Richard Blanco:

Hello, and welcome to Listen Up Landlords with Ben Beadle and me, Richard Blanco. It's budget time, Rishi Sunak, the chancellor, will make his spring forecast statement, as it is formally known, on the 23rd of March 2022. The NRLA has been beavering away to come up with some proposals to encourage landlords to stay in business and invest in their portfolios. Director of policy and campaigns, Chris Norris, will join us to unpack some of the ideas he's been working on and tell us what might be on Rishi Sunak's agenda. Dan Cumming, NRLA Advice Line compliance specialist is back with an update on those issues most affecting landlords at this time of year.

Richard Blanco:

But first, the number of Private Rented Sector homes may be shrinking according to new research by Capital Economics, with a net loss of 70,000 dwellings between 2017 and 2020. The UK target for new homes is 340,000 per annum. But with the owner occupied sector and social housing simply not growing fast enough, that leaves a gap of up to 225,000 a year that may need to be filled by privately let properties according to the research. Ben, you are chairing a working group that's looking at this problem or opportunity depending how you perceive it. We've heard a lot of anecdotal evidence about fewer landlords buying, but then of course activity increased during the stamp duty holiday in 2021. What do you think is causing fewer landlords to invest overall?

Ben Beadle:

Well, how long you got Richard? I mean, we only need to look back over the past few years to see the punitive regime that landlords have been put through. So additional stamp duty, the mortgage interest rate relief being tapered right down, next to nothing, the Tenant Fees Act changes. And I think the other thing is the uncertainty that is now hanging over the sector. We know there's a move towards greater regulation, but we also know there's a train crash coming with regards to energy, energy efficiency, and minimum energy standards that is going to cause some landlords to take a very hard look at their portfolio and potentially rationalise further.

Richard Blanco:

That's right. I mean, potentially, I was looking at the idea of having to save £10,000 per property, because that's the cap that the government talked about to make those changes, to try and get properties up to C. And I'm not sure I'm going to be able to manage that anyway. There's also the whole uncertainty around the abolition of Section 21, isn't there not? I think a lot of landlords haven't even clocked that yet, and when they do, that could have an even greater impact.

Ben Beadle:

Well, I mean, we saw the levelling up announcement that banged on about Section 21 again, and there seemed to be landlords that were surprised, but the levelling up statement was a regurgitation of everything that we saw three years ago. It's a wonderful way the government has of giving an impression that they're doing something when actually nothing has really happened on this front at all. So this is by no means new news, clearly a direction of travel that's been with us for some time, but I think what's happening is that this constant cloud of jiggery-pokery hanging over the sector is really unhelpful. And of course, the government inadvertently have incentivized short-term lets against long-term sustainable renting.

Richard Blanco:

The other thing to mention of course, Ben, is the register, the national register that was the rabbit pulled out of the hat as well with that levelling up paper that came out. And we thought that had all been put to bed some years ago, but out it pops again all of a sudden. Well, we're joined now by two members of that working party that I mentioned. Ian Fletcher is director of real estate policy at the British Property Federation, and David Cox is legal and compliance director at Rightmove. David, let me start with you. I want to ask you both actually what you think of the causes and the scale of the problem in terms of meeting the demand for private rented housing going forward?

David Cox:

I think I agree entirely with everything that Ben has just said. If you look back over the last 10 years, we have had just a litany of new pieces of legislation, most of which have not been enforced. Meaning that there is increased pressure on the good landlords, the good agents, to comply with all these new laws whilst they're being a subset of the sector that is effectively getting away completely scot-free underground. I think when you look at what has happened over the last 10 years, you take the research that you've just been talking about for Capital Economics, which seems absolutely right, and is backed up by some of the stuff that we're seeing coming out of the English Housing Survey at the moment, the landlords are starting to leave the sector. It's becoming financially unviable to actually be a landlord. They're no longer making money.

