UK COLLABORATIVE CENTRE FOR HOUSING EVIDENCE

The challenges faced by Rural Landlords: The case of Argyll and Bute

Summary Report

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REPORT PURPOSE

The purpose of the main report is to better understand the composition of rural landlords in Argyll and Bute, to identify the extent to which they differ in key measures from non-rural landlords, to explore the specific investment challenges they face, and to quantify their future investment intentions. As the first major research project focused upon rural landlords in Scotland, the report covers a lot of ground. This summary report distils the key findings.

AN OVERVIEW OF ARGYLL AND BUTE

The research is located in Argyll and Bute, which is the second largest local authority area in Scotland covering almost 700,000 hectares equating to 9% of Scotland total landlord area . Its population is the fourth sparsest in Scotland with a population density of 13 person per hectare. Argyll and Bute is 1 of 6 local authorities in Scotland with island communities and 1 of 3 that combines mainland and islands. For the most part (73.6%), Argyll and Bute's population live in remote or very remote locations.

10% of households in Argyll and Bute live within the Scottish Private Rented Sector (SPRS) (Scottish Government, 2023a), compared against a figure of 13% for Scotland as a whole. Between 2010 and 2023 private rented sector rents in Argyll and Bute rose by less than cumulative CPI over the same period. However, rental growth between 2022 and 2023, at 18.2%, is the 3rd highest in Scotland after Greater Glasgow and Lothian.

In December 2023, there were 3,284 registered SPRS landlords within Argyll and Bute . This represents just over 1% of Scotland's registered landlords. In total, there were 4,520 registered properties, a reduction from 2020.

It has long been recognised that rural living has its own rewards and challenges. For example, a recent report concluded that households in remote rural Scotland are subject to a 15%-30% living cost premium in comparison to households in urban areas (Davis et al., 2021). However, little is known about the rural SPRS or its landlords.

THE REPORT CONTEXT

This research was undertaken during a period of sustained change in the context of a polycrisis . The Scottish housing system itself is said to be in crisis, although multiple local authorities, including Argyll and Bute, have upped the ante by officially declaring a 'Housing Emergency'. The Scottish Government has also declared a national housing emergency.

The SPRS is now a hybrid provider

The Scottish Private Rental Sector (SPRS), plays a critical role in the provision of housing in Argyll and Bute and Scotland overall. The sectors re-growth originally located it as a provider of flexible accommodation for transient populations. However, the sector is increasingly being used to provide long-term accommodation for vulnerable groups including families with young children, who in earlier times might have been able to access local authority or housing association accommodation (Bailey, 2020). As a result of the shortage of supply within the Social Rented Sector (SRS), amongst other factors, there is strong demand for SPRS properties amongst these groups.

The Legislative Burden

As a result of this emergent hybrid role, the SPRS has been subject to an increasing legislative burden (Gibb et al., 2019; Watson & Bailey, 2021) via planned steady state policy interventions. New measures relating to the Repairing Standard are an example. However, as a result of a variety of socio-economic and geo-political drivers including the Global Pandemic and the Cost-of-Living Crisis, legislation has also been driven by crisis-based policy interventions such as the 'eviction ban' and rent cap. Many landlords are still adjusting to the impacts of these and other interventions, particularly those who were affected by the 'Pandemic Arrears Crisis' (Watson & Bailey, 2021) and the removal of mortgage interest rate relief . Despite this, the pace of legislative change appears to be increasing. The Housing (Scotland) Bill, was introduced to Parliament in March of this year and the 'Proposals for a Heat in Buildings Bill' consultation ended in the same month.

The Costs Associated with Landlordism Have Increased

Landlord business costs, including repair and maintenance, compliance, and insurance costs have increased dramatically

as a result of inflation. Furthermore, attempts to reduce the rate of inflation, by gradually increasing interest rates from 0.1% in March 2020 to 5.25% in August 2023 , have had some success, but have also further increased costs in the case of buy-to-let (BTL) landlords.

THE ISSUES

The combined impact of these factors is significant and raises genuine concerns as to the viability of many SPRS investments, especially where landlords have leveraged investments. Critically, rising interest rates also offer an escape route for landlords by making other investments, including bank deposits, more attractive. This is particularly relevant for landlords earning relatively low returns (i.e., returns that are less than the current base rate).

