

Authorities stand to gain **£2.3bn** from a property licensing crackdown in 2021



Does this put agents at risk?

Major opportunity for local authorities to reduce £3.2 billion budget deficit

39% increase in the number of discretionary licensing schemes next year puts letting agents and landlords on notice.

How agents respond to the challenge will be a key differentiator in next 12 months

The property industry in 2021 is set to be more aggressively regulated than ever before

2020 saw a new piece of licence legislation introduced, on average, once every 23 days.

In 2021, however, this is set to increase, with 44 consultations currently ongoing, the equivalent of two years' of regulation could arrive in the coming months. This would increase the number of 'discretionary' licence schemes from 124 in operation this year, to 172 in 2021, growth of 39%.

Figure 1: Projected growth in licensing



The financial and moral imperatives

Drivers of this increase are twofold; firstly both local and central authorities are struggling under the budgetary pressure inflicted by Covid-19.

Costs have risen at a time that tax receipts have fallen, leaving substantial deficits to deal with. Councils were estimated to be facing a combined budget shortfall of £3.2bn, before the second lockdown even commenced, whilst the UK government's challenges have been widely reported, with an estimated budget deficit of £394bn the largest ever recorded in peacetime.

In this context the success of Newham council in both legislation and enforcement takes on more importance. They stepped up enforcement practices in 2017 uncovering 27,000 non-compliant landlords. With licence fees ranging from £400-£1,250, depending on type of property, this could have realised some £22.95 million in fees. Licensing fees can only be used to cover the costs of licensing operations, acting as reinvestment in raising property standards. The same operation, however, uncovered tax evasion to the tune of £115 million, or just over £5 in tax for every £1 in licence fee. Today, despite being one of 408 local authorities with the power to issue licences, Newham accounts for 17% of all those issued according to Kamma data. It is this opportunity, a 5-fold increase in tax revenues, that could make a major difference at national level.

The proposed schemes would bring the total properties that qualify for licensing to over a million, which, if properly enforced could equate to a £2.3 billion opportunity; almost £400 million in licence fees converting to £1.9 billion for the tax collector.

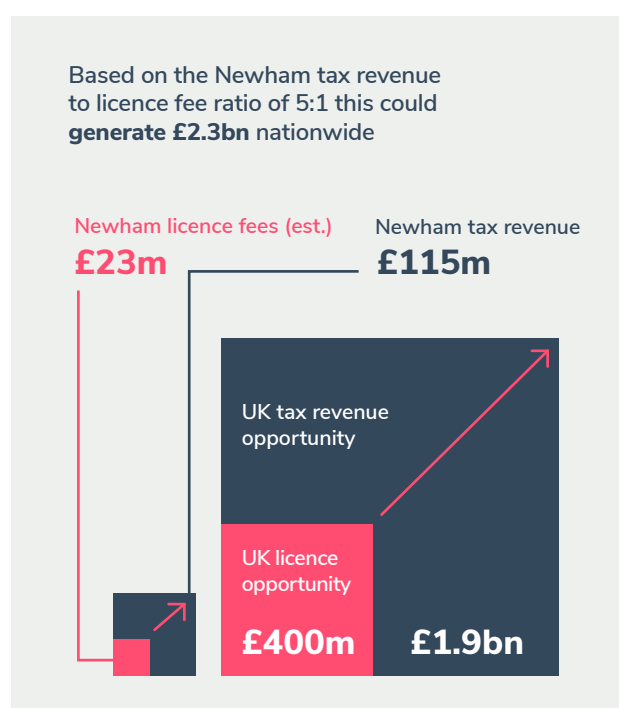
Local Authorities are asking for £4bn from the Chancellor, but can offer to return over half of this huge sum through effective enforcement.

If this wasn't a big enough motivator, lockdown and restrictive measures have meant more time than

before spent at home, raising interest in housing standards as people ask fair questions about the standard of homes they are being locked into. With studies linking overcrowding in housing districts to a higher coronavirus death-rate, the imperative to act takes on a moral, as well as financial dimension. Unsafe homes cost lives, now more than ever, which may tip the balance in the debate over the need for legislation to safeguard standards or reduced bureaucracy to support business.

For both these reasons the property industry has to expect an increase in both legislation and enforcement in the next 12 months, arguably this is already the case as Westminster announces a new discretionary scheme following the Newham model and the Mayor of London launches a new search engine through which unlicensed properties can be identified and reported by tenants. Whilst this tool lacks the accuracy required for compliance purposes, it is accurate enough to act as a sign post for council investigations.

Figure 2: Converting tax revenue on a 5:1 basis is a huge opportunity



How should agents respond?

Faced with a larger burden of compliance, challenges which tip arguments in favour of more legislation, and tools which tip the balance of power towards tenants over landlords, letting agents in particular are facing a more complex task in 2021.