David Cox:

And certainly, that is being made out on the facts as we see it, are property is coming onto and going off-site. And we are probably at the worst supply and demand point Rightmove has ever seen. Today's the 11th February when we are recording this, looking at the stats up to midnight last night, time on the market is down in lettings by 32%, an average of 16 days on the market. We've got demand up by 24%, and wait for the big one, average stock is down 52%. So we have got stock massively down, demand ever increasing, which is obviously doing two things. They are literally flying off the shelf, and of course, what are we seeing? We are seeing price rises. So again, as of last night, we are looking at an 11.1% year-on-year increase in asking rent. I would say, of course, Rightmove records what people put on the market, not necessarily what they go for. We don't have those stats. That's an increase in 11.1% across the country. London is up even more at 13.8%.

David Cox:

So we are really seeing this problem now. And arguments that we hear on a very regular basis that we need to move towards institutional investment, we need to provide more housing supply. What was the term in last week's Levelling Up Paper? We're going to move from generation rent to generation buy. No, we are not because they can't get the rental properties, which is pushing the prices of rental properties up, meaning that they have to spend more of their disposable income on rent, they can save less for the deposit, and therefore actually, the policies of successive governments, and I am not blaming any one colour of government. This is failures of every colour and every combination of colours over the last 20 years to deal with the supply side issue. Because if there was enough rental supply, we won't be seeing the wild increases in rents that we are actually seeing. The problem is there's not enough houses to house the people that want to live here.

Richard Blanco:

Ian Fletcher, should be good to hear your take on this though. What do you think of the causes? And what's the scale of the problem?

Ian Fletcher:

I think I'll start off by saying I very much welcome the work that NRLA and Capital Economics are doing in this area. I think you have to remember the political context. Probably the biggest political issue this year is going to be the cost of living crisis, and well, it won't be long before people are pointing fingers at landlords and saying they're part of the problem - raising rents, et cetera. So being able to tell that story about lack of supply and what that creates in terms of the various problems I think is really important. I think one of the challenges in that work is stripping out the weird circumstances that we find ourselves in.

Ian Fletcher:

There is undoubtedly a pandemic story there behind supply and demand, people weren't moving during the pandemic, like graduates, et cetera, that weren't looking for their first rental home. They now are part of the supply issue undoubtedly caused by the pandemic at the moment. And it's stripping that out from all the factors that have been talked about in terms of the various structural changes to the Private Rented Sector, which are undoubtedly I think also a factor.

Ben Beadle:

And Ian, tell me, is the answer to simply build more homes and keep incentivizing first time buyers? How do you see this playing out?

Ian Fletcher:

Given the scale of the problem, then it needs all guns blazing, firing on all cylinders. So yes, I think we need to ensure that we continue to retain those landlords, particularly the portfolio landlords that are in this market. We have to think seriously about how we encourage the next buy-to-let investors into this market. A lot of existing investors, I think, probably those that were investing in the 90s and noughties are exiting because they're retiring. And then there is my contribution, my great campaign over the last decade has been the build-to-rent sector. That is predicted to double in growth between now and '25, 2026. That can make a contribution, but it will invest in particular places, and that doesn't serve the whole market.

Ben Beadle:

And where does social housing fit into this then? Because looking at some of the figures here, the sectors only average 12,000 net additions per year over the last decade. So you talk about build-to-rent expanding massively, but where do you think social housing fits into being part of the solution here?

Ian Fletcher:

Yeah, I think there's a big squeezed middle, and that middle's got bigger. And the social rented sector, it can only accommodate those that are in desperate need, on very low incomes. And the Private Rented Sector is taking a lot of the strain. We see it particularly in London, part of the attraction, I suppose, in terms of build-to-rent in London is trying to accommodate that squeezed middle, and there are some local councils that are far more accommodating of that than others. London is in danger of becoming very polarised. If you are on a very low income, yes, you can access social housing. If you are on a very high income, yes, you can access the market. But there isn't that Private Rented Sector accommodation. There's a huge shift toward sharing over the last decade, two decades in London. And that's a reflection of affordability.

Richard Blanco:

David, increasingly landlords are turning to short-term lets, and that doesn't seem to show any sign of slowing, does it?