Given these issues, the SPRS is clearly at a critical juncture. Anecdotal, and research evidence (Scottish Government, 2023b; Watson & Bailey, 2021; Watson et al., 2023) points to the sectors decline, which has exacerbated the supply and demand imbalance that pervades a number of SPRS geographies and markets. This is concerning as the need for a thriving SPRS is recognised by the Scottish Government, local authorities and a myriad of other stakeholders.

THE OPPORTUNITY

The status quo presents a tremendous opportunity for the Scottish Government, Local Authorities, Citizens Advice and others, to work in partnership with landlords to create a positive long-term vision that both supports SPRS investment, and contributes to the resolution of the Housing Emergency. As the Argyll and Bute Council Team Lead on Housing Strategy noted:

'The private rented sector is a good option and always has been in our view in the area housing teams... I think that the private rented sector is key to resolving the housing situation that we're in… As a Council we are ready and willing to engage with private landlords… We absolutely recognise we need the private rented sector to be well functioning so that we can address the whole housing market situation.'

Crucially, in the short term, there is an urgent need for stakeholders within Argyll and Bute to work to preserve existing SPRS stock levels and thereby safeguard existing tenancies and support rural communities.

THE FINDINGS

The research methodology comprised secondary data analysis and primary analysis in the form of an online survey and a series of anonymised, semi-structured interviews with landlords in Argyll and Bute. The findings of the research are now broadly summarised.

Argyll and Bute Housing Challenges

Landlords provided a range of insights into the nature and type of housing problems facing Argyll and Bute. For example, John suggested that the challenges were long established and sticky:

> 'Well, there's been a housing emergency in Argyll and Bute for as long as I've lived, there's such a demand for housing in [Argyll and Bute] and these tourist areas that it's almost an impossible thing for them to fix. There's always going to be a housing emergency.'

Steve reported that demand outstripped supply:

> There's such a shortage of properties… every time a property becomes available there's almost a feeding frenzy, with dozens and dozens of people looking to move in, and I don't know, it doesn't seem like a very healthy situation to me… we need more rental properties. That's the answer.'

And Ross provided a specific example of the very real impact of the housing shortage on jobs and therefore the viability of local businesses:

> 'We've got people looking to leave at the moment because they can't get accommodation. We've had people not been able to come to the island who have had jobs lined up and who have just had to take a job elsewhere, because they haven't been able to get accommodation.'

Landlord Net Yields

Overall, the majority of landlords (55%) reported a net return of 5% or less and over one third (36%) made 3% or less . Whilst low-digit returns may have been attractive during the recent prolonged period of low interest rates, some alternative investments now offer better risk return profiles and reduced management intensity. For example, market leading savings accounts, now pay in excess of 5% (Money Saving Expert, 2024).

Worryingly, 16% of landlords in Argyll and Bute achieved a net yield of 0% or lost money on their investment (Table 1). Although in some cases, this may be explained by altruism or the provision housing to employees, 6% of those whose stated investment purpose was to 'secure a rental income' reported a yield of 0% or less. This raises questions regarding the viability of some SPRS investments in Argyll and Bute and critically, the ability of landlords to fund repair and maintenance, and compliance costs from investment cash flows. A further concern is that 24% of landlords did not know the net yield being generated by their SPRS property raising questions regarding investment management.

Table 1: Landlord returns (net yield)

Net Yield	% of Landlords
0% or less	16
1-5%	39
6-10%	11
More than 10%	2
Don't Know	24
Prefer Not to Say	8

(n=346)

Landlords Characteristics, Motivations and Investment Behaviours

Although private landlords are a large and heterogenous group, secondary data analysis found that the difference between the characteristics, motivations and investment behaviours of rural and non-rural landlords in Scotland are small overall. However, the primary data found that Argyll and Bute landlords differ in some areas. For example, whilst an ageing landlord cohort is a looming challenge for the SPRS as a whole, the problem is more acute in Argyll and Bute, where around 39% of landlords are aged 65 or older in comparison to the 21% observed at the Scotland level (2023). The implication is that landlords in Argyll and Bute could age out of the sector earlier than in some other locations with consequences for supply and the security of existing tenancies.

