Research & Consultancy

THE IMPACT OF LEGISLATION ON LETTING AGENTS FEES IN SCOTLAND QUANTITATIVE ANALYSIS

Shelter

PRIVATE AND CONFIDENTIAL

Date of Report: 31 March 2014

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EXECUTIVE SUMMARY

STUDY CONTEXT

Shelter has commissioned research to examine the impact on the rental sector of legislative changes in Scotland that occurred in November 2012. These changes tightened existing law to prevent letting agents charging non-refundable fees to tenants and followed campaigning work by Shelter.

A key concern, which underpins the research, is that the law change has led to inflation in private rent levels in Scotland as these fees were simply passed on in rental charges to tenants.

Shelter has commissioned three separate but linked pieces of research to investigate this issue.

1. Quantitative analysis of the available data to attempt to establish if there is a link between rises in rent levels and the legislative change.
2. Analysis of Companies House data and other industry data to attempt to provide some general evidence on the ‘health’ of the letting industry in Scotland over the period of legislative change.
3. Qualitative analysis involving key players in the industry, including agents, landlords and tenants, to establish the impact of the legislative change, primarily on rents, but also on other aspects such as security of tenure and financial health of landlords and agents.

Rettie & Co have been instructed by Shelter to undertake Parts 1 and 2 of the commission. Part 3 has been commissioned separately with another contractor.

MAIN RESULTS

Using existing quantitative data to estimate the impact of any legislative changes in Scottish rent levels is very difficult. The exercise is challenging due to a lack of quality historical data and the complex nature of the relationships that determine rent levels.

We have attempted to use a number of quantitative methods to estimate the likely impact of the ban on agents’ fees on rent levels in Scotland and triangulate the evidence where possible. Our findings suggest:

1. The movements in Scottish rent levels over time can be adequately explained through analysis of wider economic and market factors. Legislative changes are likely to have had minimal impacts in comparison with these.

2. The best of the regional series (from ONS) does show a noticeable upturn in rent levels in Scotland in comparison with a number of other UK regions from the start of 2013. However, this is not conclusive and may be the result of methodological issues. Other indices do not show similar patterns, but we would view these as less reliable.

3. Our statistical model shows that rent levels are around 1%-2% higher in the letting agent sector than predicted in Scotland in 2013. It is again not conclusive that this is a result of legislative change. Other market factors, not captured by the model, may instead explain this difference more adequately.

In conclusion, there is not sufficient evidence to be completely clear that the ban on agents' fees has made rent levels higher in Scotland than they otherwise would have been. However, as fees are typically in relation to an average deposit and tenancies tend to last 6 months to one year, we would expect any observable impact by now to be relatively small.

Although rent levels tend to be determined by wider market factors, the uplift in rents in Scotland against other UK regions in 2013, as found by ONS, together with results from our statistical model suggesting that rents charged by letting agents are higher than expected by a small margin, means that we cannot rule out that the ban on agents' fees has had a small inflationary impact on rent levels. If such findings were the other way around, we could perhaps have more clearly ruled out any impact.

On balance, the weight of the quantitative evidence points to a small inflationary impact of 1%-2% at least for part of 2013 in terms as a result of the ban on agents' fees. However, the impact seems marginal and may be short-term.

We also undertook some analysis of Companies House data to see if the ban on agents' fees has had a negative impact on the industry as a whole or on the financial performance of companies dealing in the letting of residential properties.

This analysis indicates that a number of major companies working in the lettings industry in Scotland are not under any significant financial pressure. Some posted weaker results in 2013, but this is more likely to be a result of other company issues rather than legislative change, although one company did highlight legislative change has having had a detrimental impact on its property management division.

Generally, all of the companies examined are expanding given the strong conditions present in the agency market, therefore any negative impact of legislative change is being ridden out by these companies.

This work needs to be tested against the qualitative evidence to assess whether these conclusions are supportable, with perhaps more quantitative data assessed over 2014 to establish whether these trends have continued.

IMPORTANT NOTICE

In accordance with our normal practice, we state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and no responsibility can be accepted to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals. Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period.

The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed. Our views on price are not intended as a formal valuation and should not be relied upon as such. They are given in the course of our estate agency role. No liability is given to any third party and the figures are given purely as guidance before sale. No structural survey of condition was undertaken and our opinions are subject to any defects such a survey might reveal.

1. INTRODUCTION

Shelter has commissioned research to examine the impact on the rental sector of legislative changes in Scotland that occurred in November 2012. These changes tightened existing law to prevent letting agents charging non-refundable fees to tenants and followed campaigning work by Shelter.

This research on the impact in Scotland will inform a similar Shelter campaign planned for England.

1.1. STUDY CONTEXT

A key concern, which underpins the research, is that the law change has led to inflation in private rent levels in Scotland as these fees were simply passed on in rental charges to tenants. There are a number of other key issues that Shelter wish to address in the study, including:

- The level of non-compliance with this new legislation in the sector and any exploitation of loopholes by agents to continue to charge fees.
- The impact of the legislative change on the letting industry, e.g. the financial health of agents.
- Any wider impacts on tenants.
- The impact on private landlords, specifically how they are dealing with the additional costs presented by the legislative change.

Shelter has commissioned three separate but linked pieces of research to investigate this issue.

1. Quantitative analysis of the available data to attempt to establish if there is a link between rises in rent levels and the legislative change.
2. Analysis of Companies House data and other industry data to attempt to provide some general evidence on the 'health' of the letting industry in Scotland over the period of legislative change.
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Rettie & Co have been instructed by Shelter to undertake Parts 1 and 2 of the commission. Part 3 has been commissioned separately with another contractor.

1.2. STUDY METHOD

The key question to establish is whether the legislative changes introduced in November 2012 actually caused rent levels to increase in Scotland and, if so, by how much.

This is not an easy question to answer from the data analysis alone. According to Citylets, average rent levels increased by around 1.5% in Scotland over the last year, but more significantly in some locations such as Aberdeen (12%) and Edinburgh (3%). In contrast, average rent levels have been stable in Glasgow and Dundee. Although the change was introduced in November 2012, agents and landlords may have been making preparations before this point and been passing on agency fees into rent levels. This will be important for the study to establish.

Rent levels are determined by a complex interaction of demand and supply variables, which themselves can be volatile, e.g. employment levels, wage levels, student numbers, rental stock and repossession levels, as well as impacts such as legislative change. Attempting to separate out the impact of one variable given the number and complexity of the relationships is a very difficult exercise.

The quantitative analysis will have three main elements.

1) **Historical analysis of rental levels** over the last ten years will be used to provide the study with some context, particularly by considering the reasons for particular falls and rises in rent levels in this time, linking with legislative changes and other major shifts in market dynamics where appropriate.

2) We will use **benchmarking** against the wider UK or specific areas within the UK to examine the correlation with rent levels in Scotland before and after the legislative change to see if there are any divergences in patterns. If there are, the legislative change may have to be considered as a possible causal factor as other market conditions have been similar across the UK. If the pattern is the same elsewhere, it will provide some weight to the argument that such changes have not impacted on rent levels. We have to be careful about any sweeping statements based purely on any divergence in rent levels over the last year given the many possible causes. Nevertheless, it may be useful as one part of an overall mass of evidence and be used to support further findings.

3) There is ample data on the Scottish rental market from a range of sources. A vast array of data can be obtained from the organisations that undertake the vast majority of the listings in Scotland – Citylets and LettingWeb. Rettie & Co have access to the raw data from both of these organisations going back over 10 years, with rental data available by location, property type and property size (number of bedrooms). Such data allows for an examination of rent levels against the key demand and supply drivers at any given time. We will undertake a **statistical regression analysis** to determine the relationship between rents and these key demand and supply drivers. If, as expected,

a close relationship is found, we can compare expected rent levels (based on the statistical model) with actual rent levels for any given time period. Any divergence between expected and actual levels is therefore likely to be from another source, e.g. legislative change from end of 2012. If expected and actual rents do not diverge, it could be concluded that there has been little impact from any other factors and rent levels continue to reflect broader supply and demand conditions in the market.

It is worth stating upfront that all statistical sources on the rental market in the UK have their strengths and weaknesses, which means any analysis based on them has to be qualified, which we attempt to so throughout this report.

Although the quantitative analysis is not designed to be conclusive, it will provide strong initial evidence of the link between legislative change and rents in Scotland, to be further tested and explored in the qualitative research.

2. RENTAL MARKET OVERVIEW

The private sector rental market has been keenly shaped by the difficulties experienced in the sales market as homeowners and aspirational home owners have become increasingly involved in this tenure.

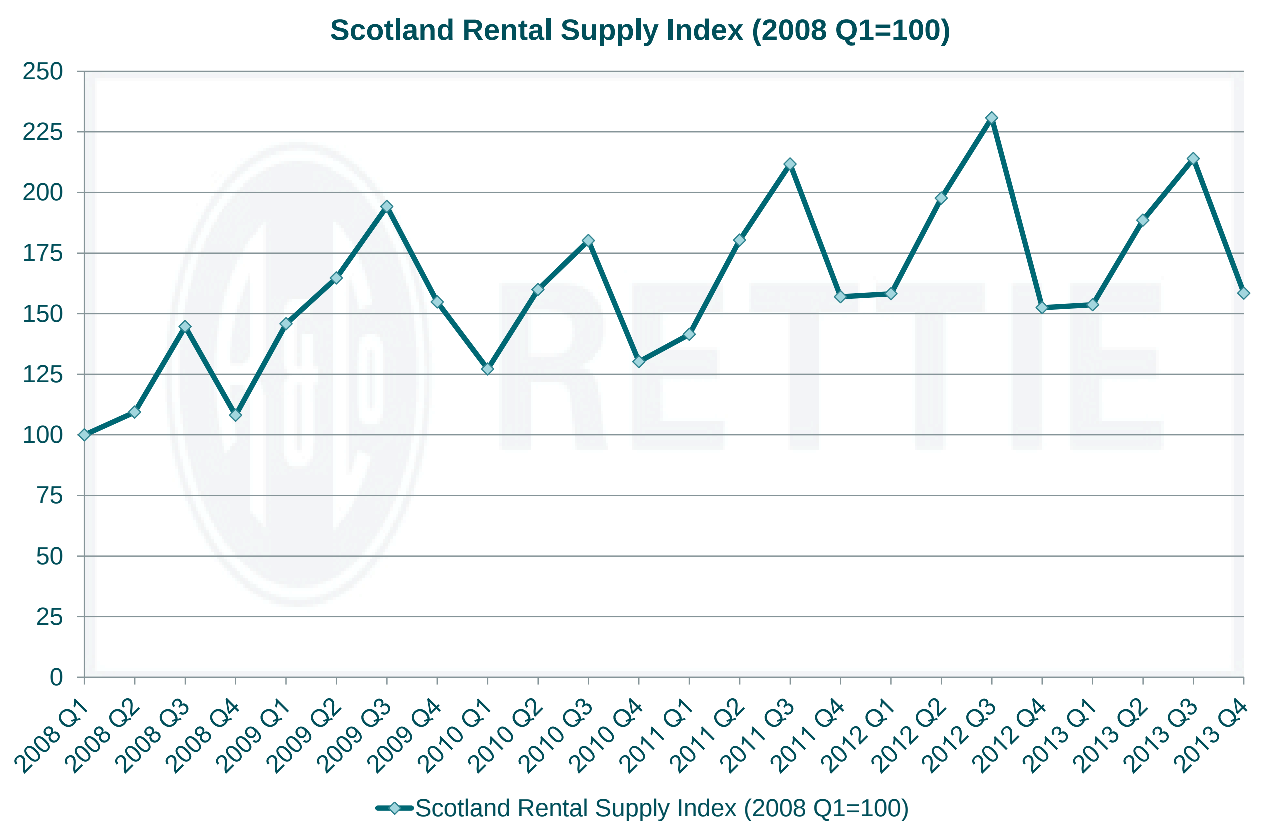
The retreat of mortgage lending and the issues within the residential market have had a significant impact on the rental market, both in terms of supply and demand. With a depressed level of sales market activity from 2008, many would-be vendors, including developers, have been retaining their units and opting to secure an on-going rent until the market improves.

Complementing this trend has been the impact of limited mortgage availability on the capacity of key market segments that would have traditionally aspired to move up the tenure ladder to purchase. First time buyers and those on limited incomes have struggled in the new credit landscape to raise appropriate equity requirements of usually around 10-20%. Help to Buy, which has been launched this year by the UK and Scottish governments, will have some effect on this as people can access mortgages with only a 5% deposit, but it is yet to be seen how much banks are willing to increase their balance sheets to support this.

OPEN MARKET SUPPLY

The supply of rental stock has grown substantially Scotland in recent years, although this may now be levelling off as the sales market recovers. In terms of total stock, the market is around two-thirds greater in size than it was in 2008.

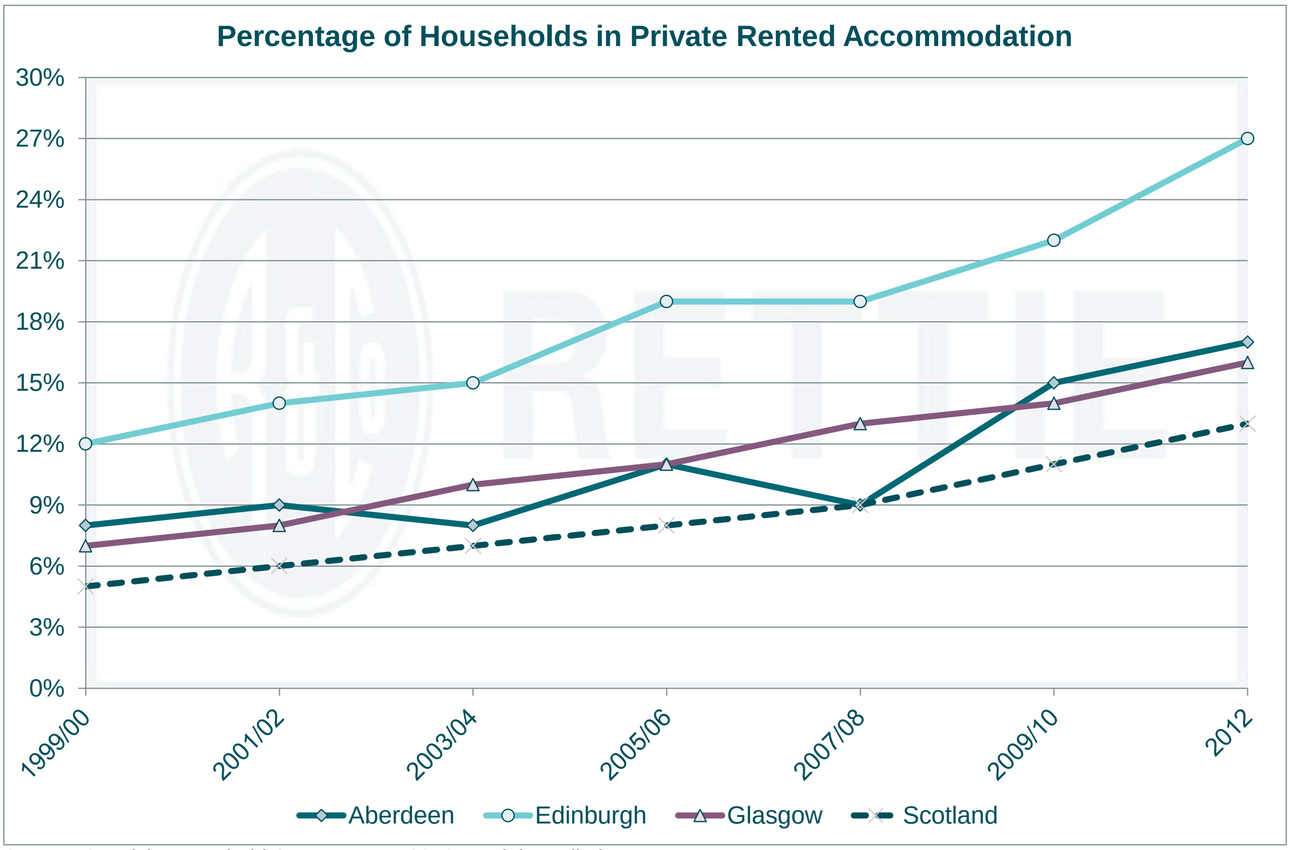
Figure 2.1 Scotland Rental Supply Index (2008 Q1=100), 2008-2013



Source: Rettie & Co./CityLets.co.uk

The Scottish Household Survey calculates that, in 2012, around 13% of households in Scotland were in the PRS, a rise from just 5% in 2000. In the main cities, the figures are much higher – Edinburgh (27%), Aberdeen (17%) and Glasgow (16%).

Figure 2.2 Growth of the PRS in Scotland, 2000-12



Source: Scottish Household Survey. Note: 2012 result is preliminary

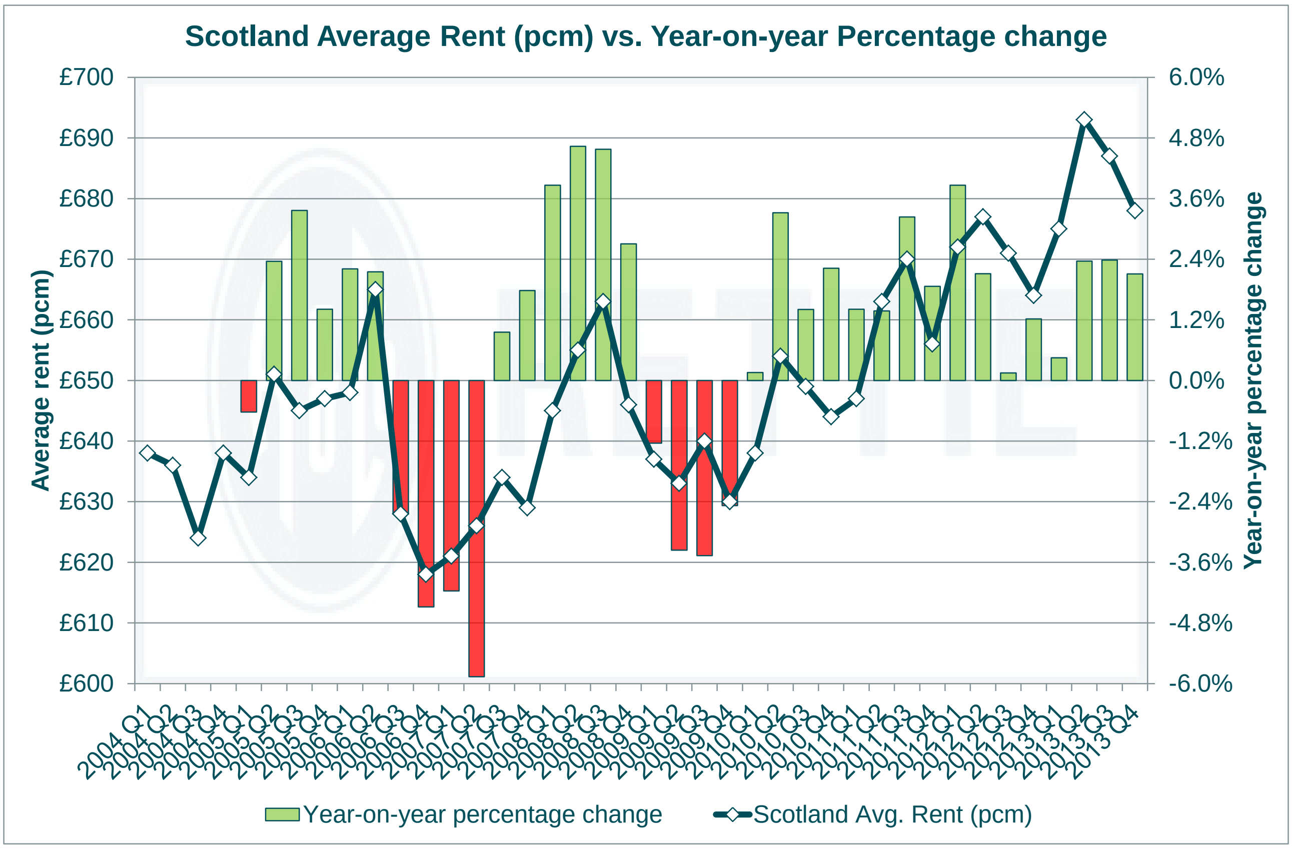
OPEN MARKET DEMAND

Despite the substantial increase in supply, demand for rental property has grown even faster in recent years and this caused a surge in rent levels across the country, especially in those areas of high demand (cities).

