

NRLA

RESEARCH
OBSERVATORY

**Quarterly
Report
Quarter 4
2020**

**In Focus:
Safety & Standards**

1. Introduction

1.1 About our quarterly research programme & *In Focus*

This report is one of two core outputs from the *2020 Quarter 4 Landlord Survey*. This survey is part of the NRLA's research programme which seeks to better understand landlord motivations and business perspectives.

NRLA research also looks at how housing policy – current and potential future policy – has an influence on landlords' ability to supply homes in the Private Rented Sector (PRS).

The other key output from this quarterly survey, the eighth edition of the *Landlord Confidence Index (LCI)*, can be found on the NRLA website.

1.2 The *2020 Quarter 4* landlord survey

The NRLA is the only landlord-focused organisation which has a dedicated, quarterly research programme. This research programme is split in two. Our partners at BVA-BDRC run an industry-based analysis of landlord balance sheets, whilst the NRLA's *Research Observatory* focus on policy issues.

The Quarter 4 survey asked landlords about *Safety & Standards* – focusing on the twin demands of electrical safety and energy efficiency. Landlords are also asked about the possible impact of a raised minimum EPC threshold. This action has recently been subject to government consultation.

The survey also asks about the ongoing Covid-19 crisis, and landlords give their thoughts on the likely impact on their business.

2. Fieldwork & Sample

2.1 Fieldwork

The fieldwork for this survey began in December 2020. The survey was left open over the Christmas and New Year break, and then ran into January 2021. Surveying was undertaken online. Invites were sent to a random sample of members. Not all members of the NRLA are landlords. Throughout 2020 these surveys have focused on landlord views, rather than the views of the wider PRS. This has been because, with the pandemic, there is an additional focus on landlord-specific issues and the impact on the supply of housing.

2.2 The sample

Almost 1,500 (1,457) individuals showed an interest in participating in the survey. Of these 1,391 responses were active landlords whose responses form the basis of this report.

The number of responses is typically lower in Quarter 4 than for the other quarterly surveys. The 2020 Quarter 4 response was also slightly lower than for the 2019 Quarter 4 survey (1,611 equivalent responses).

This however continues to be the largest, independent supply-side research into the PRS.

2.2.1 More about the sample

Some key features about our sample:

1. Approximately 15% (14.6%) of responses were from landlords who let just one property.
2. Just under 60% (58%) of the sample stated they were male, with 38% female.
3. For this survey 74% of respondents were aged over 55 years.
 - a. This is a noticeably older age profile than previous quarterly surveys – in the previous surveys the proportion of over-55s is nearer two-thirds.

4. The most common locations for landlord portfolios were the South East (24.3% of landlords had their portfolios focused in this region), followed by London (16.3%).
5. Wales and the North East each accounted for 4% of landlord portfolios.

3. Landlord Confidence

More details on landlord confidence are posted on the NRLA's website via the *Landlord Confidence Index*. In summary, the Quarter 4 analysis of confidence highlighted the following:

1. Nationwide, confidence remains low, there has however been a modest increase in confidence since the Quarter 3 study.
2. Confidence in London remains particularly low, despite the modest uptick elsewhere. Landlords with portfolios focused in London are also more likely to be reporting a *fall* in demand for rental properties.
3. Confidence is presently highest in Yorkshire and the Humber and the East Midlands. These two regions also experienced the greatest increase in the confidence score compared to the previous Quarter 3 survey.
4. Almost a third of landlords are planning to sell at least some of their rental properties over the next twelve months. Reforms to Section 21, recent changes to Mortgage Interest Relief and fears about future CGT hikes were all cited as key drivers to sell.
5. Almost three-quarters (73%) of landlords froze rents in the previous twelve months. Among this group, the relationship with the tenant was one of the key motivations for not increasing rents.