The Biggest Challenges Faced by Landlords in Argyll and Bute

The survey asked landlords to score a list of range of pre-determined key challenges between 1 and 10, with 1 being the most important and 10 being the least important. The key challenges are ranked in Table 2 by the mean score they achieved. It is perhaps surprising that whilst ranking highly (3rd position) the burden of legislation ranked marginally lower than the maintainability of dwellings (1st position) and the availability of tradespeople (2nd position). This summary report provides some insights into the first three challenges.

Table 2: Ranking the key challenges faced by rural landlords via the mean

Key Challenges Faced by Rural Landlords	Mean
The maintainability of dwellings.	3.32
The availability of tradespeople.	3.39
The burden of legislation.	3.84
The energy efficiency of dwellings.	4.24
The provision of utilities (e.g. gas, electricity and broadband)	5.87
The availability of professional services (e.g., surveyors, letting agents etc.)	5.99
The provision of transport infrastructure (e.g. ferries and roads)	6.50
The provision of services (e.g. water supplies and sewage)	6.68
The availability of professional advice (e.g., financial advisers, accountants etc.)	6.75
The availability of finance.	8.42

(n=346)

Rural Properties are Difficult to Maintain, Especially When you Can't Find Tradespeople

Landlords suggested that maintaining rural property was 'very difficult' and highlighted a number of the challenges they faced. Many of these were attributable to the age, type and location of the properties they owned. However, concerns often coalesced around the availability and cost of the labour and materials required to adequately repair and maintain properties. The availability of labour emerged as a prime issue facing rural landlords. As one survey participant noted:

> 'In Argyll and Bute, you can't find anyone to do anything ever. I have spent a year trying to find someone to simply fit a front door.'

The availability of trades was reported to be even more challenging in Island locations. As Jack and Linda noted, the lack of tradespeople to service compliance requirements was a particular problem:

> 'Biggest [challenge] is getting workmen for the legislation that's involved. That's a problem for me. On [the island] it's quite arduous.'

Works often took a long time to come to fruition. For example, Colins window replacement project took 18 months:

> 'I wanted 9 windows put into this block of flats. They were originally priced in 2021 January and they were done in 2022 June. That's how bad it is. Yes, I got it done at the price that was quoted, but it took 18… months to get it done.'

The availability of tradespeople was identified as a real road block to rural landlordism with landlords often having to delay or postpone works leading to non-compliance and in some cases, questionable conditions for tenants. The shortage also meant that landlords perceived that they sometimes had to pay over the odds to secure tradespeople, or alternatively, undertake work themselves.

Issues with the Legislative Environment

In total, 62% of rural landlords report that the legislative environment is not supportive of SPRS investment, and fully 76% do not believe that the Scottish Government understands the challenges faced by rural landlords (Figure 1 and Figure 2).

Figure 1: % of landlords agreeing that the current legislative environment supports SPRS investment

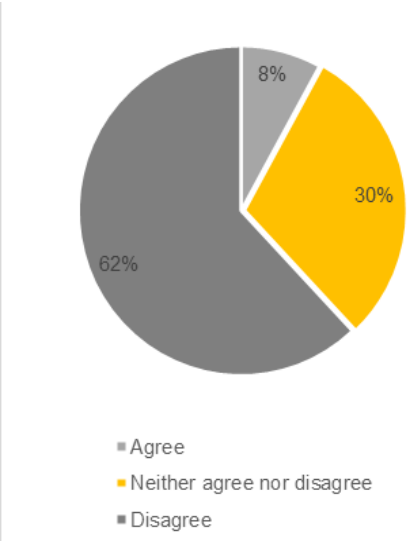
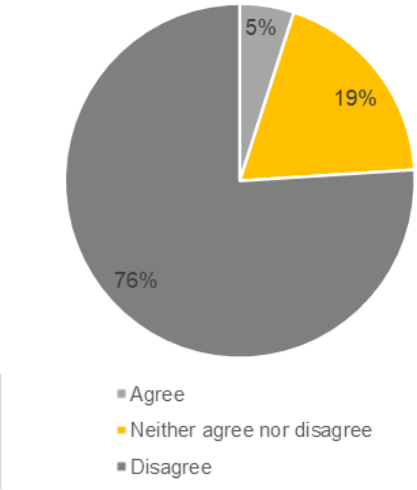


Figure 2: % of landlords agreeing that the Scottish Government understands the challenges faced by rural landlords



(n=346)

The majority (58%) of landlords did not agree that the current legislative environment balanced the needs of landlords and tenants.