David Cox:

No, it doesn't. And to a certain extent, why would it? If you look at the huge amount of regulation that is imposed on private landlords and the almost entire lack of regulation imposed on short-term lets, landlords are going to be doing maths at this point in time. And certainly in key holiday hotspots in Central London and well, really all parts of London, we have seen supply in droves in certain places leave the private rented market and move into the short-term let market because bear in mind, whilst it may be a higher toll on the property, it is for a shorter period of time, particularly if it could be their second homes as well.

David Cox:

So instead of having it as an investment, they could have it as a second home, rent it out for half the year, or entirely lawfully, but not having to comply with anywhere near the level of regulations that are imposed on private landlords. So it's not really surprising that in those key places, and I particularly think the south west where we've seen thousands and thousands of properties leave the market. And looking back at our statistics, we can see them disappearing off the market and not coming back on, which would indicate they're going into the short-term let market.

Richard Blanco:

And we could of course see an increase in regulation in that space. I mean, if we look at other European cities like say Madrid, where it's going to become very difficult to do short-term lets. But more broadly, I mean, I mentioned this gap of 225,000 properties a year that may need to be filled by the Private Rented Sector. Is there an opportunity here for the PRS?

David Cox:

I certainly think there is still the opportunity, but it's probably more challenging than it has been at any point in the last 20 years. We were just talking about a lot of the people that make up the landlords of today were those that invested in a very different world in the 90s and noughties. We are now today operating at very different, much more regulated environment. We've got to look at the cost implications of some of the proposals that are coming forward. The idea of a Westminster-based government talking about a minimum spend of £10,000 pounds on energy efficiency improvement, that may be okay if you are letting properties in London. The average rents are hovering around £2,000 a month. We are talking four, five months rents there.

David Cox:

But if you are in Newcastle where the average rents are a fraction of that, we're talking £600, £700 a month here, it would take years to generate that money through rent. And therefore, the proposals that are coming through whilst laudable, and do not get me wrong. We need to improve the quality of the properties, we need to improve the management standards of the properties, but adding tax after tax and cost after cost, all that is going to do is push the good landlords who want to comply with the law out of the market because they simply can't afford to run their businesses. It stops becoming a viable business model. Now, will that push the properties into the hands of first time buyers, which is what the government wants? The likelihood is no, because the sort of property that a landlord will purchase is something that a first time buyer will not purchase.

David Cox:

And therefore what will happen to those properties? We don't know. But I would certainly suggest my guess would be that they will then fall into the hands of other landlords that will not be quite as willing to comply with the law. And therefore, what I am worried about with the policy direction over the next few years, is we are going to see an exodus of the good landlords that built the sector over the last 20 years, and a new generation of less competent, less caring landlords taking over because they think that they can get away with it. And the evidence suggests at the moment that they can. Now, that is not going to be good for anybody involved, most obviously the tenants, but also the reputation of the property industry itself.

Richard Blanco:

Give us a quick mini manifesto, David, what should the government be doing?

David Cox:

I think we've got to look at the housing market as a whole firstly, rather than various bits. So I am encouraged with the announcements made last week, 300,000 homes. It might have been trotted out several times, but they seem to have money and plans in place to start looking at those, tackling specific areas. So if we can help people that are on the cusp, just at the moment not being able to afford their first home, if we can take some of those out of the PRS and get them into owner occupation, that's going to be good for the economy and everybody as a whole. It will then free up the space in the PRS for more people.

David Cox:

We've also got to look at the other end and look at social housing. The Private Rented Sector was never designed to be a pseudo social tenure, and yet it is becoming that. It is being expected to become that, and therefore, we need to look at both ends. So the Private Rented Sector becomes that bit in the middle. That's what it was designed to do, that's what it does really well. It can't be a lifetime tenure for people who are just on the cusp. It can't be sheltered housing and social housing, but the other end, it has its niche, we need to get back to that.

Ben Beadle:

And Ian, a question for you, what realistically, can you see government actually doing?

