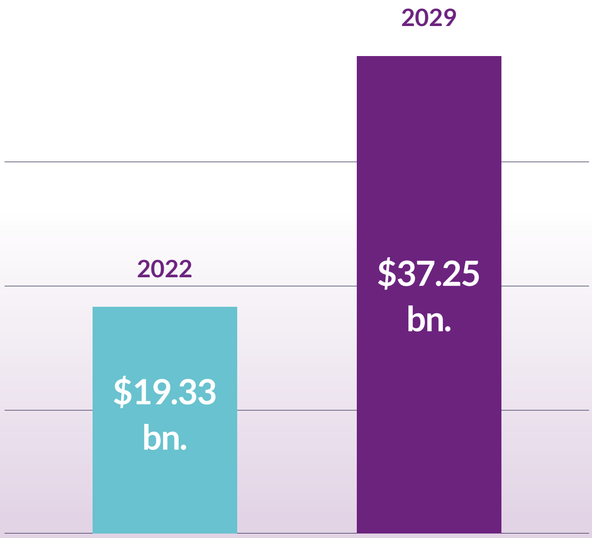
Grosvenor Systems

The State of Property Management 2023

2022 was a challenging year to navigate for property managers. Starting with the aftermath of the COVID-19 pandemic and concluding with rising bills and a cost of living crisis, there have been several obstacles for those involved in property to navigate.

Rising costs mean a greater requirement for property managers to be on top of the numbers, ensuring efficient processes and effective cost management.



Despite the challenges, there's still predicted growth within the industry. With a 9.8% compound annual growth rate (CAGR), the global property management market is expected to grow from $19.33 billion in 2022 to $37.25 billion in 2029.

Reflecting on 2022

The early 2022 property market was one primarily influenced by the aftermath of coronavirus and Brexit. Throughout the year, property managers had to overcome many challenges, further fuelled by the cost of living crisis, which reared its head towards the end of the year.

The post-COVID landscape of property management was a key theme of 2022, with interest in how the country would finally readjust from the pandemic. So, what happened in 2022?

In September, the moratorium period for the Commercial Rent (Coronavirus) Act 2022, which restricted many landlords from recovering "Protected Rent Debts," ended. The Act's original purpose was to introduce an arbitration process to solve disputes regarding rent arrears caused by COVID.

Those who submitted an arbitration referral in time continue to be protected by the benefits of the original Act. Tenants who hadn't made an arbitration referral in time were advised to pay "Protected Rent Debts" and any other arrears as soon as possible to prevent landlords from exercising enforcement remedies.

In our last report — The State of Property Management 2022 — we referred to a shift from cities to suburbia caused by the pandemic. We're now seeing a boomerang effect, with many helping repopulate cities in a post-lockdown world. A May 2022 report stated that, compared to the lockdown period of January 2021, there was a 50% increase in rural home-movers looking to move to the UK's largest cities.

There has been an almost complete adjustment from COVID in 2022, but Britain is now faced with another challenge. Rising energy bills and inflation has presented new difficulties for all industries, not least property management.

The current economic climate has made it more important than ever to ensure your systems are in order and your business runs efficiently.

The Autumn Budget

Chancellor Jeremy Hunt announced his Autumn budget in late 2022, which, coinciding with a 40-year high inflation rate, will no doubt impact residential and commercial properties across the UK.

Here are some key points

Reduction of tax-free allowance for Capital Gains Tax from £12,300 to £6,000 (from April 2023) and then £3,000 a year later

Councils can raise council tax by up to 5% without the need for a referendum, putting further pressure on household budgets

Stamp duty cuts reversed in an attempt to stimulate the housing market

Industry Trends

In 2023, the UK's property management industry looks likely to press forward with its continual uptake of proptech as the demand for property increases once more.

£3.5 billion

Increase in Proptech Adoption

The amount of venture capital investment in proptech startups in the UK between Q1 2019 and Q1 2022.

The UK's proptech sector reached record levels in 2021 and is continuing to grow as more property management companies harness the power of proptech.

45%

Build to Rent Is Booming

The record number of local authorities which have Build to Rent developments in the pipeline, compared to just 25% in 2015.

Build-to-rent has seen huge amounts of interest from investors and developers in recent years, making it the fastest-growing sub-sector of the private rented sector in 2022.