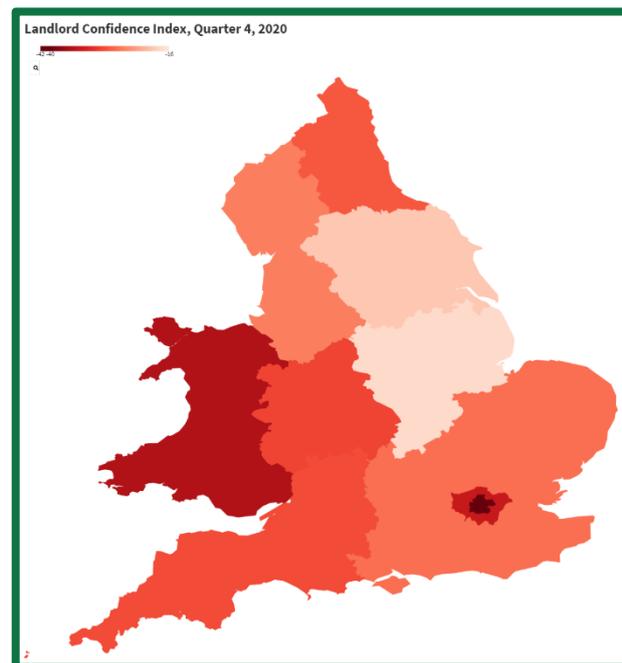


Figure 3.1: LCI, 2020 Qtr 4 (Darker shades – least confident)

3.1 Selection of landlord comments

“Abolishing Section 21 is pretty disastrous for the letting industry and the reason why I would like to sell off some if not all of my properties”

“I am fed up with being treated so badly by the Government as a landlord.”

“It was extremely unfair that holiday rentals run as a business were given recompense money for lost business, but those providing actual homes to social tenants were given no help at all.”

“I have already moved 3 properties out of the PRS and looking at the selling or shifting the others.”

“I see no evidence that Rent Smart Wales or Welsh Government is serious about discovering, exposing and removing bad landlords from the sector.”

“I rent to young people in London who are leaving in droves because if they can work from home many are choosing to.”

4. Safety & Standards

4.1 A safe & secure PRS

4.1.1 Safety and security features

Landlords were asked about safety and security features in the properties they let. The question specified whether these features had been installed “in all or most of” their properties. The responses revealed:

- Among those responding to the survey, 96% of all landlords reported smoke alarms had been installed on *all* floors of their properties.
- Sixty per cent (60%) of landlords reported they now had approved standard window locks on all windows of their property.
- Whilst 12% of all landlords reported they had installed burglar alarms, for landlords with portfolios in northern England, this proportion rose to 26%.

Single property landlords

Are more likely than landlords with larger portfolios to install the following:

Burglar alarms; window locks & additional door security.

4.2 External Wall Systems (EWS)

Following Grenfell, the Government introduced rules requiring homes to undergo an external wall survey process – commonly referred to as ‘EWS1’. This process was initially developed to assess the potential financial impact of cladding on high-rise flats and to check walls and balconies were structurally sound.

However, following a change in Government guidance at the start of 2020¹, some lenders were requiring an EWS1 before allowing mortgages on all types of properties.

Obtaining an EWS1

Among those landlords who required an EWS1 form, *two-thirds* experienced difficulties:

Almost half of those who sought an EWS1 reported they were “unable to secure” an EWS report for the property.

Other landlords reported “difficulties” in securing the documentation.

The survey asked landlords who had recently bought or sold property whether they had needed an EWS 1 as a pre-requisite:

- For over 90% (93.8%) of landlords who traded property recently, an EWS1 form was not required.
- Half² of those landlords who did state they required an EWS1 did so to remortgage property.
- Over three quarters of this small group of landlords who required an EWS1, did so for leasehold, rather than freehold properties.

4.3 Selection of landlord comments

“Cladding - nightmare response and attitude to PRS makes me want to give up.”

“Cladding and related costs are far more significant than COVID-19.”

“A disastrous situation for many unsuspecting purchasers of property that has been built without proper fire breaks, flammable cladding and other flammable materials!”

“Dire failure of government to properly regulate the building industry which has led to a disastrous situation for many unsuspecting purchasers of property.”

¹ There was subsequent guidance issued in November 2020 – see <https://www.nrla.org.uk/news/flats-cladding-EWS1-checks>

² Note precise percentages are not recorded here simply because the numbers of landlords are small – the proportions are presented as an indication.