As in previous studies (Watson & Bailey, 2021) there was a political component to landlord views, with the Scottish Government, as the perpetrators of much/most of the legalisation, portrayed as being biased against landlords or 'anti-landlord'. June was relatively understated when she mused:

> 'Well, does the Scottish Government see landlords, private landlords, in a positive way? I always get the impression. No, they don't.'

Landlords had different views on different pieces of legislation. However, in the main, landlords were accepting of safety-based legislation, which was viewed as being 'very important' (Steve). Landlords also supported non-safety legislation, which was perceived to be balanced, fair and well administered. Case in point, the Tenancy Deposits Schemes:

> 'One thing I think it's been really good has been the Safe Deposit scheme. I think that's been excellent, you know, protecting deposits for tenants. And so, we've used that quite a bit. That's been good.' (Peggy)

Landlords were concerned about legislation that constrained their ability to obtain vacant possession of their properties. For example, the introduction of the Private Residential Tenancy (PRT), and also the temporary 'eviction ban' introduced during the pandemic. There was also perceived inequity between the treatment of the SRS and the SPRS in a number of areas. For example, with regards rent increases, Pete noted:

> 'If it's fair enough for a housing association to be able to put the rent up by 6% a year, it should be fair enough for a private landlord to do that.'

Landlords also questioned the relevance of some of the legislation. Steve summarised the position well:

> 'I'm not against regulation, but I'm against regulation that's pointless.'

Many examples were discussed, but overall, there was a perception the Scottish Government weren't 'looking at risk in a big picture' and not following a 'sensible, risk-based approach' (Kate).

More generally, landlords reported that legislation lacked nuance and flexibility as it did not take into account rural geographies and property types. Many landlords equated the current legislative approach to using 'a sledge hammer to crack a nut' (Linda and Jack).

The cost of legislative compliance was a clear issue for landlords, particularly in light of broader inflationary concerns, the inability to increase rents due to the rent cap, and a rural maintenance premium. As Pete argued:

> 'At every turn, they bring in legislation, and it's just making it more and more difficult for the private landlord to be able to cover their overheads.'

The majority of landlords offered examples of increases in the cost of letting. Although the cost of complying with individual legislative measures may sometimes be negligible, the cumulative impact of the legislation over the last decade has had an impact on the profitability of the SPRS.

Finally, enforcement emerged as a key issue with many

landlords questioning why they had to incur the cost and hassle of compliance when others, due to a lack of enforcement, got away with simply choosing not to. The perceived lack of fairness caused landlords, who reported that they were compliant, to feel palpably aggrieved. Some examples include:

> 'So, you've almost got a dual system where, if you follow the rules, it's expensive, difficult time consuming and if you don't, you can just get away with anything.' (Elaine)

> 'Why have regulations that supposedly help the situation. So, the good people follow the legislation, and everyone else doesn't bother. But it's an increasing number that don't bother because the legislation gets tighter. But what's the point of tightening it if you're not going to police it? It's just stupid, all you're doing is hurting the good landlords, and you're not doing anything about the bad landlords. They just go underground.' (Ross)

In addition to the risk of increasing rates of non-compliance in the absence of enforcement, landlords reported other unintended consequences arising from legislative change. For example, over a quarter of landlords (28%) intend to increase the frequency at which they increase rents as a direct result of the rent cap. This represents a significant behavioural change, which was wholly unintended, but not entirely unforeseeable.

Overall, it was felt that the legislative burden was unfair, expensive, often lacking relevance and prone to producing unintended outcomes. Landlords wanted some respite initially, but then for future legislative change to be risk-based, relevant, properly assessed, planned in advance, effectively communicated, and applied equitably across tenures.

LANDLORDS INTENTIONS

In response to the challenges faced, personal circumstances (including ageing), and better returns being available elsewhere, one third of landlords (33%) planned to sell some or all of their SPRS properties, 62% intended to keep the same number of properties, and 5% intended to buy more properties. The strength of feeling expressed by landlords intending to sell suggests that this is a credible threat. Given the existing investment environment, it is not clear that new entrants will balance any resultant shortfall in supply.

