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Exploring the Landlord-Tenant Relationship

Even before the mini-budget in September, there were concerns about the UK private rental sector. In December 2021, for example, a survey of local councils found that 76% saw an increase in buy-to-let landlords opting to sell their properties. This was despite the fact that the UK was witnessing a decline in supply of rental properties in the market at the time. Indeed, a decade of restrictive regulations in the private rental sector may have contributed to this trend.

Then, when Kwasi Kwarteng and Liz Truss laid out their 'unapologetically pro-growth' mini-budget on the 23rd of September 2022, the situation changed again. Bond yields skyrocketed, inflation expectations jumped, and the cost of borrowing became significantly more expensive, with the markets predicting interest rates could surpass 5.5% in 2023. As a result, many homeowners and buy-to-let landlords – especially those on variable rates – saw their mortgage repayments rise. In some cases, these extra costs have been passed onto renters.

Indeed, many renters are struggling with affordability as a result. Following the mini-budget, tenants saw rental prices rise as their landlords attempted to reconcile inflated mortgage repayments on their properties. In fact, October's Rental Index data revealed the average rent in the UK has reached £1,171, up by 10.6% since last year and 1.0% since September, reflecting the speed at which prices have

risen. Some tenants have seen their rental prices increase by as much as 44% since the mini-budget.

Both landlords and tenants are contending with a cost-of-living crisis that has created the biggest decline in living standards since the 1950s. Clearly, the private rental sector is going through a difficult period. What kind of strain is this putting on the relationship between landlords and tenants?

To explore this topic further, Market Financial Solutions (MFS) commissioned an independent, nationally representative survey of 2,000 UK adults. Delving into the results of this research, this report will explore how landlords and tenants are coping with rising rental prices, the prospect of further regulation in the private rental sector during this cost-of-living crisis, and the opportunities that may arise as a result.



Key findings at a glance

In early November 2022, MFS commissioned an independent and nationally representative survey of 2,000 UK adults, of which 702 were tenants and 211 were landlords (own one or more buy-to-let properties). Here are some of the key findings:



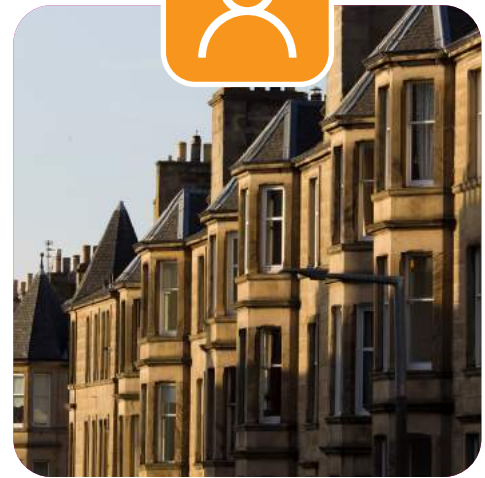
Sentiment towards prices in the private rental sector:

Tenants:

58% of tenants said their rent had increased in 2022

77% believe more needs to be done to control rental prices in the UK

49% are worried they will not be able to afford to pay rent in 2023



Landlords:

52% of landlords have increased rents in 2022

35% have frozen rents in 2022 due to the impact of the cost-of-living crisis on people's finances

48% have been forced to increase rents because of rising interest rates and mortgage repayments

56% will allow tenants flexibility on rental payments





Sentiment towards the prospect of further regulation in the private rental sector:

Tenants:

74% | say that more needs to be done to improve the standard of rental properties

69% | say that there should be more multi-year/long-term lets in the rental market

78% | say tenants should be able to claim rent back from landlords if they are made to live in poor quality accommodation



Landlords:

63% | say the government has introduced too much regulation in the private rental sector

40% | say the ban on no-fault evictions (Section 21) has left them with tenants whom they want to move out of their property(s) but cannot

65% | say the government has unfairly penalised and targeted landlords with different reforms over the past decade



Landlord and tenant sentiment toward rental prices during the cost-of-living crisis

It has been a challenging year in the private rental sector, in which the base interest rate consistently rose and inflation hit 11.1%. Indeed, MFS's research shows this all had an impact on the relationship between tenants, landlords, and the price of rental properties.

With rents rising for the majority (58%) of tenants in the UK, one in two (49%) are worried they will not be able to afford to pay rent in 2023.

On the flipside of this coin, almost half (48%) of landlords say they had to increase rental prices due to rising interest rates this year. Hikes from the central bank are regularly passed onto borrowers, and mortgage repayments have dramatically increased for the 9 million mortgage holders in the UK in recent months.

In fact, October's Bank of England (BoE) decision to hike rates to 3% have raised repayments for those on tracker mortgages by around £880 a year. Similarly, for those on standard variable rate mortgages, the cost for a borrower has risen by £178.70 since December 2021. These rising costs have heaped added pressure onto buy-to-let investors.

Yet, despite the negative narrative of greedy, profiteering landlords, our data shows the opposite is true. Many landlords are doing all they can to support tenants.



Our research also showed over half (56%) of landlords would allow flexibility on rental payments if a tenant was struggling financially amid the cost-of-living crisis. Meanwhile, over a third (35%) have gone even further, opting to freeze rents in 2022 due to well-documented pressures on people's finances.

Nevertheless, the overwhelming view among tenants (77%), is that more needs to be done to control rental prices in the UK. This view was particularly strong in specific regions such as the North East (87%), the East of England (80%), and the Southwest (80%).

Rental controls would likely put landlords under even more pressure and actually damage their relationship with tenants. This could be especially true for landlords in the costly London market. Here, the majority (70%) believe the Government has unfairly penalised and targeted landlords with different reforms over the past decade, while 66% feel too much regulation has been introduced into the private rental sector – well above the UK averages.

