

# Landlords Guide



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## 1 Introduction

There are lots of different reasons why people find themselves in the position of having a property to let; moving jobs, going overseas, inheritance, investment. You may be letting for the first time or may be an established investor. Whatever your situation we welcome the opportunity of providing you with a comprehensive, quality service.

Letting residential property can offer excellent long-term financial reward. However it doesn't come without its potential pitfalls. Our commitment is to do a complex job well, and to minimize the commercial and legal risk to you. With the present minefield of laws facing landlords it is essential that whoever manages your property has the professional skills to deal with every aspect of the let.

We recognize that homeowners and investors in property are generally busy people who have many other priorities and demands in life. This means they cannot always be available to handle day to day events connected with their property. Full property management is a simple and economic way to ensure the smooth running of a tenancy whilst allowing you to remain focused on daily living – with “peace of mind”.

However some landlords who live close to their let property may not require full management. They may wish to manage the property themselves, only using an agency for seeking out appropriate tenants or collecting the rent. Whichever choice you make, Letcom will provide you with a first class flexible service to meet your needs.

## 2 Return on Your Investment

Many people now see buying a property to let as an alternative investment to stocks, shares or pension. Or they rent out their house if they need to move and cannot sell their house. Whatever your circumstance, we strongly recommend that you take independent financial advice before letting - especially if you are borrowing in order to invest. Also you are liable for tax on the income from a rental property; see section 6.15 on page 8.

In simple terms your return on investment of renting out a property is affected by two main things: rental income and your expenses.

### 2.1 Rental Income

This will depend upon a number of factors including; supply and demand, condition, features, location, local amenities.

Normally the house features and location have the biggest effect on rental income. Clearly the number of bedrooms, bathrooms etc. have the biggest effect. However location is also very important with a property near the town centre or railway station will often fetching a premium.

## 2.2 Expenses

The amount of income will depend upon amount of rental income less monthly mortgage repayments and other expenses. Typically your **monthly expenses** will be:

- Mortgage
- Buildings and contents insurance
- Repairs and maintenance (unless caused by the tenant)
- If leasehold - ground rent and service charges
- Agent's fees - if you choose management option.
- If property not let for a period - utilities, council tax utilities and services.
- Legal expenses if required ("Legal Insurance" and "Rent Guarantee" can be taken out).

On top of these you may have setup costs, i.e. costs associated with getting the house ready for renting.

## 3 Agreements and Legal Requirements

### 3.1 Legal Requirements

This Guide cannot cover the all ins and outs of law relating to the letting of private residential property, but hopefully it serves in providing some understanding of the basics. The majority of legal requirements for the letting of residential private property can be found in the Housing Act of 1988, 1996 and 2004. If you would like a copy of this or would like to discuss or expand upon any particular issue relating the legalities of letting then we are more than happy to do so.

It is worth noting that changes were made to the law in the Housing Act of 1998 (as amended by the housing act of 1996). These laws governing the letting of residential properties made letting more attractive to landlords. It is now easier to recover possession when necessary. The new act also specifies types of tenancy.

### 3.2 Agency Agreement

Before managing your property we will provide you with a full copy of our agency agreement outlining our terms and conditions. On agreement of the contract each party will sign and keep a copy.

### 3.3 Tenancy Agreement

With effect from the 28<sup>th</sup> February 1997, under the provisions of the Housing Act's 1998 and 1996, all new tenancies are automatically deemed to be an Assured Shorthold tenancy unless parties involved agree otherwise. The 1996 Act made it possible for a landlord to let a property without going through a bureaucratic process as before. Assured Shorthold Tenancies no longer have to have a fixed term of 6 months. The tenancy can begin as a periodic tenancy or an agreement made which agrees a fixed term of less than 6 months. But landlords cannot seek a court order for possession before the end of six months, unless

one of the grounds in schedule 2 of the 1998 Housing Act applies e.g. Rental Arrears. The tenant and landlord/agency each have a signed copy of the tenancy agreement.

## 4 Safety Regulations

Landlords have always had a duty under common law to ensure the safety of rented property and contents so that no injury or damage is caused to the occupants, neighbours or public. There are many regulations which apply to let property and these must be adhered to by landlords. We list the primary ones below.

### 4.1 The Furniture & Furnishings Fire (SAFETY) regs 1988 (amended 1998 & 1993)

These regulations help to ensure high standards of safety are maintained. All furniture and furniture have to such that they pass the "match and cigarettes tests". Any mattresses, sofa chairs, headboards, bed bases or other soft furnishings with filling material must meet the regulation standards. Failure to comply with this legislation would lead to liability of the landlord in cases of injury or loss of life. Since 1990, all upholstered furniture sold in retail outlets has had to comply with the regulations and carries a permanent label accordingly.

It is the landlord's responsibility to comply with these stringent regulations, as failure to do so is a criminal offence.

