GREATER MANCHESTER **GOOD LANDLORD CHARTER**

# LANDLORD DEVELOPMENT TRAINING

## MODULE 1: PRE-TENANCY

# HOW TO USE THIS BOOKLET

This booklet is to support you in your learning as you study the Greater Manchester Good Landlord Charter Landlord Development Course.

You can read this booklet, which provides the full content of the module. You can also watch the presentation online.

Once you have watched the presentation and read the booklet, take the end-of-module quiz before you progress to the next module.

# MODULE 1: PRE-TENANCY

## 1.1 What do you need to consider before purchasing?

Before purchasing a property to let, it is important to consider the financial and management implications very carefully. Some matters to be considered are:

**The demand for accomodation**
In many areas, including popular inner-city locations, there may already be an oversupply of rented accommodation and it could be difficult to find suitable tenants.

**The sort of market that the property is intended to serve**
Broadly speaking there are 5 rental markets

1. Housing Benefit renters
2. Students
3. Working (or retired) tenants
4. Professionals
5. Luxury or corporate lets at the high end of the market

Each has its own characteristics. These will be discussed in section 1.2

**The potential return on your investment**
It is important to be realistic about the returns that can be achieved. When investing in property, it is more realistic to expect lower short-term gains and higher long-term profits.

**Property prices and taxation on investment returns**
Although over time the capital value of property tends to rise, in the short term, property prices can go down as well as up. You will also be liable to pay Capital Gains Tax if the value of the property rises from the purchase price and is subsequently sold.

**The level of experience in managing properties and tenancies required**
The knowledge and skill needed to be a landlord are considerable and the penalties for getting it wrong can be serious. This is particularly true for shared housing (Housing in multiple occupation or an HMO) .

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## 1.2 Private sector markets

When deciding to let a property, it is important to consider the market it is entering.
Broadly speaking, there are five private rented sector markets:

**Tenants in receipt of housing benefit or Universal Credit**
Likely to be more stable tenants
Generally, pays a lower rent than other tenants that is linked to either Housing Benefit or the Housing Element of Universal Credit.

**Students**
Renting to sharers or students results in higher occupancy rates and can maximise rental income.
Wear and tear will be substantially higher with a greater density of occupation. Many students may be living away from home for the first time and may not fully understand their responsibilities towards their property. Renting to sharers and students is also likely to bring with it the need to meet regulatory standards that have been set by the Government in respect of Houses in Multiple Occupation (HMO) and property licensing. These standards acknowledge and seek to address the higher risks associated with HMOs. Student lets may not extend to a full year with occupancy often from 1st September until 31st July the following year in line with academic study.

**Working or retired tenants not in receipt of benefits.**

**Professionals**
High rental income
Professional renters and their families may insist on higher standards and will expect showers and often ensuite facilities. Young professionals tend to be more mobile which may lead to higher voids and increased re-letting expenses.

**Luxury or corporate lets at the higher end market**

## 1.3 Letting options

There are several options that can be considered for managing a property, depending on the owner's own experience, skills and the amount of time that is available to be spent on the management process.

Each of the options given below has advantages and disadvantages but careful consideration should be given to ascertain which option is best to meet your circumstances:

### 1.3.1 Self-management

1. Is best for landlords who are confident that they know their responsibilities and what constitutes best practice in managing properties.
2. Saves the cost of an agent but can require considerable investment in time.
3. May not be suitable for landlords who do not live close to their properties or who are away from home for significant periods of time.
4. Self-managing landlords also have to promote their own properties for rent and this may entail paying a fee for advertising properties or engaging a letting agent to source & reference new tenants
5. If problems arise, self-managing landlords might require advice from a professional adviser such as a lawyer or accountant, which will come at a cost.

A professional landlord association is a good source of advice - and so is the Good Landlord Charter!