Felicity Buchan, the Under Secretary of State for Housing and Homelessness, recognised this issue recently. She said: “such a policy would lead to “disinvestment in the sector, which is not good for anyone” in a speech to the National Residential Landlords Association’s (NRLA) annual conference. It

appears the Government does not support rent controls, for now.

It's recognised that landlords and the buy-to-let sector provide a net good for the UK. Yet, the industry has faced a lot of pushback in recent years. Arguably, much of it unfair. As such, some landlords are looking towards other investments. This creates opportunity for new property investors to invest in a market desperate for a suitable supply, and fair landlords.

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Exploring landlords' and tenants' views about further regulation in the private rental sector

In recent years, landlords in the private rental sector have had to grapple with a fresh wave of reforms in the UK. This perhaps explains why our research shows that 63% of landlords believe the government has introduced too much regulation in the private rental sector.

For example, new licensing rules were introduced by the government in 2021 for houses in multiple occupation (HMO). The new rules state that an HMO license is needed for houses or flats where three or more people or two or more households share facilities.

Before these changes, licenses weren't needed in England and Wales unless there were five or more people sharing facilities. These regulations, which are designed to raise the standard of properties in the HMO market, are supported by 74% of tenants who say that more needs to be done to improve the standard of rental properties in England and Wales. In fact, the overwhelming majority (79%) of tenants, believe renters should be able to claim rent back from the landlords if they are made to live in poor quality accommodation.

Elsewhere on the regulatory front, landlords had to deal with a temporary ban on evictions during the pandemic. Meanwhile, new legislation was announced in this year's Queen's Speech abolishing Section 21 (no-fault evictions) permanently. This is all before new EPC rules and tax hikes are set to be introduced.



Such regulations have had a significant effect on the buy-to-let market. Some 54% of landlords said they'll need to make significant investments to improve the energy efficiency of their rental properties – raising costs in the process. Also, 40% of landlords say the ban left them with tenants they want to move out of their property(s) but cannot.

Changes to tax laws have also proven controversial in the private rental sector in recent years. From the 3% stamp duty for second homes, to the withdrawal of tax relief on mortgage interest costs, a majority (65%) of landlords say that the government has unfairly penalised and targeted them with challenging reforms over the past decade.

As a result of all this, 40% of landlords plan to sell one or more of their rental properties over the coming year. This could lead to lower levels of supply in an already squeezed rental market. So far in 2022, one in six homes sold have been rental properties. Instead of providing better outcomes for renters, new legislation could push rental costs even higher. Which does beg the question – who benefits from these legislative changes? As it doesn't seem to be helping tenants.

Clearly, regulation in the private rental sector is a divisive topic between landlords and tenants. The majority (73%) of tenants believe more regulations are needed to protect them, despite the legislation that's already been introduced.

But, we should remember why tenants want more protection. They want the Buy-To-Let (BTL) industry to work as efficiently as possible. Tenants likely just want to see sustainable levels of supply, eco-friendly homes which won't send their energy bills skyrocketing, and landlords who treat them with respect.



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No one is denying that bad landlords exist. There are plenty of horror stories out there. But it's unfortunate that a small number of bad actors have had such a big impact on perspectives. We must remember, bad landlords are the exception, not the rule.

Nevertheless, as buyers are flooded with BTL properties, there's opportunity for property investors to support the market. New landlords could turn some of these negatives around. Old homes could be refurbished to provide greener options for tenants. Larger buildings could be turned into smaller flats for renters desperate to keep their costs down.

The challenges facing renters, landlords, and the state are ultimately the result of supply and demand imbalances. If we can collectively resolve this, the industry could look forward to a much more prosperous, and peaceful, future.



The view of our CEO

“Undoubtedly, with inflation and interest rates continuing to rise and the cost-of-living crisis deepening by the day, this is an incredibly challenging financial situation for the private rental sector to be facing.

From a tenant point of view, rental prices are growing rapidly for the majority of renters. Within the wider context of rising food and energy prices, increases in rent will add pressure onto household budgets that are already stretched to the limit. However, it is worth remembering that the current economic landscape is also difficult for landlords to navigate.

Those that can, have opted to freeze rents for the rest of the year. But the rate at which landlords are now having to pay back their mortgages has dramatically increased in a very short space of time. Like tenants, they will also be grappling with rising costs, while increasing mortgage rates will diminish rental yields.

On top of this, it is fair to say that there has been a significant influx of regulations placed on landlords. Clearly, they believe that too much has been introduced too quickly, which is reflected by the fact that they feel unfairly penalised by the government.

As a result of the decreasing viability of owning a rental property, combined with the prospect of further regulation on the horizon, it is no wonder that 40% of landlords are planning on selling one or more of their

properties in the next twelve months.

The implications of this happening, however, should not be underestimated. In a sector that is already plagued by rampant demand and a perennial undersupply of homes, such an exodus from the private rental sector would create even more competition between tenants, pushing prices even higher.

The current crisis in the private rental sector is due to a lack of supply. Too often, the narrative about landlords is that they're taking advantage of tenants and forcing prices up. In truth, it's simple economics; if a product is in scarce supply, prices will rise.

Therefore, while it is important that tenants feel protected in their rental properties, the government also needs to legislate and invest in the private rental sector to increase the supply of new homes.

Whatever challenges arise in the private rental sector, MFS will be on hand to assist good landlords and savvy investors overcome them. Demand from tenants will not disappear, and there will be opportunities arising that can help relieve the current pressure in the rental market. We have the experience and expertise to assist in a wide range of cases and situations, such as specialist buy-to-let mortgages for new or expanding landlords, no matter how complex.”

- **Paresh Raja**, CEO, Market Financial Solutions

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