Ian Fletcher:

It's tough in this area. Government is obviously trying to pay for a pandemic at the moment and government finances are not in the best of health. And in terms of thinking about a silver bullet that's fiscal, that supports the sector, I can think of lots of good things the government could do on the tax side, but they don't necessarily create supply. You can think about CGT relief or energy efficiency improvements, getting CGT relief, or getting people to pension save, that sort of thing. Yeah. And if anything, you're just trying to stave off things actually getting worse. I saw press speculation the other week that the sector was this close from 4% SDLT surcharge at the last budget. The great chasm that I see in government policy making at the moment is between planning policy and housing policy.

Ian Fletcher:

If you look at what government's saying on planning policy, it stepped back from its algorithm about a year ago, said it was going to push a lot more of its supply into city centres, 20 key cities, brownfield land. That means apartments, it means density. So that means both build-to-rent, but also, Private Rented Sector, buy-to-let investors, create demand for apartments. And yet if you look at last year, we built a lot more houses than we did apartments. So at the moment, government's planning policy is way out of kilter with what we should be doing in terms of housing policy.

Ben Beadle:

Indeed, and David, maybe I might just bring you back in here. I mean, well, maybe it's not clear to everybody, but it's certainly clear to us that we've seen a string of anti-landlord policies from government in this area. Is this something that you see changing anytime soon? How pessimistic?

David Cox:

I don't think it's pessimism. I think it's realism. It's the world they're living in. And yes, they are anti-landlord policies, but I don't think they are born out of an anti-landlord sentiment, particularly with a conservative government. I think they're trying to do their level best, but they don't always know what is best, and they don't consider the unintended consequences. We have seen this time and time, and time again. Just to go back and give you one prime example, the Tenant Fees Ban. Report after report, after report from the sector said, "If you ban tenant fees, rent will go up."

David Cox:

You look at the government's impact assessment before the tenant fees ban came in, and it said, "We do not believe that there will be any increase in rents as a result of banning tenant fees." And then six months later, they were absolutely shocked that rent had gone up as a result of banning tenant fees. There seems to be a lack of understanding or a lack of willingness to accept some of the unintended consequences of their action. It's why I'm fully supportive of the greening agenda and improving the energy efficiency of the Private Rented Sector. But forcing landlords to spend £10,000 is not the policy lever they should be pulling in order to achieve that.

David Cox:

We have seen tens of billions of pounds in levies on the energy companies going to the social sector, which has improved the energy efficiency of the social sector immeasurably over the last 15 years. Private landlords have not benefited really from any of that. And therefore, should we be looking at mechanisms like that to improve the energy efficiency, which then won't have a consequential increase in rents because it's not the landlords themselves that are having to pay for it.

Richard Blanco:

The government's just had a mini reshuffle David, and Stuart Andrew has been appointed as the 11th Housing Minister in the last 12 years, replacing Chris Pincher. One big complaint is that government needs to have a more joined-up approach. And of course, this constant reshuffling of housing ministers doesn't help, the fact that the DWP is responsible for Universal Credit and Local Housing Allowance, the Treasury's responsible for Section 24 taxation, which means that we can't settle all the interest costs against tax, et cetera. How much do you think this lack of joined-up thinking is causing problems?

David Cox:

Certainly. From my perspective I think, yes, it does cause problems. Of course, it causes problems, but at the same point, that's not a problem that is unique to the property industry. Rightmove is a tech company that deals with multiple different government departments covering the work that is done by multiple different regulators. So that is a problem of any system of government, they have to share responsibility some way. It needs to be more joined-up. And many of the people sitting here around this table will have sat on numerous government working groups over the years, trying to come up with an holistic housing policy.

David Cox:

And we have all singularly failed at every single attempt. It's almost too big to try and create. We have to factor in how politics works. Governments work on five year cycles, housing and housing delivery is a generational issue. And therefore, there is a lack of impetus for central government to think in 20 year life cycles when they are thinking in five year election terms. We need to start taking some of the politics out of housing because governments look for short-term wins rather than what is in the best interest long-term for the housing market.

Ben Beadle:

Ian Fletcher and David Cox, thank you for joining us. It's NRLA Advice Line time, and we welcome back compliance specialist Dan Cumming. What topics are exercising landlords this month Dan?