£55,551

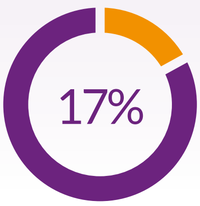
Rising House Market

Compared to a £6,218 rise during the two years before the pandemic, the average house price rose more than £55,551 between 2020 and May 2022.

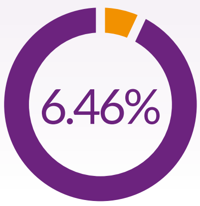
Still, despite the challenges buyers face — such as the cost of living crisis — there's still a demand for property throughout the UK.

Other Property Stats

Forecast cumulative fall in house prices during 2023 and 2024



Increase in the number of buyers looking for properties 50km+ away, up from 14% pre-pandemic



The average two-year fixed mortgage rate in October 2022, the highest since 2008

2023’s Industry Challenges

Property managers will face several challenges across the UK in 2023 and beyond. The current economic climate is the one overriding challenge, emphasising the importance of property management companies streamlining their processes.

Cost of Living

The cost of living crisis is undoubtedly the biggest challenge for the property industry heading into early 2023. Rises in bills, operating costs and inflation mean business owners are tasked with finding new ways to save time and money.

With the current climate, tenants’ behaviours and priorities are also likely to change as inflation causes fuel, energy and food prices to soar. This may leave some unable to pay rent on time, which can have a knock-on effect on landlords.

Property managers may notice an increase in demand for smaller homes, as downsizing could be a money-saving option.

For property management companies, investing in the correct software and online tools could be crucial in 2023. Businesses can generate efficiencies and manage costs more effectively by automating key processes.

Increased Scrutiny on Property Managers

As money becomes more stretched for all sectors of the industry, there’s an increased expectation for property managers to be highly accurate in reporting and analysis.

There looms a risk of reputational damage should a mistake be made, with tenants having more voice and power than ever, thanks to channels such as social media. Therefore, it’s vital that processes are in place to ensure lines of communication are clear and reporting is as accurate as possible.

Proptech significantly reduces the risk of error by allowing for the automation of key accounting tasks. By removing the need for human input, the risk of mistakes is reduced exponentially.

Remaining Competitive

Property management companies are faced with remaining competitive in 2023, as rental owners continue to look for property managers to work with.

Technology is helping growing companies remain competitive during difficult times as it allows for portfolios to increase by automating key tasks. Without adopting proptech, property management companies may struggle with competing against other businesses and managing costs effectively across an increasing portfolio.

More Challenges for Property Managers

With prices increasing and tenants paying more, more is expected from property managers. Services that used to be optional extras are now considered standard practice to meet tenant expectations and raise satisfaction levels.

There are also issues with ongoing labour and material shortages, alongside the increasing need to meet sustainability and energy efficiency standards. From April 2023, energy efficiency laws will tighten in the UK for commercial properties, sub-standard EPC ratings set to become unlawful for existing lettings.

You can implement the latest technology to ensure services run smoothly and efficiently across properties.

Anti-Money Laundering Spotlight

The latest UK Anti-Money Laundering (AML) National Risk Assessment labelled the UK's property sector as 'high risk' for money laundering. It found that:

- Real estate transactions frequently involve the transfer of large volumes of money
- Individuals instructing real estate transactions often have access to private or public funds
- Real estate transactions often involve other parties, such as lawyers, who can use their titles to mask illegality

It's more important than ever to ensure property management companies have their house in order for both risk assessment and AML policies.

AML processes should be clearly documented, as well as being regularly assessed and documented. There's a lot to think about for companies involved in real estate transactions regarding AML. Here are some key questions you can ask yourself:

- [ ] Have I documented my risk assessment?
- [ ] Have I developed due diligence procedures that set out standards and requirements based on the customer's risk rating?
- [ ] Are my staff equipped with the legal knowledge and risk exposures of the business?
- [ ] Do we regularly review our processes and procedures?

To access the latest UK Anti-Money Laundering (AML) National Risk Assessment, click here.

Future of Property Management

What's on the horizon for property managers across the UK? In an industry rapidly adapting to life with automation, that trend will continue as time and money become stretched across the sector.

The Industry Continues to Automate

Automating key property management responsibilities using the power of proptech has been a recurring theme over the last few years, with no sign of proptech adoption slowing anytime soon. Here's why.