In any challenge, however, lies opportunity, and that is particularly the case in an industry with so few barriers to entry. The ability of agents to differentiate has been impacted over the years as technology has reduced sunk costs and new, low-cost business models have challenged long-standing best practices. The importance of quality, expertise and peace of mind has given way to a race to the bottom. In this context agents should welcome complexity as a way to reclaim lost ground. In a more complex market it is experts that thrive. Managing risk makes agents trusted partners, which may even be worth a premium, when the cost of fines is factored in.

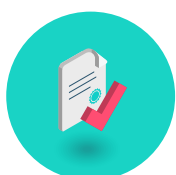
So how should agents react? There are three clear opportunities to stand out and make a difference:



De-risk portfolios in an operationally efficient way



Set up an application service to drive new revenue



Hold licences on behalf of landlords to provide peace of mind whilst supporting customer retention

De-risking portfolios

Technology has the ability to simplify the compliance process, using AI to track legislation which can inform customers if a property is compliant, if it needs a license and if it already has one.

The technology is accurate to the address, and accurate to the minute, speeding up the compliance process for letting agents by removing any time spent on Local Authority websites or phone calls.

At a time when margins are being squeezed, generating operational efficiencies is vital in reducing the opportunity cost of compliance. Put simply, the less time agents spend dealing with complex legislation, the more time they can spend generating revenue.

An increase in legislation will put strain on many internal processes that are simply not designed to scale. The message here is clear; invest in technology, rather than an ever increasing headcount.



Turn risk into revenue

Returning to the point on differentiation, many landlords feel there is little to choose between multiple agents and therefore go with the cheapest option.

In such a transactional relationship the only way to win is to change the balance of the equation. If landlords are seeking nothing more than savings in time and cost, then alert them to the complexities of licensing and the risk of fines.

These are, on average, £4,333 but this is per breach, not per property. The largest single fine recorded, for one landlord with multiple breaches, was £167,000. When managing properties, agents are jointly liable for these fines so there is both huge risk to manage on behalf of landlords, and huge potential downside for agents.

The best agents are doing more than managing, by offering a licence application service as a value-add to their landlords they turn the challenge into opportunity and risk into revenue.

As an illustration, charging £400 per application could generate almost **£400 million** for an industry that has lost substantial revenues in recent years due to restrictions on tenant charges.

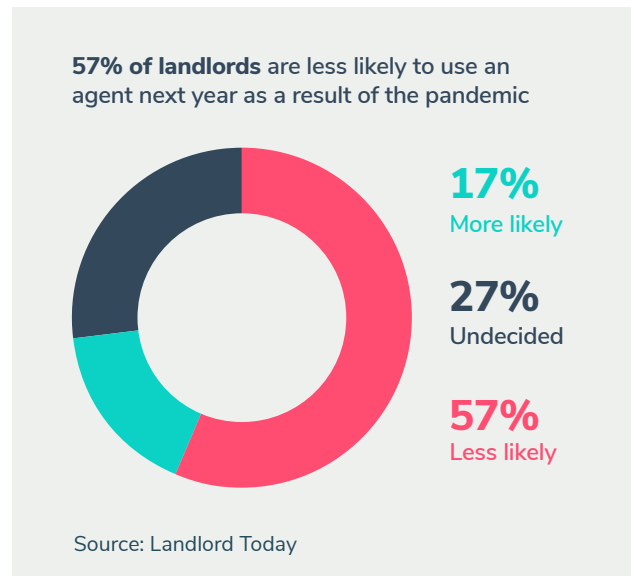
Partnering with a reliable and robust technology compliance platform supports growth.

Drive retention

The pandemic-driven recession has hit more than government budgets, landlords are feeling the squeeze too.

A recent survey for Landlord Today asked them how likely they were, as a result of the pandemic, to use an agent next year, with 57% describing themselves as less likely.

Figure 3: Licencing is key to changing Landlord minds, supporting retention over a 5 year licence term



Supporting landlords in a more complex compliance environment is one way to add value and change the equation. Licences, if held on behalf of a landlord, make it more time consuming and expensive to switch and usually cover a 5 year period, offering a substantial advantage over a 1 year contract. Licensing can be a game-changer for landlord-agent relationships, driving business away from those agents that cannot guarantee to manage risk, towards those who can, supporting retention for years to come.

Partner with us

Kamma works with letting agents, mortgage lenders and the wider property sector to avoid the complications of fines, raise property standards and improve operational efficiencies.

We deploy our data engine to add transparency wherever legislation becomes too complex to be effective. We've supported thousands of clients to de-risk markets, reduce opportunity cost, protect reputations and open up new revenue opportunities. Dealing with compliance in an efficient way has made businesses stand out in the past as they've been able to spend time and resources elsewhere. We're now seeing companies use this opportunity to further differentiate and drive revenue. In a more complex environment how you respond is increasingly important.

KAMMA

Get in touch to turn risk to revenue in 2021

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About Kamma

Kamma puts companies back in control of their compliance through data-driven technology solutions. They mine unstructured legislative information and harness AI to de-risk markets, deliver operational efficiencies, protect reputations and open up new revenue opportunities

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