Dan Cumming:

Well, we've had quite a lot of calls on some of the issues raised so far. The cost of living crisis, I'm also worried about that, and how they can best deal with it. Utilities and of course, energy efficiency, that's constantly in the news, and that's coming over the hill. So we've had a lot of calls relating to those issues.

Richard Blanco:

Right to rent has been a moving feast in the past 12 months because of Brexit and COVID. Now, there are some changes coming up in April that landlords have been calling you and colleagues about Dan, is that right?

Dan Cumming:

Yeah, there have been. So as some of the listeners may be aware, throughout the pandemic there's been an ability to perform what's been known as a COVID adjusted check. So for obvious reasons, with the pandemic, you don't really want to be meeting people in person, taking their documents from them, having a copy and signing it, the usual way you would carry out a check. And introduced the methods to check it remotely through different services or just having a photograph sent to you through email and you check it on a video call. Now, strangely, we've actually seen government here take lessons from that.

Dan Cumming:

And now when these checks come to an end in April, we're going to see some legislative change that will make sure that landlords are now able to use what the government is calling Identity Service Providers. So third parties that can be recognised by government schemes and use Identity Document Validation

Technology, which is just a fancy way of saying they can check it remotely for you. So they're able to go through a certification process with the government, be a trusted provider that the landlord can rely on, and they can do these checks online. So it should make it much more flexible, much easier for landlords to do right to rent checks, especially those with multiple properties and tenants all over the country and all over the world. So hopefully that should be a positive that we actually see coming soon.

Richard Blanco:

I guess the key point though here, Dan, is that the landlord still remains responsible and could be liable to a fine if they don't make sure that the checks are carried out.

Dan Cumming:

That's absolutely correct, Richard. So the responsibility, if you like, is still on the landlord. So although you're going to be able to pick a provider and you can do it remotely, of course you could still do it normally yourself, you have to make sure have you got a trusted provider. There is a UK digital identity and attributes trust framework, which adds to the list of many difficult to say acronyms. Yeah. So it's still on the landlord to make sure that is correctly certified and they've got a trusted provider. So just be careful with that. And there should be more guidance on that to come when we see the legislation change.

Richard Blanco:

You're a font of knowledge, Dan, thank you so much for joining us.

Ian Fletcher:

No problem. Thank you.

Richard Blanco:

We'll see you next time. Now, another man who is an eternal font of knowledge and indeed everybody's favourite policy wonk is Chris Norris, who is director of policy and campaigns at the NRLA. Chris, you're here to talk to us about what might be in the spring budget statement and the ideas that the NRLA and Capital Economics have been exploring. I have to tell you, Chris, I am secretly quite pleased that the PRS is shrinking for the first time in 30 years, because it could be a wake up call and maybe an opportunity for change.

Chris Norris:

Well, thank you, Richard. You're obviously too kind. But you're right, it's a busy time at the moment. We've got this spring fiscal event coming up, and I think that's the terminology we tend to use now. Because we're in really weird uncharted territory, where we'd normally have an annual budget and then we'd have a pre-budget statement, or we'd have a winter statement, or an autumn statement that took place in the winter, which was as often as anything else, which got to be very, very strange. But we are planning ahead of this, and hopefully, we can start to point to some measures the treasury might be able to take that would maybe to your displeasure, stop some of that exodus, some of that exit from the marketplace, but actually also bring in some more revenue for the government without actually harming landlords.

Richard Blanco:

Yes. Because there's an irony that current tax policy is suppressing the PRS supply and costing the treasury. Can you explain that for us?

Chris Norris:

Yeah. I think rather than costing the treasury necessarily, it's leaving money on the table. So I think what we've done and the reason that we commissioned Capital Economics to do some of this work and this modelling work, that I've got to say is way above my head a lot of the time in trying to work out what the outcomes would be if various fiscal levers were to be pulled. We've asked them to look at a couple of different areas. We've asked them to look at capital gains tax, stamp duty land tax, and particularly the levy on top, the 3% levy, and some areas around tax efficiency. And some of the results that we get back from that modelling are actually really quite counterintuitive, because not only can you bring in more tax revenue by reducing tax rates, we're also seeing that if the government were to adopt some of our calls for instance, around a taper for capital gains tax, we see more landlords investing in the sector.

