

# **Private Rented Sector Independent Research**

## **Report Summary**

February 2004

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## The Respondents

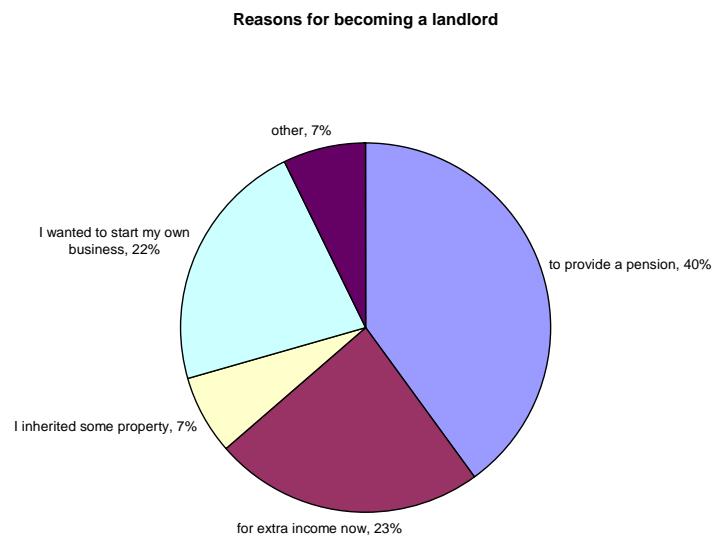
The survey ran on the web between November 2003 and February 2004. The author would like to thank all 252 respondents who took part and provided so many insights into the business.

Overall, there was a great variety of experience from the complete novice to the serious professional landlord with dozens of properties. Nearly a third of respondents owned just one property (29%), but most had many more. 11% owned between 12 and 30 properties; 7% more than 30. The average number of properties owned was 9. This mixture reflects the changing and disparate nature of landlords in the UK.

The average length of time in the business was 6½ years. Again, experienced varied widely: 18% had been landlords for less than one year. At the other end of the scale, another 18% had been operating for 'over 12 years'. A few had over 30 years experience, another had started a letting business in order to manage their growing portfolio.

A quarter of respondents were members of landlord associations – a much higher proportion than the general population of landlords – and this was taken into account in analysing the results.

The extent to which pension planning and business enterprise are important in the private rented sector can be seen from the chart below.



The bulk of respondents, 71%, undertook their own letting and management. Those who used a letting agency tended to do so for both letting and management (21%) rather than for letting only (8%).

## Letting Agents

Respondents were severely critical of letting agents.

Half (49%) considered letting agents were ‘overpriced for what they do’ and this was reflected in some of the comments received:

*...the charges they authorised for services were ridiculous.*

In comparison, a fifth of respondents (21%) thought that letting agents were ‘usually good value for money’ and 12% rated letting agency staff as ‘professional and expert in their field’.

Several comments referred to a previous bad experience with an agent

*I did use an agent, but was very dissatisfied and now manage myself.*

And several referred to the distinctions between different agencies:

*Good agents are worth 15%, but the poor ones have cost me thousands.*

Respondents who did use agents were asked how important it was that their agent was a member of a regulated body such as ARLA or RICS. Over two thirds thought it was ‘quite important’ (41%) or ‘very important’ (28%).

The responses were analysed to show whether letting agents managed property better than DIY managers in terms of the number of major problems.

The results make interesting reading. For landlords with just one property, agents appear to cause more problems than they solve (1.05 major problems per respondent, compared to 0.45 problems per respondent for DIY managers). However, looking at landlords with between 2 and 5 properties reveals a different story. The situation is reversed, with DIY managers encountering almost exactly twice as many problems per respondent as those using an agency.

One possible explanation could be that *choosing* the right agent is an obstacle that deters many landlords, but one that pays off when – and if – an efficient working relationship is established.

