards the private rented sector and landlords is reducing needed investment and could mean that over 1 in 3 landlords are making a loss. This could put a significant number of tenant’s homes in jeopardy and lead to significant increases in homelessness if the landlord defaults on the finance attached to the property and the mortgage company repossess the property.

86% of landlords believed that there would be further government policies aimed at landlords in the near future. With the significant changes already announced and the wider public and political negative outlook towards landlords, these findings are not unanticipated. The final statement landlords were asked to respond to was regarding whether they were considering leaving the sector. Overall, 31% of landlords reported that they were considering leaving the sector, indicating that it is likely there will not be a mass exodus of landlords from the PRS. Rather, as identified in previous research, landlords may look to mitigate regulative and taxation changes by changing their letting strategy (Pattison, 2017; Pattison & Reeve, 2017).
Landlords were then asked whether the changes to tax relief on mortgage payments would reduce their profitability. 70% of respondents, over 2 in 3 landlords, explained that this would. The subsequent question then asked by the proportion their profitability would be reduced by. 62% of the respondents reported that this would reduce their profitability by at least 20%. The full findings can be found in figure 4.3 above.

**Figure 4.3. The impact of mortgage interest relief changes on landlord profitability**

**Figure 4.4. The different routes landlords are planning on taking to offset the impact of changes to mortgage interest relief**
The final question of this section explores the different strategies landlords are planning to use to offset and mitigate any reduced profitability due to the changes in tax relief. The most common strategy landlords are planning to use to mitigate these changes is to increase rents (67% of landlords). This is followed by leaving the sector (25%), and to sell properties and reduce the size of mortgages across their portfolio (25%). Overall, these findings demonstrate that these changes through the responses by landlords will negatively impact on tenants, either through increased rents or through the loss of supply of privately rented homes.
5. Taxation as a route to change the sector
5. Taxation as a route to change the sector

In this section of the report, support for different policy suggestions such as encouraging longer-term tenancies and energy efficiency improvements are examined.

**Key findings:**

- 61% of landlords reported that tax relief for energy efficiency works would encourage them to improve the energy efficiency of their properties.
- 63% of landlords reported that tax relief on longer term tenancies would encourage them to offer a longer-term tenancy.

![Figure 5.1. Proportion of landlords that would be encouraged to either improve energy efficiency or offer longer-term tenancies with tax relief incentives](image)

The majority of landlords reported (61%) that they would be encouraged to improve the energy efficiency of their properties if there was tax relief to do so. Similarly, 63% of landlords reported that tax relief on longer-term tenancies would encourage them to offer a longer-term tenancy of 3 years minimum. If the Government would like to encourage further stability for tenants and longer-term tenancies, providing tax relief could be a suitable policy to support these behaviours.
The final question of this section explored the reform of the Section 8 process for repossession of properties and the link with encouragement for landlords offering a longer-term tenancy. A main concern for landlords is the ability to reclaim possession of the property easily when something goes wrong, such as a tenant going into rent arrears or anti-social/criminal behaviour. Currently, this can take on average 41 weeks from claim to repossession (Ministry of Justice, 2018), meaning that landlords can be left with significant financial issues if the tenant is in rent arrears.

A majority of landlords (70%) described that they would be encouraged to offer longer-term tenancies if the Section 8 process was reformed. Slightly more landlords reported (73%) that they would be encouraged to offer longer-term tenancies if both the Section 8 process was reformed and if there was tax relief.

Overall, these findings indicate that the Government could encourage improved energy efficiency throughout the sector by providing tax relief to the works. In addition, to encourage wider take up of longer-term tenancies, both tax relief and reform of the Section 8 process are popular policies with landlords. These measures could address some of the perceived insecurities with private renting and provide stability for tenants that wish to stay in their privately rented home for the longer-term.
6. Who are Landlords?
6. Who are Landlords?

