

# The Lettings Decision Market Briefing

Spring 2020



## Rental Dilemma

While the sales market may be on hiatus for the moment, with Registers of Scotland largely closed to regular transactions, the lettings market is seeing rapid restructuring as landlords who had been active in the Short Term Let Sector have seen demand, and revenue, evaporate. With regulation of the Short Term Let sector primed for 2021, the outbreak of the Coronavirus has made a pending consideration, an instant concern. In the past few weeks, Rettie & Co's Lettings Team has been assisting many of our Edinburgh Festival Rentals landlords move their

properties into long term rental, as well as fielding new enquiries from Airbnb landlords, who are now trying to mitigate income loss caused by Covid-19.



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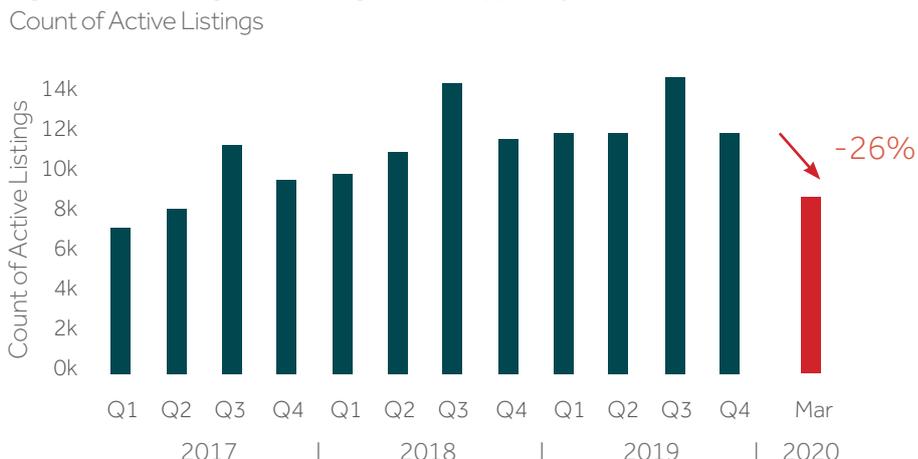
## Key Findings

- The number of Airbnb listings in Edinburgh dropped -26% compared to Q1 2019.
- Around 68% of Airbnb listings in Edinburgh are for entire properties, meaning that potentially over 2,000 entire properties may have exited the Short Term Letting Sector (STL) in Q1 2020.
- New listings for long term rentals on Citylets saw a significant spike in supply, with twice as many new listings in Mid March when compared to the same week a year earlier.
- Rettie & Co. is offering free consultations and advice to landlords who have short term rental properties affected by the Covid-19 outbreak. There is also a Tenant Introduction Only service available for Landlords who self manage their own properties.

## The Exit from Airbnb

For many landlords, who have enjoyed the strong returns and limited regulation that has characterised the STL sector, the almost instantaneous collapse in demand and revenue has forced a swift reappraisal of strategy. Figures from AirDNA shows that in Edinburgh there are currently 8,520 active listings, compared to 11,575 a year earlier in Q1 2019. This represents a drop in available listings of over a quarter and reverses the historic trend of year-on-year growth. With entire properties accounting for around 68% of all listings, this change could mean that over 2,000 homes have exited the Airbnb sector in the last quarter. For more details on Airbnb's cancellation policy follow this [link](#).

**Fig.1 Airbnb Listings in Edinburgh have dropped by 26% from Q4 2019 to March 2020**



## Challenges in the PRS

While the long term PRS is now a more attractive tenure for rental assets for many, the sector is undergoing its own challenges, which will impact voids and yields. The economic and employment uncertainty that many households are facing, especially younger households, has meant that many are taking advantage of the 28-day notice period to end their tenancies and make other living arrangements. This includes younger less financially stable households moving back to their parents, rather than face rental payments with limited or no income.

This is causing an increase in existing PRS stock coming back to the market. This churn, combined with supply returning from the STL sector, is at a time when demand is likely to be suppressed due to social distancing practices and economic