Chris Norris:

So for instance, if we reintroduce the CGT taper that many of our members will remember was in place up until 2008, I believe, we are predicting or forecasting there could be an extra 100,000 properties in the Private Rented Sector over a 10 year period. The same's true if you look at measures around reducing capital gains tax or providing reliefs for selling with a tenant in situ. We are seeing there that both of those measures can bring in billions of pounds to the Exchequer they wouldn't otherwise be able to forecast for, and actually, could result in more than a quarter of a million more properties existing in the Private Rented Sector. So it seems to be win, win, win. It's more revenue for the treasury, it's less pain for landlords, and actually, it's more stock that I know some of our previous guests have referred to on this podcast. We need to find ways to get more stock into the sector.

Richard Blanco:

It's a very canny strategy I think, to talk to the treasury in these terms, isn't it? It's going to bring in more tax revenue for them. And it's also going to create a more positive environment for landlords. Surely the main driver suppressing the PRS and arguably similar measures did so in the Republic of Ireland, is Section 24. So preventing landlords from setting their finance costs as expenses against their tax bill. Why won't the government entertain proposals to reverse Section 24? Chris?

Chris Norris:

It is interesting. And I should say, when we're talking about what the NRLA wants in any budget, this is always front and centre in our submissions and our conversations. But as we've said, I think we've got to find ways that are more fiscally neutral, to use the treasury's terminology, to find things that might be achievable. It's really difficult I think, to point to the direct impact this one particular change has had. You may recall actually, we commissioned some work again from Capital Economics in 2015, 16, to try and forecast what would happen. And I think we rightly predicted then that we would see landlords leaving the market, we would see a lot of financial harm done, and we'd see rents go up. I think we've seen all of that. The problem is we've also seen a lot more interventions from government. So trying to point to the one thing that was the straw that broke the camels back is really, really difficult.

Chris Norris:

And if you look at the figures for the size of our marketplace, the number of households there are renting privately over the last few years, we see there's been a drop of just over a quarter of a million in five years. Now, actually you could, from the government's point of view, look at that and say, well, actually that works out to be about a 2% drop in that market, that we are not very comfortable with, that tends to do what it wants, and we don't make enough money out of. So seeing a bit of a shrink might be good for them. And I think it really comes back down to something that I think David Cox said just earlier about short-termism, parliamentary-termism, and it being somebody else's problem in the future once some of that stock is left. But also, about a real problem we've got when it comes to tax policy, there's a lot of fixed term thinking.

Chris Norris:

The thinking tends to be that if we favour one tenure, the other tenure must suffer. And the tenure that everyone wants to push and politically, is the only one that anyone ever wants to be aspirational about is owner occupation. So the tendency tends to be, to say, "Well, we'll take from that group, because if we take from private landlords, that's going to make it easier for first time buyers to get on the ladder." And actually that doesn't add up. If you start to create tax policies and pull the right fiscal levers, what you do is you push supply into the sector, you bring revenue into the Exchequer, and you make it so that they can fund policies that help all tenures.

Chris Norris:

And then we start to see some of these forces, these factors that press on our businesses, that drive rents up, that make it more difficult to comply, well, they start to fall into the background. And that's what we are not seeing now, and that's why the NRLA always wants to try and pitch things that are fiscally neutral, that are good for landlords, but also are acceptable to the treasury, because when they're trying to pay for a pandemic, they're not seeing their receipts drop.

Ben Beadle:

And Chris, talking of the treasury, what do you think is going to be at the top of Rishi Sunak's agenda?