In this section of this research report we analyse the types of landlords present in the private rented sector. We examine the demographics of landlords, such as age, gender, but also, how the landlord first entered the PRS, how long they have been a landlord, and the size of portfolios across the sector.

Our key findings are:

- Most landlords are between the ages of 55 to 64 (35%), followed by 45 to 54 (27%) and 65 to 74 (23%)
- 49% of landlords reported they owned their own home with a mortgage, while 46% reported they owned the property outright
- The most common employment status of landlords was retired (28%) followed by working full-time (25%) and self-employed (19%)
- Only 17% of landlords classified themselves as full-time landlords
- The most common reason for becoming a landlord was their own choice through borrowing money, such as buy-to-let (36% of landlords)
- A large proportion of landlords described themselves as specialising in letting to families (46% of landlords)
- Most landlords had been providing homes for over 10 years (62%)

The following figure shows the age profile of the landlords who responded to the survey. The largest age group are landlords between the ages of 55 to 64 (35% of the sample), while the smallest age group are landlords aged between 25 to 34 (2% of the sample).
From the sample, there is a gender gap in response rates, with 62% of respondents describing themselves as Male, and 38% as Female. The findings are shown in figure 6.1 above.

The most common area where respondents lived was in the South East (22%), followed by the North West (13%) and London (13%). The findings are displayed in the figure below.

**Figure 6.2. Location of landlord’s primary residence**

When asked about the tenure of their own main home, 49% of the sample reported they own their own home with a mortgage, followed by 46% who reported they owned their property outright. The findings are shown in the figure below.

**Figure 6.3. Tenure of Landlord’s main home**
The most common employment status was landlords describing themselves as retired (28% of the sample), followed by being working full-time (25% of the sample). The findings can be found in the figure below.

**Figure 6.4. Landlord Employment Status**

The following figure explores the reasons behind the respondent first becoming a landlord. The most common reason why landlords first entered the sector was through their own choice and by borrowing money such as through a buy-to-let mortgage (36% of the sample). It is interesting to see that 6% of landlords reported this was due to a spare home from marriage/partnership. The findings are displayed in figure 6.5 below.

**Figure 6.5. The primary reason for first becoming a landlord**
A large proportion of landlords reported that they specialised in providing accommodation for families (46% of the sample), followed by specialising in young professionals (44% of the sample).

![Diagram showing landlord portfolio specialisms](image)

**Figure 6.6. Landlord portfolio specialisms**

A majority of the respondents reported that they have been landlords for more than 10 years (62%), while only 1% have been a landlord for less than 1 year, and 7% of the sample have been landlords 3 years and less. This suggests that there is only a small proportion of new landlords entering the sector. In conjunction with the majority of landlords (63%) over the age of 55, when taking a long-term view, there needs to be a consideration on whether there are suitable incentives for new landlords to invest in the sector or if portfolios are transferred to children, how knowledge and best practices are maintained.

![Diagram showing length of time as a landlord](image)

**Figure 6.7. Length of time as a landlord**

A majority of the respondents reported that they have been landlords for more than 10 years (62%), while only 1% have been a landlord for less than 1 year, and 7% of the sample have been landlords 3 years and less. This suggests that there is only a small proportion of new landlords entering the sector. In conjunction with the majority of landlords (63%) over the age of 55, when taking a long-term view, there needs to be a consideration on whether there are suitable incentives for new landlords to invest in the sector or if portfolios are transferred to children, how knowledge and best practices are maintained.
7. Who are Tenants?
7. Who are Tenants?

In this section of this research report we analyse the types of tenant landlords are renting their properties out to. We focus on the demographics of tenants, including age, employment status, and also the relationship between the landlord and tenant and any tenant issues landlords have.