Rent levels in Scotland grew in the early part of the century before falling over 2006 and 2007 as the sales market boomed and there was an upsurge in mortgages through widespread credit availability. When the sales market starting to run into difficulties from the latter part of 2007, the rental market saw a surge in demand driving up rents. However, the problems in the sales market then led to a glut of property that could not sell come on to the rental market from what was termed 'reluctant landlords', this excess supply drove down rents, but, gradually, demand began to outstrip supply as the sales market's difficulties became more prolonged and the new stock was taken up. The market has been in a position of excess demand since 2010 and rent levels have continued to rise as a result, although the recent slowdown in the rate of rental growth indicates that the market may be again changing as the sales market recovers more solidly.

These rent levels are based on advertised rents only. Attempts are underway in Scotland to obtain data on rents achieved, but, even when a method for this can be implemented, it will not be possible to obtain the historical data, therefore sources such as Citylets (and assessment of rents achieved) are the best available in terms of looking at current and historical patterns.

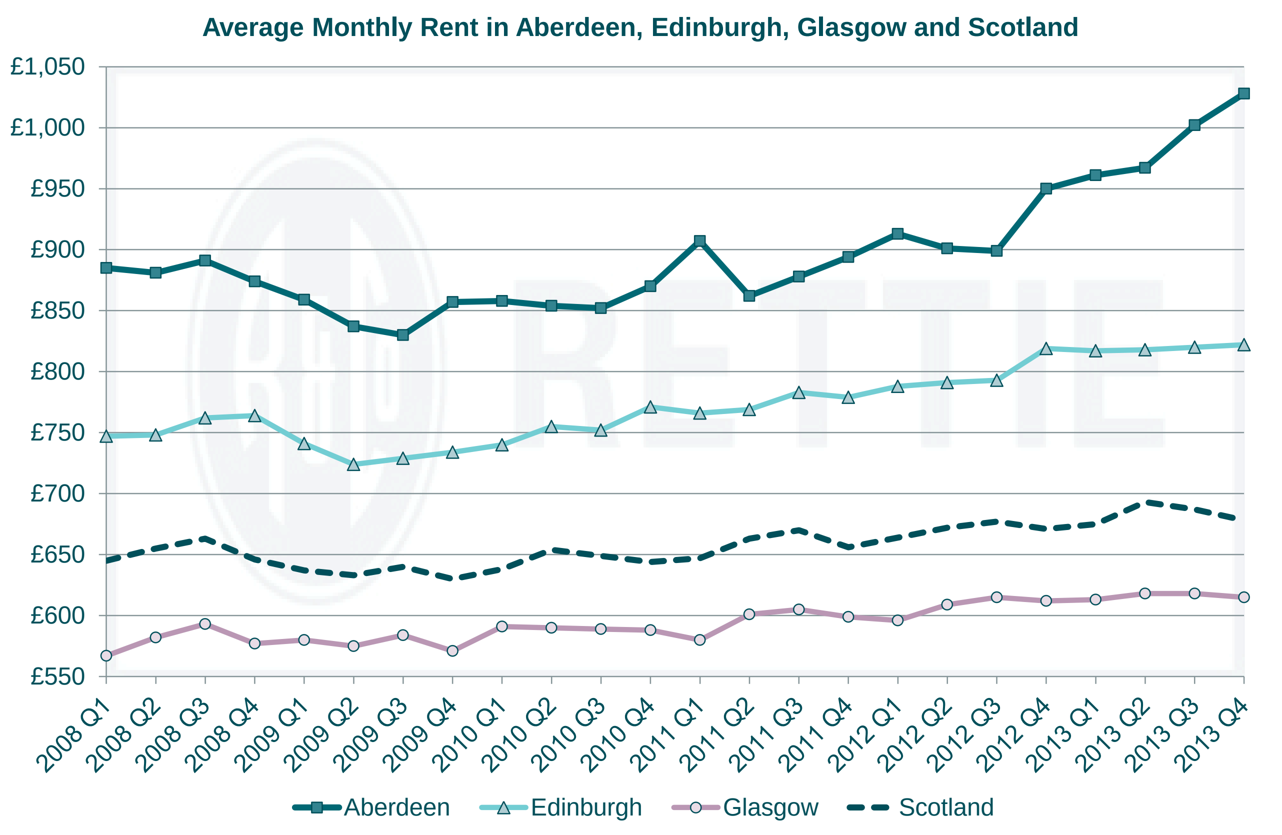
Figure 2.3 Scotland average rent (pcm) vs. year-on-year percentage change, 2004-13



Source: Rettie & Co./Citylets.co.uk

Aberdeen remains the most buoyant market in the country and continues to achieve the highest rents. Average rents here are now over £1,000 a month, after rising 8.2% year-on-year In Edinburgh, average rents have risen by 0.4% year-on-year to £822. In Glasgow, rents are 0.5% higher than last year with average rents now standing at £615.

Figure 2.4 Average rents per calendar month in Scotland, Aberdeen City, City of Edinburgh and Glasgow City, 2008-13

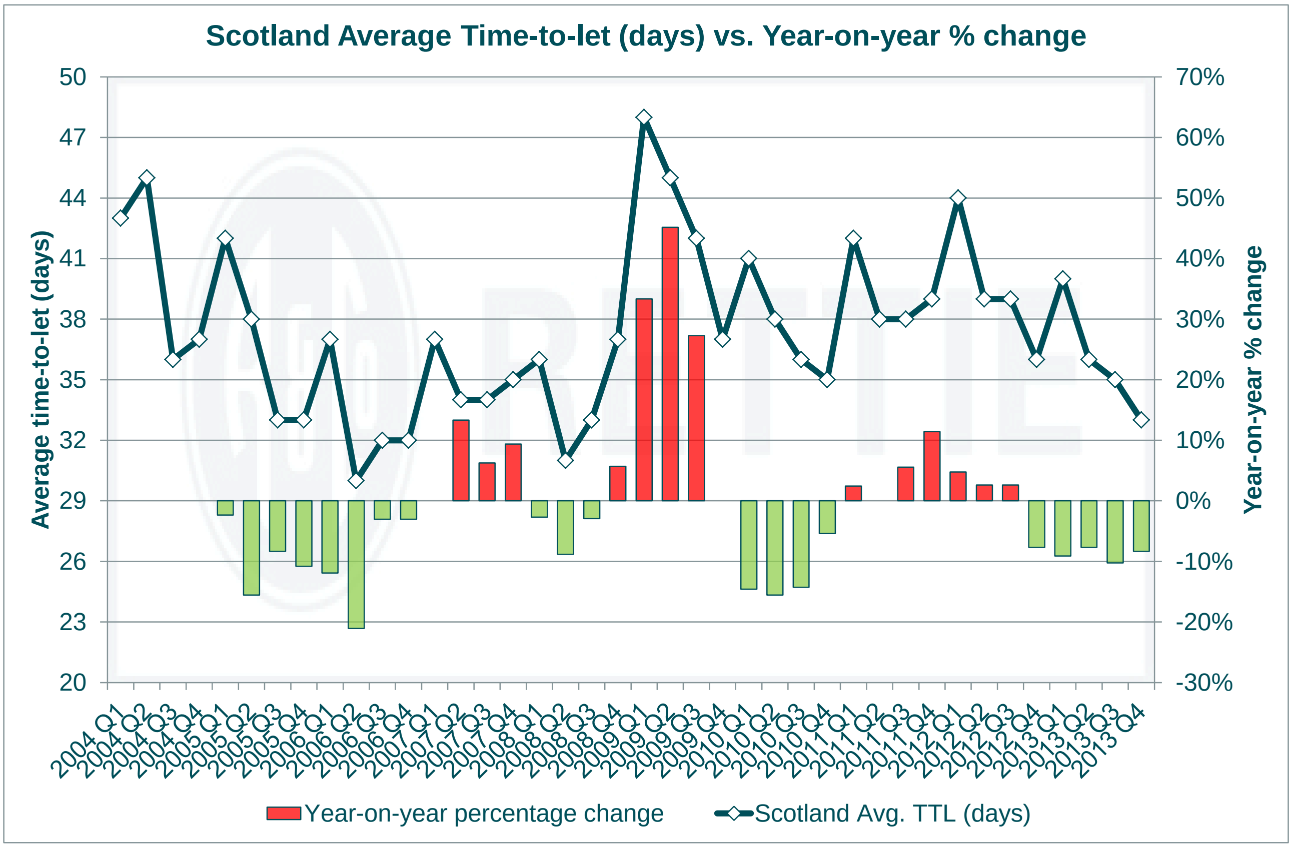


Source: Rettie & Co./Citylets.co.uk

Demand for rented accommodation continues to grow because of a number of fundamental factors: the lack of mortgage lending; lower levels of job security; people needing to be more mobile in the current labour market; and opinions towards renting changing – it no longer being seen as a poor relation to home ownership. This very much looks like being played out over the short to medium term, despite recovery in lending and better economic conditions in recent months.

Another key indicator, time-to-let (TTL) has been on a declining path since 2004, with the exception of a large upswing over 2008-09 as more property came on to the market when transactions in the sales market crashed. Average TTL is now just 33 days in Scotland.

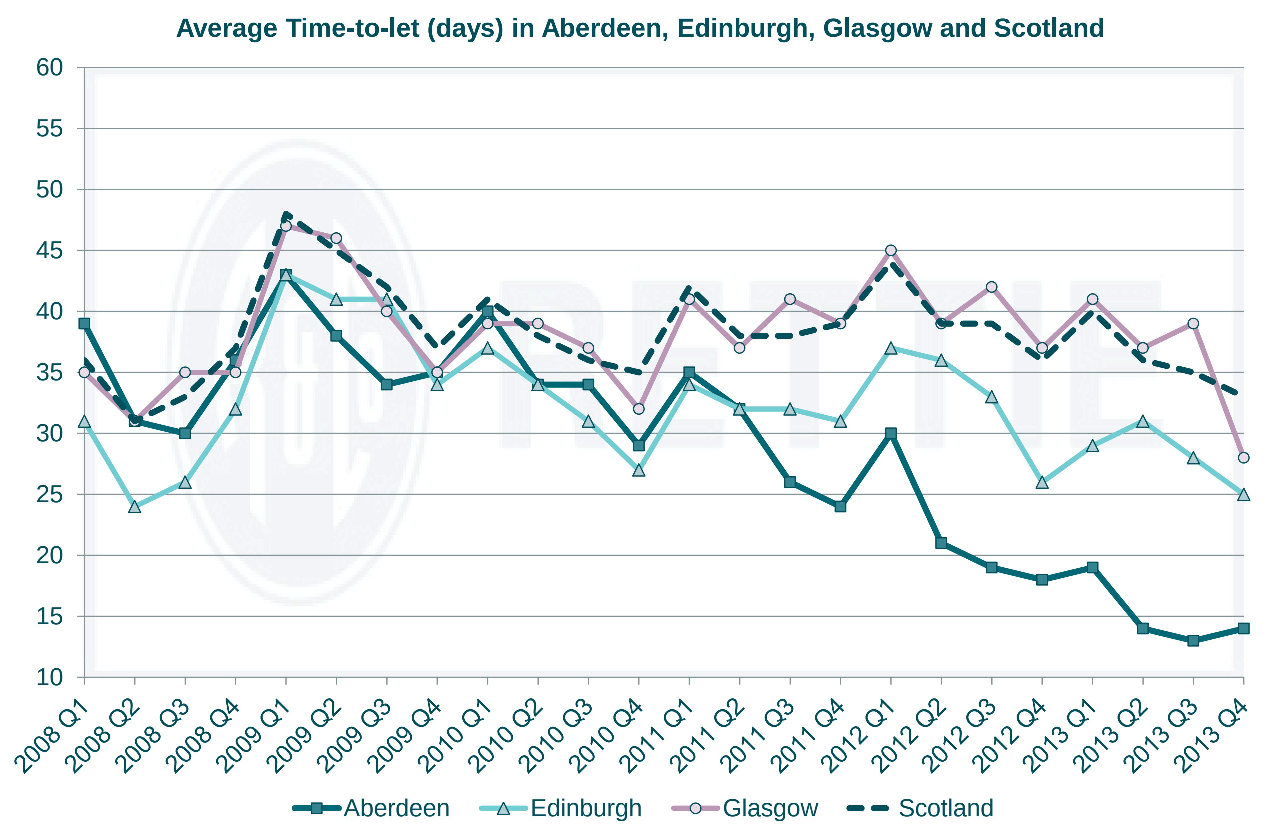
Figure 2.5 Scotland average time-to-let (days) vs. year-on-year percentage change, 2004-13



Source: Rettie & Co./Citylets.co.uk

TTL has been falling in the main cities, but particularly in those places with the strongest demand, Aberdeen and Edinburgh. Average TTL in Aberdeen now is 14 days, Edinburgh is now 25 days and Glasgow has fallen to 25 days.

Figure 2.6 Average time-to-let (days) in Scotland, Aberdeen City, City of Edinburgh and Glasgow City, 2008-13



Source: Rettie & Co/Citylets.co.uk

The figure below illustrates these trends in a timeline. Broadly these can be summarised as:

1. Rising rental and sales markets **in period to mid-2006** due to a prolonged spell of economic growth and mild inflationary conditions.

2. As the sales market booms **over late 2006 and early 2007**, mortgage applications surge, rental demand falls leading to declining rent levels.

3. The sharp downturn in the housing market **after Q3 2007**, sees rising demand for rental accommodation and an accompanying increase in rent levels.

4. As the house sales market reaches its low point **in Q1 2009**, a glut of new supply enters the rental market and we see the rise of the ‘reluctant landlord’, rents fall again.

5. With the economy recovering slowly **from 2010**, continuing problems in accessing the sales market sees conditions of excess demand in the rental market that drive up rent levels to mid-2013.

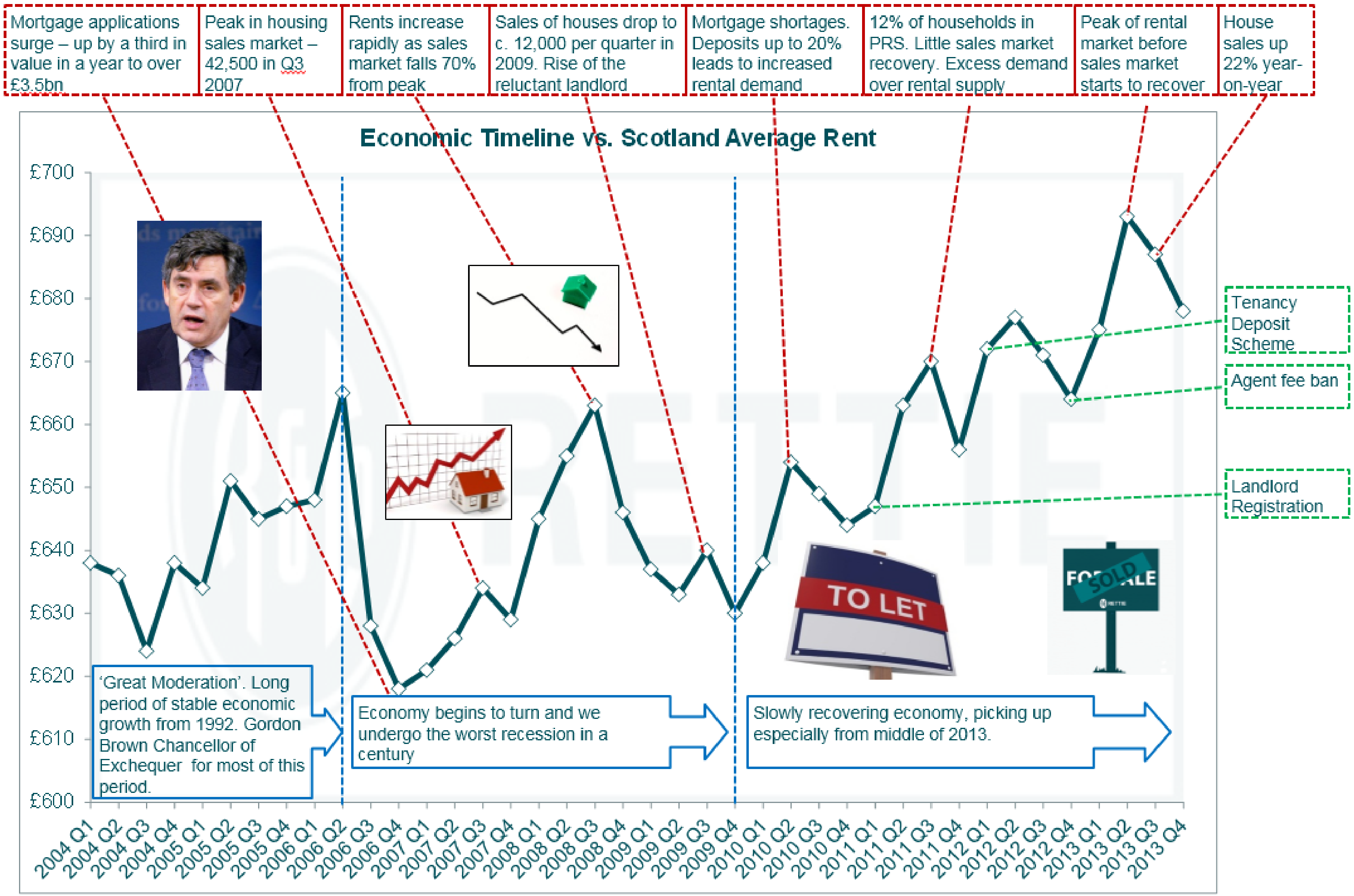
6. As conditions improve in the sales market **from mid-2013**, rent levels have begun to turn down again.

There have been a number of significant legislative changes that have occurred in Scotland in this time that affect the rental sector. As well as the ban on agency fees, there has been the introductions of landlord registration and the Tenancy Deposit Scheme (TDS). Landlord registration is a fairly nominal cost for landlords and cannot be expected to have had much impact on their total costs. TDS has probably been an opportunity cost to landlords and agents as they cannot now retain deposits for a period of time and it is more difficult now to retain any part of the deposit after a tenancy. Again, however, such costs are unlikely to be high in relative terms.

The ban on agents' fees is likely to have had the greatest potential impact on rents of these legislative changes. Additionally, the clarification in the law on agents' fees appears to coincide more closely with an upturn in rent levels across Scotland since late 2012 than the previous legislative changes.

However, as the figure below shows, the drivers of rent levels in Scotland are predominantly macroeconomic and tied to the performance of the sales market. It is also noticeable that rent levels have been falling in Scotland in the most recent period, predominantly due to these changing market drivers, reinforcing the conclusions that (at least in recent times) market forces are more significant drivers of rents than legislative change.

It should be added that these results are relevant to the part of the rental market that involves letting agents and not the part where landlords act alone.