5. Electrical safety

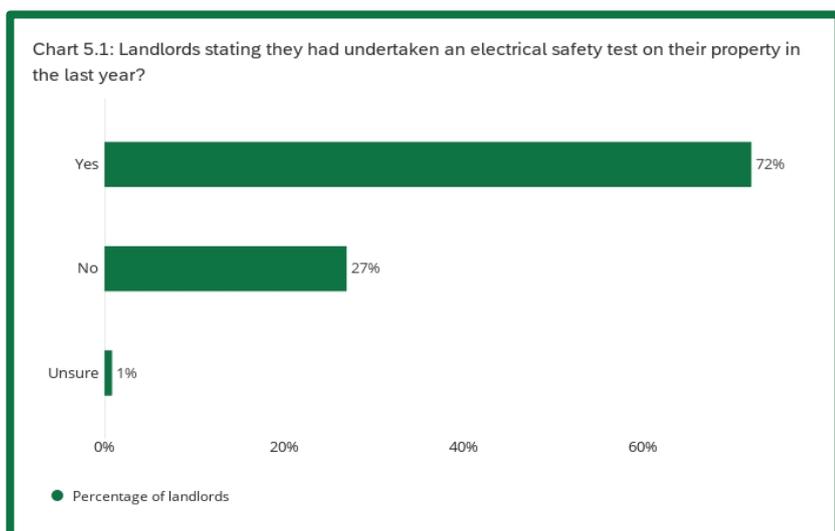
5.1 Prevalence of EICR testing

Landlords were asked about their awareness of Electrical Inspection Condition Report (EICR) regulations and their response to this responsibility.

Each year this survey asks landlords whether or not they had conducted such tests in the previous twelve months. In Quarter 4, 2019 for example, 35% of landlords had undertaken an EIC report in the previous twelve months.

97%
Of all landlords are aware of the need for EIC reports.

This year landlords responded as shown in the chart below:



What makes this 72% figure more impressive is that these tests have been arranged and undertaken during the unique circumstances of the Covid-19 crisis.

This *does not mean* 28% of landlords rent property which has not been tested – tests

undertaken in previous years means a landlord need not require an EIC test this year.

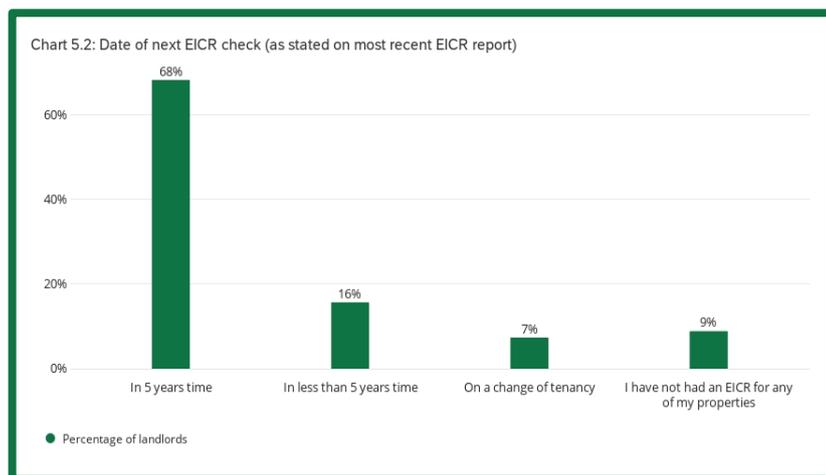
The survey was undertaken during a transition period before the EICR became compulsory for all properties in the PRS in April 2021 (in June 2020 all new tenancies required an EICR). This survey shows that landlords are responding to the requirements of this timetable.

5.2 Prevalence of incorrect advice

Through the autumn and winter of 2020, the NRLA picked up on queries from members about the required frequency of EIC inspections and reports.

Particularly concerning were reports of misinformation being provided to landlords by contractors. The indication being some contractors – possibly in good faith - were informing landlords EICRs were required on a change of tenancy and **not every five years**.

