

Fair Rents (Scotland) Bill

Introduction

A proposal for a Bill to protect private sector tenants by introducing measures to limit rent increases and to increase the availability of information about rent levels. The consultation runs from 15 May 2019 to 8 August 2019 (extended from 6 August). All those wishing to respond to the consultation are strongly encouraged to enter their responses electronically through this survey. This makes collation of responses much simpler and quicker. However, the option also exists of sending in a separate response (in hard copy or by other electronic means such as e-mail), and details of how to do so are included in the member's consultation document. Questions marked with an asterisk (*) require an answer. All responses must include a name and contact details. Names will only be published if you give us permission, and contact details are never published – but we may use them to contact you if there is a query about your response. If you do not include a name and/or contact details, we may have to disregard your response. Please note that you must complete the survey in order for your response to be accepted. If you don't wish to complete the survey in a single session, you can choose "Save and Continue later" at any point. Whilst you have the option to skip particular questions, you must continue to the end of the survey and press "Submit" to have your response fully recorded. Please ensure you have read the consultation document before responding to any of the questions that follow. In particular, you should read the information contained in the document about how your response will be handled. The consultation document is available here: [Consultation document Privacy Notice](#)

I confirm that I have read and understood the Privacy Notice attached to this consultation which explains how my personal data will be used

About you

Please choose whether you are responding as an individual or on behalf of an organisation. Note: If you choose "individual" and consent to have the response published, it will appear under your own name. If you choose "on behalf of an organisation" and consent to have the response published, it will be published under the organisation's name.

on behalf of an organisation

Which of the following best describes you? (If you are a professional or academic, but not in a subject relevant to the consultation, please choose "Member of the public".)

No Response

Please select the category which best describes your organisation

Representative organisation (trade union, professional association)

Optional: You may wish to explain briefly what the organisation does, its experience and expertise in the subject-matter of the consultation, and how the view expressed in the response was arrived at (e.g. whether it is the view of particular office-holders or has been approved by the membership as a whole).

UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms

Please select the category which best describes your organisation

across the industry, we act to enhance competitiveness, support customers and facilitate innovation. This response is made with input from our members who are active in the Buy to Let Mortgage Market.

Please choose one of the following:

I am content for this response to be published and attributed to me or my organisation

Please provide your name or the name of your organisation. (Note: the name will not be published if you have asked for the response to be anonymous or "not for publication". Otherwise this is the name that will be published with your response).

UK Finance

Please provide details of a way in which we can contact you if there are queries regarding your response. Email is preferred but you can also provide a postal address or phone number. We will not publish these details.

Aim and approach - rent cap

Q1. Which of the following best expresses your view of capping private sector rent increases annually across Scotland at one percentage point above inflation (measured according to the Consumer Price Index (CPI))?

Partially opposed

Please explain the reasons for your response.

We are supportive of measures which contribute to a healthy private rented sector which works for all parties. While a nominal cap of rents at 1% over inflation may work in many geographic rental markets, unintended consequences may work to undermine the policy's intentions of giving tenants certainty and protection into the future. These potential unintended consequences are listed below: 1. The central bank's remit to target inflation can mean that interest rates can be increased to dampen inflation. Under the proposed policy, renters may benefit from a lower inflation environment set through monetary policy, however the same monetary policy would increase mortgage payments to borrowers with variable rate mortgages. This may result in a scenario where landlords with mortgages would face increasing costs but limited scope to raise rents, as the 1% above inflation rent cap would bite. This could result in affordability challenges for landlords and the potential for landlords to exit the market, reducing the stock of available rental property. 2. It is likely that this proposal may lead to rent increases which would not otherwise have occurred. Surveys of landlord behaviour show that frequently landlords choose not to raise rents where they have a positive relationship with their tenants, even if market forces could justify a rent increase. Under this proposal, it is likely that rent increases up to the maximum amount of inflation +1% may occur on a regular basis, as landlords may choose to pre-emptively raise rents to cover potential future costs (for example, increases in mortgage payments). 3. A capping of rent may also deter landlords from improving properties which are in poor condition. It is noted that the proposal does cater for increasing rent after improvements are made, however this process introduces more uncertainty, overhead and cost to the landlord. 4. The proposal introduces an incentive for tenants who benefit from capped rents to unlawfully sublet their properties to other tenants who are willing to pay more than the capped rent but cannot access an available property in their desired location.