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## 1.3 Letting options

### 1.3.2 Lettings only

Lettings agents' responsibilities:

- Markets the property
- Advises on rent levels
- Finds tenant
- Checks references
- Right to Rent checks
- Provides tenancy agreement
- Handles deposit
- Creates inventory and schedule of condition report
- Moves tenant in, having collected first month's rent

Landlord's responsibilities:

- The ongoing management of the property

INVOICE

Cost?
A one-off fee (often equivalent to a month's rent)

### 1.3.3 Letting and rent collection

Lettings agents' responsibilities:

- Markets the property
- Advises on rent levels
- Finds tenant
- Checks references
- Right to Rent checks
- Provides tenancy agreement
- Handles deposit
- Creates inventory and schedule of condition report
- Moves tenant in
- Collects the rent

Landlord's responsibilities:

- Arranges or undertakes all necessary repairs
- Deals with ongoing tenancy issues
- Obtains and renews all required safety/energy certificates

INVOICE

Cost?

- A one-off fee (often equivalent to a month's rent)
- A monthly fee (often a % of the rent) for rent collection

**With this type of arrangement, it is important to avoid confusion and to make sure that the tenant is absolutely clear about who is responsible for which areas of management and who rent is paid to.**

## 1.3 Letting options

### 1.3.4 Full management

Lettings agents' responsibilities:

- Markets the property
- Sets rent levels
- Finds tenant
- Checks references
- Right to Rent checks
- Provides tenancy agreement
- Handles deposit
- Creates inventory & schedule of condition report
- Moves tenant in
- Collects the rent
- All repairs, maintenance and renewal of safety/energy certification

Landlord's responsibilities:

- No day-to-day management responsibilities

INVOICE

Cost?
A monthly fee (often 10-15% of the rent) plus VAT if applicable.

Please note - It is important that the owner agrees with the agent:

- The type and cost of repairs they are authorised to carry out without seeking further authorisation.
- What the division of repair responsibilities will be between the landlord and the agent, making it clear who is supposed to do what.
- The agent will usually agree to use the rent they collect to pay for repairs, but if repair costs exceed income, then the owner will need to pay any shortfall at that time.

Furthermore, a letting agent is exactly 'what it says on the tin' - the landlord's agent.
If the letting agent makes an error or, more seriously, breaks the law in what they do (or not do) on your behalf, the landlord is ultimately liable for the performance of the letting agent and its management and employees.
Consequently, in addition to due diligence in letting agent selection, a landlord must closely monitor and check that the letting agent is operating professionally and within the many laws that govern private residential letting.

## 1.4 Choosing self-management or a letting agent.

To help make this decision it is helpful to ask yourself the following questions:

| | Yes | No |
|---|---|---|
| Do you live near the property? | | |
| Is there anyone you know who lives near the property who will be able to help in case of emergency? | | |
| Do you have time? | | |
| Are you good with paperwork? | | |
| Are you comfortable dealing with people? | | |

If your answer to any of these questions is 'No', you are advised to find a reputable agent.

# MODULE 1: PRE-TENANCY

## 1.5 Choosing an agent

Most landlords have a fantastic relationship with their letting agents. However, it is essential to do your homework before entrusting your property to an individual or company. REMEMBER: actions taken by an agent are considered as if they were undertaken by the landlord.

**Shop around**

Comparing and contrasting the services of different letting agents in your area is vital and certainly not time wasted. We do this for things like insurance, so why wouldn't we do it for such an important decision?

**Think like a tenant**

Mystery shop the letting agents on your short list and try and put yourself in the shoes of someone who is looking to rent a decent home. Where would that person go – online, the high street or both? When you ring or email does the agent service come across as professional? They are the window to letting your property and first impressions count.

**Get recommendations**

Word of mouth is always the best recommendation. Other landlords' experiences are invaluable and you can hear their ideas at network events. Join in with landlord evenings, conferences and organisations which can help you meet your peers and industry professionals. Also spend time researching reviews online.

**'Boards breed Boards' – but are they the right ones?**

If a letting agent has many 'To let' boards in the area what does this say about them? Will the agent actively push YOUR property? You also need to distinguish between 'To let' boards and 'Let by' boards - as only the latter actually shows success.