The survey asked landlords when their *next* EICR was due. Chart 5.2 shows the results:



- Over two-thirds of landlords (68%) stated the date of their next EICR was in five years' time.
- Of those stating the due date was in less than five years' time – almost half (45%) were referring to EICRs undertaken in the previous twelve months.

In other words, both of these groups are being *mis-informed* about the due date for their next EICR.

Finally, a small but not insignificant percentage (7%) of landlords are being told their next EICR is due on a change of tenancy.

Three-quarters of this small group had had an EICR in the most recent twelve months. Again, the information they receive about the EICR - from those conducting the tests - is being given in error.

Key groups

The following are more likely to be given incorrect information about EICR report schedules:

- (i) Single property landlords
- (ii) Landlords aged over 55
- (iii) Landlords with London-focused portfolios

From the responses to this question - and then through cross-tabulating with the information on when EICRs were last undertaken - we estimate that at least 15% and possibly as many as **one-in-five** (20%) landlords have been given erroneous information about the schedule for EICR updates.

5.3 Landlords yet to undertake an EICR report

Finally, although over 90% of landlords had now gone through the EICR process, almost 10% (9%) of landlords stated they had yet to undertake an EICR.

Landlords who let just the one property were twice as likely to have not undertaken an EICR report than landlords who have larger portfolios. Note that at the time of the fieldwork there were still three months to go before the test and report were mandatory.

Therefore, the higher response among this group should not itself be indicative of non-compliance. To support this, almost 95% of single property landlords stated they are aware of the EICR regulations.

5.4 Selection of landlord comments

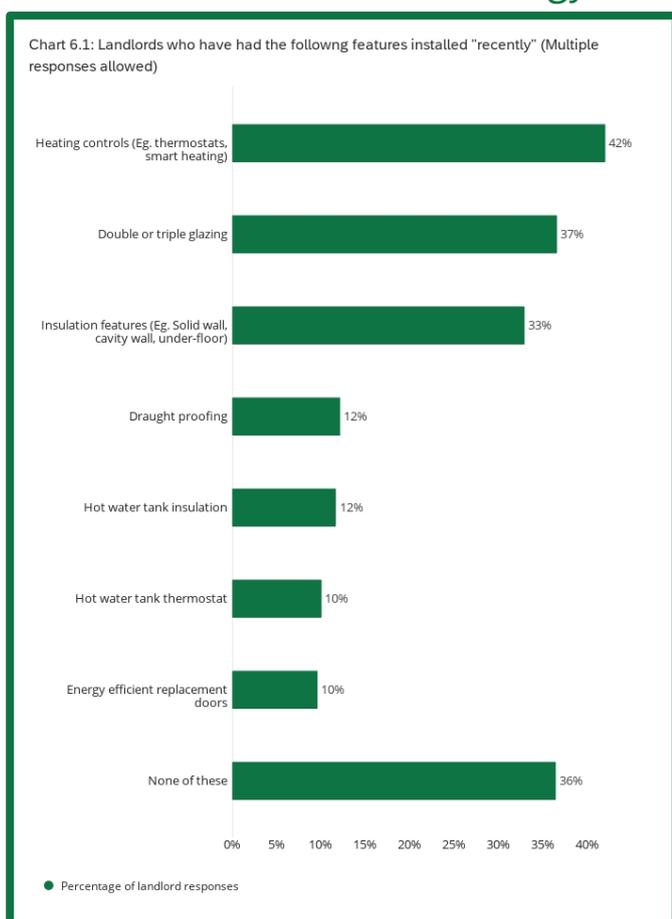
“Electrical safety certificates are expensive and complicated with electricians applying different standards.”

“[I] Worry about electrical safety certificate issues by deadline date due to covid and access.”

“Deadline of 31st March has made all electricians very busy, impacting on the costs of doing the necessary work & the ability to get the work done at all!”

6. Energy Efficiency

6.1 Investment in energy efficient measures



This chart (Chart 6.1) shows recent landlord investments across a variety of energy efficient devices and measures.

Note that only those items selected by at least 10% of landlords are included in this chart.

