



DIRECT
RESIDENTIAL

IAN'S RENTAL MARKET OVERVIEW



"The Office for Tax Simplification (OTS) has published a scoping document for a review of the taxation of property income. The report covers Residential Property Income, explores the common complexities, issues, and concerns facing taxpayers and outlines several key recommendations for change.

As a landlord, you are obligated to pay tax at numerous stages for your investment property. That includes when you purchase the property, when you let it, and when you sell it.

Navigating property tax rules can be difficult for both seasoned and new landlords, mainly as they are updated regularly and seen as rather complex, therefore an accountant should always be consulted.

Landlords renting properties in the private rented sector have seen their tax burden increase in recent years:

- Higher rates of property taxes on buy-to-let properties
- Withdrawal of tax relief on mortgage interest costs and replacement with a 20% tax credit
- Removal of the 10% Wear and Tear Allowance for fully furnished properties being replaced with an at-cost relief
- Maintaining Capital Gains Tax (CGT) for rented property at 28%, when it was reduced to 18% for other assets
- A rise in corporation tax from 19% to 25% from 2023

Taxation of income

The report covers the confusion and challenges raised about the allocation of income between joint owners, and in relation to rules which cause significant distortions or complexity.

It was noted the importance of HMRC accepting multiple agents to help with the new tax filings and recommends that HMRC should not go ahead with Making Tax Digital until these issues have been resolved. Making Tax Digital (MTD) for Income Tax should allow for representatives (letting agents and bookkeepers) to file on behalf of landlords.

Propertymark's consultation outlining the tax system is too complex for landlords. It is pleasing to see the report recommends HMRC making it easier for landlords to register for and report their income online for UK tax purposes and questions whether the initial and medium-term threshold for entry into the new system should be increased above £10,000 per annum.

Declaration of income

Another OTS recommendation is to review the burden on tenants to withhold tax of non-UK resident landlords as this is widely misunderstood and not implemented. Landlords in self-managed properties and tenants who must deduct tax from their rent do not always declare their income. This puts significant pressure on agents to ensure that tenants and landlords are compliant.

Furnished short-term lets

Although the furnished holiday lettings regime can provide some tax benefits, it is not widely used and adds a complex layer to the tax rules which apply to property income. The UK Government should consider the need for a separate tax regime for furnished short-term lets as it gives certain tax advantages over the wider residential property income rules. Propertymark's stance is that this disincentivises using properties for the PRS (Private rented sector).

Should the UK Government wish to retain the furnished holiday lettings regime, the report recommends they must consider removing the benefits for properties in the EEA (European Economic Area) and removing the benefits where there is private use (other than at a minimal level).

Property improvements

Propertymark called for clearer information and tax deductions on improvements in the PRS. OTS's report supports their call, stating that there is confusion between what is a repair (tax-deductible) or an improvement (not), as well as creating broader tax relief for all property costs other than where work is part of the capital cost of the building. This could help to encourage improvements to be made to the property to support forthcoming higher energy efficiency improvements in the PRS."



Mayor of London Plans to hold an emergency summit on private rented sector

The Mayor of London Sadiq Khan plans to hold an emergency summit on the private rented sector in the capital.

Khan has previously called on the government to hand him extra powers so he can cap rents in London.

The London Mayor said the controls were needed to "fundamentally rebalance London's private rented sector" and make it "fit for purpose".

Responding to Khan's emergency summit on the PRS, Ben Beadle, chief executive of the National Residential Landlords Association, said: "It is disappointing in the extreme that the Mayor of London feels he can solve the challenges faced in the capital's rental market without any input from those who actually provide the homes.

The stark and simple reality is that whilst the demand for private rented housing in London continues to increase, the supply of such homes is falling. This is a direct consequence of Government policy aimed at shrinking the size of the sector, along with rhetoric from the Mayor that suggests private landlords are simply a problem to be managed.