Mortgage applications surge – up by a third in value in a year to over £3.5bn
Peak in housing sales market – 42,500 in Q3 2007
Rents increase rapidly as sales market falls 70% from peak
Sales of houses drop to c. 12,000 per quarter in 2009. Rise of the reluctant landlord
Mortgage shortages. Deposits up to 20% leads to increased rental demand
12% of households in PRS. Little sales market recovery. Excess demand over rental supply
Peak of rental market before sales market starts to recover
House sales up 22% year-on-year
Economic Timeline vs. Scotland Average Rent
£700
£690
£680
£670
£660
£650
£640
£630
£620
£610
£600
'Great Moderation'. Long period of stable economic growth from 1992. Gordon Brown Chancellor of Exchequer for most of this period.
Economy begins to turn and we undergo the worst recession in a century
Slowly recovering economy, picking up especially from middle of 2013.
TO LET
FOR SALE
SOLD
Tenancy Deposit Scheme
Agent fee ban
Landlord Registration
2004 Q1
2004 Q2
2004 Q3
2004 Q4
2005 Q1
2005 Q2
2005 Q3
2005 Q4
2006 Q1
2006 Q2
2006 Q3
2006 Q4
2007 Q1
2007 Q2
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2010 Q4
2011 Q1
2011 Q2
2011 Q3
2011 Q4
2012 Q1
2012 Q2
2012 Q3
2012 Q4
2013 Q1
2013 Q2
2013 Q3
2013 Q4

3. DRIVERS OF THE SCOTTISH PRIVATE RENTED SECTOR

This section reviews the drivers of the PRS in Scotland. A number of these variables are modelled in our regression analysis later in this report.

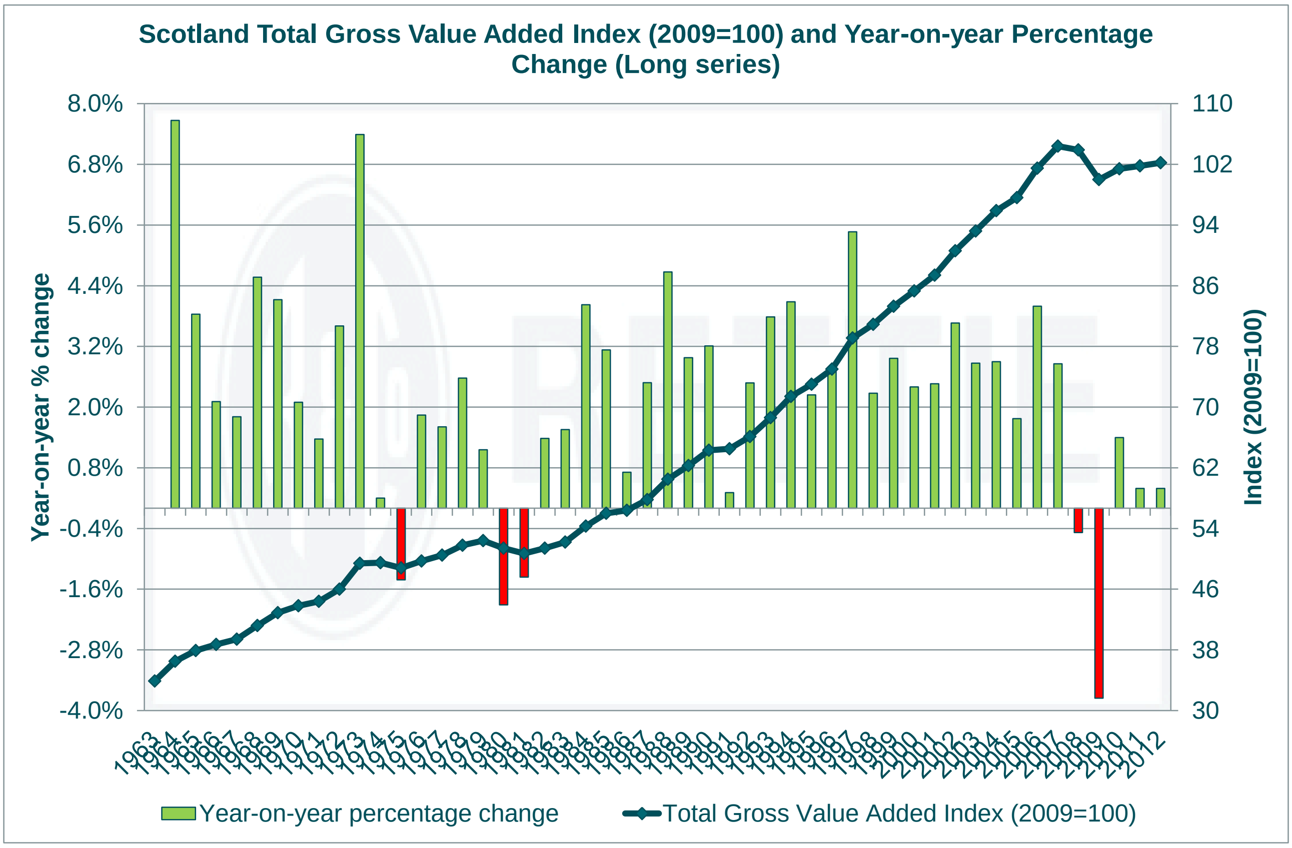
The key supply driver, stock, has already been covered in the previous section.

3.1. THE ECONOMY

Economic performance is a key variable because it accounts for rising incomes and employment prospects. It is usually measured by considering Gross Domestic Product (GDP) or Gross Value Added (GVA).

The figure below shows how the economy has tended to grow over time, with the exceptions of the output shocks in the mid-1970s, early 1980s and in 2008-09.

Figure 3.1 Scotland total gross value added Index (2009=100) and year-on-year percentage change, 1963-2012



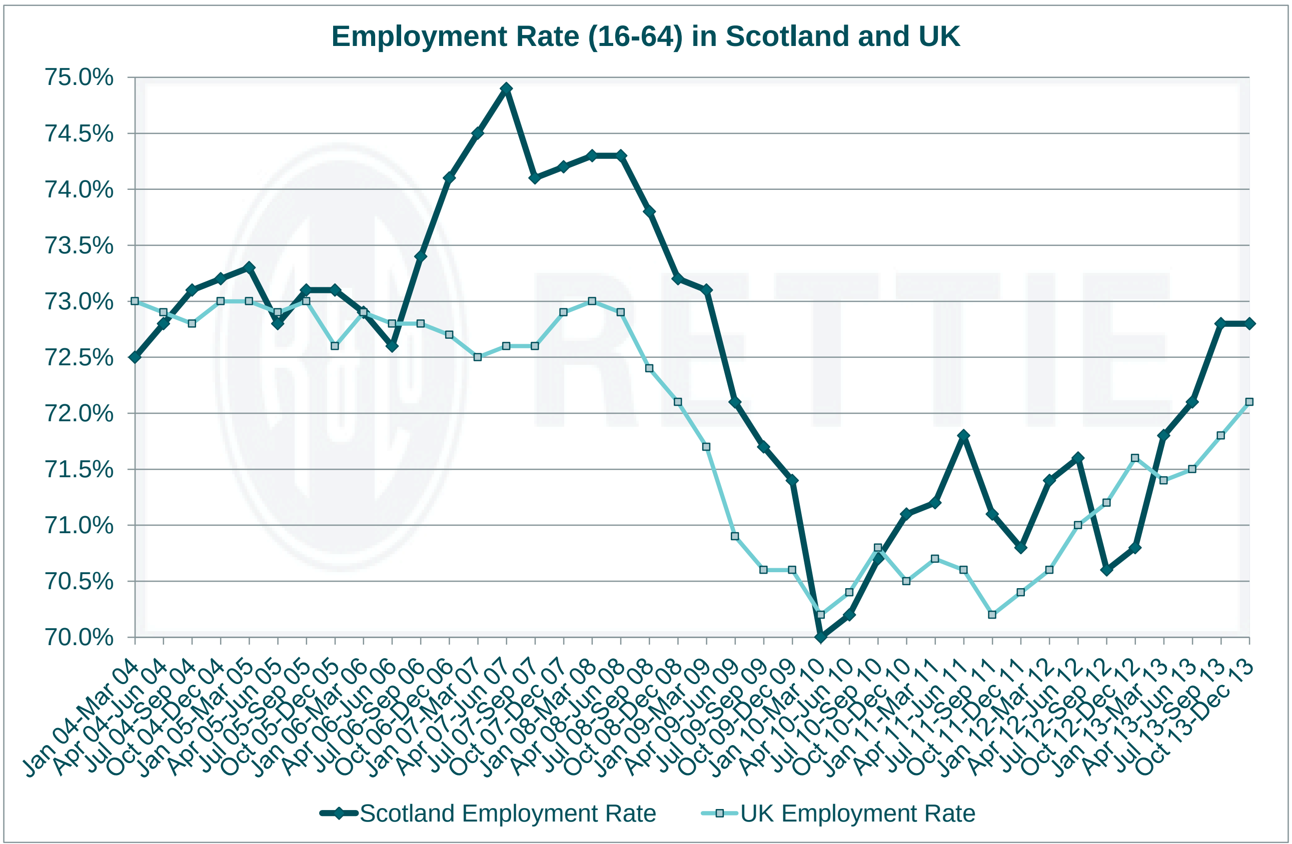
Source: Rettie & Co/Scottish Government

3.2. LABOUR MARKET

Key labour market statistics that impact on economic well-being are the employment and unemployment rates.

The employment rate was gradually improving over 2004-07, but the economic shock caused it to fall back sharply over 2007-10. It has since slowly recovered, in line with a slow economic recovery, gaining more momentum from the start of 2013.

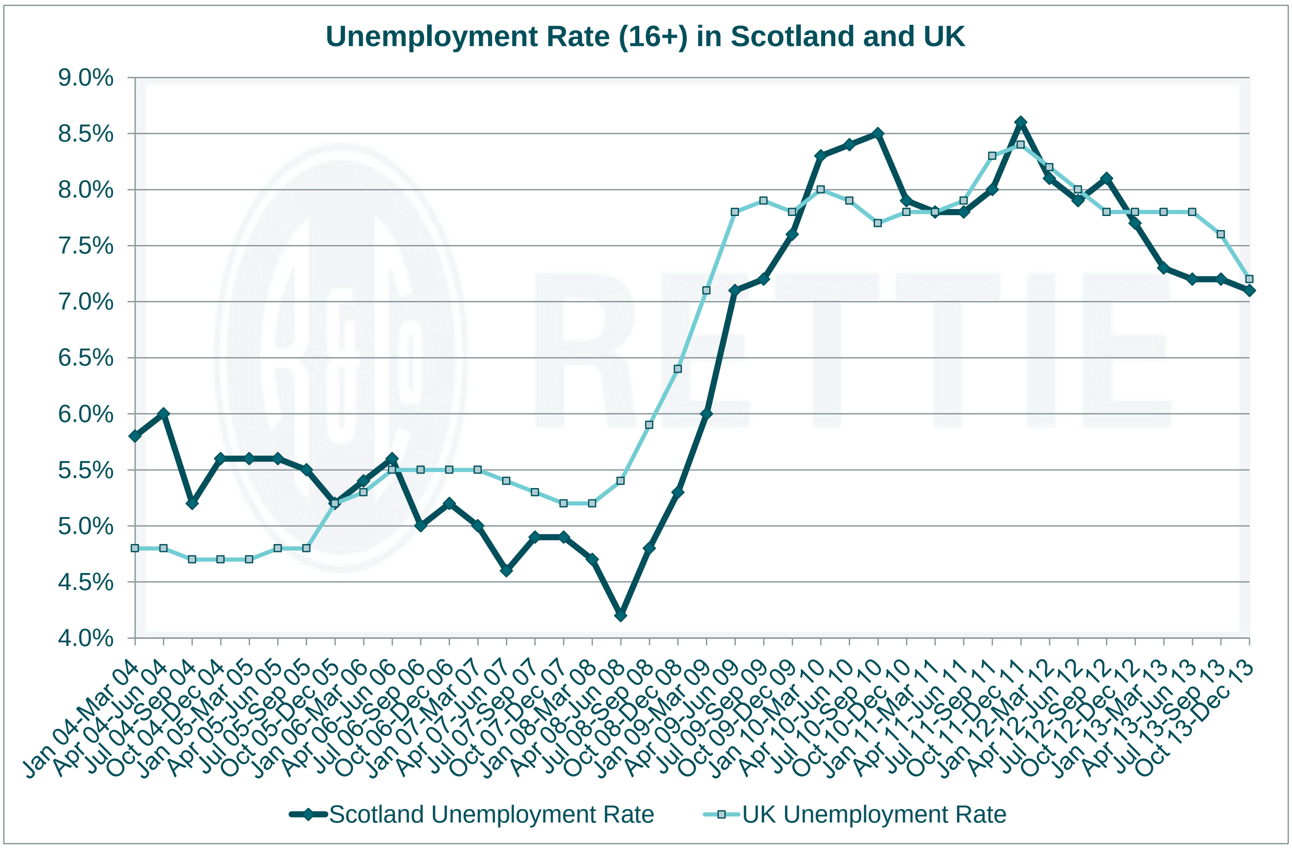
Figure 3.2 Employment rate (16-64) in Scotland and UK, 2004-13



Source: Rettie & Co/Labour Force Survey seasonally adjusted dataset (ONS)

The inverse of this is seen with the unemployment rate.

Figure 3.3 Unemployment rate (16+) in Scotland and UK, 2004-13

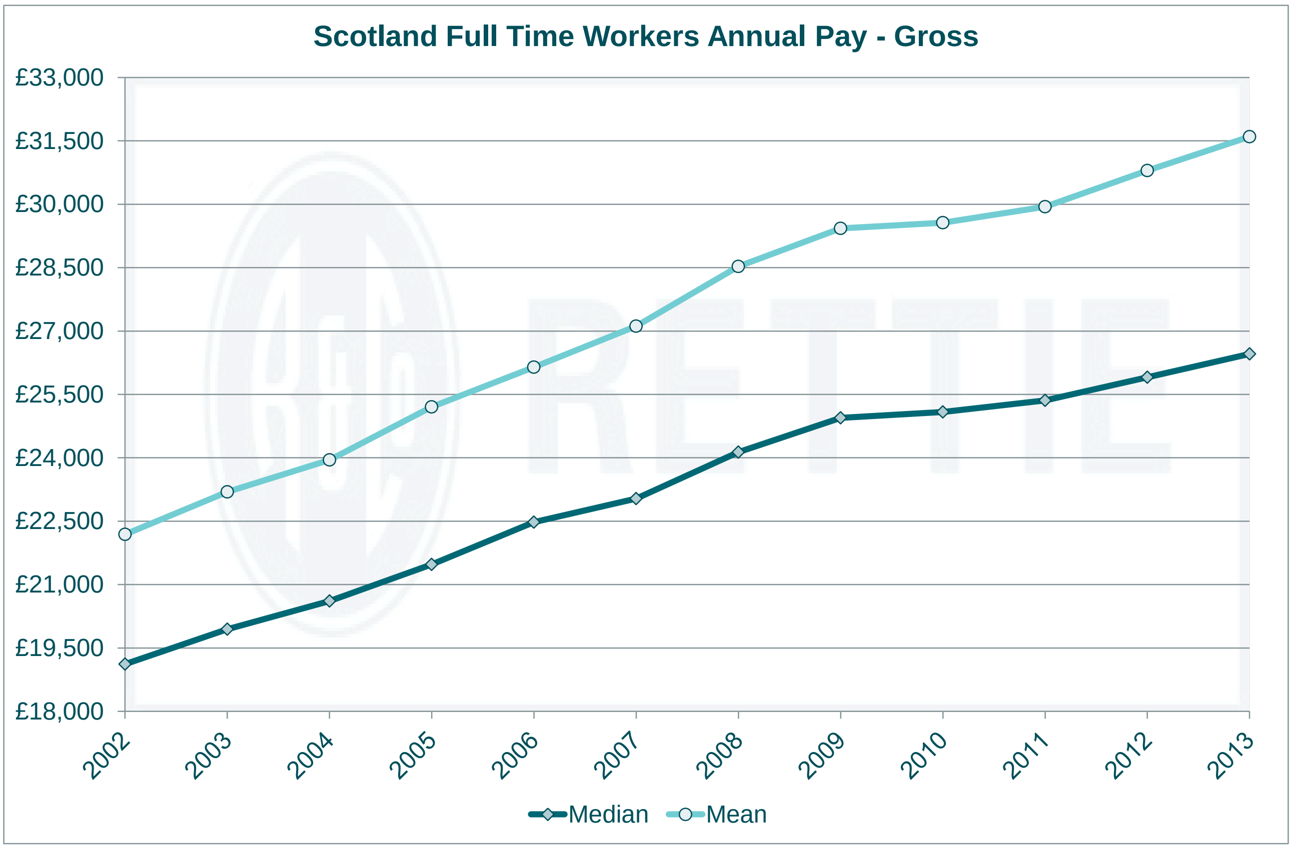


Source: Rettie & Co/Labour Force Survey seasonally adjusted dataset (ONS)

3.3. EARNINGS AND HOUSEHOLD INCOME

Housing affordability is partly determined by income. Incomes have been rising over the last decade, but at a noticeably slower rate from 2010. In real terms (adjusting for inflation), wages are at the same level that they were 10 years ago.

Figure 3.4 Scotland full time workers annual pay – gross, 2002-13



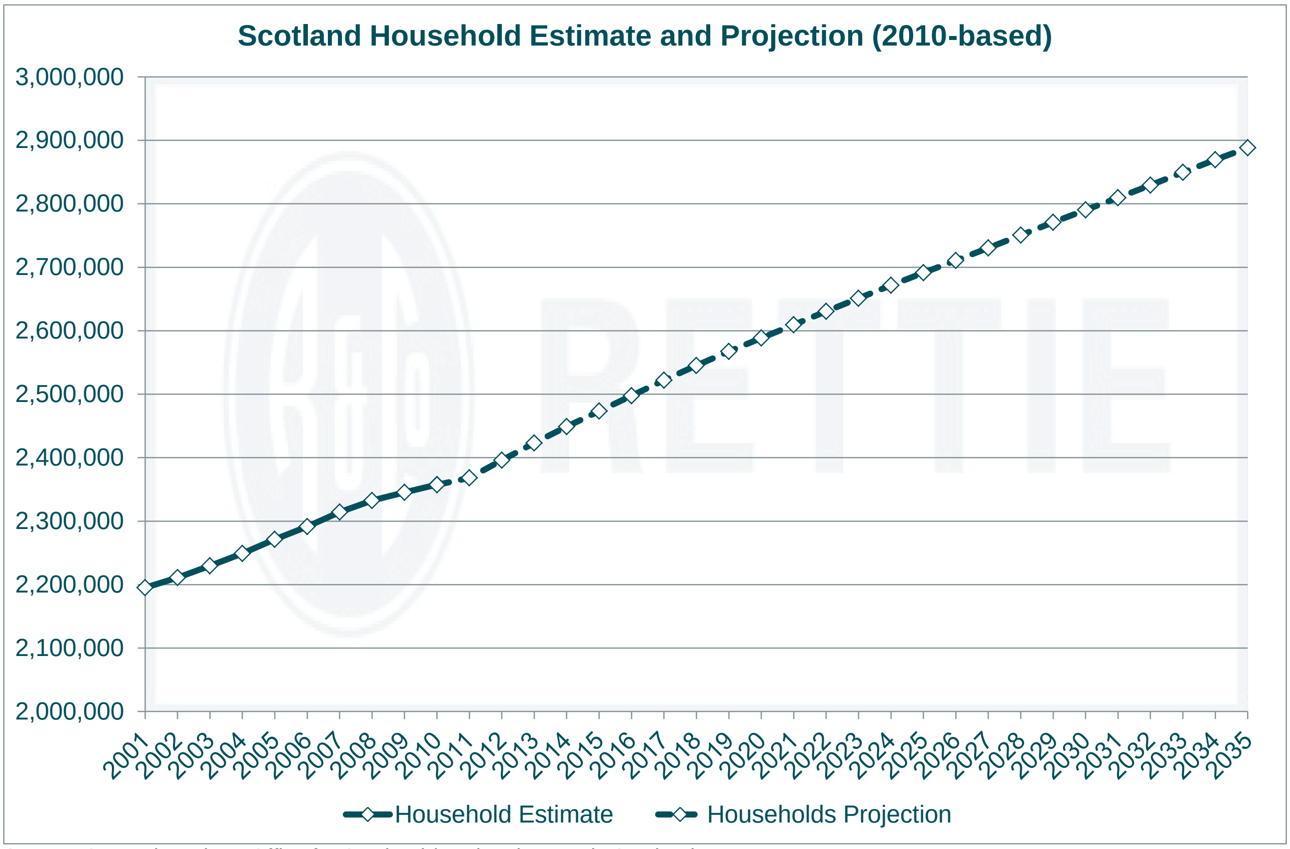
Source: ASHE (ONS)

3.4. DEMOGRAPHIC TRENDS

The number of people and households in Scotland impacts on demand for property. The Scottish population has been increasing over the last decade, with households increasing at a more rapid rate given falling average household size.