Almost two-thirds of landlords have made recent energy saving investments. These range from quite simple interventions (e.g. hot water tank insulation) to more expensive investments (e.g. double/triple glazing or wall and floor insulation).

6.1.1 Landlords who have not made any energy investments

Those who responded "none of the above" in the question above were asked an additional question. They were asked *why* they had chosen not to install any of the above features in their property.

- Almost two-thirds (65%) of this group stated they were "satisfied with the EPC rating".
- A further 17% stated the reason they had not made any investment was because their tenants were "happy" with their property.

6.2 Energy efficiency and future EPC targets

At the present time, landlords can only let out a property if it has an EPC with a rating of E or higher³.

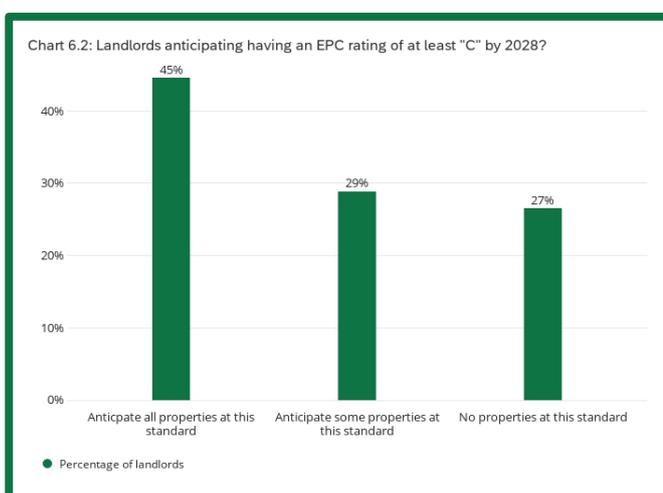
In September 2020 BEIS⁴ launched a consultation (which closed in January) proposing to amend the energy efficiency regulations for the PRS in England and Wales. The proposal was to raise the minimum EPC rating for rented property to band C. The proposals as set out would be phased in between 2025 and 2028. At this latter date, all tenancies in the PRS would need to be in properties with a minimum EPC of C⁵.

75%

The proportion of landlords aware of the consultation and possible changes to minimum EPC requirements.

6.2.1 Attainment of this standard

Landlords were asked whether they anticipated properties in their portfolio meeting this



standard in the timeframe outlined in the consultation (see the chart to the left):

Fewer than half (45%) of all landlords anticipated all their properties would meet this standard.

Over a quarter of landlords (27%) reported *none* of their properties would meet this standard. When this group was probed

³ There is an exemption for landlords who can demonstrate they have spent up to £3,500 on improving their property.

⁴ Department for Business, Energy, and Industrial Strategy.

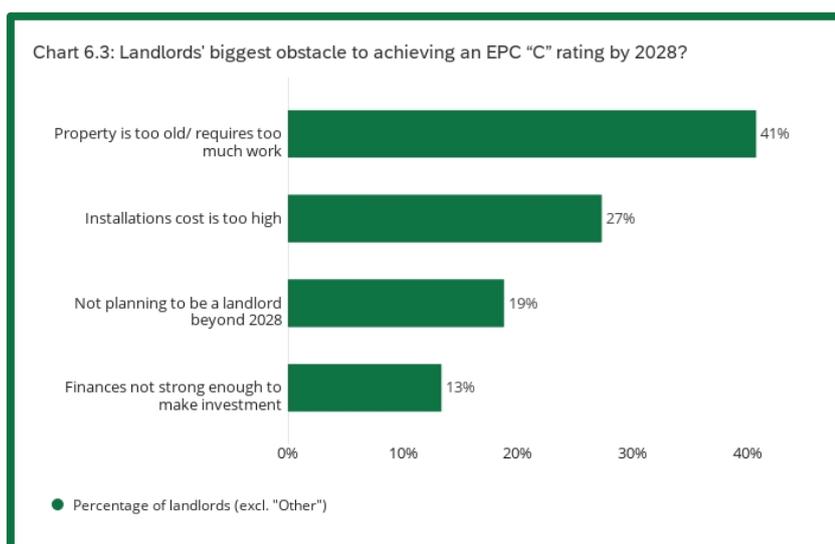
⁵ As before, there would be a cap on necessary investment, but the consultation stated this cap would be raised to £10,000.

further, just under half (45%) stated they would exit the market rather than attempt to meet this requirement⁶.