Improved Decision-Making

An increased data stream can equip property managers with the knowledge to make more informed decisions, leading to better business results

Time and Money Savings

By automating key property management tasks, property management companies become more efficient, allowing time to be allocated to other areas

Better Occupancy

Proptech makes it easy to spread and promote property ad information, allowing landlords to find tenants for their listings quickly

Convenience

Virtual home inspections, virtual house tours and mobile apps designed to help landlords with the rental process are just a few reasons why proptech increases convenience

Another advantage to adopting proptech is employee engagement. By implementing a system that takes employees away from performing repetitive, menial tasks, they're likely to be more engaged.

Statistics show that companies with high employee engagement rates are 21% more profitable. With the recession in mind, the talent market in property management is set to become highly competitive. Therefore, engaging and retaining your employees is vital to success.

We're also seeing institutional investors turn to property management systems to manage their properties as they buy more real estate and grow their portfolios.

The proptech market is expected to grow from $18.2 billion in 2022 to $86.5 billion in 2032

Source: FMI

Focus on Sustainability

As with many other sectors, the property industry will continue with its efforts to become more sustainable to meet government regulations and consumer preferences. One survey suggests that over 75% of millennials are willing to pay more for greener homes built with sustainable materials.

The government's Net Carbon Zero programme outlines maximising energy efficiencies and reducing carbon emissions across property portfolios and has seen an implementation of new measures since its introduction in 2019.

Plus, in late November, COP 27 was held in Egypt to discuss various climate issues and potential solutions to these problems. Regarding real estate, the need for decarbonisation within the industry was highlighted, which has been a topic of discussion for many years.

According to government figures, decarbonising public sector buildings in the UK alone will cost approximately £25-30 billion. Methods to do so would include a switch from fossil fuel heating systems, changing lighting to LED systems and investing in solar panels.

But what about property managers or landlords? Set to take effect in 2025, the government has proposed new EPC regulations that will change the Minimum Energy Efficiency Standards for domestic rental properties in England and Wales.

These new EPC regulations mean that from 2025, rented properties need to have a certification rating of C or above. The jump from an 'E' rating to a 'C' could cost landlords thousands, so getting ahead and spreading the costs could be a worthwhile strategy. You can improve your EPC rating by:

- Switch lighting to LED bulbs
- Use a smart meter to track energy use
- Insulate the walls and roof
- Improve windows with double or triple glazing
- Install an energy-efficient boiler

Investing in renewable energy sources will improve the EPC of your rental property, ensuring you always remain within the regulations.

Implementing proptech can also play a key role in providing opportunities for buildings to be more efficient by collating useful data. IoT technology can track carbon footprint, water usage and indoor air quality for larger buildings, such as offices. Modern technology can help building owners, facility managers and landlords optimise their buildings' energy consumption.

Build To Rent Is Here To Stay

The number of investors targeting the UK's Build to Rent (BtR) sector grew exponentially throughout 2021 and 2022, thanks to the sector's resilience during COVID.

From a performance perspective, BtR has shown strength in key areas such as strong rent collection and renewal rates, low voids and arrears, and rents and income growth recovering quickly post-pandemic.

The second quarter of 2022 illustrated a 13% rise in the total number of BtR properties that had been either completed, under construction or in planning.

The BtR model tends to include communal facilities such as gyms and work spaces, leading to larger scale investments from those looking to rent out properties.

Proptech can also drive successful BtR returns in several ways.

- Self-service portals that give residents 24/7 access to pay rent or submit maintenance requests
- Resident profiles that give teams a view of resident activity, allowing for analysis of resident preferences
- Website and mobile integration to improve connectivity and allow staff to manage inspections and maintenance
- IoT integration in buildings to automate processes such as viewing occupancy levels in limited capacity areas or assigning tasks such as cleaning when a space is used

Introducing Propman

Propman is an all-in-one property management and accounting software that helps property managers reduce inefficiencies and deliver valuable insights within their business.

Propman offers property managers the opportunity to provide an enhanced level of service to tenants, suppliers and clients, leading to a range of benefits.

Automating key tasks means you can allocate more time to other areas of property management, helping your company grow as a result.

Some key features of Propman include:

- Flexible reporting — Customisable report writer and scheduler allows for extensive insights and powerful reporting
- Streamlined service charges — Simplify and automate service charge budgeting and reporting
- Automate arrears chasing — Streamlined arrears chasing through bulk production of communications
- Over 250 businesses currently harness the power of Propman to streamline their property management services. If you want to see how Propman can make your administrative and accounting work easier, access a free copy of our Propman brochure below.

DOWNLOAD THE BROCHURE