Chris Norris:

Well, let's wait and see if Rishi's still in number 11 or number 10, when it comes to the end of March, shall we? It is difficult when it comes back to this thing about not really knowing what to expect from this fiscal event, because normally all you'd really expect from this half year cycle is for them to be pointing at the figures from the office for budgetary responsibility, to pointing towards inflation, and saying, "Steady as she goes, we'll have a full budget in December." Let's say. I don't think that's what we'll be expecting this time. I think we'll see something more akin to a mini budget statement. And I think what he's really got to address at the moment is cost of living. That's where the pressure is really coming from. And that of course, affects our members, landlords, as well because the cost of running a business is so closely tied to that.

Chris Norris:

So I think there will be a lot of head scratching going on at the moment around what the treasury can do, that doesn't actually throw off their projections. We've seen there's been all of the debate around National Insurance contributions and they really seem to be quite steadfast to stay with those previously announced measures. I think from the point of view of landlord taxation, my hope is that we are still a bit early in the cycle when it comes to seeing major changes. But we are really pushing here on these free grounds. We're pushing on capital gain taxes the same, firstly, to not see anything nasty happen should we say around that, but also to point out that some good can be done around stamp duty land tax and the levy on top of that, because that can drive supply into our sector. But maybe most practically, an area they could do something is around energy efficiency.

Chris Norris:

And I think you referred to it as a train crash earlier on, didn't you? Been this train crash of energy efficiency policy that's coming down the line. I think actually, the treasury could pull some levers there, and the treasury could start to point to ways that we can achieve energy efficiency and tax efficiency at the same time. Because we've got a few things that the government have been on the fence about. I think they could announce some changes to VAT where it comes to energy, but also energy efficiency improvements. And that's something that could bring down the cost of doing business and bring down cost of living. I think they could look at targeting some particular common improvements.

Chris Norris:

They could target double and triple glazing for windows, for instance, they could target, well, they already have targeted the installation of heat pumps, but maybe other technologies that are a bit more accessible to other landlords. And if you bring down the cost of installing those, you achieve some of the targets that landlords are being set, but you also introduce that multiplier into the economy so that you can start to grow business receipts and actually increase revenue. So I think some practical things around energy improvement might be the most likely thing that we'll see, but there's an awful lot of negotiation to be done between now and March to try and get those things to line up.

Ben Beadle:

Indeed. You mentioned about stamp duty land tax, Chris, that is one area that the government could tinker with to address some of these supply issues in the sector. How likely do you think that is?

Chris Norris:

Up until recently and up until we received this latest modelling, I would've said it wasn't very likely at all because it seemed to be bringing in a lot of money for the Exchequer. I think this is one area though, because of this new and frankly, quite startling research and evaluation we've had conducted by Capital Economics, points to an area where there could be real savings for landlords, and there could be real drivers for investment and revenue for the Exchequer. I mean, I've tried to avoid getting into too many numbers that people will instantly forget in this recording, but on this one, we asked Capital Economics to model ending the levy.

Chris Norris:

So the additional levy on top of the stamp duty that you'd pay anyway. If you remove that, over the next 10 years we are forecasting here that you could see the stock in our sector rising by almost a million, by over 800,000 units. And also the receipts for the Exchequer rising by about £9.6 billion. So when we're talking about paying off some of this debt in government and encouraging activity in the economy, this is something they really could do. And I'm hoping that in the submissions and the meetings that we'll have with the government, with the treasury, they'll take that on board. Because that's something that actually looks a little counterintuitive, but if you reduce that tax burden, you can really drive up the income for the government.

Richard Blanco:

I want to bring this onto capital gains tax, Chris. Why have capital gains tax rates been set higher for the disposed property compared to other assets? Typically, a landlord will pay 28% when disposing of property, whereas it would be 20% for other assets.

Chris Norris:

I think part of it is that zero sum fallacy again. I think it is that issue of finding a way to, let's not say take it out on landlords, but finding a way to encourage investment in another tenure by making life more difficult for the Private Rented Sector, so that's certainly an area. I think the other half actually, it is simply down to what politically various governments believe they can get away with. And tax increases, tax hikes, high rates of taxation, are never popular in any group of society, but I think if there's one where you are likely to get less pushback, and you're likely to get less critical editorials in papers, it's actually imposing a tax on landlords, or better yet leaving a tax there when you reduce it for everybody else.