The remaining landlords, while confident some properties would be at band C, they were not so confident all their properties would achieve this standard.

6.2.2 Obstacles in attaining the band-C standard

ALL landlords were then asked what the biggest obstacle to achieving an EPC “C” rating across their portfolios by 2028 would be. The key responses are set out in the chart below⁷:



The age of the property and resulting volume of work was the most commonly cited reason (41% of all landlords, with a further 27% identifying “installation costs”).

However, for 19% of landlords, the key reason was the anticipation of no longer

being a landlord by 2028. Note that over one-third of single property landlords gave this reason. Landlords over 55 were three times more likely than those aged under 55 to cite similar expectations about being in the market by this date.

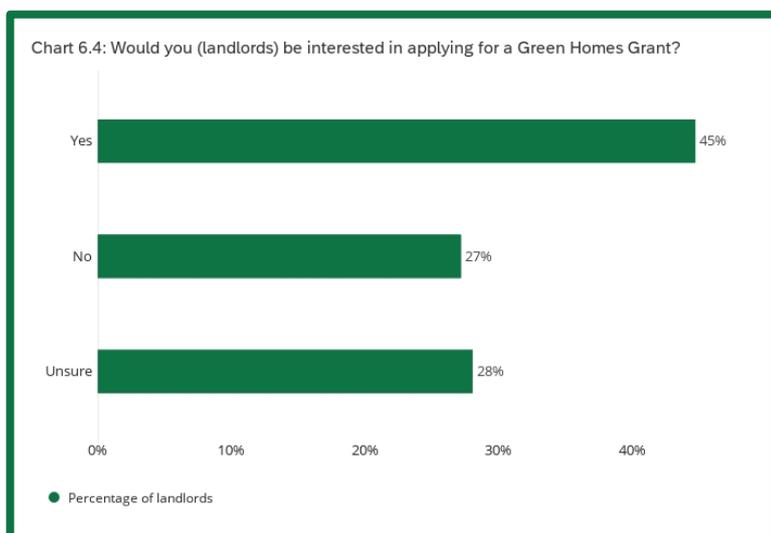
⁶ This equates to approximately 12% of all landlords.

⁷ The chart excludes a number of “Other” responses. These are chiefly landlords whose properties are already at band C or above and so do not need investment of the type discussed here.

6.3 The Green Homes Grant

The Green Homes Grants Scheme was launched on 30 September and is now available until the 31 March 2022. The Green Homes Grant was seen as a unique opportunity for landlords to get government help with the cost of energy efficiency works for their property.

The survey, the fieldwork for which was undertaken not long after the scheme was launched, asked landlords a single, simple question about the scheme:



The results are mixed: when asked whether landlords would be interested in applying for a grant, fewer than half (45%) responded positively.

However, with a further 27% unsure, it may be that funding conditions, eligibility and the scheme's marketing may all

influence the eventual take up.

The NRLA are working in partnership with the Tenancy Deposit Scheme (TDS) on a further survey with landlords examining the Green Homes Grant in more detail.

6.4 Selection of landlord comments

“Several of my properties are flats in social housing blocks - I can't get C rating without doing measures like solid wall insulation which is impossible for one property within a block.”

“Exemptions [vital] for EPC level C for older properties where it is not possible/practical to upgrade.”

“I do not see how anyone can get the Victorian town centre properties that so much of the PRS owns, up to the required standard.”

“The crazy increase to C in EPC's will lead to millions of tenants being forced out...[while] a home-owner doesn't have care at all about EPC ratings.”

“Very worried about the EPC C rating in Wales. Impossible in valley terraces and internal insulation can make damp worse due to these houses needing to breathe.”