One landlord was unsure how many properties he/she intended to sell; the remainder intended to sell 253 SPRS properties between them in total. Of these planned sales, 168 relate to Argyll and Bute. Conversely, the 5% of landlords who intended to increase their SPRS holdings, had plans to procure just 37 properties in Argyll and Bute.

Most landlords who intended sell, planned to do so within a relatively short period of time (e.g., 2024) . However, in some cases, landlords did not plan to sell until 2030 or beyond. The latter highlights that there can be a considerable time lapse between a landlord making a decision to sell and the property actually being marketed for sale/sold. This can be due to factors such a lengthy transaction processes, market conditions and landlord circumstances, amongst others. In particular, some landlords were acutely aware of the impact a sale would have on their tenants and intended to link market exit to the natural expiration of tenancies. As one survey participant noted:

> 'We would have sold earlier but the family renting had children at school and we didn't want to upset their routine.'

When asked about the specific reasons for deciding to sell some or all of their SPRS properties, the majority of landlords (65% of cases) selected the cumulative impact of legislation as a factor in their decision to sell. In 37% of cases, forthcoming EPC requirements were selected, suggesting that the threat of further legislation is a major factor. This is concerning as at the point of survey; it was not clear what the requirements would be. The viability of existing investments also featured strongly with increased costs (44% of cases) playing a key role in the decision to sell.

CONCLUSIONS AND RECOMMENDATIONS

The investment challenges faced by landlords operating in Argyll and Bute in the context of the housing emergency are numerous and significant.

As a result of these challenges, some landlords are choosing to divest of SPRS investments. The reasons for sale are multifaceted and are expanded upon more fully in the main report. However, a lack of tradespeople, the legislative burden, difficulties in obtaining vacant possession, inflationary challenges (cost increases), interest rate increases, the removal of mortgage interest rate relief and other tax changes, the availability of alternatives with better risk/return profiles, an ageing landlord cohort, and perceived anti-landlord rhetoric are amongst those that feature heavily as either primary factors or tipping points in the divestment decision making process of landlords.

It is recognised that landlords in Scotland have a history of threatening to leave the sector in response to legislative dissatisfaction, which might lead to questions over veracity of landlord intentions. In addition, as sector churn levels and reasons for sector exit are not recorded, it will not be possible to track if these specific intentions are fulfilled or more broadly, to identify how many landlords leave due to disenfranchisement and how many leave through natural attrition. However, the landlord registration data (Scotland level) highlights that the number of active landlord and property registrations peaked between 2016 and 2018 with decline evident following the introduction/implementation of both the Private Residential Tenancy (PRT) and Section 24 of

the Finance Act 2015. Although there are questions regarding the robustness of the data and the reasons for the reductions, alternative sources including the Scottish Household Survey (Scottish Government, 2023b) also points more broadly to the sectors decline. Furthermore, this report marks the third major study of Scottish landlords by the author in recent years (Watson, 2023; Watson & Bailey, 2021) with each pointing to increasing levels of landlord dissatisfaction. Overall, it would appear that there is good reason to take heed of the views and intentions of the landlords who shape the sector.

Moving forward, to undergird existing tenancies, there is an urgent need to encourage disenchanted landlords to remain in the sector or indeed convince them to invest further, assuming of course that either is a desirable outcome for policymakers. The recommendations accompanying this report assume that it is, and that both the Scottish Government and Argyll and Bute Council seek stabilised investment patterns within the SPRS.

The evidence-based recommendations are designed to respond to the challenges identified by the report, and to support the housing emergency by encouraging the retention of existing landlords within Argyll and Bute. The recommendations present an opportunity for the Scottish Government, Argyll and Bute Council and Citizens Advice to work in partnership with landlords to improve the sector.

Separate recommendations are laid out for each. The recommendations for the Scottish Government are broad, spanning strategic matters relating to the size and shape of the sector, and practical matters such as the need for improved SPRS data. However, the recommendations prioritise resetting the relationship between policymakers and landlords via engagement and communication. The recommendations for Argyll and Bute Council also include measures to improve communication and engagement. However, practical solutions for improving enforcement are also included. The recommendations for Citizens Advice Scotland focus on the need for the provision of better information for landlords and an increase in research outputs, which will enable data driven insights and support policy debates.

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