A key question was whether, as a result of their bad experiences with tenants, respondents would be more or less likely to use a letting agent in future. Most (62%) said their bad experience made no difference to their management intentions, but slightly more had been *deterred* from using an agent (22%) than those who had become more likely to do so (16%).

Respondents offered many comments on the relationship between landlord, agent, and tenant.

*Communication between agents and client landlords is vital but often rather poor.*

*Tenants have more respect when faced with the actual landlord than with a faceless agent who does not really care in the same way.*

*Poor agents who are only interested in their fee, can often upset the relationship between landlord and tenant.*

A small minority of respondents took a contrary position:

*I do not like to form a relationship with the tenant. My relationship is with the letting agent.*

Using an agent obviously works for some respondents.

*I used to do all the management myself, but then I got a life!*

## Accreditation Schemes

Various types of accreditation schemes are being established around the country, nearly all run or supported by local authorities.

Researchers have been aware of tension between landlords and local authorities, and this was also apparent in some of the comments received for this study. However, the majority of respondents (63%) were *positive* about joining an accreditation scheme (63% said they would).

This finding will encourage those working to develop groups. It should be noted, though, that the 37% of respondents who said they would *not* join had some strong views on the subject.

*How would it improve standards? It will just push up council tax as more people are employed regulating those that register.*

There was a widespread belief in the ‘no’ camp that accreditation schemes would be too bureaucratic (73%) and that they would be simply ignored by the ‘bad’ landlords who most needed to join (22%).

Some authorities are looking to adopt a stick and carrot approach to membership, with removal of accredited status from landlords that do not come up to scratch. This research suggests that a ‘double-carrot’ approach is likely to be more effective – sharing the benefits of membership and contact with other landlords (see below) without invoking the licensing elements that will alienate over one third of landlords.

## The Best Sources of Information

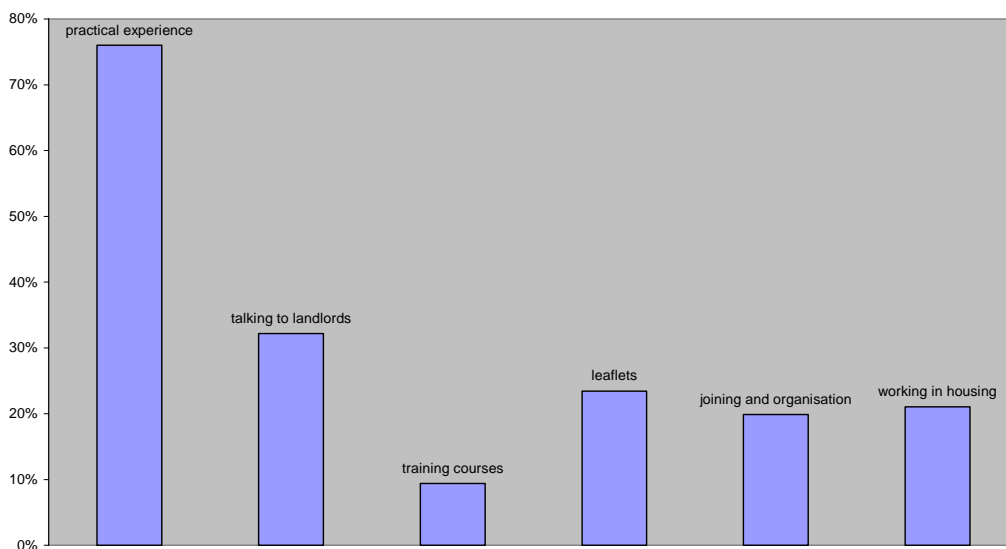
Being a landlord can be a lonely business. By far the most useful form of learning was ‘practical experience’. Over three quarters of respondents rated this as ‘very useful’ (76%). No other form of learning was so highly rated, but ‘talking to other landlords’ was in second place, and this could provide one motivation for joining an accreditation scheme with other landlords.