7. The latest views on Covid-19

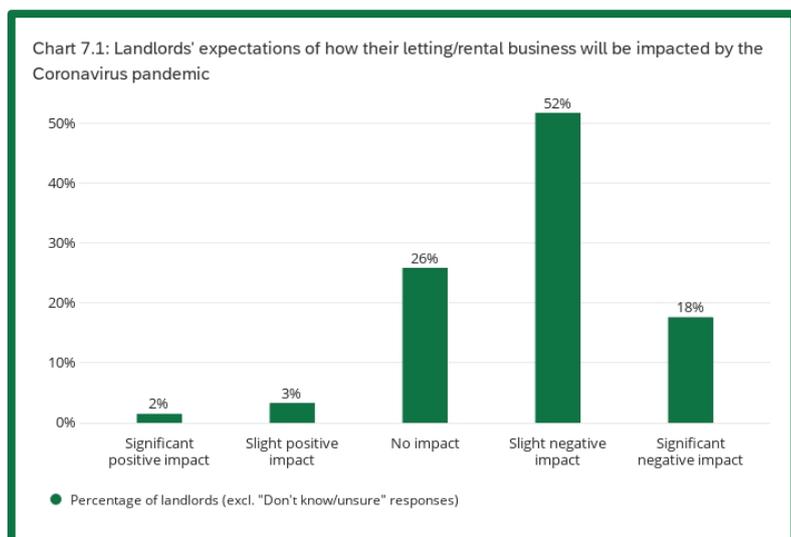
At the time the fieldwork for this survey went out, a fresh, Christmas, leg of the Covid-crisis was gathering pace and reaching a peak. Throughout the crisis the NRLA have asked landlords how they have been affected and what the long-term implications may be.

The research has addressed different aspects of the pandemic and the PRS – key issues in managing property, specific strains on student lettings, difficulties in finding new tenants and so on.

Each time the NRLA has surveyed landlords in 2020, two core questions have been asked. The first concerning impact on the landlords’ business as a result of Covid-19. The second addressing longer term sustainability of housing supply in the PRS.

7.1 Impact of Covid-19 on a landlord’s business

Landlords were asked how their lettings business would be affected by Covid-19:



The response indicates that 70% of landlords expect their business to be negatively affected. For most of these landlords (76% of this group) that negative impact is described as “slight”.

However, in London, landlords were much more likely to identify negative impacts. Thus, 80% of

London landlords stated the impact on their business would be negative⁸ - almost one-fifth (18%) of all landlords who anticipated negative impacts were from the capital.

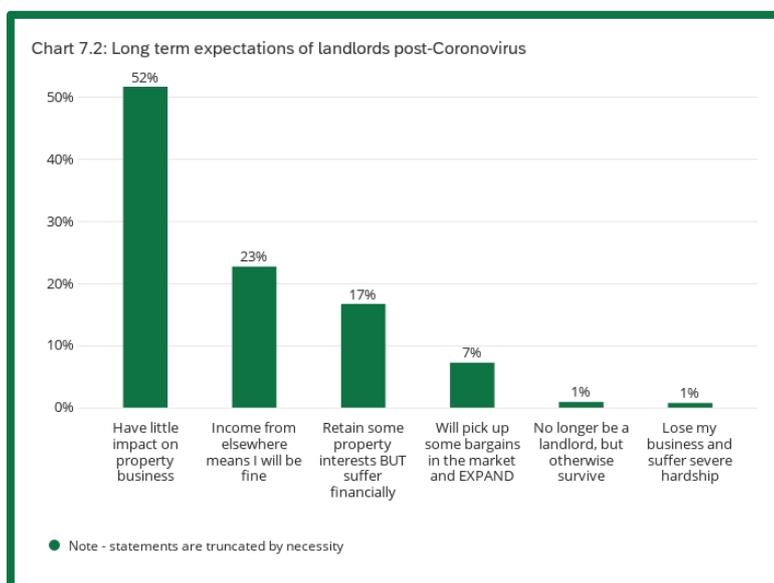
⁸ Landlords based in London are twice as likely to state “significant” rather than “slight” negative impacts.

Note that the results presented above are almost identical to those recorded in the third quarter. In Quarter 3, once the “Not sure” responses are excluded, 70% then also stated the impact would be negative.