Rent level appeals

Q2. Which of the following best expresses your view of providing that, when tenants appeal their rent, rent officers and the First-tier Tribunal would be able to either lower or maintain the rent but not increase the rent?

Partially opposed

Please explain the reasons for your response.

Mortgage lenders would see this as a risk. Lenders assess the affordability of a buy-to-let mortgage based on the estimated market rental value of the property. The potential for a reduction in rent would complicate the affordability assessment for lenders, which could lead to lenders being more cautious about new lending on buy-to-let properties. For existing mortgaged properties, the potential for a rent officer to reduce rent could mean a mortgage which was previously affordable no longer is so. In a worst-case scenario, a reduced rent level stemming from the decision of a rent officer could lead to the landlord defaulting on the mortgage, the lender taking possession of the property and ultimately evicting the tenants. Separately, there is a risk that rent officers will be flooded with appeals from day one as tenants look to reduce their rent in the knowledge that there is no downside in doing so.

Landlord registration scheme

Q3. Which of the following best expresses your view of expanding the landlord registration scheme so that landlords must input the rent that they charge when they register, and update the system when the rent changes?

Neutral (neither agree nor oppose)

Please explain the reasons for your response.

A robust database of rental values could prove to be a useful resource and may help ensure rents are not being unfairly increased. We believe there are some technical considerations which need to be addressed for this to be implemented successfully. 1. Would there be any sort of enforcement process to ensure the landlord is entering the correct rental value and continuing to update it when the rent is adjusted? 2. Will this result in additional costs being passed to the landlords? While this proposal in itself is likely to represent only a marginally increased burden, it should be considered in light of the fact that the private rented sector is subject to increasingly complex regulation which may deter responsible landlords from participating in the market.

Other options - Rent Pressure Zones

Q4. Which of the following best expresses your view of tackling the problem of rents rising significantly faster than inflation by making it easier for a local authority to apply to create a Rent Pressure Zone (RPZ)?

Partially opposed

Please explain the reasons for this response.

1. The complexities to manage and the cost burden on local authorities to enforce such Rental Pressure

Q4. Which of the following best expresses your view of tackling the problem of rents rising significantly faster than inflation by making it easier for a local authority to apply to create a Rent Pressure Zone (RPZ)?

Zones will be significant. 2. This may discourage landlords from investing in areas where rental pressure zones exist.

Financial implications

Q5. Taking account of both costs and potential savings, what financial impact would you expect the proposed Bill to have on:

| | Significant increase in cost | Some increase in cost | Broadly cost-neutral | Some reduction in cost | Significant reduction in cost | Unsure |
|---|------------------------------|-----------------------|----------------------|------------------------|-------------------------------|--------|
| Government and the public sector | | X | | | | |
| Businesses (including landlords) | | X | | | | |
| Individuals (including tenants) | | | X | | | |

Please explain the reasons for your response.

1. Enforcement of the rental caps will require resource within local authorities, maintenance and monitoring of the register will also require ongoing funding. 2. As interest rates rise, landlords will be limited in how they can mitigate this, resulting in higher cost to income ratios. 3. Some tenants will be protected, however: i. There is a risk of a market correction ahead of the change, where landlords may choose to increase rents in the immediate future to compensate for limited ability to increase them later. ii. A rent cap introduces the unintended consequence of making it more attractive for tenants to sublet their property at a profit. This would lead to some tenants being worse off than others.

Q6. Are there ways in which the Bill could achieve its aim more cost-effectively (e.g. by reducing costs or increasing savings)?

We have no comments on this.

Equalities

Q7. What overall impact is the proposed Bill likely to have on equality, taking account of the following protected characteristics (under the Equality Act 2010): age, disability, gender re-assignment, maternity and pregnancy, marriage and civil partnership, race, religion or belief, sex, sexual orientation?

Unsure

Q7. What overall impact is the proposed Bill likely to have on equality, taking account of the following protected characteristics (under the Equality Act 2010): age, disability, gender re-assignment, maternity and pregnancy, marriage and civil partnership, race, religion or belief, sex, sexual orientation?

Please explain the reasons for your response.

We have no comment on this.

Q8. In what ways could any negative impact of the Bill on equality be minimised or avoided?

We have no comments on this.

Sustainability

Q9. Do you consider that the proposed Bill can be delivered sustainably, i.e. without having likely future disproportionate economic, social and/or environmental impacts?

Unsure

Please explain the reasons for your response.

We have no comments on this.

General

Q10. Do you have any other comments or suggestions on the proposal?

No.