



## **CHOOSING AND USING A LETTING AGENT**

### **Do you need to use a Letting Agent?**

Before we get onto the topic of choosing and using a letting agent let's discuss whether you need one at all.

I would suggest you probably need a Letting Agent if: -

- You live abroad
- You live more than 50 miles or a 30-minute drive from the property
- You work odd hours and/or shifts
- You are out of the Country a lot – holiday or business
- You are needed at home – babysitting, caring for elderly or infirm relatives, etc.
- You rent to groups such as students
- You rent to Social Security tenants
- You own a large portfolio (10+ properties)

I know of one property investor who manages 300 of his own properties but he does do this full time and he does admit to not having had a holiday for ten years!

Other than the factors above most people choose an agent because they believe the agents will: -

- Save them the time, cost and effort of finding tenants
- Deal with day to day business as well as emergencies
- Deal with notices, evictions, etc.
- Arrange for inventories, safety certificates, inspections, etc.
- Deal with tenant problems
- Ensure the rent is paid

In major cities, where you will get lots of applicants you need to have the time, resources and skills to screen lots of tenants.

Also, if you have an unusual property then it may not be easy to target the right kind of tenant yourself.

Similarly, if you want to attract a certain type of tenant, using an agent may prove easier than doing it yourself.

### **The Service**

So if you decide you do need an agent what can you expect them to do for you.

Most agents will have far more tenants than they do properties as tenants will register with several agencies. The agent should be able to select the most suitable tenants for your property from their lists so you should get a ready supply of tenants viewing your property.

If you provide your agent with a key the agent will generally arrange and carry out viewings without you being there.

Ensure that the agent knows if any current tenants are in the property as they must be given adequate notice of viewings – it may not be their permanent home but they are still entitled to privacy and courtesy.

Having found a suitable tenant, the agent will carry out reference checks and set up a tenancy agreement.

For most agents who operate a 'Let Only' service this is indicative of the extent of that service and the agent will play no further part.

Most agents operate one other primary service, Full Management. Full Management should be just that, you tell them about your property, hand over the keys, sign some paperwork and excepting major events, the money drops in your bank account.

When paying for a 'Full Management' service you should expect to receive most of the following benefits from the agent: -

- Providing a rental valuation of the property, and offering advice as required
- Advertising
- Selecting suitable tenants, taking account of your preferences or requirements
- Arranging and carrying out viewings
- Obtaining references
- Preparing a suitable tenancy agreement in accordance with current law
- Preparing an inventory and schedule of condition and agreeing these with the tenant
- Supervising the transfer of utility service and council tax accounts

- Collecting and holding a security deposit
- Receiving ongoing rental payments and remitting the balance of rental payments to the landlord
- Preparing and forwarding to the landlord regular financial statements
- Making payment of certain regular outgoings
- Advising on and ensuring compliance with Energy Performance
- Advising on and ensuring compliance with HMO Regulations
- Advising on and ensuring compliance with the Gas Safety Regulations
- Advising on and ensuring compliance with the Furniture and Furnishings Regulations
- Advising on and ensuring compliance with the Electrical Equipment Regulations
- Inspecting the property periodically to ensure compliance with the terms of the tenancy agreement
- Arranging any repairs, maintenance or replacements to the property or contents, usually up to an agreed cost
- Where the estimated cost exceeds this amount, notifying the landlord
- Dealing with any necessary insurance claims
- Taking appropriate initial action in the event of rent arrears or any other breach of condition of the agreement
- Where arrears or breach persists, informing the landlord

- Liaising with the tenant on a routine basis, arranging renewals of the agreement or check-outs, re-advertising and re-letting to new tenants as appropriate

**IMPORTANT**

While many letting agents can advise on regulatory matters and arrange for inspections and certificates it is ALWAYS the landlords/owners responsibility. For example, if your agent hasn't arranged a gas certificate it is you who will be prosecuted not them.

There are a range of services in between Let Only and Full Management and these will vary greatly from agent to agent. They include 'Let and Check In', 'Let and Rent Collection' and a range of part-management services.

### **Charges**

Agents generally charge a percentage of the monthly rental, between 10 and 15% is the norm. Some charge a set fee, monthly or up-front, but this is rare.

In addition, some will charge an initial fee, at the start of the tenancy as this is when the majority of the work for an agent takes place. This is typically half the first months rent.

Many agents are VAT registered so you need to take this into account as this will increase the overall fees significantly. In most cases you cannot claim the VAT back.

The more properties you have the more you should negotiate the fees – some agents have two sets of fees, one for general use and one for portfolio landlords.

In all the service levels you may find that agents charge extra for: -

- Administration fees
- Advertising
- Inventories
- Check In
- Check Out
- Re-letting
- Dealing with repairs
- Dealing with insurance claims
- Arranging gas certificates
- Providing statements or letters

### **The True Cost**

An interesting thing to bear in mind is the true cost of using an agent. Let's assume you pay 15% per month for a full management service, which is typical.

You believe that the cost to you is 15% of you rental income; correct - but it is not the true cost to you.