Our key findings are:

- The majority of landlords reported letting to tenants aged between 25 and 34 (67%), followed by 35 to 44 (59%). While 20% of landlords reported letting to tenants over the age of 65.
- A majority of landlords reported letting to tenants who were in full time employment (87%), while just over 1-in-4 landlords reported to letting to tenants on benefits.
- 69% of landlords let to tenants with at least one child.
- Over one quarter of landlords (32%) have experienced tenants going into 2 or more months of rent arrears in the past 12 months.
- Just over 1 in 4 landlords (29%) have needed to start the eviction process.
- Out of those attempting to remove a tenant, 62% of landlords reported that this was because of rent arrears.
- On average, per property, landlords are currently owed £1649.97 in rent arrears.
- We estimate that across the wider sector, landlords are owed on average just over £1bn.

In figure 7.1 below, we can identify the most common tenant age profile for the sample as aged between 25 and 34 (67% of landlords). The second largest tenant age profile was 35 to 44-year olds, with 59% of landlords reporting they let to this group of tenants. Interestingly, 20% of landlords reported they let to tenants over the age of 65.
The most common tenant employment status was employed full-time (87% of landlords), followed by employed part-time (31%) and then not working claiming benefits (25%). The figure below shows the different employment statuses of tenants currently let to by the sample.

Landlords were asked if they let to tenants with at least one child, the majority of landlords responded that they did (69% Yes, 31% No, N=3,251). In the following question, the respondents were asked if they had experienced any issues with their
tenant in the past 12 months. The results indicate that 32% of landlords had experienced 2 or more months of rent arrears in the past 12 months, and 27% of landlords had experienced damage to their property. The figure below provides an overview of the issues experienced by landlords.

Figure 7.3. Landlords negative experiences of letting in the past 12 months

We then asked landlords if they had attempted to regain possession of their rental property in the past 12 months. 71% of landlords responded that they had not, while 10% of landlords said they had to attempt to remove tenants on 2 or more occasions. The full findings can be found in figure 7.4 below.

Figure 7.4. Number of times landlords have attempted to remove a tenant from their property in the past 12 months

We then explored the different routes landlords were taking to start the process of reclaiming their property back from the tenant. In the past 12 months, 46% of landlords
reported starting this process by serving the Section 21 (no fault eviction), while 21% reported they served a written notice in the first instance. The complete findings are shown in the figure below.

![Graph showing how landlords initiated the removal process](image)

**Figure 7.5. How landlords initiated the removal process**

A further question asked landlords for the primary reason for attempting to remove the tenant from the property. The majority of landlords (62%) reported the primary reason as rent arrears, followed by anti-social behaviour by the tenants (11%). The full findings for each reason can be found in figure 7.6 below.

![Graph showing reasons for attempting to remove a tenant](image)

**Figure 7.6. Reasons for attempting to remove a tenant in the past 12 months**

This research has identified that rent arrears is still a significant issue for the private rented sector, and especially for landlords with finance attached to properties. High rent
arrears could put the landlord’s ability to meet their costs at risk, and could mean their investment is at risk of repossession by the mortgage provider. The findings above highlight that 32% of landlords have experienced rent arrears in the past 12 months, and 62% of evictions were due to rent arrears. This finding does challenge the notion that landlords evict their tenant for no-reason (Craw, 2017). These findings indicate that rent arrears are one of the major underlying causes of homelessness. In addition, we have previously identified that the switch to Universal Credit has been a major factor in causing tenants to enter into rent arrears (Simcock, 2017b). This risk for rent arrears is also making landlords unwilling to enter the Housing Benefit/Universal Credit market over the fears of financial risk (Pattison & Reeve, 2017).

On average, per property, landlords reported they were owed £1,649.97 (median = £1000, SD=2067) in rent arrears. This is an increase of £115.02 in comparison to the previous quarter. If we extrapolate this to the wider sector, this does highlight a significant sum of rent arrears. According to the latest HMRC data, there are approximately 1.9 million landlords (Walmsley, 2017), and based on this, we can estimate that just over £1 billion is owed to landlords.