The number of households in Scotland is up around 8% in a 10-year period and is projected to increase by a further 20% over the next 20 years.

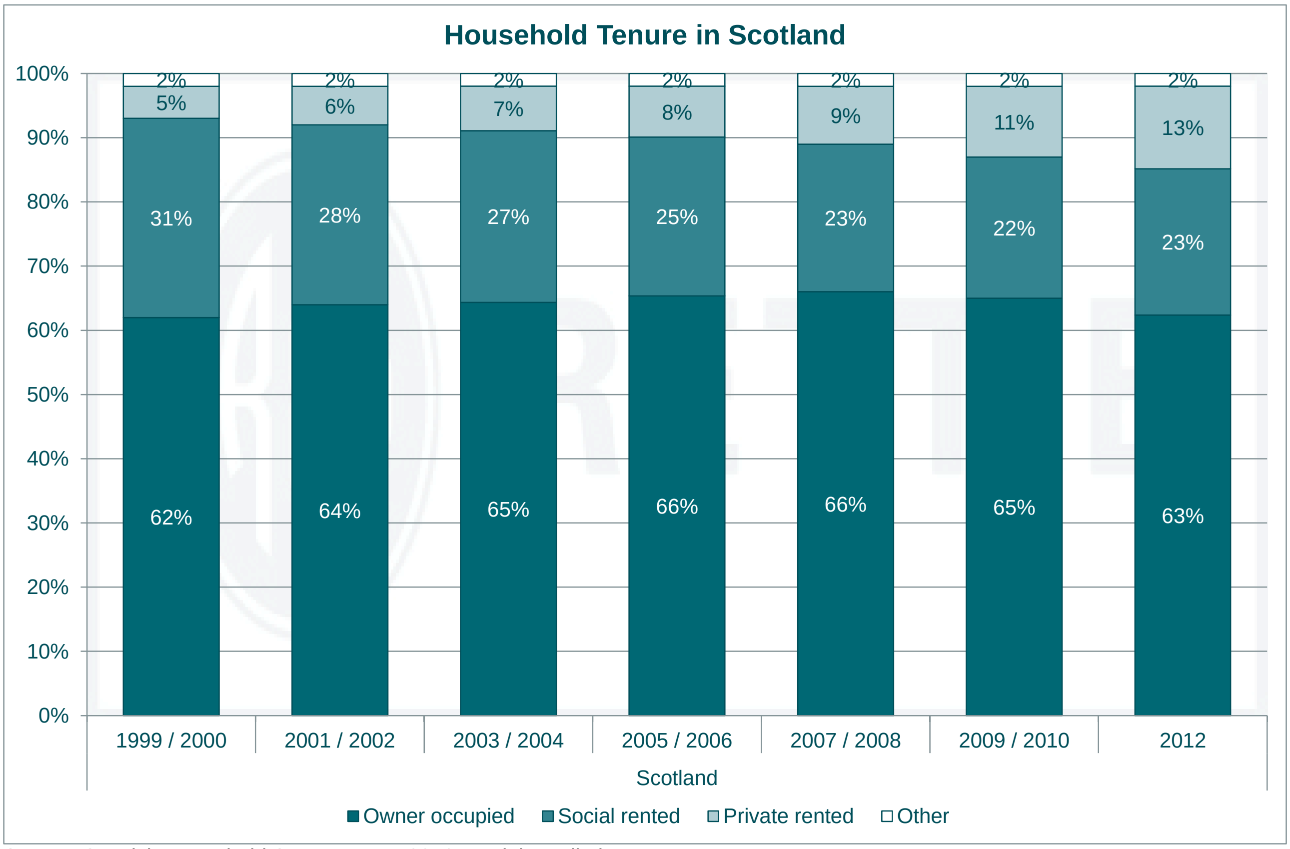
Figure 3.5 Scotland household estimate and projection (2010-based), 2001-35



Source: General Register Office for Scotland / National Records Scotland

As we saw in the previous section, many more of these households are now in the PRS as the social rented sector has declined and owner occupation levels have stabilised.

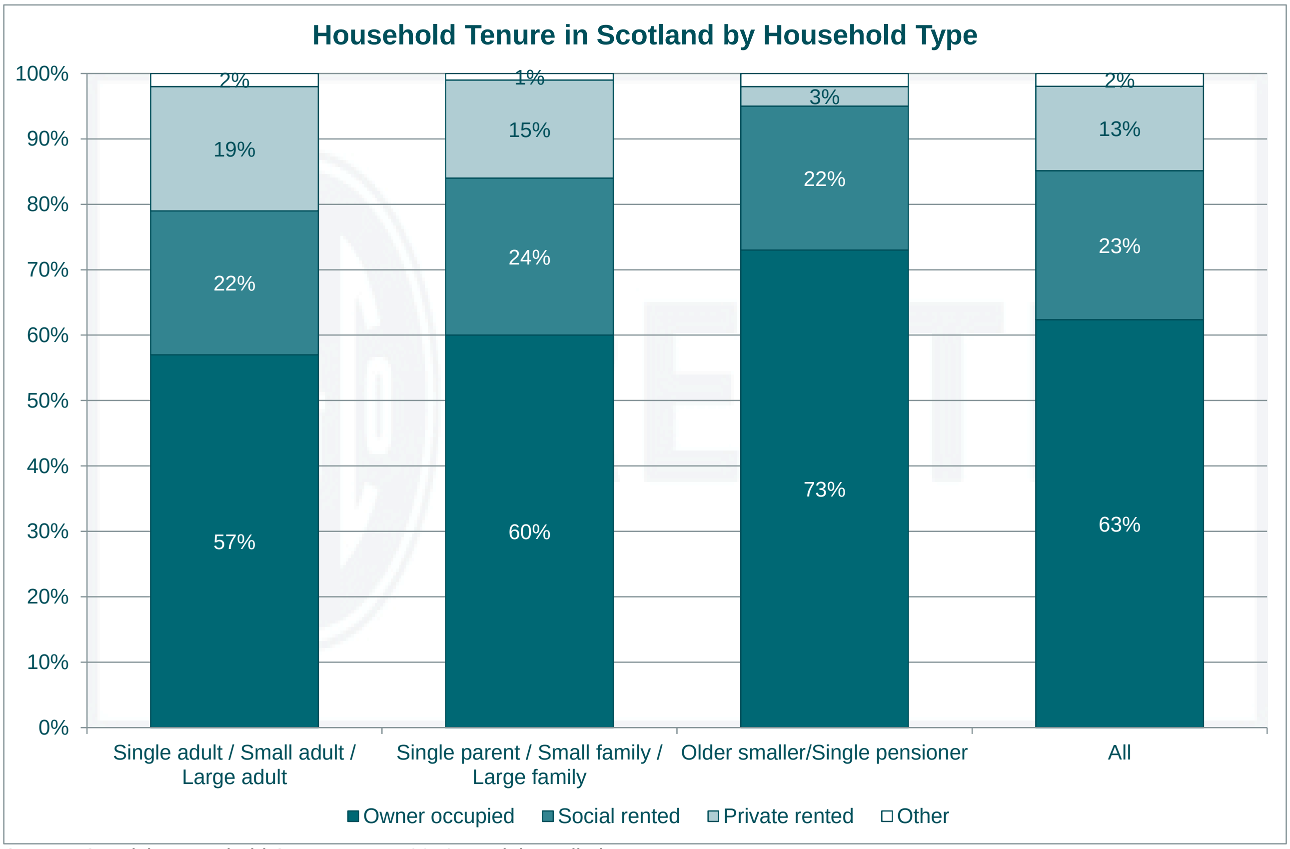
Figure 3.6 Household tenure in Scotland, 1999/2000-2012



Source: Scottish Household Survey. Note: 2012 result is preliminary

The PRS houses a particularly large proportion of adult houses without children and a small proportion of pensioner households.

Figure 3.7 Household tenure in Scotland by household type, 2012

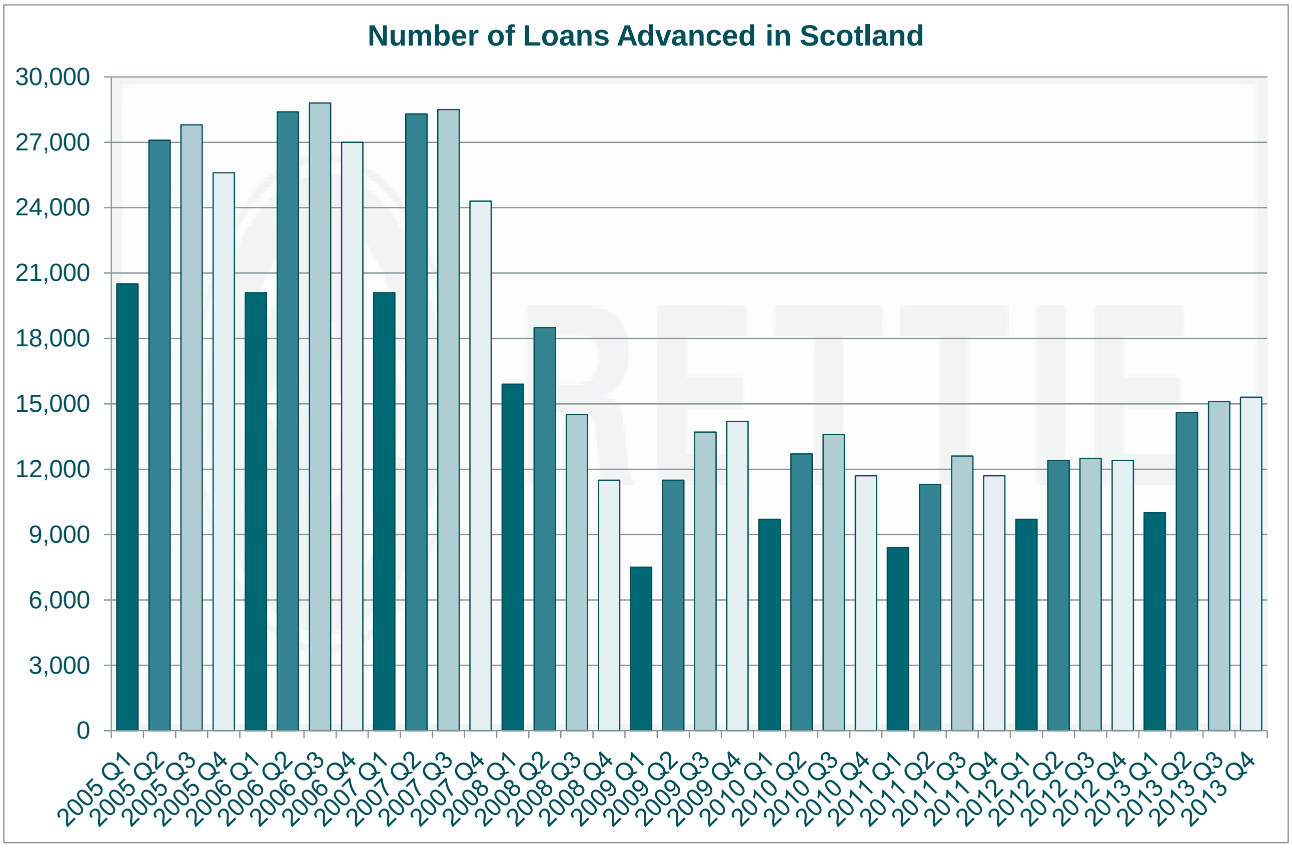


Source: Scottish Household Survey. Note: 2012 result is preliminary

3.5. MORTGAGE MARKET

The rental market is tied to the performance of the sales market, which, in turn, is tied to mortgage lending. Mortgage lending rose to historically high levels by mid-2007 before dropping away substantially as the sales market turned. Lending has only really begun to rise again in 2013. As a result, many have been effectively excluded from the mortgage market and owner occupation.

Figure 3.8 Number of loans advanced in Scotland, 2005-13



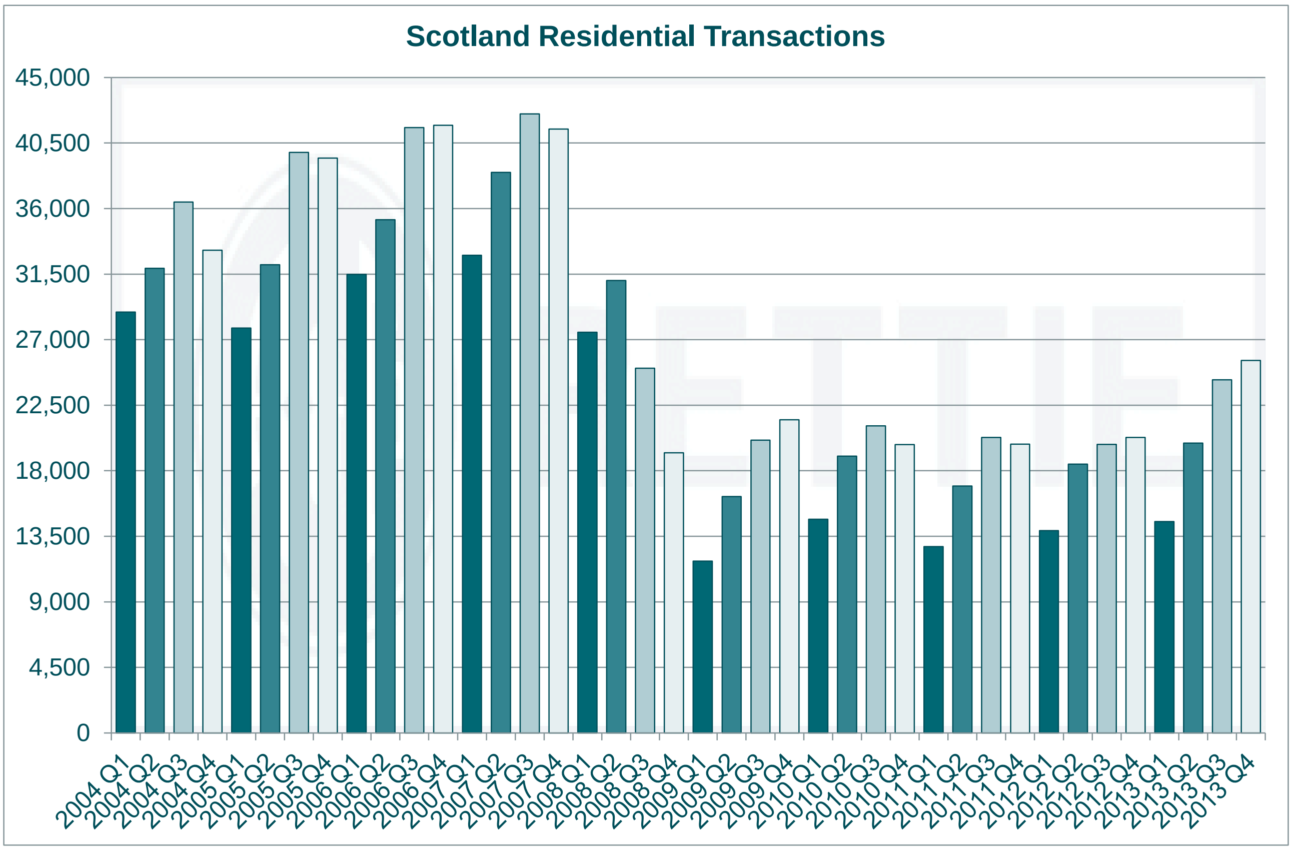
Source: Rettie & Co/Council of Mortgage Lenders

However, this has also been a time when interest rates have been very low and mortgages much more affordable. The problem essentially has been finding the size of deposit required to access the mortgage finance.

3.6. SALES MARKET

The impact of the withdrawal of finance is clearly shown in transaction levels for house sales in Scotland from late 2007. Again, the only real upturn has been from this year.

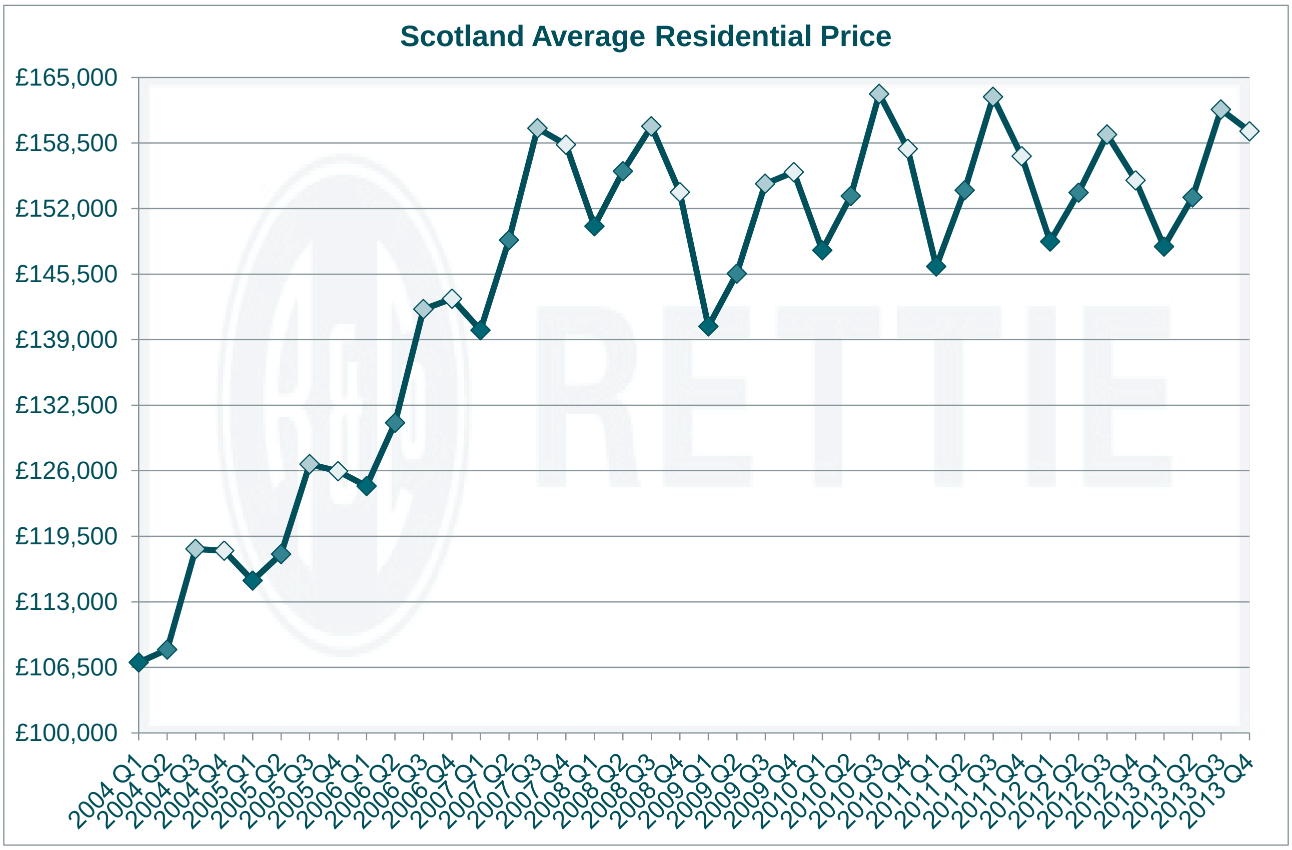
Figure 3.9 Scotland residential transactions, 2004-13



Source: Rettie & Co/Registers of Scotland

Despite the collapse in sales and mortgage finance, house prices have stayed reasonably stable after rising substantially over 2001-07 (doubling in Scotland). The impact of this has been to keep the value of deposits for mortgages required high and to keep the sales market outwith the reach of many.