Here's an example to demonstrate...

Monthly rental	=	£500
Costs		
Mortgage payment	=	£300
Maintenance, insurance, repairs, gas certificate etc.	=	£100
Balance	=	£100
Letting Agent Fee @ 15% of monthly rent	=	£75

**In truth the agent actually takes 75% of your monthly cash flow!**

Furthermore, the agent carries no risk!

This calculation is not meant to deter you from using an agent it is simply meant to put things in perspective and to get you to think carefully when you choose an agent – make sure they do their job well and that you get value for money – especially as its 75% of your cash flow!

**Choosing an Agent**

The most important piece of advice I can give when choosing an agent is to interview several like you would your own member of staff.

This property is your livelihood - it is a very valuable asset and should be respected as such by you, the agent and the tenant. Yet, people treat their cars better!

**TIP**

When interviewing agents ask a friend to go into the agents as a prospective tenant.

When I did this, the responses were on the whole appalling; indifference at best and, at worst, downright contempt. Always remember - without a tenant you have no rental so see how they treat the tenants too!!

Ask for contact details of current landlords and tenants - follow up on references they provide.

Drive by some of the properties that they manage.

What condition are they in?

What type of properties do they have - a mix will mean a mix of tenants?

If they only deal in inner city cheap properties and yours is an executive flat, can they get you the right type of tenants?

Ask for response times, most agents are closed after 6 pm - what if the tenant has an emergency?

Ensure you have a written contract with the agent - read it very carefully and question everything! Do not sign the contract immediately, take a copy with you to read in depth, consult your solicitor if in any doubt.

Also be careful about clauses determining responsibility for damage or repairs. An acquaintance had their flat managed by a well known estate agents letting service. The hot water tank burst in the night and flooded the place. The tenants reported it and moved out as it was so bad. The agent did nothing about it and the property remained empty.

The acquaintance was living abroad and when they returned the property was in such a state they had to have it completely gutted - the contract was written so that the agent was not in any way liable!

Insist strongly if you do not want social security tenants, children, smokers or pets - some agents do ignore these requests and just want to get the property let; they do not make money if the property is not being rented.

An important thing to remember is that **your rent is not guaranteed just because you use an agent**. This seems to be a common misconception amongst new landlords.

There are a variety of schemes some agents run such as student schemes where you will be guaranteed a certain rent for the duration of the term/year. There are also other similar schemes. With these schemes it is often the case that any rent the agent can achieve above what he has agreed with you is theirs!

You can also pay an additional fee for a rent guarantee scheme - most agents offer these from their associated insurers. You typically pay £50 - £100 for a six to twelve month policy. There are a lot of 'ifs and buts' with these policies so check out what you are and what you are not covered for.

If you opt for one of these schemes, in fact any time you use an agent, you should still make regular visits to your properties. After first appointing your agent, ask to inspect the property after the first month, then three months, then six. You can see that the tenants are okay and also that the agent is doing their job. Contact the tenant and ask if everything is okay.

Many estate agencies now run lettings businesses as an aside – this has great benefit to the agent often tying in prospective landlords through sales and having easy access to prospective buyers (tenants) and sellers (landlords). However, the service provided by these agents is quite variable and there does sometimes seem to be a conflict of interests or the 'poor cousin'.

Do be wary of agents who flaunt their links to the various associations. These associations do have some very comprehensive rules and regulations but unfortunately the status often says nothing about the competency of the agent. This does surprise me somewhat; my guess is not that the associations are not doing their job right but that people do not complain enough about bad agents. Most of these bodies are also self-constructed and self-regulating and that rarely works.

Also, if they charge extra because they belong to one of these organisations then walk away - this should have absolutely nothing to do with the charges.

You will see a lot of articles in the press denigrating the small local agencies, often coinciding with articles about people losing money and deposits, and telling people to go to the large associated agents - these articles are often written and/or sponsored by these agents and/or the associations so do be careful of what advice you take.

You will often find that smaller letting-dedicated agents are very committed to their customers as they don't have the sales side to worry about.

### **Finally...**

Due diligence is the key here – do your research. You often can't go wrong with personal recommendation so if you can get one then check it out – try many of the property related discussion boards that are around or join a local landlord association.

oOo

## **Acknowledgement**

The above information was supplied by Keys (UK) Limited. You can get more information from [www.keys-property.com](http://www.keys-property.com) and [www.keys-mortgages.com](http://www.keys-mortgages.com)

## **Disclaimer**

Keys cannot be held responsible for decisions you make as a result of the information featured in this article.

We have taken reasonable steps to ensure that the information this material contains is neither inaccurate nor misleading. Please note that the value of property, and any income derived from it, can fall as well as rise and that you may not recover the amount of money originally invested.

Past performance is not necessarily a guide to future performance. No information contained in these pages should be taken as a recommendation to buy, sell or hold properties.

We always recommend that you consult appropriate professionals including financial advisors, solicitors and accountants before making any property purchase or investment decisions.

Your home is at risk if you do not keep up repayments on a mortgage or other loan secured on it.

oOo