Chris Norris:

And that politically was an incredibly easy thing for the government to do. It doesn't actually maximise its revenue, and that's where this contradiction occurs and where they really need to do some work, but it is easy for them politically to supposedly maximise revenue on day one, but not actually hurt any particular constituency that they're worried about not turning out and voting for them in the future.

Richard Blanco:

And the changes that the NRLA would like to see on capital gains tax, Chris?

Chris Norris:

We've modelled a few different scenarios, but I think the key ones for us are that reintroduction of a taper. So actually recognising the value of long-term investment and the contribution those landlords make over a period of say 10 years. Introducing that taper so that you've got landlords who can have a clear investment plan and exit plan, that would be really beneficial. And that we think would bring in for the treasury more than £7 billion over 10 years on top of what they already forecast getting, so that's one key one there. And I think another one that works very well, both for landlords and for the objectives of the government, is to introduce either a different rate or a relief when you are selling a property with your tenants that are in situ.

Chris Norris:

So we all know as landlords that if you are selling an asset, you will maximise your return if it's vacant at the moment. You need some other incentive if you're going to sell a property with a tenant in situ, but we don't want to unnecessarily be bringing tenancies to an end. So I think what we ask Capital Economics to model was what would happen to landlords intentions and behaviours if they were incentivized to sell with their tenant in place, either to that tenant or to another landlord. And actually, we saw there that has a really profound impact on their attitude towards disposal and their attitude towards investment. Because they seem to be happier to invest in different types of property, perhaps property that's already got a tenant in place, when they think there is that option at exit.

Chris Norris:

And they're not going to have a messy divorce with their tenant to empty a property to then sell. And we think that actually, not only could it bring in more than £4 billion for the treasury, it could increase the available stock by more than 200,000 units. So I think taking those two things together, you've got a really significant impact. Now, of course, we'd also like tax rates to come down, but I think realistically, when we are marshalling our arguments for treasury at the moment, we've got to do it in such a way that we can say, "This is the benefit to landlord," and consequently, "This is the benefit to you, The Treasury." And I think these are the arguments we are most likely to get traction on.

Richard Blanco:

The research doesn't address the Prudential Regulation Authority changes to underwriting standards, Chris. Now, this is where a stress test were introduced. I did a model here. If you're paying a mortgage of £200,000 at 1.69%, you'd pay a mortgage rate of £281. Now under the old system, the rent would've had to have been £351 to cover that, so about 125% of pay rate. But under the new stress test, which is 145% at 5.5%, typically, the rent would have to cover £1,329. It's just massively higher than it used to be. Surely this is what's applying the brakes on investment.

Chris Norris:

So one day you and I will have a conversation. You won't ambush me with the PRA stress testing. Look, it's obviously a break on the market. There's no denying that at all. I think what we've got to do though, is we've got to focus on the opportunities we have to change policy here. So since independence, the Treasury's not been responsible for the rules that the Bank of England sets. So we do engage with the Bank of England on a regular basis. I do get invited to sit through turgid MPC presentations on what might be happening.

Chris Norris:

And it's a real concern at the moment with interest rates only heading in one direction that I completely take your point. As it happens, it seems that the bank are loosening or are more prepared to loosen their grip when it comes to Resi mortgages and some of the rates that are being applied, or the rules that are being applied. We've not had a beneficial conversation with them yet about this, but rest assured, it is always, always on our agenda. And hopefully, one day I'll be able to tell you that you've got exactly what you want when it comes to the PRA.

Richard Blanco:

Chris Norris, sorry for the ambush, but thank you very much for joining us. That's it for this edition, we've loved making it. I hope you've enjoyed it too.

Ben Beadle:

Where would we be without our fabulous producer, Sally Walmsley and a big thank you to all of our guests. You can find more information on the topics covered in this episode at nrla.org.uk.

Richard Blanco:

And don't forget to follow the NRLA on social media for the very latest on all things PRS. We thank you for listening. Do join us again.