Although there is some shifting between “slight” and “significant”, there is not enough to state a clear difference. The same can be said for the sub-group of landlords whose portfolios are in London⁹. Among this group there has been little change in the high levels of concern landlords have had about the impact of Covid-19 on their business¹⁰.

7.2 Long-term prospects on housing supply in the PRS

The other question landlords have consistently been asked throughout Covid-19 has been their views on their business prospects going forward. Landlords were presented with a set of statements about future business expectations and asked to select one:



Over half of landlords (52%) stated in the long term Covid-19 would have “little impact” on their business. A further quarter of those sampled (23%) stated that, though struggling with property revenues, income from elsewhere would see them through the crisis relatively unscathed.

However, for almost a fifth of landlords (19%), Covid-19 has led to a financial hit so severe that they have had to release (sell) property to compensate for loss of income.

⁹ In Quarter 3 2020, 84% of London landlords anticipated a negative impact on their business.

¹⁰ In Quarter 2 2020, 76% of London landlords anticipated a negative impact on their business.

Among landlords in London, 24% of landlords fall into one of these three “suffering” categories.

Again, these results are similar to those in the Quarter 3 survey. In the Quarter 3 survey, once “Don’t knows” are excluded, 49% stated “little impact” and 21% fell into one of the three categories which indicate property sales are likely.

It would seem Covid-19 is now increasingly becoming baked into business expectations and an individual landlord’s business forecast.

7.3 Selection of landlord comments

“Attention is on Covid understandably, but I think the longer-term trend of overregulation and rising costs is the biggest concern.”

“Extremely uncomfortable with the negative press against landlords during covid.”

“Covid is likely the final nail in the coffin when added to abolition of mortgage interest as an expense.”

“Green home grants are not anywhere near enough to lift EPC to a C.”

“As a self-employed landlord and business owner I have been given no help by the Government whatsoever throughout Covid.”

“I’m frustrated about the Green Homes Grants. I have flats and I want to upgrade their energy efficiency but there’s nothing in the grants for me.”

8. Summary

Key takeaways from the Quarter 4 landlord survey:

Landlord confidence

Landlord confidence is low, though a little higher than in Quarter 3. In London however, confidence is noticeably lower than elsewhere – a drop in demand is adding to the Covid-19 difficulties landlords are facing.

The impact of EWS1 regulation

Numbers are small, but the indication is that for those who required EWS1 around half found the process difficult. From comments by those [few] landlords affected by this regulation, there seems little confidence in the steps taken to reform and clarify legislation.

Electrical safety

Despite the added challenges of Covid-19, landlords are getting on with meeting the necessary regulatory requirements. From the survey responses, we estimate that approximately 15% - and possibly as many as one-in-five landlords (20%) - have been given erroneous information about the schedule for EICR updates.

Energy efficiency

Fewer than of all landlords surveyed believed their portfolio would be compliant with proposed new regulations by 2028, the date at which their properties would need to be at band C or higher.

The age of the property and the cost of meeting the revised thresholds are the key reasons. There was disappointment with the Green Homes Grant¹¹ as a mechanism to support necessary investment.

¹¹ Since this report was drafted, the government announced the Green Homes Grant would be withdrawn

Thus, the introduction of such a threshold could prompt an exit from the sector. A great number of landlords would also need to sell some of their portfolio to achieve the standard in their remaining stock. Hence, either way, the result of introducing this higher threshold would simply be to transfer inefficient housing into the private sector.

The impact of Covid-19

Across England & Wales, approximately 70% of landlords anticipate a negative impact on their business model. In London, this proportion is nearer 80%. For around 19% of landlords, there is a concern that because of Covid-19, property sales and divestment will have to follow.

Summary: landlords' investment decisions

Previous NRLA research consistently shows many landlords have invested in property for pension reasons. For many landlords considering their future, the Net Present Value calculation of a lump sum from property sales compared to the prospect of future rental income streams increasingly favours selling, rather than continuing to rent for income.

There must be concern that the accumulation of pressures will damage the supply of private rented housing in the medium to long term.