Any furniture or furnishing not meeting this requirement must be removed from the property. Furniture manufactured before 1st January 1950 is exempt (material used before this not inflammable).

We can purchase, rent or get refurbished any furniture or accessories that may be required for the successful let of your property. This would not normally fall within the normal management service. Costing would be provided on an individual basis.

### 4.2 The Gas Safety Regulation

The Gas Safety regulation came into effect from the 31st October 1994. Under this Act all Gas, including propane-gas-fuelled appliances must be inspected annually if installed in rented properties. Records must be kept of all safety inspections and be available to tenants before the commencements of the tenancy and within 28 days of replacement. Accurate records of this check must be issued to ourselves as your agent. Only qualified firms or individuals (Corgi registered or Gas Board staff) may install or maintain gas appliances.

There are heavy criminal penalties imposed upon Landlords who do not comply with these regulations including potential fines of up to £20,000

### 4.3 Electrical Safety

The Electrical Equipment (safety) Regulations 1994 ("1994 Electrical Regulations") stipulate that all equipment provided for a tenancy, electrical or otherwise, must be fully operational and recently serviced. This means you will need a Domestic Electrical Installation Certificate

issued by a properly qualified electrician (*Part P Competent Person*) before you can rent out your property.

Unlike the gas safety (installation and use) regulations 1998, there is no legal requirement for landlords to have an annual check. However, the law is open to interpretation as landlords have to show due diligence for the safety of their tenants. Therefore strongly recommend that a qualified electrician carries out a safety check prior to the commencement of any tenancy and annually thereafter.

#### 4.4 Energy Performance Certificate

Since 2007 it is a legal requirement that any rented property has an Energy Performance Certificate. An assessor will visit the property, examines key items such as loft insulation, domestic boiler, radiators, windows for double glazing, and so on to produce an energy efficiency report for the property. Letcom can arrange this at a small additional charge.

#### 4.5 Smoke Alarms

We recommend that smoke alarms are fitted in every property. All properties since June 1992 must have mains operated interlinked smoke alarms fitted on every floor - see Building Regulations 1991.

## 5 Managing the rental

### 5.1 Deposits

A deposit which is normally equal to a month and half's rent should be taken at the beginning of the tenancy. It is also advisable, that once references have been cleared, that a holding deposit is taken against the property if there is a delay before the tenant can occupy the property.

#### Deposit Protection Scheme

As part of the Housing Act 2004 the Government introduced tenancy deposit protection for all assured shorthold tenancies (ASTs) in England and Wales where a deposit is taken. From April 6th 2007, all deposits paid under an AST should have been protected within 14 calendar days of receipt by the landlord. From 6th April 2012, deposits for all assured shorthold tenancies (ASTs) in England and Wales must now be protected within 30 calendar days of receipt by the landlord, this change is as a result of the Localism Bill 2011.

The legislation aims to ensure that tenants who have paid a deposit to a landlord or letting agent and are entitled to receive all or part of it back at the end of that tenancy, actually get it.

#### Who is affected?

The legislation covers virtually all new AST contracts through which private landlords let property in England and Wales.

However, the following will not need to be registered with a tenancy deposit protection scheme: resident landlords (those living in the property) landlords of tenancies with rent of over £100,000 a year company lets student accommodation let directly by universities or colleges.

Deposits taken before 6 April 2007 do not need to be protected by a scheme such as The DPS. However, as an existing tenancy is renewed and a landlord agrees a new fixed-term tenancy, the initial deposit taken must then be lodged with a tenancy deposit protection scheme.

## 5.2 Inventories & Schedules of conditions

Before the tenants occupy the property we will prepare a detailed inventory. This document then provides a clear record of the contents and condition of the property and is a vital tool should there be a dispute during or at the end of a tenancy. Should a landlord wish to prepare their own inventory, we ask that it is prepared in detail and typed and a disclaimer signed.

## 5.3 Receiving your rent

Tenants in most circumstances will pay monthly by direct debit. The rent is deposited in to the Letcom Client account and then paid directly in to your account less commission and any expenses. A statement will then be emailed or posted to you each month.

For accounting purposes, payments to landlords by us are made within 8 working days of the due date. Where payments are made directly into your bank account electronically you should allow 3 working days for clearance.

It should be noted that sometimes payments may be delayed for reasons that are beyond our control e.g. for example late or non-payment by the tenant or payment falling on a weekend or bank holiday. In these circumstances we cannot be held responsible for any charges you may incur from your bank or building society.

## 6 Frequently asked questions

Below we have listed some of the questions that clients might have. It is not an exhaustive list so do ask if there is a question that is not on this list.

### 6.1 What decorative order should the property be in?

A property should be in good decorative order before prospective tenants are shown round. A property offered in good condition will not only achieve a better rental figure, but will be well maintained by the tenants.

