 Regulatory Policy Committee		Validation of the One-in, Two-out Status and the Net Direct Impact on Business
Validation Impact Assessment (IA)		Transparency of Letting Agents fees
Lead Department/Agency		Department for Communities and Local Government
IA Number		Not provided
Origin		Domestic
Expected date of implementation		April 2015 (SNR 9)
Date of Regulatory Triage Confirmation		16 June 2014
Date submitted to RPC		25 March 2015
Date of RPC Validation		13 May 2015
RPC reference		RPC13-FT-CLG-2120(2)
Departmental Assessment		
One-in, Two-out status		IN
Estimate of the Equivalent Annual Net Cost to Business (EANCB)		£0.10 million
RPC assessment		VALIDATED
Summary RPC comments		
<p>The IA is fit for purpose. The Department identifies the likely impacts and provides reasonable estimates of the expected costs, covering familiarisation with the proposal and displaying the agents' fees.</p> <p>The RPC is able to validate the estimated EANCB.</p>		
Background (extracts from IA)		
What is the problem under consideration? Why is government intervention necessary?		
<p><i>“The problem under consideration stems from the opaque nature of the fee structure charged by letting agents to both tenants and landlords. The lack of transparency can hinder the efficiency of this market by increasing the transaction costs for both sides, often leading to sub-optimal economic decisions. Once a tenant has found somewhere suitable they can then be confronted with unexpected fees that would otherwise have prompted them to make a different rental decision had they known of the fees up front. This ‘Drip-Pricing’ coupled with the tendency to ‘shop’ for a property, not an agent, means that tenants feel exploited. This situation requires intervention because without simple and easy access to this information both renters and landlords do not have the full information to make informed choices, resulting in inefficiencies across both sides of the market and considerable loss”.</i></p>		

What are the policy objectives and the intended effects?

“The intended effect of this policy is to increase transparency which will allow both renters and landlords to have a clearer indication of costs, thereby facilitating a more efficient market based outcome through more effective competition between letting agents than would otherwise be the case. This policy will also make it easier for agents to demonstrate a level of service proportionate to the fees charged”.

RPC comments

The Department proposes to require letting agents to display their fees in order to increase transparency for both renters and landlords. Letting agents will also have to display whether they are a member of a client protection scheme and which redress scheme they have joined.

The IA explains that there are a total of 11,560 letting agent branches, equating to 6,993 businesses that will be affected by the proposal. All branches will need to be familiar with the policy. The IA assumes that a letting agent will take 15 minutes to become familiar with the policy. Given the assumed earnings of £13.35 per hour, applied to 11,560 letting branches and agents, the proposal is expected to generate one-off familiarisation costs of £38,581.5.

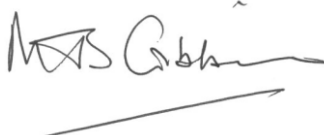
The IA also explains that there will be on-going costs for a proportion of branches to display their fees in a prominent location. 6,589 branches are expected to spend 15 minutes displaying clearly their fees. Assuming agent earnings of £13.35 per hour, these branches will incur on-going display costs of £22,007.

Letting agents will also incur costs from updating their websites to comply with the regulations. The updating of a website is assumed to take place for each business, rather than each branch. 3,426 agencies are expected to update their websites in the first year. The IA explains that it will take an IT specialist seven hours (at £19.36 per hour) to update the website, in the first instance, at a cost of £135.50 per agency. This will result in one-off costs to business of £464,292. In subsequent years, it is assumed that the IT specialist will only need one hour to update the website, at a total cost to agencies of £66,327.

Overall, the proposals will, over ten years, generate £1.17 million in costs to business in present value terms.

On this basis, the RPC is able to validate the estimated EANCB of £0.1 million.

We note that the Department has provided an explanation as to why small businesses will not be exempt from the proposals. The IA explains that data from the Office of National Statistics show that over 16,000 businesses are involved with buying, selling and renting real estate, with 99% of these being classified as small or micro businesses (page 16).

Signed		Michael Gibbons, Chairman
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