On average, per property, landlords reported they were owed £1,649.97 (median = £1000, SD=2067) in rent arrears. This is an increase of £115.02 in comparison to the previous quarter. If we extrapolate this to the wider sector, this does highlight a significant sum of rent arrears. According to the latest HMRC data, there are approximately 1.9 million landlords (Walmsley, 2017), and based on this, we can estimate that just over £1 billion is owed to landlords.

Figure 7.7. Landlord relationships with their tenants

The questions in this section explore the relationship between the landlord and the tenant. Overall a majority of landlords reported that they had a good relationship with their tenants (84% of the sample), while 79% of landlords reported that their tenants pay the rent on time.
8. Landlord Property Portfolios
8. Landlord Property Portfolios

In this penultimate section of the report, we examine and investigate the types of households’ landlords typically let to, typical property locations, and whether property is typically furnished or unfurnished.

Our key findings are:

- While portfolio size across landlords is widely spread from 1 property to more than 21 properties, 26% of landlords reported having 2-3 properties, followed by 6-10 properties (19%) and 4-5 properties (19%).
- The most popular property/household type for landlords is a 2-bedroom property to 1 family (62% of landlords).
- The South East is the most popular geographical region for landlords, with 24% letting property in this region.
- The majority of landlords (70%) let out on average unfurnished properties.
- The median average rent collected by landlords was £700.
- The average tenancy length was calculated as 3 years.

Landlords were asked for the average rent they charge across their property portfolios. The median average rent charged by landlords was £700 (M = £1037, SD = 1118.25, N = 2507).

The next question asked landlords for the average tenancy length across their portfolios, from the analysis of their responses we can identify the average length of current tenancy as 3 years.

In the following figure, we explore the different portfolio sizes of landlords. The prevalent portfolio size was 2 to 3 properties (26%), followed by those with 6-10 properties at 19% of landlords. 10% of landlords identified as having more than 21 properties in their portfolio. The findings are displayed in figure 8.1 below.
In the figure below, we investigate the types of properties landlords are currently letting out. Overall, the most common property types were 2-bedroom 1 family properties (62% of landlords) followed by 3-bedroom 1 family properties (50% of landlords).

The most common geographical regions to let out property was the South East (24% of landlords), followed by London (19%) and then the North West (18%). The least common
regions were Northern Ireland and Scotland. However, this is likely due to sample bias as the membership of the RLA is mainly formed by landlords from across England and Wales.

![Figure 8.3. The geographical locations of the samples property portfolio (N=2,834)](chart)

The majority of landlords reported that their typical property was let as unfurnished (70% of the sample). At the same time, 34% of landlords reported let their property as fully furnished. There is cross-over between the responses, to accommodate landlords who offer a range of different furnishings across their portfolios.

![Figure 8.4. The different furnishing options across landlords’ portfolios (N=2,833)](chart)
9. Conclusions and Recommendations
This research report marks the first follow up survey of the RLA’s quarterly survey programme on the issues affecting landlords, tenants and the wider sector. The present study was designed to determine the impact of finance and tax changes on the sector one year on since the previous study. A secondary aim of this research was to identify and examine a range of trends in the sector. Our previous report identified that a large proportion of landlords reported the changes would negatively impact on their rental income, were facing reduced profitability and a majority reported that they profitability would be reduced by at least 20% (Simcock, 2016). However, other research has identified that while different types of landlords will be affected by the changes, the potential outcomes of these changes on the wider sector are less clear cut and is not well understood (Clarke & Heywood, 2017; Whitehead & Scanlon, 2016). One prior study that has modelled the potential impact, has found that rents would need to rise by 20% to 30% to offset the tax changes (Miles, 2016). If this is the case, then this could put significant pressure on tenants to meet increased costs. While there is different evidence on the potential impact of these changes, these changes have not been the focus of widespread research and this indicates a need to develop a better understanding of the unintended consequences of these changes.