If the mayor wants to address the cost pressures faced by households across London, he needs to focus on boosting the number of homes available. Anything else would merely be tinkering with the symptoms of the challenges in the rental market, without tackling the root cause of them."

Even more 5 star reviews!

Reviews are incredibly important to us at Direct Residential. We strive to give you the best customer service so that you know you can trust us to have your best interests at heart. This is shown as we have received over 350 reviews with an average rating of 4.9 over AllAgents and Google reviews.

Nicky



Very professional team. Ian visited the property and marketed it the very same day. The tenants were found in just five days. Thank you so much for all your help, highly recommend.

Lisa



I would like to thank Christie and all her colleagues at the Epsom branch of Direct Residential. Christie went above and beyond to find me and suitable apartment. I highly recommend their company.

Cedric



As tenants with Direct Residential for more than 6 years, we were treated with courtesy and fairness. Their services exceeded our expectations and issues have always been addressed promptly and efficiently.

Average rents pass £1,200 a month for the first time

In October, the average rent on a newly let home in Great Britain rose to £1,204 per calendar month (pcm), passing the £1,200 mark for the first time. This has cost the average tenant an extra £960 per year in rent compared to last year, according to the latest data from Hamptons.

Average rents passed the £1,100pcm mark back in September 2021, just 14 months ago. Meanwhile rents first crossed the £1,000pcm milestone back in June 2019, before dipping during Covid and re-passing that point again in August 2020, 15 months later.

So far this year, average rents in five regions have moved into a new £100 price bracket. Greater London was the latest, with rents passing £2,100pcm for the first time in October 2022. This was driven by rents in Inner London reaching a new record high of £2,863pcm in October, £1pcm more than when rents in London's priciest postcodes previously peaked (in October 2019). This now means that rents in every area of the country are above where they were at the beginning of Covid.

Since the eve of Covid (Jan-2020) rents have risen 19% across Great Britain, equating to an additional £2,351 a year in rent. Hamptons says it has seen more rental growth since the beginning of Covid than it did in at least eight years prior. While nationally rents recovered to their January 2020 levels within eight months, in Inner London it took 30 months to bounce back.

Rapid rental growth over the last few years means that the average privately rented household in Great Britain is now spending 44% of their post-tax income on rent, the highest share since our records began in 2010. Two years ago, the average tenant spent 41.6% on rent, up from 39.2% in October 2012.

The pace of rental growth across Great Britain has stabilised in recent months, with rents up 7.1% year-on-year in October. This marked the fifth consecutive month of single-digit increases after annual rental growth peaked at 11.5% in May 2022.

Stock levels crept up for a second consecutive month, meaning there were 15% more homes available to rent in October 2022 than in October 2021. However, this increase compares to a period when stock levels were at record lows and there are still 47% fewer homes available than two-years ago.

Table 1 – Rental growth on newly let properties

Region	Last £100 pcm band passed		Average Rent YoY		YoY	Growth since Jan-20
			Oct-22	%	£	
Greater London	£2,100	Oct-22	£ 2,111	11.0%	£ 209	15%
Inner London	£2,800	Sep-19	£ 2,863	27.0%	£ 609	9%
Outer London	£1,900	Sep-22	£ 1,973	7.5%	£ 138	17%
East of England	£1,100	Apr-22	£ 1,144	3.4%	£ 37	15%
South East	£1,200	Jun-21	£ 1,249	0.5%	£ 6	18%
South West	£1,000	Sep-21	£ 1,097	6.9%	£ 72	32%
Midlands	£800	Mar-22	£ 851	9.5%	£ 74	22%
North	£800	Sep-22	£ 815	8.0%	£ 61	27%
Wales	£700	Mar-21	£ 756	1.5%	£ 11	14%
Scotland	£800	Jul-22	£ 822	8.8%	£ 67	26%
Great Britain	£1,200	Oct-22	£ 1,204	7.1%	£ 80	19%
Great Britain (Exc. London)	£900	Aug-21	£ 972	5.2%	£ 48	22%

*Sources: Property Industry Eye