

10 tips for first-time landlords

If you are thinking of renting out your home, make sure you've done your homework, says **Lucy Alexander**

Property values nationwide have been flat — or falling if you take London out of the equation — for 18 months now, and the predictions are for more of the same this year. Homeowners who do not have to sell will probably dig in and wait for daylight. But what if you have to move? Lettings agencies are seeing more unplanned lettings by owners who are unable or unwilling to sell. The proportion of members of the Association of Residential Letting Agents reporting this phenomenon has risen from 40 per cent a year ago to 47 per cent today. The figure for London (where sales prices are still strongish) is only 17 per cent, while in the doldrums market of the North East and North West, the proportion of agents reporting rising reluctant landlord numbers are 67 per cent and 62 per cent respectively. If you are a reluctant landlord, be advised — there's more to it than handing over your keys to the Saturday boy at the nearest lettings agency. Here's what you need to know:

1) Your house is no longer your home

It's a small business. You need to start treating it that way. If you plan to let it for more than six months, it's worth smartening it up — you'll get it back in increased rental rates. Once your furniture is gone, your carpets and paintwork will look tired. Paint the walls, replace stained or worn carpet and get it professionally cleaned — this means that you can require the tenants to do the same when they leave.

2) Budget for repairs

Just because you put up with a cranky hot-water system doesn't mean your tenants will. The National Landlords Association (NLA) recommends budgeting 10 per cent of the annual rent for maintenance of an older, larger property — you can get away with less for a smaller, newer flat. Allow an additional 10 per cent for void periods, though this will be less in areas with high demand.

3) Do your admin . . .

You will need specific landlord's insurance. If your current insurer cannot help, ask

your mortgage lender — you will need to notify them anyway that you are letting the property. In some cases this will bring additional mortgage costs. You must also get a gas safety certificate (gassaferegister.co.uk), an Energy Performance Certificate (epcregister.com), and you must protect your tenants' deposit in one of three government-approved schemes (details on direct.gov.uk).

4) . . . and pay your tax

You will be taxed on your rental income, though some running costs can be offset. You will also probably have to pay some capital gains tax for the years you let the property, when you come to sell it. An accountant will be able to advise you.

5) Be careful when letting to sharers

If you let a large house, sharers are often more lucrative than a family. However, a house of three storeys with five or more unrelated flat sharers is officially a House in Multiple Occupation (HMO) and requires a licence (approx £1,200, renewable every five years). Some local authorities require licences for smaller properties. The purpose is to allow councils to restrict HMOs by denying licences — for example, if a street becomes dominated by noisy student lets. Frank Webster, of Finders Keepers, a lettings agency, says that in student-heavy Oxford the council has decided that "any house with three sharers who are not a family is an HMO". It is phasing in annual licences and in some cases will not allow landlords to let to sharers at all. Webster advises that anyone thinking of letting a large house should ask their local authority first.

6) Families may be a better option

More families with children are renting as they cannot afford to buy. You need to balance the increased wear and tear caused by children with the fact that you will not need an HMO licence and that families are often looking for a long-term let, thus freeing you from finding new tenants and risking void periods. If you are prepared to risk a contract with no break clause (of the type that is common with corporate lets, for example), you may

“Get your house professionally cleaned — this means you can require the tenants to do the same when they leave

attract a better class of tenant who will treat the property like their own home.

7) You don't need a letting agent . . .

You can advertise your home on the web and let it with no contract, but you risk burdening yourself with noisy tenants who fail to pay rent. As a minimum, you should take and check references from previous landlords and an employer, conduct an inventory and get the tenant to sign it, and require them to sign an assured shorthold tenancy agreement. The NLA will provide these services to non-members for a fee (from £12 for a basic tenant check). Beware of tenants offering cash sums upfront. According to Phil Stewardson, a landlord in the West Midlands: “Many landlords are tempted to forego background checks when a tenant offers a year's rent in cash. This is a popular ploy by criminal gangs planning to set up a cannabis factory or brothel.”

8) . . . but they can be quite useful

If you can't face the hassle, a professional letting agent will do everything for you. Expect to pay around 10 per cent of your rent annually in fees for finding tenants, doing the paperwork and collecting the rent, plus an additional 5 per cent for managing the property.

9) Protect your money

Lettings agents are unregulated. Choose an agent that is part of a consumer money protection scheme, otherwise you may lose your rent, and your tenants may lose their deposit, if the agent goes bust or misappropriates the funds. Look for the new SAFE Agent kitemark, approved by the Government, which shows the agent has client money protection insurance. “We think there are 10,000-12,000 letting agencies in the UK,” says Isobel Thomson, of SAFE Agent, “and only 45 per cent to 50 per cent are part of client money protection schemes.”

10) Get everything in writing

Some lettings agents charge large fees for paperwork. Get every cost set out in writing before you sign, and make sure you can exit the contract if you wish. Dylan Watkin, a PR executive who lets a flat in London, feels his agency — a well-known chain which is SAFE Agent accredited — is ripping him off. “I was charged 11 per cent plus VAT for a first-year contract, going down to 7 per cent plus VAT for the second year,” he says. “However, they are now charging 11 per cent for the second year, even though I was told 7 per cent verbally.” He is particularly incensed as he feels the agent is not even doing its job. “They've done nothing in the second year. In fact, when they were one month late in collecting the rent from my tenant, I ended up taking over the collection.” He is now considering court action.