The current study found that a majority of landlords (70%) surveyed reported that the changes to mortgage interest relief would reduce their profitability as a business, with 62% of landlords reporting this would reduce their profitability by at least 20%. To mitigate the impact of these changes, the majority of landlords (67%) described that they would increase rents. These findings are consistent with our previous study from the year before (Simcock, 2016), and reflect the finding by Miles (2016) that these tax changes will lead to rent increases. It is important to note however, that while landlords may plan to increase rents, their ability to do so is limited by wider market pressures and some could find that they are stuck making a loss on their investment. 36% of landlords explained that these tax changes would mean they would be making a loss on their rental business, and 31% of landlords reported they were considering leaving the sector as a landlord. These findings do further indicate that it is unlikely that there will be a mass exodus from the sector, rather as previous research has indicated, landlords will seek to mitigate the changes (Pattison, 2017). One key strategy that landlords (25%) are considering is reducing the amount of leveraging across their portfolio by selling properties and using this capital. This could mean that there is a reduction in properties to rent and could cause an increase in homelessness. Especially, if landlords seek to regain possession before the sale rather than selling the property as tenanted, as this option is not very well understood by the majority of landlords (Clarke & Heywood, 2017). Overall, these findings indicate that these changes will negatively impact tenants through either increased rents or through the loss of supply of privately rented homes.

Another interesting finding was that landlord confidence in the sector is decreasing and has dropped by four percentage points on the previous quarter, with only 35% of landlords having confidence in the private rented sector. A possible explanation of these findings is the ongoing tax changes and new legislation that is being proposed by the Government leading to uncertainty for landlords. This reflects the findings of other
research, that identified government proposals and tax changes as having a psychological impact on the willingness to continue in the sector (Dunning, O’Brien, & Moore, 2017). The findings of this research also demonstrate that the proportions of landlords who have sold properties in the past 12 months has increased by four percentage points on the previous year, while the proportion of landlords who have bought additional properties has decreased by nine percentage points. It is likely that this is due to the changes in Stamp Duty Land Tax (SDLT) along with the other tax changes, especially as 69% of landlords explained that the 3% levy on Stamp Duty is putting them off from purchasing additional properties. This finding indicates that the growth of the sector by private landlords is being hampered by stamp duty, and is consistent with wider research findings (Clarke & Heywood, 2017).

Future plans for landlord property portfolios show that more landlords are planning to sell properties than buying properties, which potentially means that there could be a future under-supply of privately rented homes. Tenant demand for properties has remained consistent across and any loss of supply could increase competition for properties.

43% of landlords reported they had increased rents in the past 12 months, with 31% of these landlords reporting it was due to the changes in Mortgage Interest Relief. These findings of the current study point towards future rent increases being on the horizon for many tenants, with 50% of landlords planning on increasing rents in the next 12 months. This has increased by five percentage points on the previous quarter, and 43% of these landlords reported this was due to the changes in the mortgage interest relief. These findings have important implications for understanding the consequences of the government tax changes, with rent increases faced by tenants, which could put extra financial strain on families nationwide.

While 50% of landlords reported they are planning on increasing rents, 49% of landlords reported they planned to keep the rents the same for the next 12 months. With 77% reporting this was to keep the tenant in the property in the long-term. This finding may help us to understand landlord behaviour to long-term tenants and suggests that landlords rather than seeking to evict or increase rents to good tenants, would rather have a lower rent for a longer period to avoid any costly void.

This study has shown that a majority of landlords are affected by the changes to mortgage interest relief and are planning on taking action to mitigate any negative impact. However, this does mean that landlords are planning to increase rents or to sell some of their properties to reduce their exposure to the changes. The consequence of this means increased competition for rental properties and higher rents. These outcomes do not help tenants and mean a more expensive private rented sector for the UK. Therefore, we recommend that the government stops the roll-out of these tax changes and examines how it can work positively with landlords to provide a safe, secure and affordable private rented sector for all.
10. References
10. References


Miles, D. (2016). The impact of recent tax changes on the private rented sector. Imperial College London.


The home for research

+44 (0)161 495 9317
research@rla.org.uk
@RLA_PEARL
research.rla.org.uk