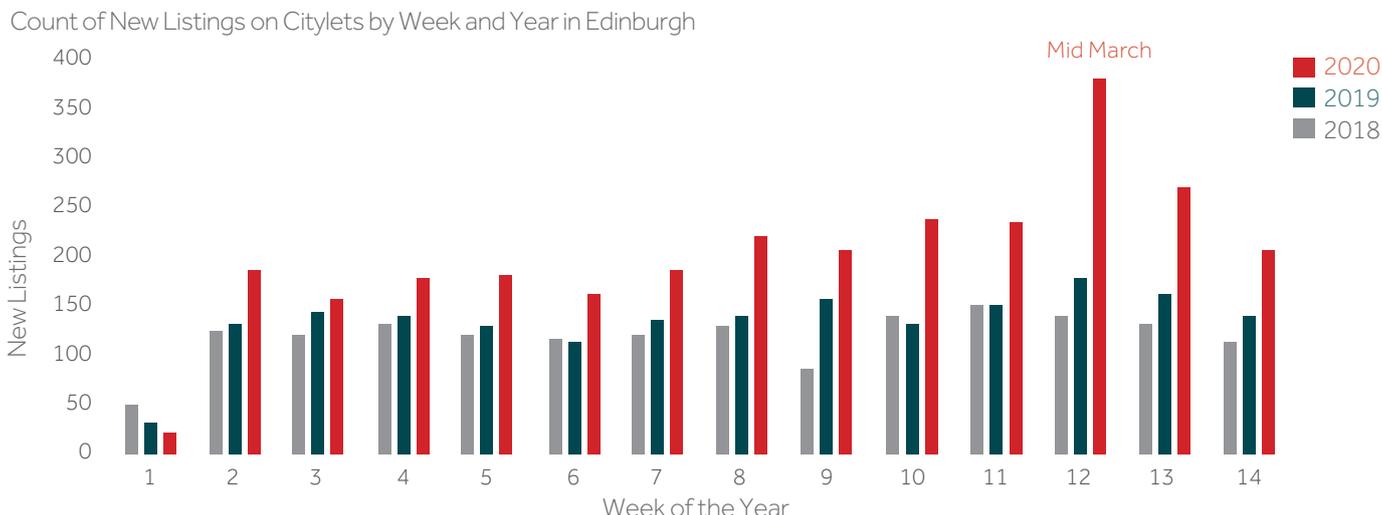
uncertainty. By Mid March, new PRS listings on the Citylets website peaked at over 370 in Edinburgh, over double the number compared to the same week a year earlier and over 60% up on the previous week. Over the course of 2020, overall listings across Edinburgh have been 50% higher than during the first 14 weeks of 2019.

The geographical distribution of these increases is telling. The City Centre postcodes of EH1 and EH2 have both seen significant increases in available rental stock. While of limited market depth, these areas are key Airbnb hotspots. Across these two postcodes, available PRS stock is up almost 95% year-on-year. Also seeing significant increases in supply are the EH8 and EH11 postcode areas. These areas are typically

more affordable rental destinations accessible to the City Centre, popular with younger households but also sensitive to affordability. The financial challenges that current events will be placing on some households in the PRS in these locations is a driver behind the 77% to 111% increase in stock availability in these markets.

The responsive nature of the rental market, rapidly reacting to the balance of supply and demand, combined with social distancing measure, is going to make filling empty properties challenging. For landlords this will likely see voids rise and a downward pressure on rents and yields in coming weeks and months. Taking a proactive management approach will be important in mitigating potential downside consequences.

**Fig.2 New Citylets Listings in Edinburgh in Mid March were double those in the same week a year earlier**



# Changes & Government Support during Covid-19

## Legislative Changes

The Coronavirus (Scotland) Bill was passed on the 1st April and gained Royal Assent in just five days. The legislation is temporary and will expire on 30th September 2020, subject to extension, but while it is in effect there are a number of measures which will impact the Private Rental Sector (PRS).

## Mandatory Grounds are now Discretionary

Under the legislation, there are no mandatory grounds for eviction, rather the mandatory grounds contained in the Private Housing (Tenancies) Scotland Act 2016 have been made discretionary. This means that a tenant may only be evicted if the First-tier Tribunal finds the application submitted by the landlord to be reasonable to justify eviction. It should be noted that First-tier Tribunal hearings have been postponed to 28th May 2020, subject to review and may be further postponed.

## Energy Efficiency Regulations

Due to Covid-19 the Scottish Government has decided to postpone the implementation of new mandatory standards for the PRS. The Energy Efficiency (Domestic Private Rented Property) (Scotland) Regulations 2020 was set to come in to force in October, but Housing Minister Kevin Stewart noted that landlords would not be able to make improvements to properties during the restrictions in time to meet the first standards. Landlords should note that it is the Government's intention to implement energy efficiency standard when normal conditions resume.

## Government Support

The Scottish Government has announced it will be offering financial support for landlords in the form of an Interest Free Loan Fund. Further details are still to be confirmed but this is expected to be available at the end of April.

For more on Scottish Government guidance for private landlords and lettings agents follow this [link](#).

## Changes to Notice Periods

### 28 days notice period

Ground 10 (where the tenant is no longer occupying the property).

### 3 months notice period

Ground 4 (landlord wants to live in the property)

Ground 5 (family member of landlord wants to live in the property)

Ground 13 (criminal behaviour of tenant),

Ground 14 (antisocial behaviour by tenant)

Ground 15 (association with someone guilty of criminal behaviour or anti-social behaviour)

Ground 16 (landlord ceased to be registered)

Ground 17 (HMO licence revoked).