Figure 3.10 Scotland residential average price, 2004-13



Source: Rettie & Co/Registers of Scotland

4. REGIONAL RENT ANALYSIS

In this section, we consider how rental levels have performed in Scotland against other parts of the UK, with a particular focus on any changes in 2013.

4.1. INDEX OF PRIVATE HOUSING RENTAL PRICES (IPHRP)

The IPHRP is produced by the Office for National Statistics (ONS) with a monthly series that goes back to January 2011.

The price information used to compile the index is obtained by tracking the rental prices of a matched sample of properties throughout the year. When a rental price is collected, it is assumed to be valid for 18 months.

Index series are produced for furnished and unfurnished properties, by property type and for each region. Furnished and unfurnished property price series are first aggregated to stratify the data and, after this, the series are again aggregated by property type to produce the region and country indices.

IPHRP is an index based on actual expenditure on private rents. That is, IPHRP measures the rental prices paid for all the private rented dwelling stock for both existing agreed rents and new rents. IPHRP is not designed as an index that measures the average price of new rental agreements, as the likes of Citylets and other sources do, therefore the series will be different to that produced in the previous section.

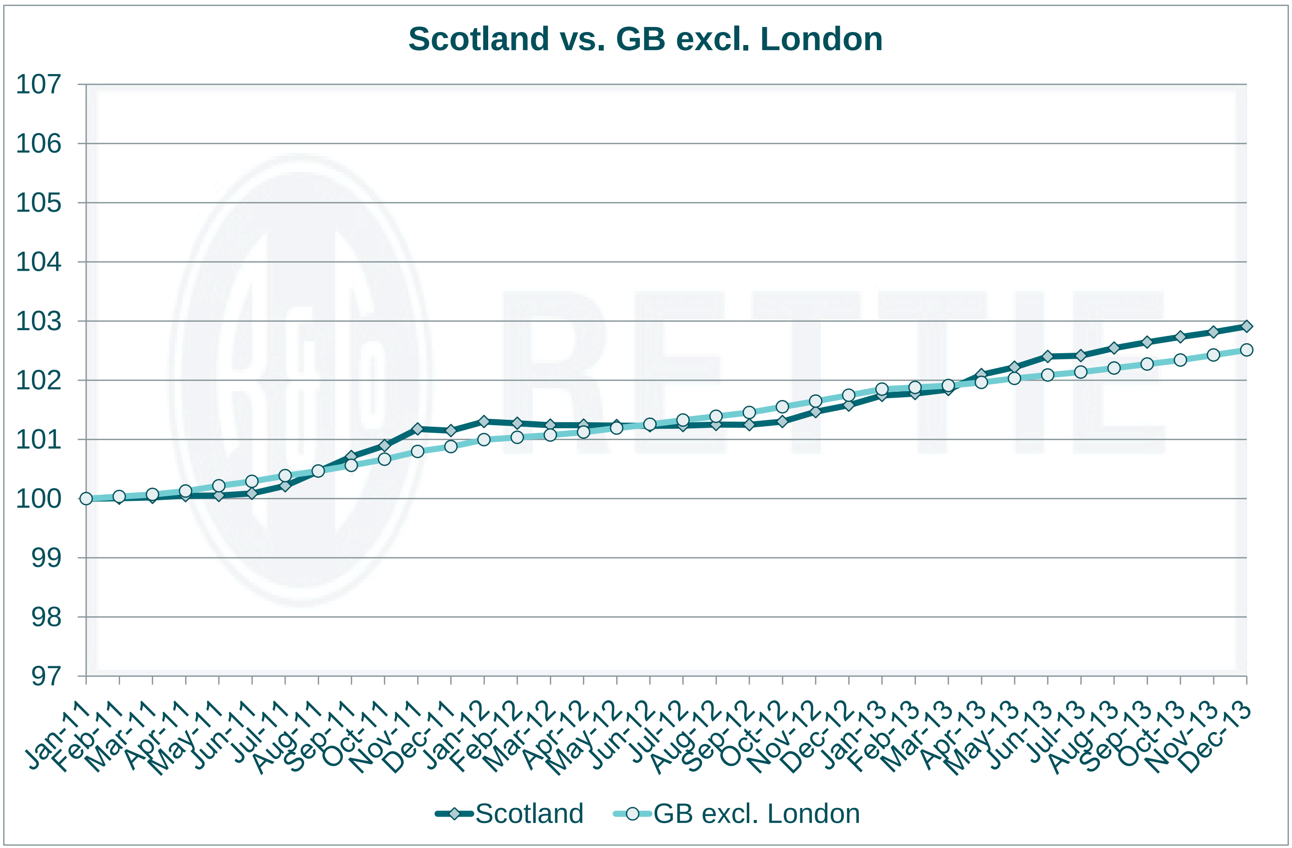
The IPHRP has a number of uses, e.g. assessment of returns from housing investments and the setting or updating of social housing rental prices. It is currently the only statistic with Great Britain coverage on private housing rents. Additionally, it is based on actual paid rents instead of advertised rents (with the exception of Scotland, which is based on advertised rents). This again means that some qualification needs to be accepted for any Scotland comparisons with other parts of Great Britain.

We considered Scotland against a variety of other benchmarks, which are all produced in Appendix A. Some of the ones with the closest correlation are featured in this section.

Looking at Scotland against the rest of Great Britain, excluding London where rents tend to be much higher, we can see a close correlation since the series began. As this is an index of actual rents paid and rent levels can be frozen for up to 18 months, it has a much less volatile path than the Citylets series and the level of growth is not as high.

It is noticeable that rent levels have turned up in Scotland since around April 2013. They have not been perfectly aligned with Great Britain levels before, but this has been around the largest point of departure since the series began.

Figure 4.1 Index growth in Scottish and GB (excl. London) rent levels, 2011-13[1]

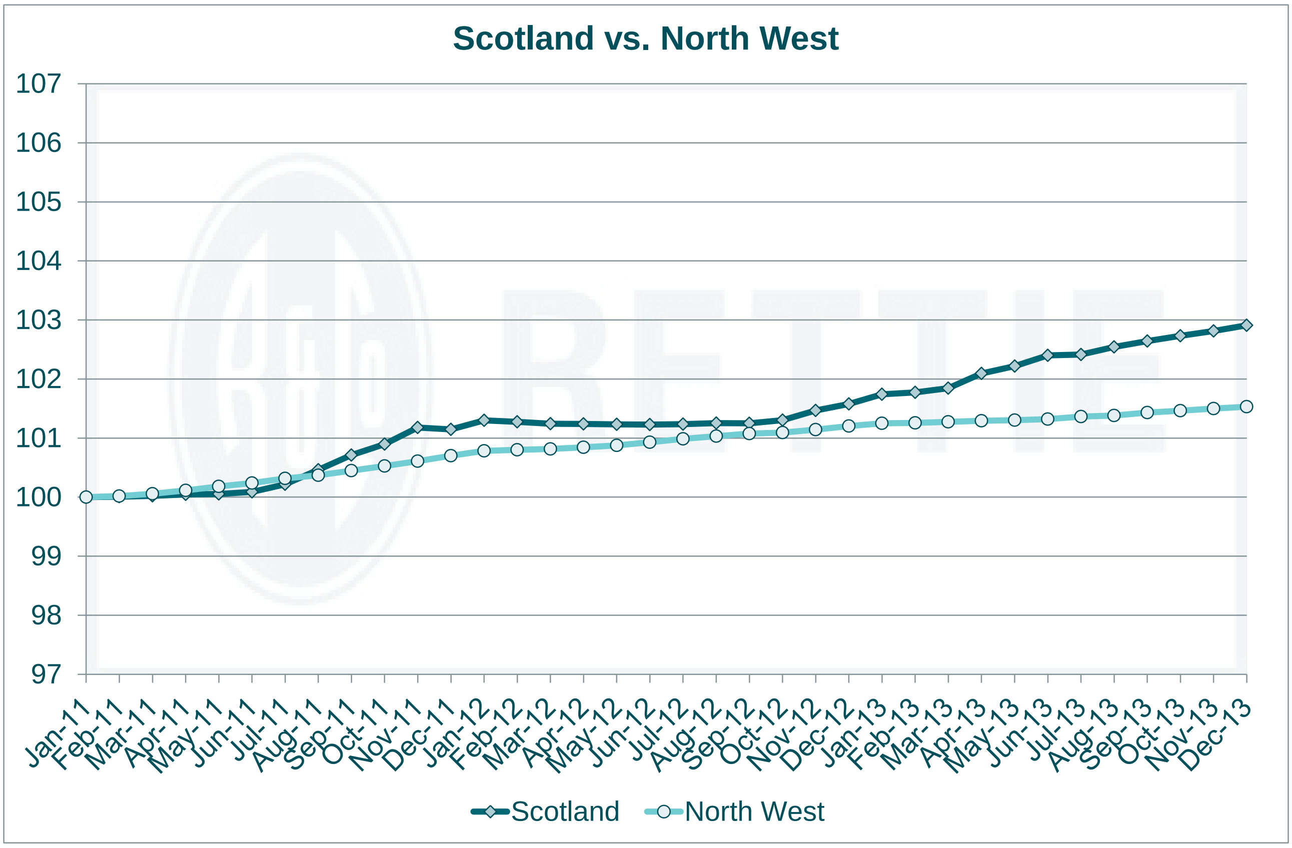


Source: ONS/Rettie & Co

This upturn is much more obvious when comparing Scotland with the North West of England, an area that it has a number of aspects in common, e.g. two major regional growth poles, similar industrial structures and similar levels of demographic change. Although Scottish rent levels have been rising above those in the North West since September 2011, this has become more marked in 2013.

[1] Note that this (and other ONS charts) provide an index of change, not a series. Jan 2011 starts at 100. For illustrative purposes, if rents averaged £700 in Jan 2011, then a 1% rise equates to around £7.

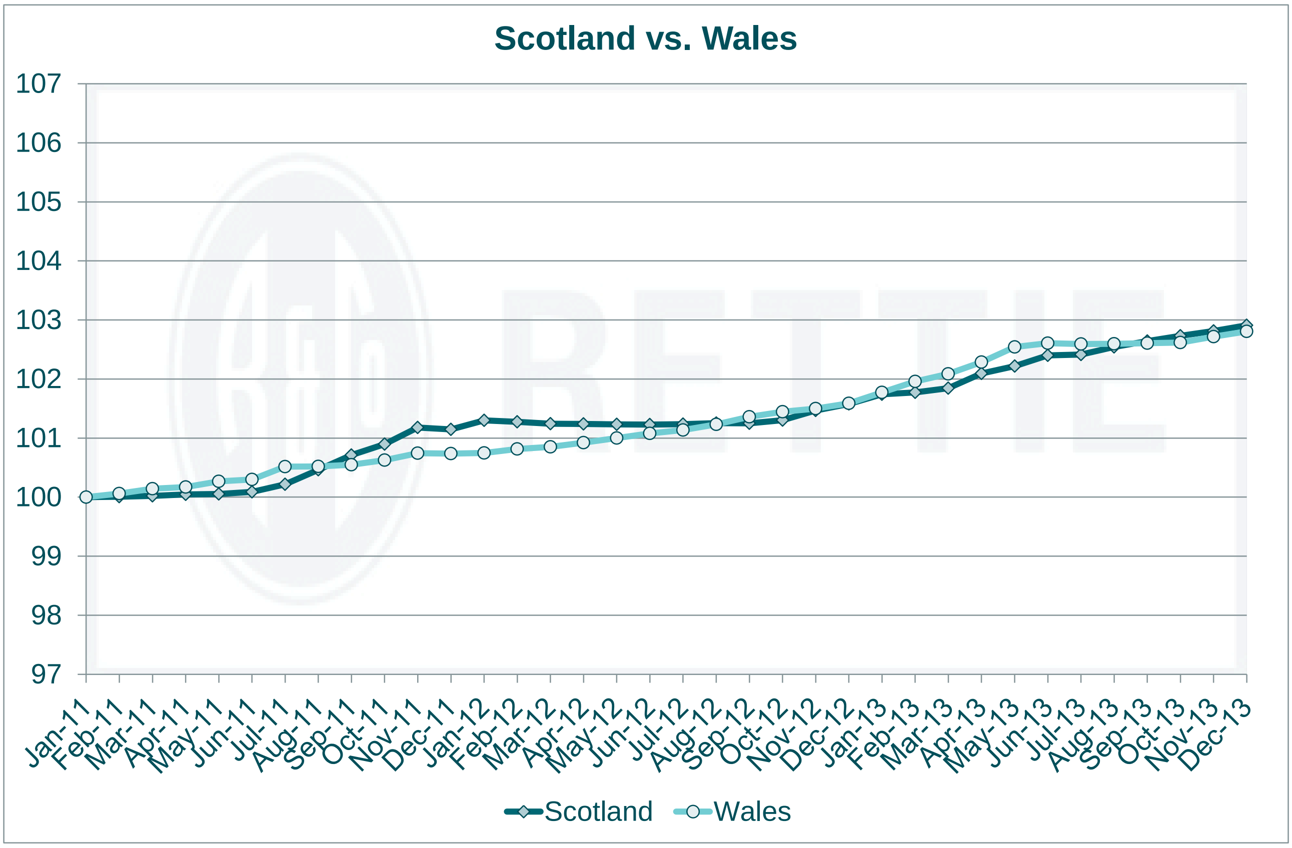
Figure 4.2 Index growth in Scottish and North West rent levels, 2011-13



Source: ONS/Rettie & Co

This type of pattern is also seen for a number of the other English regions (see Appendix A), e.g. East Midlands, South West, West Midlands and Yorkshire & The Humber. However, this is not true of Wales, another area with which Scotland has similarities. Scottish rental growth was ahead of that in Wales over late 2011 and early 2012, before Wales caught up. They have stayed on a par over 2013.

Figure 4.3 Index growth in Scottish and Welsh rent levels, 2011-13



Source: ONS/Rettie & Co

4.2. HOMELETS

HomeLets is a tenant referencing and specialist insurance firm for letting agents, landlords and tenants.

Each month, it releases the HomeLet Rental Index, which shows rents agreed by letting agents rather than prices that are advertised on property portals. It has around 3,000 letting agents as clients.

Even though this is a large sample of letting agents and the focus is on rents agreed, we cannot be sure that the sample is reflective of the actual population of tenants in the country, as the ONS sample is intended to do, and therefore must use the results with caution. In our view, this is not as credible as the ONS statistics.

Appendix A provides the fuller details on this series. The Homelet Index shows Scottish rent levels rising in the middle of 2013 before turning back down to the levels they were at the end of last year. A similar pattern is observed in most other UK regions and there is little to suggest based on this evidence that Scottish rents have been rising higher than anywhere else.

4.3. MOVEWITHUS AVERAGE ADVERTISED RENTS

The MoveWithUs Rental Index is based on a weekly snapshot of over 150,000 rental properties advertised on major portals across eleven regions in the UK. This allows analysis on upwards of 7.8 million data points annually, one of the largest samples available for a rental index.

The sample is broken down into different property types recording both the number and average rental prices advertised for each of these. Next, the rental values for each region and type are weighted using official property surveys from the English, Welsh and Scottish governments. This prevents skewing due to over-representation of certain areas in the data set. The index is then run against a base date of July 4th 2011.

In calculating the average rent, properties priced within the highest and lowest 1% of the dataset are removed (considered to be outliers); properties that have been on the market for more than 20 weeks are eliminated (to help to ensures that historical data is not over-represented); and a moving average function is used (which takes into account past and present averages to create a more representative trend).

Again, however, despite the size of the sample, we cannot be sure that it is reflective of the actual tenant population. It is also just a series of advertised rent prices and not rents achieved or currently being paid.

The Index shows that rents in Scotland in the year to November 2013 have only risen by 0.3%, below the Great Britain average of 1.6% and well below that of a number of regions.

Appendix A, again, has the more detailed results. Relative to most other regions, there does seem to have been a spike in rent levels in Scotland at the start of 2013 that has since levelled off as the year has progressed beyond the Summer.

5. MODEL OF SCOTTISH AVERAGE RENTS

The final part of our quantitative analysis involved attempting to create an econometric model that could predict rent levels with a good level of accuracy using other economic variables and then feeding the results from this model to produce estimates for 2013 rent levels, which could be compared against actual values.

This would provide a basis for assessing whether actual rent levels are higher or lower than expected given general economic conditions

5.1. METHODOLOGY

Modelling future rent levels is much more difficult than modelling future house prices. There are a number of reasons for this.

- Whereas there are a suite of house prices indices over a long period of time, there is limited time series data on rents.
- The rental series is subject to sudden variation, particularly because the supply of rental property can vary more than can the supply of housing.
- It is difficult to find an accurate measure of the supply of rental property at any one time, therefore any modelling work tends to concentrate only on demand-side variables.
- There are a number of existing models for forecasting house prices than can be adapted, but very few equivalent rental forecasting models.

One solution is to consider the broad indicators that are stable over time, such as the relationships of prices to earnings and household incomes, and use these variables to benchmark long-term trends in rents.

However, the nature of the relationships between rents and the key demand and supply drivers that affect it changes over time and this makes this type of econometric analysis more difficult. Therefore, a qualitative assessment is also of value, which considers the possible changes in a more discursive way.

Our method involves collecting, over a consistent time span, Scottish rents data (the dependent variable) and macroeconomic and demographic data (explanatory variables) thought to be related to rent levels. This data included are house prices, mortgage costs, the proportion of dwellings in the PRS, GVA growth, employment, inflation, average wages and population growth. We highlighted in Section 2 how these variables have been changing over time and why they are likely to impact on the Scottish rental market.

In view the methodological difficulties with forecasting rent levels, however, it is important that any conclusions that are drawn from the following econometric analysis should be done some degree of caution.

We were able to produce a statistically significant model that related nominal rental growth with the following variables in the same model.

- The house price to earnings ratio (a key measure of housing affordability – the higher this ratio, the less likely people are able to afford to purchase a property)
- The percentage of dwellings in the PRS (a key measure of PRS demand and supply)
- The Retail Price Index (RPI) – A measure of inflation that includes housing costs
- The unemployment rate (a key measure of labour market conditions).

5.2. RESULTS

The data used in the model is displayed in Table 3.1 below. With a R Square statistic of 0.64, the model explains about 64% of the variation in rent levels over the period 2005-12. Whereas this is a reasonable result after a number of different iterations with different variables, a large proportion of variation is not explained by the variables included.