### 6.2 Furnished or Unfurnished?

There is no straight answer to this. In terms of rental value we have found that it makes very little difference whether a property is furnished or unfurnished. In general if you are looking for a professional or company let then we suggest you let the property furnished. For a furnished property you will need to comply with the Furniture and Furnishings (fire)(safety) regulations. All items that do not comply must be removed from the property.

In an unfurnished property there should be carpets, curtains, light fittings. We also suggest that you supply cooker, fridge and washing machine.

Legal rights to obtaining possession of the property remain the same whether you are letting furnished or unfurnished.

### **6.3 Should I let my mortgage company know?**

The consent of your lender should, in most cases, be obtained prior to letting. We will require copies of your lenders agreement to let your property.

### **6.4 Buildings Insurance**

Your property must have Buildings insurance throughout the tenancy. Most household policies do not automatically provide this cover. Your insurance cover will have to be specific to a property that is being let. Your insurer will need to be notified that a property is tenanted in order to adjust risks and premiums. You will need to notify your insurers once you know the completion date for tenants moving in.

### **6.5 Contents Insurance**

You will need to arrange adequate cover. As with building insurance the insurance will need to be specific that of a property being let. Even if the property is being let unfurnished there should still be adequate cover for curtains carpets and white goods.

Tenants are responsible for arranging contents insurance for their own goods and can also opt for accidental damage to cover any landlord items.

### **6.6 What should I do if my property is leasehold?**

The freeholder or agents should be notified before the property is let as this may affect the buildings insurance. We will require a copy of the lease to provide to the Tenant to ensure their compliance with the terms of your head lease.

### **6.7 Marketing of your property**

Letcom will market your property in a number ways. This will include advertising on internet websites, local press and display board outside the property.

### **6.8 If I am using an agency can I still decide who let's my property?**

We will keep you informed at each stage of the letting process and give you full details of the prospective tenants. You will then be in a position to decide which ones are most suitable.

### **6.9 Service contracts**

You are not obligated to have service contracts, however they are highly recommended, particularly for central heating. In the long run service contracts will avoid potential headaches and unseen costs.

### **6.10 Who pays for gas electricity water & council tax?**

These costs are the responsibility of the tenant who agrees to this when signing the tenancy agreement. The contracts are placed in the name of the tenant who is liable for the entire period of the agreement.

### **6.11 Who is responsible for maintaining the garden?**

The general up keep and tidiness of the garden is the responsibility of the tenants. However they should not be expected to undertake major work such as tree surgery etc. If the garden is large and requires a lot of work then employing a gardener may be a better option. All the relevant tools to do the job should be supplied by the landlord.

### **6.12 Who is responsible for any repairs?**

The landlord is responsible unless the need for repair is caused by the tenant. If you are using Letcom's full management service then we will handle any calls from the tenant about problems. See our agency agreement for more details of how this works.

### **6.13 What happens if the tenants damage the property?**

At the end of the tenancy (if the full management option is chosen) the contents and condition of the property are checked against the inventory. You will be given a report of any damage, the estimated cost of repair/replacement and recommendations with regard to the amount to be deducted from the tenant's deposit. We will then go through the process of agreeing this amount with the tenant. If an agreement cannot be reached then the decision may need to be made in court.

### **6.14 What happens if tenants will not pay their rent?**

We daily monitor the payment of rents. If a tenant falls behind in their payment of their rent then normally a letter or phone call is all that is needed. Should problem persist then a legal process may need to be put in to action. Please be aware that legal costs are the responsibility of the landlord, however insurance can be taken out to cover the cost in such an eventuality.

### **6.15 Will there be any tax liabilities?**

The income derived from letting your property is subject to U.K. tax whether you are resident in the UK or overseas. When completing your self-assessment form, rental income must be included. The tax rules are a little complex but information is available from the HM Revenue and Customs web site, or through a tax advisor.

If you are overseas or planning to go overseas then special rules apply. Normally an agent is required to deduct at source (i.e. deduct from rental income when received), however you may apply using an NRL1 form to obtain approval to receive rental income gross.

### **6.16 What happens at the end of a tenancy?**

We will advise the tenants and yourself approximately two months before the tenancy is due to expire and issue the appropriate Notices under the Housing Act 1988. If the tenants wish, and you agree, the tenancy may be extended.

At the end of the tenancy we will make checks against the original inventory and schedule of condition. If there is any damage beyond normal wear and tear then we will take up the appropriate action with the tenants (see above under deposits). We will also ensure the property is secure, give meter readings to utility companies and collect and handle keys.

We will ensure that the property is in the right condition for the next tenants to move in.

### **6.17 What if the tenants will not leave the property?**

If the tenants simply refuse to leave at the end of the tenancy then court action is the only solution. APP (Accelerated Possession Procedures) in certain circumstances can mean possession is regained in a few weeks. As above insurance can be purchased to cover the cost of legal proceedings