Consider what is your main priority

Is it to achieve the highest rental income possible, or is the quality and history of the tenants more important to you to ensure you maintain rental income? Finding a quality tenant can be one of the more challenging hurdles. But when it's done right, you can achieve regular income at a level that is good for your business. What kind of guidelines would you want your agent to use to screen the tenants before they moved in?

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## 1.5 Choosing an agent


**Check the small print**

All professional letting agents will have a contract of service which should be signed/dated by both parties.

Make sure you understand the service you will be getting from your agent and all stated terms and conditions, especially the termination of the agreement clauses. The advert or sales pitch might be very tempting, but can a letting agent really run a sustainable business on £25 per month? The chances are there will be additional extras for things like 'property inspection' or 'inventories'.

Be careful about basing your choice on price alone – just because something is cheap, doesn't make it satisfactory.

**Do your homework**

Letting agents are in the main unregulated. However, more pro-active and professional letting agents will become part of an accredited body , e.g. ARLA or SafeAgent (previously NALS) . Others will pay for their staff to pursue qualifications in the field.

Above all ask for proof that the agent has:

- 'Property Redress Scheme membership' with one of the Government approved schemes (Property Ombudsman or The Property Redress Scheme)
- 'Client Money Protection' with one of the approved government schemes (Client Money Protect, Money Shield, PropertyMark, RICS, SafeAgent or UKALA)
- General Data Protection Regulation Licence.

**Consider your agent's strengths and weaknesses**

As with any business, each letting agent will have its strengths and weaknesses and will be better at managing a particular property type in a particular area.

For example, if you have a student property, a professional let and a small flat on the outskirts of town, nothing stops you from having 3 different agents if that gives you the best edge.

**Do I need a management service?**

If you live away from your letting area or simply don't have time to commit to your tenants and properties as you would like, then you may choose a 'fully managed' service from your agent.

To find the right service for you, you need to consider the following:

- Do they offer any additional services, for example, help carrying out renewal of annual gas safety certificates?
- Do they have a list of tenants waiting for properties?
- How will they advertise your property?
- How do they vet tenants and which referencing provider do they use?
- How often will they visit to carry out a full hazard risk assessment check?

## 1.5 Choosing an agent

**Consider ALL your options**

Councils are beginning to offer local letting agencies, whereby they take over the management of your property, in much the same way as a traditional letting agent but often at a fraction of the cost. Some even offer lease type agreements where landlords hand over the property for a specific period of time and receive less than market rent in return for less hassle. Tip: If going down the leasing route; ensure you check if this is ok with your insurance company and mortgagor first.

The latter is often beneficial at times in your life when your external stress is high and you do not have time to give to your letting business.

**For more information, visit:**

The Property Ombudsman

propertymark

safeagent

All lettings agents and property managers must join a government approved redress scheme. For more information, click here.

# MODULE 1: PRE-TENANCY

1.6 Pre tenancy checklist
Whether you choose self-management or use an agent, to be ready to rent you'll need the following things in place:

**Prescribed documents:**

- A valid Energy Performance Certificate (EPC).
- Electrical Installation and Condition Report (EICR).
- Current Landlord Gas Safe Certificate (if there is mains gas connected to the meter). Ideally, the expiry date of this certificate should be in 12 months time.

**Also arrange:**

- Landlord insurance.
- Council tax.
- Permission from mortgage provider to let to tenants.

## 1.6 Pre tenancy checklist

**1.6.1 Energy Performance Certificate:**
Landlords are required by law to have a valid Energy Performance Certificate (EPC) before a property is marketed/advertised for rent to a new tenant (or for sale to a new owner). It is important to allow viewers of the property to examine the EPC. Furthermore, a copy of this EPC must be provided to the tenant on or before the start date of the tenancy, and as a full paper copy unless the landlord has received written confirmation from each tenant that the guide can be sent and supplied as an email attachment.
Please note it is not an acceptable option for a web link to be provided to the tenant for them to download the EPC.