Table 5.1 Multiple linear regression model for Scottish rent levels

Regression Statistics	
Multiple R	0.80182
R Square	0.64291
Adjusted R Square	0.59001
Standard Error	10.08062
Observations	32

	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	4939.78905	1234.94726	12.15273	0.00001
Residual	27	2743.71095	101.61892		
Total	31	7683.50000			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	586.79375	70.96210	8.26912	0.00000	441.19155	732.39594
HP-E	-30.58436	7.53113	-4.06106	0.00038	-46.03696	-15.13176
PctPRSDwell	-1754.16304	884.04386	-1.98425	0.05748	-3568.07120	59.74513
RPI	3.47418	1.24087	2.79978	0.00933	0.92811	6.02024
UnempRate	-616.95598	262.77408	-2.34786	0.02646	-1156.12385	-77.78810

Quarter	HP-Earn	% PRS Dwell.	RPI	Unemp. Rate	Actual Rent	Predicted Rent	Difference to Predicted	% Difference to Predicted
2005 Q1	3.89	7.66%	100.00	5.6%	**£634**	***£646***	-£12	-1.9%
2005 Q2	3.88	7.87%	101.16	5.6%	**£651**	***£647***	£4	0.6%
2005 Q3	3.84	8.09%	101.53	5.5%	**£645**	***£646***	-£1	-0.2%
2005 Q4	3.98	8.31%	102.11	5.2%	**£647**	***£642***	£5	0.8%
2006 Q1	3.96	8.46%	102.37	5.4%	**£648**	***£640***	£8	1.3%
2006 Q2	4.16	8.62%	104.16	5.6%	**£665**	***£636***	£29	4.6%
2006 Q3	4.20	8.78%	105.06	5.0%	**£628**	***£639***	-£11	-1.7%
2006 Q4	4.33	8.94%	106.17	5.2%	**£618**	***£634***	-£16	-2.6%
2007 Q1	4.63	8.99%	107.01	5.0%	**£621**	***£628***	-£7	-1.2%
2007 Q2	4.67	9.05%	108.75	4.6%	**£626**	***£635***	-£9	-1.4%
2007 Q3	4.67	9.11%	109.17	4.9%	**£634**	***£633***	£1	0.1%
2007 Q4	4.69	9.17%	110.60	4.9%	**£629**	***£636***	-£7	-1.2%
2008 Q1	4.64	9.44%	111.28	4.7%	**£645**	***£637***	£8	1.3%
2008 Q2	4.36	9.72%	113.49	4.2%	**£655**	***£651***	£4	0.5%
2008 Q3	4.20	9.99%	114.60	4.8%	**£663**	***£652***	£11	1.7%
2008 Q4	4.15	10.26%	113.60	5.3%	**£646**	***£642***	£4	0.7%

2009 Q1	3.82	10.23%	111.18	6.0%	**£637**	***£640***	-£3	-0.4%
2009 Q2	3.71	10.21%	112.07	7.1%	**£633**	***£640***	-£7	-1.1%
2009 Q3	3.89	10.18%	113.02	7.2%	**£640**	***£638***	£2	0.4%
2009 Q4	3.87	10.15%	114.34	7.6%	**£630**	***£641***	-£11	-1.7%
2010 Q1	3.93	10.36%	115.60	8.3%	**£638**	***£635***	£3	0.4%
2010 Q2	3.85	10.57%	117.82	8.4%	**£654**	***£641***	£13	2.0%
2010 Q3	3.71	10.78%	118.34	8.5%	**£649**	***£643***	£6	0.9%
2010 Q4	3.49	10.99%	119.66	7.9%	**£644**	***£654***	-£10	-1.6%
2011 Q1	3.65	11.14%	121.72	7.8%	**£647**	***£654***	-£7	-1.1%
2011 Q2	3.66	11.30%	123.83	7.8%	**£663**	***£659***	£4	0.6%
2011 Q3	3.56	11.45%	124.51	8.0%	**£670**	***£660***	£10	1.5%
2011 Q4	3.35	11.61%	125.78	8.6%	**£656**	***£665***	-£9	-1.3%
2012 Q1	3.19	11.75%	126.30	8.1%	**£672**	***£672***	£0	0.0%
2012 Q2	3.34	11.89%	127.68	7.9%	**£677**	***£671***	£6	0.9%
2012 Q3	3.25	12.02%	128.15	8.1%	**£671**	***£672***	-£1	-0.1%
2012 Q4	3.46	12.16%	129.68	7.7%	**£664**	***£671***	-£7	-1.0%
2013 Q1	3.37	12.25%	130.42	7.3%	**£675**	***£677***	*-£2*	*-0.3%*
2013 Q2	3.28	12.39%	131.67	7.2%	**£693**	***£682***	*£11*	*1.6%*
2013 Q3	3.37	12.53%	132.27	7.2%	**£687**	***£679***	*£8*	*1.1%*
2013 Q4	3.32	12.67%	133.11	7.1%	**£678**	***£682***	*-£4*	*-0.5%*

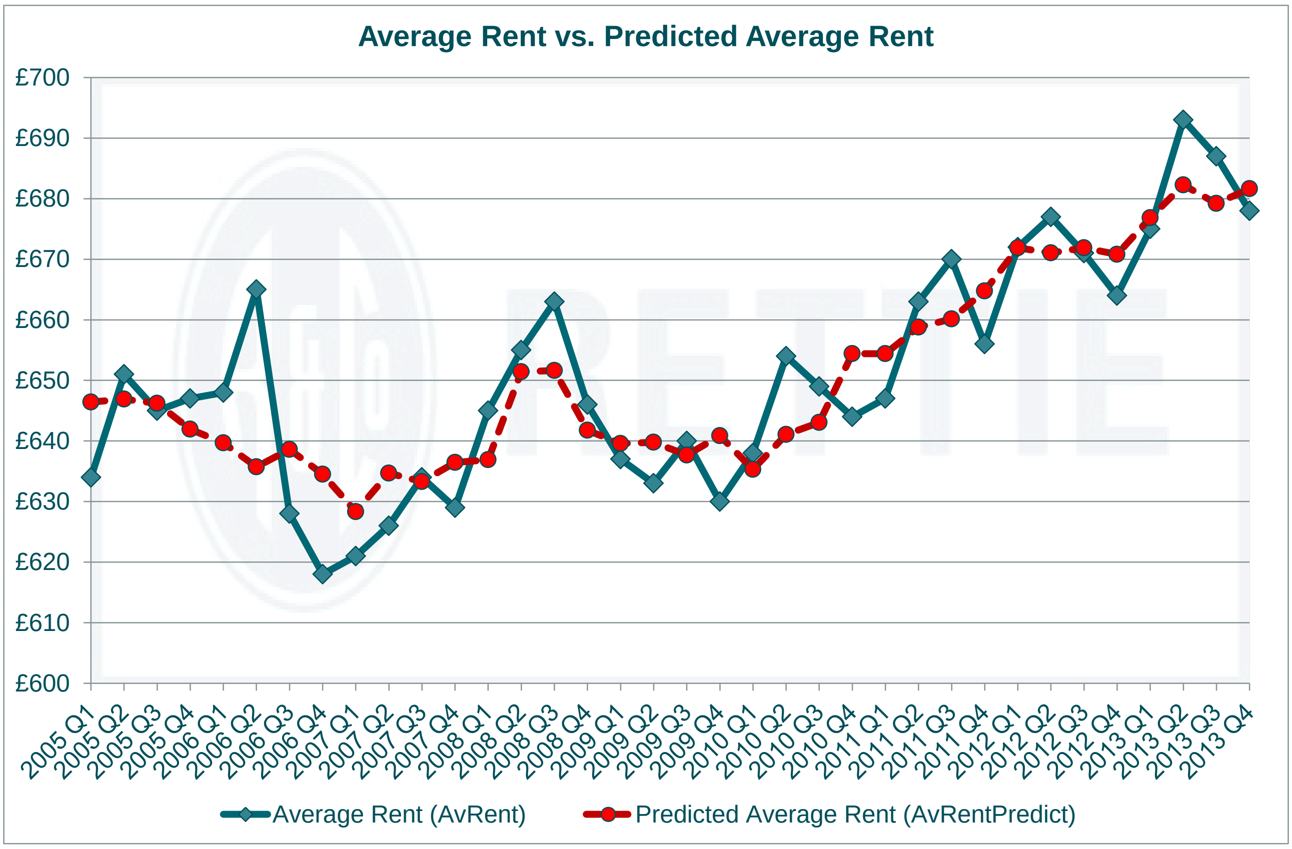
Source: Rettie & Co

As can be seen in the figure below, the model produces predicted results that tracks actual changes in rental levels since 2005. The model accurately predicts rent levels for the start of 2013, but then under predicts by around 1% to 2% for the next two quarters before accurately predicting rent levels by the end of the year again.

This indicates another factor has been at work that have raised rent levels higher than expected in Scotland for at least part of 2013, but the impact is marginal, may have been short-term and may be explained by other demographic and economic factors that are not included in the model.

It is also worthwhile noting that the model tends to under predict other peaks over the time period.

Figure 5.1 Actual vs. predicted rents arising from the econometric model



Source: Rettie & Co

6. ANALYSIS OF COMPANIES HOUSE DATA

We also undertook some analysis of Companies House data to see if the ban on agents' fees has had a negative impact on the industry as a whole or on the financial performance of companies dealing in the letting of residential properties.

6.1. METHOD

As part of this exercise, we undertook two assignments.

PART 1: ANALYSIS OF COMPANIES HOUSE DIRECTORIES

This method involved downloading Companies House directories for active companies in Scotland that stated they were operating under at least one of two SIC codes. Directories were downloaded from both October 2012, before the legislation was introduced, and January 2013, after legislation was introduced. The two SIC codes of relevance are:

- 68310 – Real estate agencies
- 68320 – Management of real estate on a fee/contractual basis.

It is these SIC codes that are most likely to include letting agencies. The results based on this method can only be seen as indicative as these codes incorporate other activities as well as letting agencies. Many of the companies may also state that they operate under these codes, but it may not be their main source of turnover or they may operate on the letting and management of commercial or industrial property.

It is also common for companies to state that they operate under both of these SIC codes. Therefore it is not possible to compare the number of companies specifically operating under just one of these relevant codes.

The number of active properties in Scotland that operate under these SIC codes were compared for both before and after the legislation was introduced to ascertain if there was any negative change in number of companies operating, e.g. as a result of dissolution, due to the introduction of legislation. Positive or little change would suggest no or minimal impact.

PART 2: ANALYSIS OF RELEVANT ACTIVE COMPANIES ACCOUNTS

This part of the method examined the accounts of four active companies in the lettings industry in Scotland that operate across the market under the relevant SIC codes (68310 and 68320) to ascertain if there were any effects of the introduction of legislation on their turnover and profit.

It is difficult to attribute gain or loss in profit specifically to the introduction of legislation, and thus the loss of charging tenancy fees, therefore these results need to be treated with some caution and instead provide some ‘flavour’ of the recent performance history of such companies and reasons for any changes.

There was a lack of available accounts data from Companies House as many of the companies operating under the relevant SIC codes did not have a large turnover or profit and therefore were exempt from disclosing accounts. Others provided only abridged accounts. This made it difficult to find and examine the accounts of a range of relevant comparable companies, therefore we concentrated on in-depth analysis of a small number of companies to act as case studies.

6.2. RESULTS

PART 1: ANALYSIS OF COMPANIES HOUSE DIRECTORIES

Table 6.1 shows that the number of active companies operating under SIC codes 68310 and 68320 actually increased by 271 over the two periods examined, i.e. there were more companies operating in the codes associated with letting agencies post-legislation.

Although only indicative, this result suggests that the legislative change has had no impact on the health of the overall sector. In fact, the strength of the rental market and the recovering sales market in this time has led to a rise in the number of companies operating in industries connected to real estate agency and management functions.

Table 6.1 Number of active companies under SIC codes 68310 and 68320 in 2012 and 2013

	Number of active companies
2012	1327
2013	1598
Difference	+271

Source: Companies House data analysed by Rettie & Co

PART 2: ANALYSIS OF RELEVANT ACTIVE COMPANIES ACCOUNTS

We considered the accounts filed before and after the legislative change of a small number of leading rental agents to see if there was any impact in their performances and, if so, if they could be explained.

This section summarises the results, with further details in Appendix B.

Clyde Property Ltd

The principle activities of Clyde Property Ltd are estate agency, letting agency and property management. The Profit and Loss account (See Appendix, Table B.1) shows that Clyde Property Ltd has had another strong year, with both turnover and profit increasing by 1% to £4,229,217 and £531,113 respectively for the financial year ending March 2013, while net assets are now worth £830,000 (2012: £299,000). There is therefore no sign of any negative effect from the introduction of the rental market legislation in late 2012, but rather continued growth in a rising market.

Staff numbers have increased from 114 in 2012 to 117 in 2013 (Table B.2), further demonstrating the expansion of the company.

Grant Property Solutions Ltd

The principle activities of Grant Property Solutions are property management, property development and renovation. The directors' report, within the accounts, states that the property management division has encountered legislative changes that has impacted on profitability despite strong demand for rental property.

The impact of legislative change is unlikely to explain all of the 157% loss in profit for the financial year ending March 2013, compared to 2012 (Table B.3). Despite the reduced turnover from the property management division of the company, overall turnover actually increased from £3,916,115 in 2012 to £4,822,783 for the financial year ending March 2013 due to a strong performance of the property development and renovations division of the company (Appendix Table 4).

Staffing numbers have increased marginally from 65 in 2012 to 67 in 2013 (Table B.5). Wage costs increased by nearly £160,000 over the year, which may partly explain the impact on profit.

Overall, the case study does demonstrate some anecdotal evidence that legislative change has had some impact on a specific division within a company, although, overall, the company has continued to perform reasonably well.

Rettie & Co

Rettie & Co. primarily operate in the sales, letting, consulting and development of residential property. They have one of the largest lettings businesses in Scotland.

The company experienced a small loss in turnover (from £5.2 million to £4.85 million) and in pre-tax profit (from £448,484 to £270,288) for the financial year ending April 2013 compared to the previous year (Table B.6). The company attributes this reduction in turnover and profit to re-investment in parts of the company.

Table B.7 shows that the number of staff employed at Rettie & Co. increased from 104 for the financial year ending 30 April 2012 to 112 for the financial year ending 30 April 2013. This is a further example of it reinvesting in its business.

Ross and Liddell Ltd

Ross and Liddell's principle activity is the provision of property management services. Their Profit and Loss account for the financial year ending March 2013 (Table B.8) shows no dramatic change in turnover, but profit fell by nearly 80% in the financial year ending March 2013 (2013: £114,338 and 2012: £547,250).

The Trading Financial Statements table (Table B.9) shows that this loss in profit is attributable to £234,000 of bad debt, a £15,000 increase in telephone and postage expenses, a £15,000 increase in general expenses, a £165,000 increase in pension premiums and a £65,000 increase in wages. Therefore, it can be assumed that the loss in profit between the financial years ending March 2013 and March 2012 is not a direct result of legislative change, but rather an increase in business running costs and choosing this year to write off bad debt.

Staffing numbers have increased from 82 in 2012 to 88 in 2013 (Table B.10) showing an emphasis on business growth and development.

6.3. CONCLUSIONS

This analysis indicates that a number of major companies working in the lettings industry in Scotland are not under any significant financial pressure. Some have posted weaker results in 2013, but this is more likely to be a result of other company issues rather than legislative change, although one company did highlight legislative change has having had a detrimental impact on its property management division.

Generally, all of these companies are expanding given the strong conditions present in the agency market, therefore any negative impact of legislative change is being ridden out by these companies.

7. CONCLUSIONS

Using existing quantitative data to estimate the impact of any legislative changes in Scottish rent levels is very difficult.

The exercise is challenging due to a lack of quality historical data and the complex nature of the relationships that determine rent levels.

We have attempted to use a number of quantitative methods to estimate the likely impact of the ban on agents' fees on rent levels in Scotland and triangulate the evidence where possible. Our findings suggest:

1. The movements in Scottish rent levels over time can be adequately explained through analysis of wider economic and market factors. Legislative changes are likely to have had minimal impacts in comparison with these.

2. The best of the regional series (from ONS) does show a noticeable upturn in rent levels in Scotland in comparison with a number of other UK regions from the start of 2013. However, this is not conclusive and may be the result of methodological issues. Other indices do not show similar patterns, but we would view these as less reliable.

3. Our statistical model shows that rent levels in the letting agents sector are around 1%-2% higher than predicted in Scotland for part of 2013, but this appears to have been short-term. It is again not conclusive that this is a result of legislative change. Other market factors, not captured by the model, may instead explain this difference more adequately.

In conclusion, there is not sufficient evidence to be completely clear that the ban on agents' fees has made rent levels higher in Scotland than they otherwise would have been. However, as fees are typically in relation to an average deposit and tenancies tend to last 6 months to one year, we would expect any observable impact by now to be relatively small.

Although rent levels tend to be determined by wider market factors, the uplift in rents in Scotland against other UK regions in 2013, as found by ONS, together with results from our statistical model suggest that rents charged by letting agents are higher than expected by a small margin, means that we cannot rule out that the ban on agents' fees has had a small inflationary impact on rent levels. If such findings were the other way around, we could perhaps have more clearly ruled out any impact.

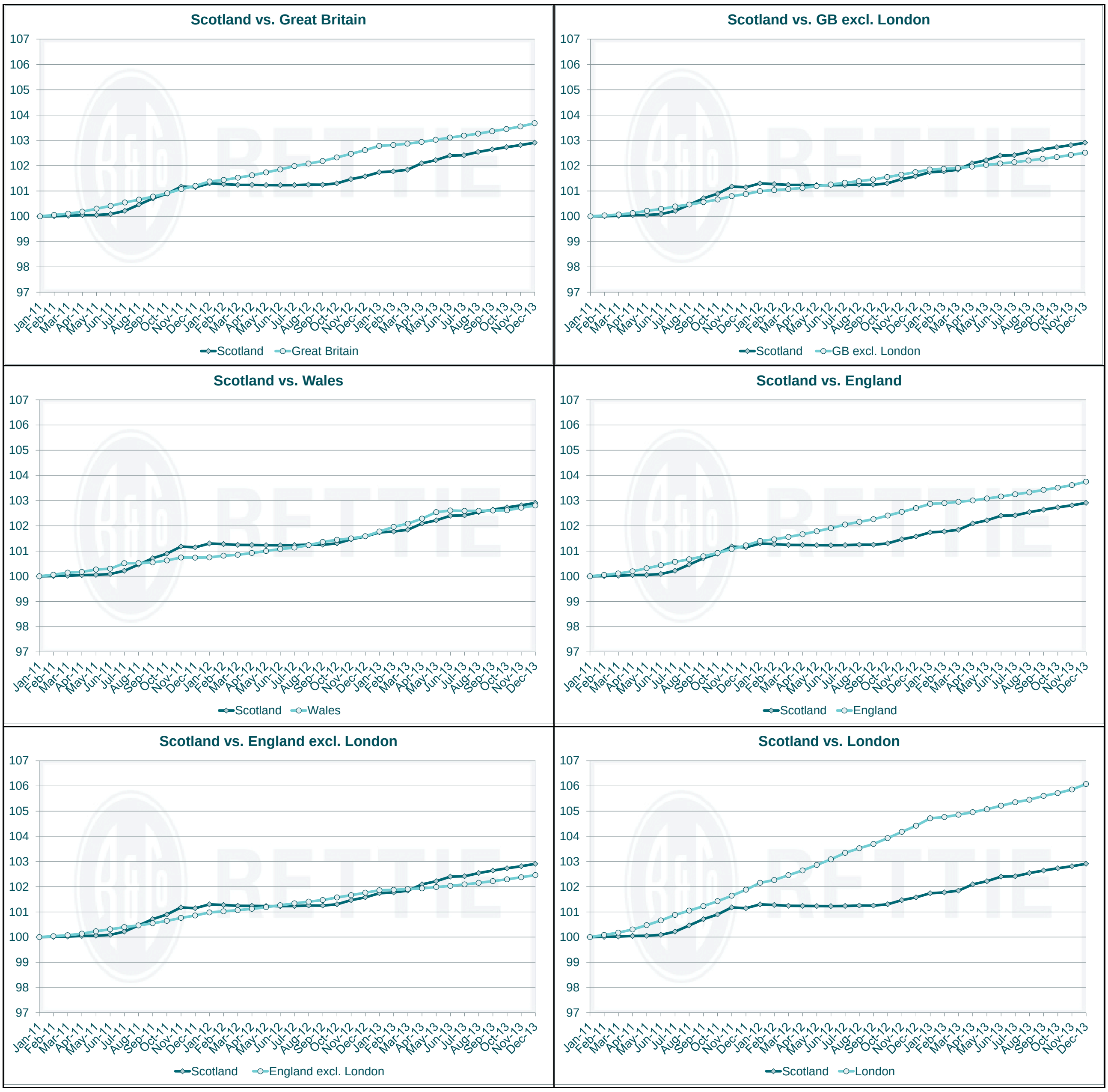
On balance, the weight of the quantitative evidence points to a small inflationary impact of 1%-2% at least for part of 2013 in terms as a result of the ban on agents' fees. However, the impact seems marginal and may be short-term.