### 6 months notice period

Grounds 1 (landlord wants to sell)

Grounds 2 (lender wants to sell)

Ground 3 (refurbishment)

Ground 6 (change of use)

Ground 7 (required for religious purposes)

Ground 8 (no longer employee of landlord)

Ground 9 (supported accommodation)

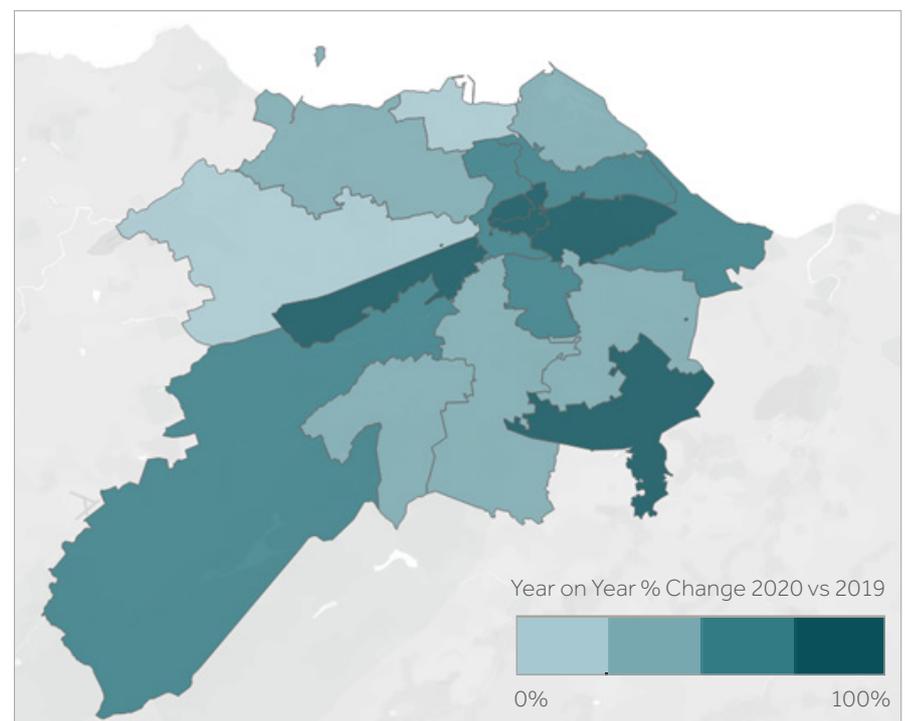
Ground 11 (breach of tenancy)

Ground 12 (rent arrears)

Ground 18 (overcrowding notice).

**Fig. 3** The greatest year-on-year increase in long term rental stock has been in the City Centre and affordable City Centre accessible areas such as Dalry & Abbeyhill

% Year on Year Change in Available Rental Listing in Edinburgh



## Covid-19 Letting FAQ

### Can I still put my let property on the market?

Yes. As long as we have seen the property and have the photographs ready, there's nothing to stop you going to market. However, it's worth noting that our marketing effort is likely to be restricted since interested tenants will not be able to view your property at the present time.

### Can a tenant still make a note of interest and agree to take the lease?

Yes. We will discuss with you the implications of agreeing a let without the tenants having viewed the property.

### Can you still move tenants into a property?

Yes, if the tenant is going to be homeless, we can facilitate a move in whilst applying the recommended social distancing measures.

### Can tenants still arrange to view a property?

As we embrace the new normal, virtual viewings are available for a number of our properties. Those keen to arrange a physical viewing should register with us so that appointments can be made as soon as government restrictions are lifted.

### My tenants are due to leave – can they still leave?

Yes. Again, we can facilitate the check out / move out process by applying the recommended social distancing guidelines. Where tenants need to move we can facilitate this.

### My let property is already on the market, what should I do?

Keep the property advertised. We will continue to build a list of parties interested in viewing. Each property and every landlord's individual circumstances will be unique to them. Seek advice from your managing agent.

When the lockdown is lifted, we will have a bank of viewers ready to view your property and will be able to facilitate viewing for those interested parties.

### What if my tenants can't pay their rent?

In the first instance, your tenants will be asked to seek financial support from the available government assistance schemes to establish what is available and what they can pay at this time. We will then be in an informed position to be able to discuss this with you. The Scottish Government have applied short-term legislative changes under the Coronavirus Scotland Bill. This provides tenants in the private and social rented sectors with greater protection from eviction.

**Confused by all the mixed messages in the market and media? We have access to the latest information and advice and can help you untangle the complexities of this changing market. For landlords who self manage their properties, or are exiting the Short Term Let sector, we can assist on a Tenant Introduction Only basis.**

Contact us via [mail@rettie.co.uk](mailto:mail@rettie.co.uk) and one of our dedicated lettings team will be on standby to help.

## Your Lettings Experts



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