**What is an EPC?**
Energy Performance Certificates (EPCs) give home owners, tenants and buyers information on the energy efficiency of their property.
It gives the building a standard energy and carbon emission efficiency grade from 'A' (most efficient) to 'G' (least efficient).

**Who needs an EPC?**
If you are selling your home, you must order an EPC for potential buyers before you market your property. If you are renting your home, you must order an EPC for potential tenants before you market your property to let. If you are a buyer of a newly built property, you will need an EPC provided by the builder at time of completion. (This is a much more in-depth assessment document than those for properties not newly constructed)

**When did they come into force?**
1st October 2008.

**What are the consequences of not having one?**
A potential fine of up to £5000 enforced by trading standards.

**How long are they valid for?**
10 years

Since April 2018, rules have been in place across England and Wales, setting out minimum energy efficiency standards (MEES).
These regulations made it unlawful for landlords to grant a new tenancy agreement for properties that have an energy performance certificate (EPC) rating below E, from 1 April 2018, unless the property is registered for one or more exemptions in the central PRS Exemptions Register
Since 1 April 2020, landlords can no longer let or continue to let properties covered by the MEES Regulations if they have an EPC rating below E, unless they have a valid exemption in place.
For further information on EPC and official guidance, click here.

## 1.6 Pre tenancy checklist

### 1.6.2 Electrical Installation and Condition Report (EICR)

Landlords are required to provide electrical systems within rental properties in a safe condition at the start of each tenancy and ensure they are maintained that way.

New Electrical Safety Regulations came into force on 1st June 2020. An Electrical Inspection and Condition Report (EICR) is required for all private rental properties, not just HMOs.

For any tenancy that began from 1st June 2020, you have to provide each tenant with a copy of the EICR.

The report is compiled by a fully qualified electrical engineer and reviews all electrical cabling, circuits, sockets and fuse boxes to ensure they are fit for purpose and safe for domestic use. Any items not to current standard, or of concern, will be identified within the report for immediate rectification by the landlord.

The EICR normally lasts for 5 years unless the engineer recommends another inspection sooner. Many landlord insurance policies require this report to be carried out in any case as a condition of cover.

In addition, electrical appliances and equipment supplied by the landlord should be tested for safety on a regular basis (known as Portable Appliance Testing - PAT) Again, this can be an insurance requirement. For more information consult your electrical engineer.

Finally, during visits and void periods, landlords should carry out a visual inspection of meter installation, fuse box, electrical sockets, light fittings, visible cables and plugs for signs of damage, overheating or burning.

## 1.6 Pre tenancy checklist

### 1.6.3 Gas Safety

A Landlord must provide a current Landlord Gas Safety Certificate if there is mains gas connected to the meter.

Where mains gas or bottled/tanked Liquified Petroleum Gas is connected to the property (even if no gas appliances are connected) the landlord must provide each individual tenant with a paper or electronic copy of the latest valid Landlord Gas Safety Certificate.

The valid Gas Safety Certificate must be provided to the tenant before the start of the tenancy and as a full paper copy unless the landlord has received written confirmation from each tenant that the guide can be sent and supplied as an email attachment.

This certificate must be renewed every 12 months by a qualified Gas Safe Engineer and again, a copy of the new certificate provided to each tenant within 30 days of date of gas safety check.

Please note it is not an acceptable option for a web link to be provided to the tenant for them to download the certificate.

## 1.6 Pre tenancy checklist

### 1.6.3 Landlord insurance

For freehold properties, landlords need to have adequate buildings, contents plus full business cover.

For Leasehold properties, landlords need to have contents insurance, including full business cover, and have sight at each renewal period of the buildings policy held by the Managing Agent or Freeholder.

In all cases, insurance should be fit for purpose, i.e. appropriate for type of let and type of tenant, and have adequate landlord (business) cover as opposed to domestic property insurance.

For example, business cover will include Public Indemnity, Legal expenses cover plus provision of suitable alternative accommodation for tenants where their home becomes unsafe for habitation due to a building or supply of services issue.

# MODULE 1: PRE-TENANCY

You have reached the end of Module 1.

Please now complete the end-of-module test.

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