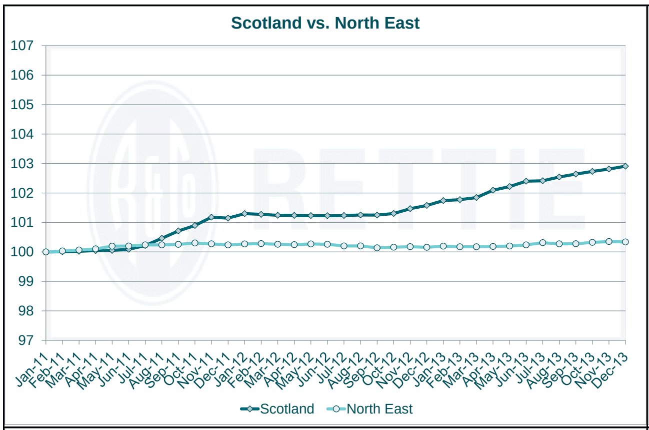
In addition, there also seem to have been little impact on the health of the agency sector or the performance of a number of leading firms in the sector, based on analysis of Companies House data.

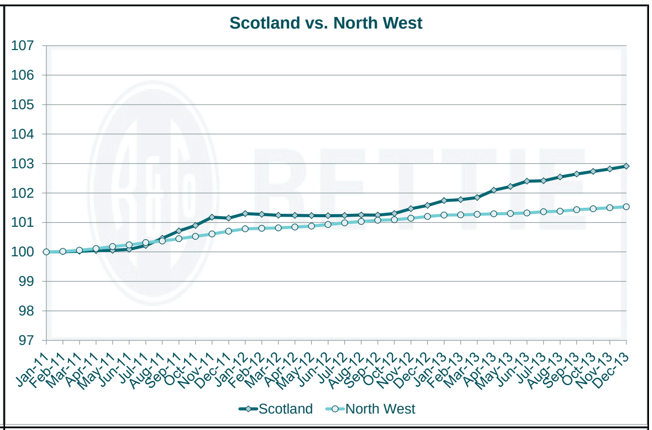
This needs to be tested against the qualitative evidence to assess whether this conclusion is supportable, with perhaps more quantitative data assessed over 2014 to establish whether this trend has continued.

APPENDIX A: BENCHMARK REGIONAL ANALYSIS

ONS DATA




Scotland vs. North East
Scotland
North East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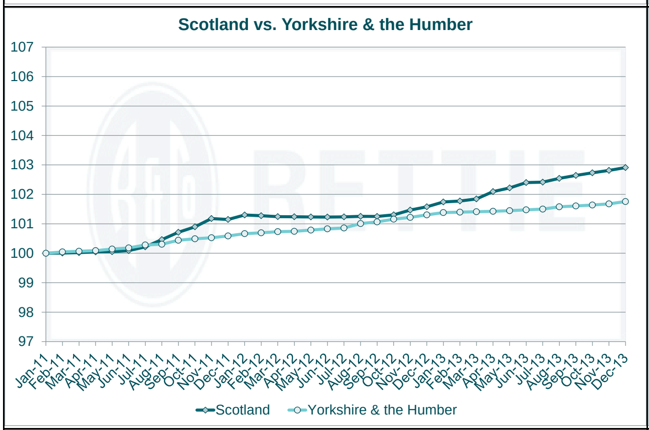
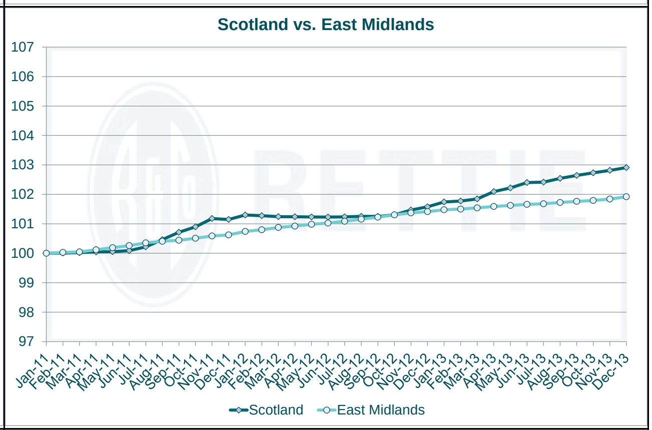
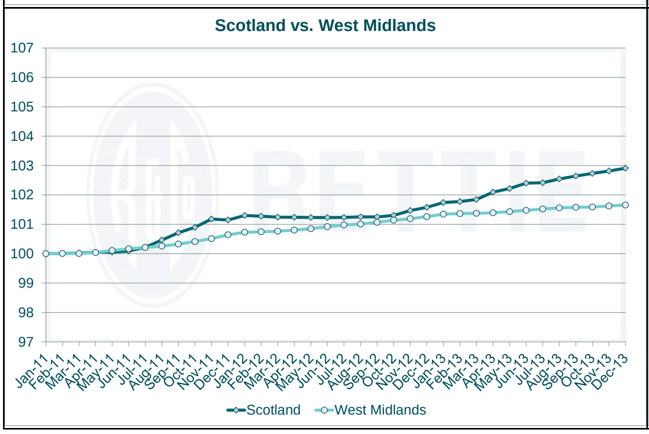
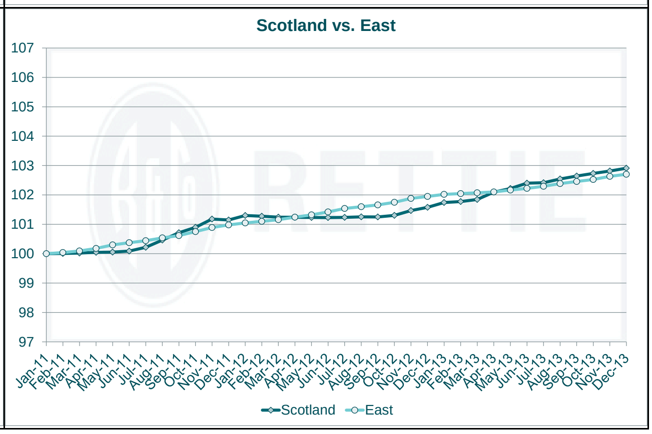
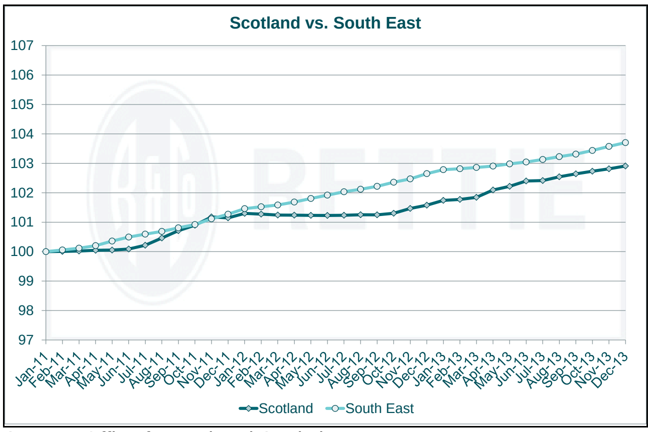
Scotland
North West

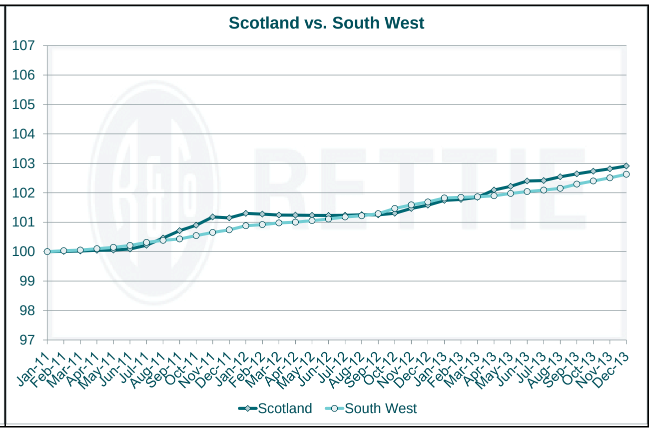

Scotland vs. Yorkshire & the Humber
Scotland
Yorkshire & the Humber


Scotland vs. East Midlands
Scotland
East Midlands


Scotland vs. West Midlands
Scotland
West Midlands

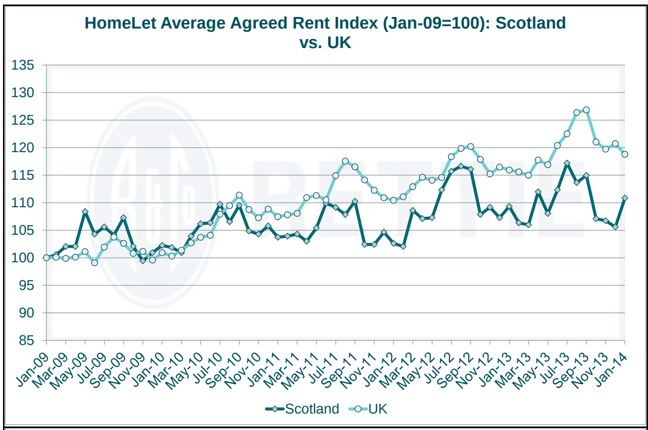

Scotland vs. East
Scotland
East

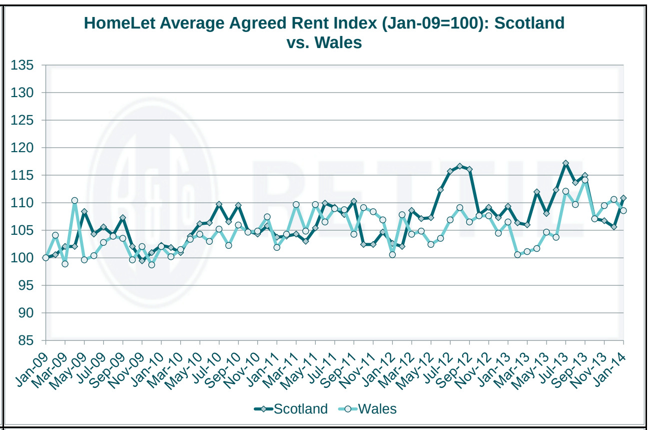


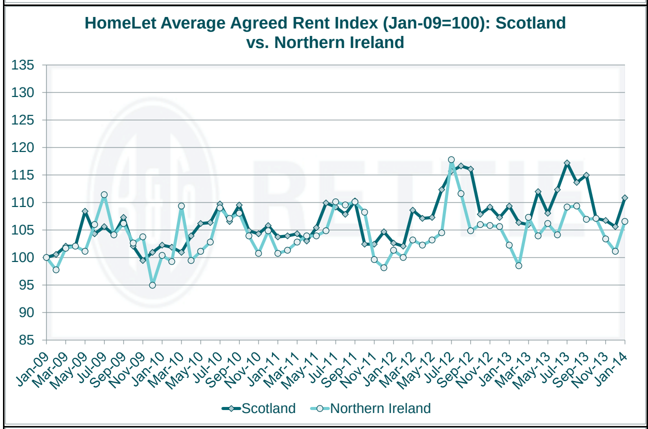


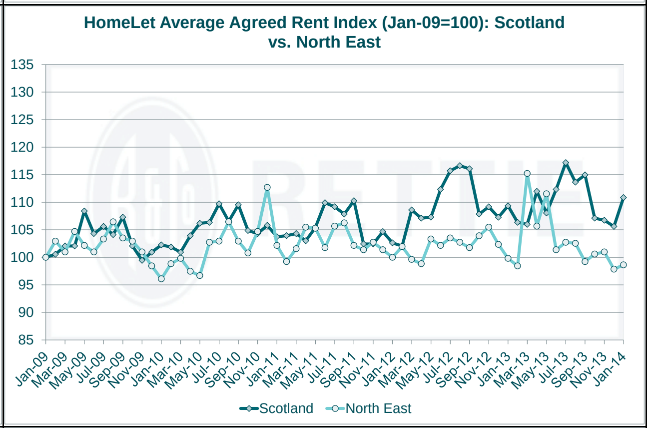
Source: Office for National Statistics

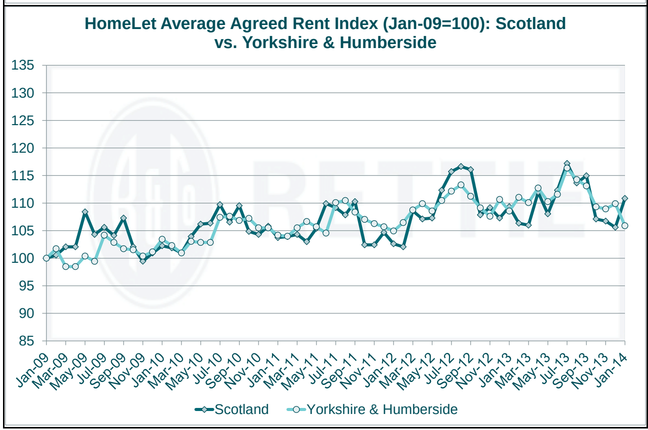
HOMELET SERIES

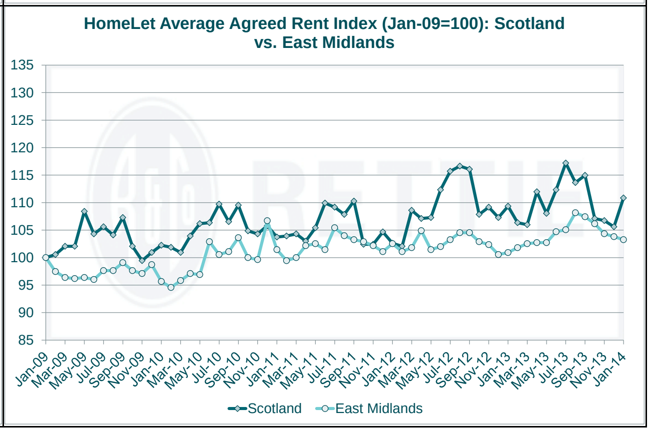




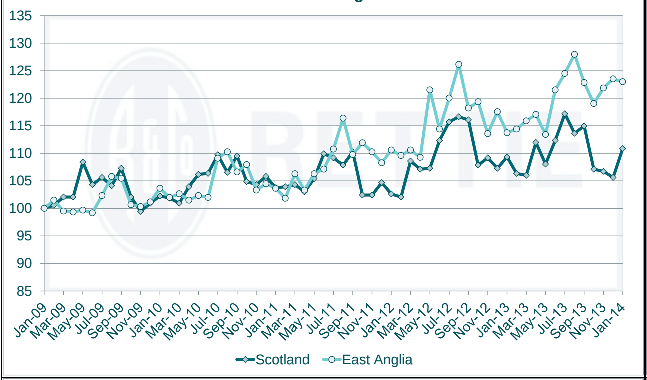




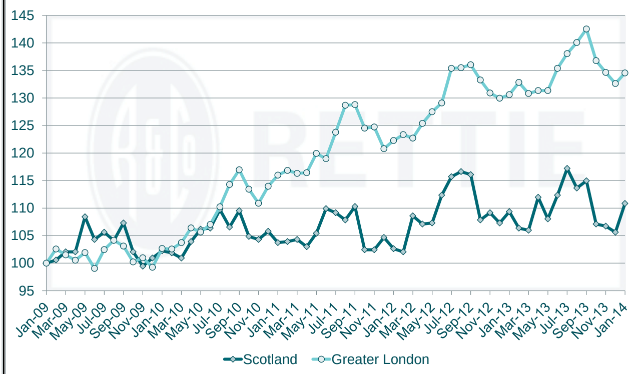




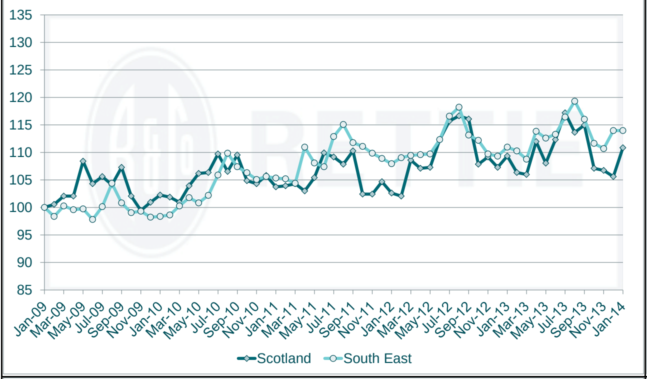
HomeLet Average Agreed Rent Index (Jan-09=100): Scotland vs. East Anglia



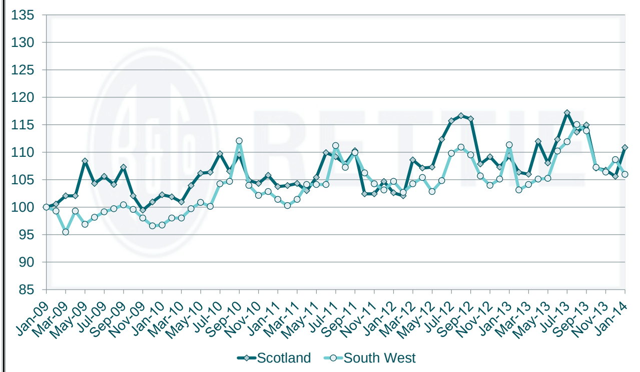
HomeLet Average Agreed Rent Index (Jan-09=100): Scotland vs. Greater London



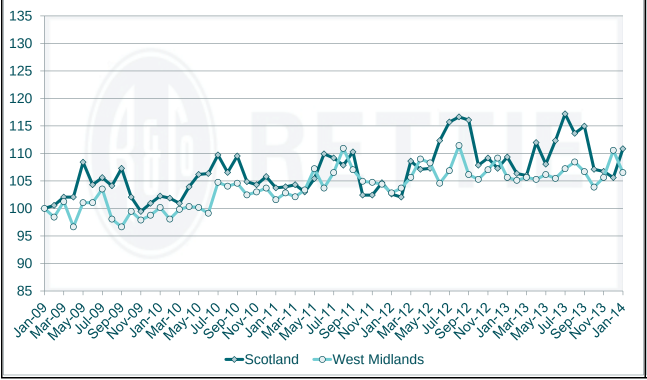
HomeLet Average Agreed Rent Index (Jan-09=100): Scotland vs. South East



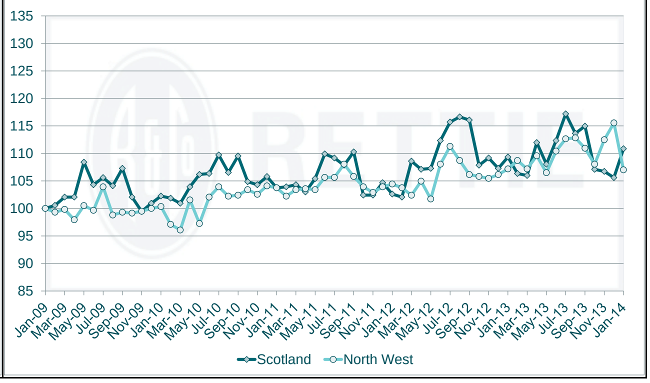
HomeLet Average Agreed Rent Index (Jan-09=100): Scotland vs. South West



HomeLet Average Agreed Rent Index (Jan-09=100): Scotland vs. West Midlands

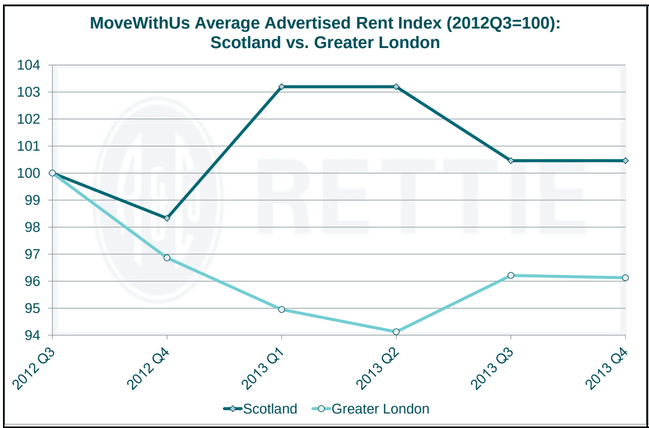


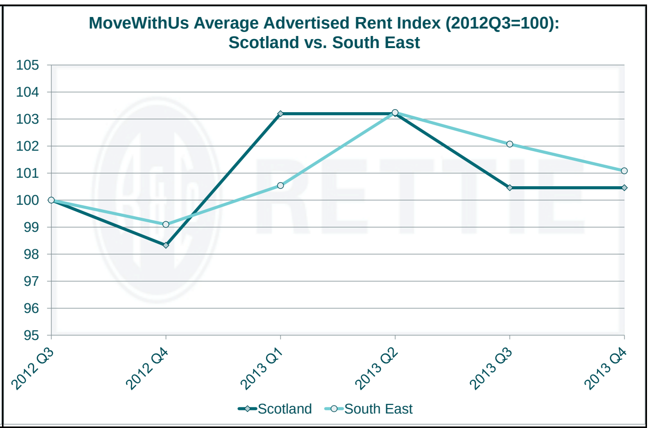
HomeLet Average Agreed Rent Index (Jan-09=100): Scotland vs. North West

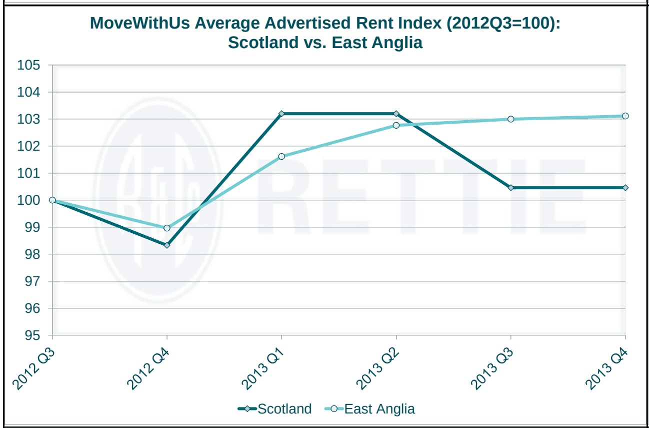


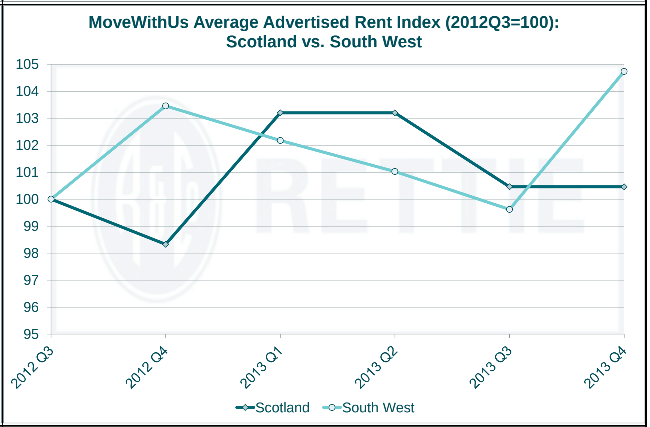
Source: [HomeLet Rent Index]

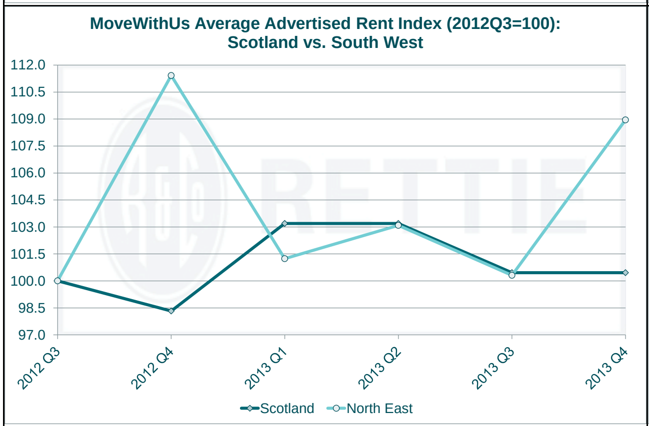
MOVEWITHUS AVERAGE ADVERTISED RENT INDEX

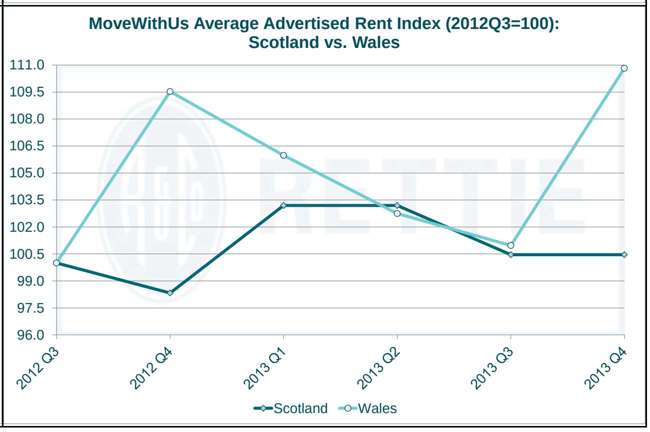


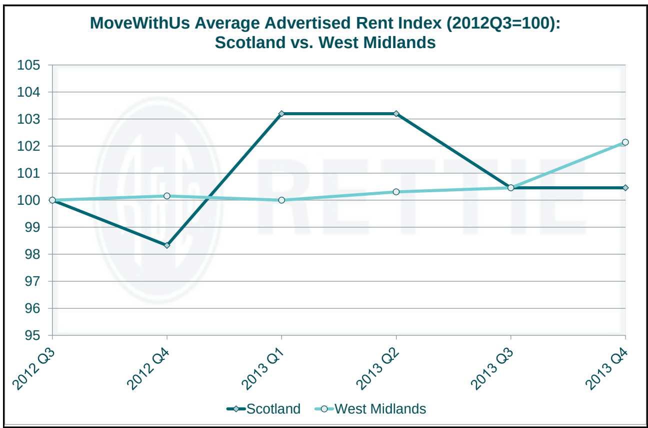


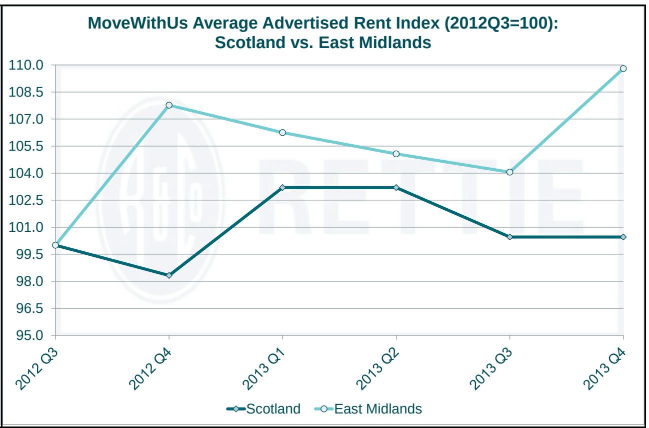


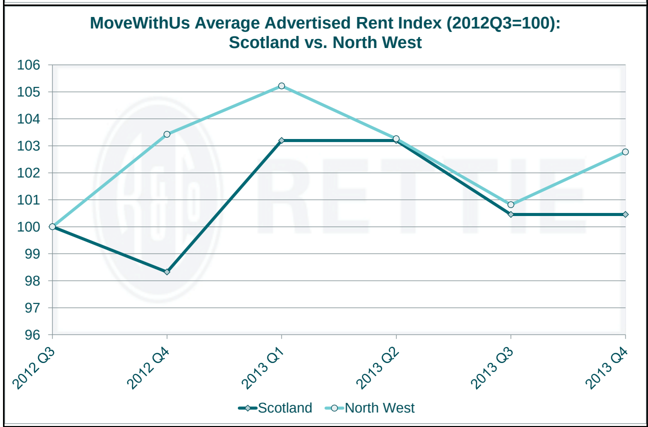


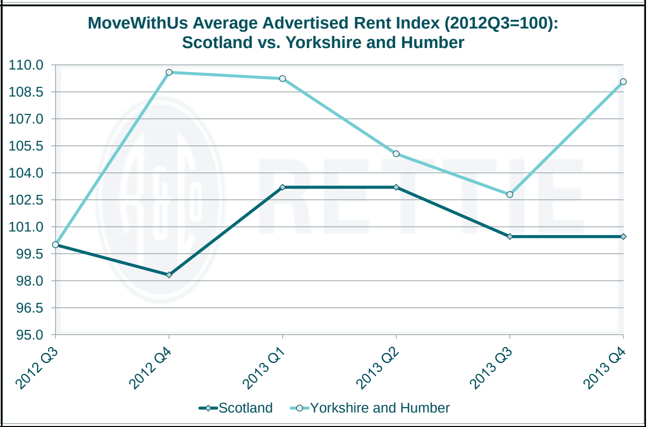


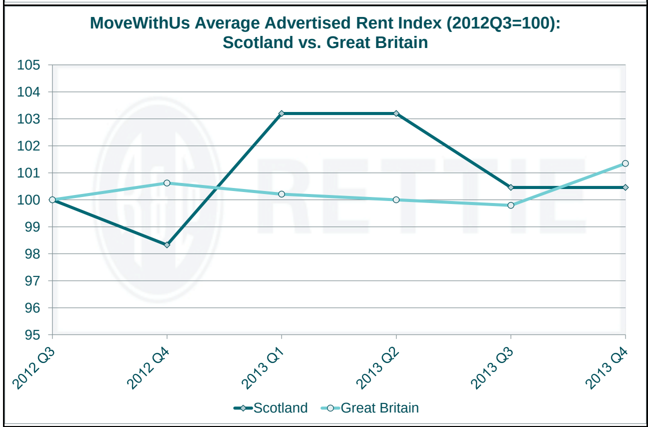












Source: MoveWithUs

APPENDIX B COMPANY ACCOUNT DETAILS

Table B.1: Clyde Property Management, Profit and Loss Account, Year Ended 31 March 2013

The table below clearly shows the slight increase in both turnover and profit for the financial year ending 31st March 2013 compared to the previous year.

CLYDE PROPERTY LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 MARCH 2013

	Note	2013 £	*2012 £*
Turnover	2	4,229,217	*4,200,552*
Cost of sales		(2,339,136)	*(2,324,128)*
Gross profit		1,890,081	*1,876,424*
Administrative expenses		(1,235,049)	*(1,216,364)*
Other operating income		(116)	*2,773*
Operating profit	3	654,916	*662,833*
Interest receivable		1,712	*2,256*
Interest payable and similar charges	6	(3,948)	*(20,551)*
Profit on ordinary activities before taxation		652,680	*644,538*
Tax on profit on ordinary activities	7	(121,567)	*(116,490)*
Profit for the financial year		531,113	*528,048*

Source: Companies House

Table 2: Clyde Property Limited, Particulars of Employees, Year Ended 31 March 2013

The table below shows an increase of 3 members of staff employed by Clyde Property Ltd and a slight decrease in payroll costs for the financial year ending 31st March 2013

4. Particulars of employees

The average number of staff employed by the company during the financial year amounted to:

	2013	*2012*
	No	*No*
Office and management	117	*114*

The aggregate payroll costs of the above were:

	2013	*2012*
	£	*£*
Wages and salaries	1,988,355	*2,044,138*
Social security costs	191,103	*178,408*
Other pension costs	16,667	*–*
	2,196,125	*2,222,546*

Source: Companies House

Table B.3 Grant Property Solutions Ltd, Profit and Loss Account, Year Ended 31 March 2013

The table below clearly shows an increase in turnover of £900,000 for the financial year ending 31st March 2013. The table also shows an increase of operating costs and further loss in profit for the financial year 2013.

GRANT PROPERTY SOLUTIONS LTD

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 MARCH 2013

	Note	2013 £	2012 £
Turnover	2	4,822,783	*3,916,115*
Cost of sales		(1,896,857)	*(994,519)*
Gross profit		2,925,926	*2,921,596*
Administrative expenses excluding exceptional item		(3,336,440)	*(3,248,382)*
Exceptional item	7	(23,518)	*(338,367)*
Administrative expenses		(3,359,958)	*(3,586,749)*
Other operating income excluding exceptional items		–	–
Exceptional other operating income	3/7	–	*546,491*
Other operating income	3	–	*546,491*
Operating loss	4	(434,032)	*(118,662)*
Income from shares in group undertakings	8	350,000	–
Interest receivable		1,881	*135*
Loss on ordinary activities before taxation		(82,151)	*(118,527)*
Tax on loss on ordinary activities	9	(19,100)	*79,100*
Loss for the financial year		(101,251)	*(39,427)*

Source: Companies House

Table B.4 Grant Property Solutions Ltd, Analysis of Turnover, Year Ended 31 March 2013

The table below shows the breakdown of turnover for the financial year ending 31st March 2013. It is clear that turnover increased on the previous year for the property development and renovations division of the company and decreased for the property management and interior design division.

Turnover

An analysis of turnover is given below:

	2013	*2012*
	£	*£*
Property development and renovations	2,665,756	*1,425,606*
Property management and interior design	2,157,027	*2,490,509*
	4,822,783	*3,916,115*

Source: Companies House

Table B.5 Grant Property Solutions Ltd, Particulars of Employees, Year Ended 31 March 2013

The table below indicates that number of staff employed increased by 2 for the financial year ending 31st March 2013 and payroll costs increased by £137,000.

Particulars of employees

The average number of staff employed by the company during the financial year amounted to:

	2013	*2012*
	No	*No*
Number of staff	67	*65*

The aggregate payroll costs of the above were:

	2013	*2012*
	£	*£*
Wages and salaries	1,820,099	*1,662,778*
Social security costs	192,770	*190,228*
Health insurance	27,237	*50,729*
	2,040,106	*1,903,735*

Source: Companies House

Table B.6 Rettie & Co. Accounts Year Ended 30 April 2013

The table below shows that for the financial year 2013, turnover fell from £5.2 million to £4.85 million, and pre-tax profit fell slightly from £448,484 to £270,288, compared to the previous year.

YEAR ENDED 30 APRIL 2013

	Note	2013 £	2012 £
Turnover	2	**4,852,128**	5,175,504
Cost of sales		**2,769,497**	3,077,045
Gross profit		**2,082,631**	2,098,459
Administrative expenses		**1,906,116**	1,706,977
Other operating income	3	**(64,000)**	(27,787)
Operating profit	4	**240,515**	419,269
Interest receivable		**29,773**	29,215
Profit on ordinary activities before taxation		**270,288**	448,484
Tax on profit on ordinary activities	7	**66,240**	113,690
Profit for the financial year		**204,048**	334,794

Source: Companies House

Table B.7 Rettie and Co. Particulars of Employees, Year Ended 30 April 2013

From the table below, it can be seen that the number of staff employed in the 2013 increased from 104 to 112 compared to 2012.

RETTIE & COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 APRIL 2013

5. Particulars of employees

The average number of staff employed by the company during the financial year amounted to:

	2013 No	2012 No
Number of sales and operational staff	98	90
Number of administrative and other staff	14	14
	112	104

Source: Companies House

Table B.8: Ross & Liddell Limited, Profit and Loss Account, Year Ended 31 March 2013

The table below clearly shows the slight loss of turnover and more dramatic loss of profit for the financial year ending 31st March 2013, compared to the previous year.

Profit and loss account

for the year ended 31 March 2013

	Notes	*2013* £	*2012* £
Turnover	2	4,110,522	4,185,949
Administrative expenses		(4,170,981)	(3,578,764)
Operating (loss)/profit	3	(60,459)	607,185
Bank interest receivable	6	211,175	125,036
Interest payable and similar charges	6	–	–
Profit on ordinary activities before taxation		150,716	732,221
Tax	7	(36,378)	(184,971)
Profit for the financial year	13	114,338	547,250

Source: Companies House

Table B.9 Ross & Liddell Limited, Trading Financial Statements, Year Ended 31 March 2013

The table below shows that the loss in profit for the financial year ending 31st March 2013 is attributable to £234,000 of bad debt, a £15,000 increase in telephone and postage expenses, a £15,000 increase in general expenses, a £165,000 increase in pension premiums and a £65,000 increase in wages.

Trading financial statements

for the year ended 31 March 2013

	2013 £	*2012* £
Commissions	4,110,522	4,185,949
Hire of professional services and legal fees	125,567	112,221
Wages and salaries	2,465,259	2,399,018
Pension premiums	249,362	90,027
Heat and light	26,736	30,531
Property and equipment maintenance	84,974	93,264
Telephone and postage	130,844	113,452
Printing and stationery	74,580	63,101
Motor expenses	128,641	131,862
Travelling expenses	14,339	13,136
Audit and accountancy fees	40,000	35,000
Rent, rates and insurance	192,297	187,762
General expenses	132,571	114,998
Depreciation	131,857	129,716
Advertising and subscriptions	130,106	138,944
Bad debts	233,889	(84,359)
Hire of equipment	9,959	10,091
	4,170,981	3,578,764
Operating (loss) / profit	(60,459)	607,185
Interest payable and receivable		
HP interest	–	–
Interest receivable	211,175	125,036
	211,175	125,036
Profit before taxation	150,716	732,221

Source: Companies House

Table B.10 Ross & Liddell Limited, Staff Costs, Year Ended 31 March 2013

The table below shows an increase of 6 employees and an increase of staff costs of approximately £225,000 for the financial year ending 31st March 2013.

5. Staff costs

	2013	*2012*
	£	*£*
Wages and salaries	2,231,311	2,169,504
Social security costs	233,948	229,515
Other pension costs	249,362	90,027
	2,714,621	2,489,046

The average monthly number of employees during the year was made up as follows:

	2013	*2012*
	No.	*No.*
Office and management	88	82

Source: Companies House