*It was very difficult in the beginning to find any advice. When I approached the local Housing Department they laughed at me. Everything is set up in favour of the tenant.*

*Not all solicitors can advise adequately on tenancy related issues but will still charge a professional fee, whilst voluntary agencies such as CAB virtually feel that advice to landlords is outside their remit. At the end of the day it really is about ensuring that the*

*tenancy is managed properly which, without specialist advice and the landlordzone internet site (a god send!!) would be impossibility.*

'Very' useful sources of information



There is no national register of private residential landlords. This makes it difficult to plan publicity or to share information. The Law Commission, for example, is proposing a complete overhaul of landlord and tenant law, and this will obviously be of great interest to landlords everywhere. Based on these findings, training courses are unlikely to be the most effective form of communication.

The internet was specifically mentioned by several respondents (landlordzone and landlordlaw in particular). Two others mentioned 'speaking to tenants' as an important source of information.

## Landlord Associations and the Need for a National Voice

Where letting agents had a tough ride in this survey, landlord associations received a boost.

In fact, only a small minority of landlords are members of associations – almost certainly less than ten percent nationally. Understandably, the majority of respondents were not able to report that joining an association had been 'useful'. However, for those that *had* joined – a quarter of respondents in this study - 96% found membership either very useful (56%) or useful (40%).

*Joining the Small Landlords Association has helped enormously.*

Three quarters of those not already members said they either would join or might join (37% and 38% respectively) whilst 20% said they would not.

Landlords also feel they are not being heard. More than four in five respondents (84%) said that landlords were not properly represented at a national level.

## **Buying, Selling, and Rent Levels**

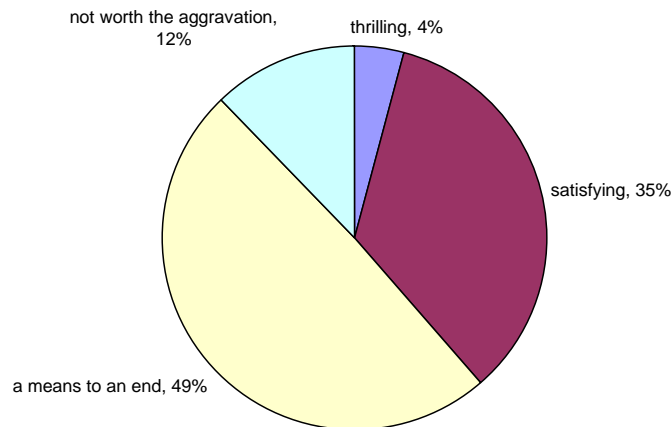
Historically, both tenants and landlords in the private sector have tended towards a high turnover. This trend is maintained by respondents to the study. Ten percent said they intended to sell up their business properties; a further 1% had already started to. However, this was more than counterbalanced by the 18% who intended to buy 'many more properties' and 37% who would buy 'one or two more'. Overall, more than five times more landlords intend to buy than sell.

Perceptions of rent levels vary enormously. One of the weaknesses of the study is that it did not distinguish the location of respondents – a likely source of the differences of opinion. Half (52%) believed rents had stayed the same over the previous eighteen months. On balance, more landlords had benefited from an increase in rent (32%) than a decrease (11%). This is contrary to many accounts of struggling rent levels during 2003, and confirms recent industry reports of a strengthening market.

## **Job Satisfaction**

There was no clear correlation between levels of job satisfaction generally and respondents' intentions to buy or sell property. This is probably a reflection of the number of people who regard their landlord business as purely a 'means to an end'. The exception was respondents who reported that being a landlord was 'not worth the aggravation', all but one of whom intended to sell up.

### How landlords regard their occupation



A fifth of respondents reported positive feedback from tenants.

*Your tenant plans to vacate the property. Based on past experience, your expectation is that they will...*

Thank you for being a good landlord	18%
leave a gift or card for you	3%
leave without trace	8%
just move out normally	71%

## Problems with Tenants

**Minor problems** had been encountered by 93% of respondents, experiencing one or more of the following:

- A difference of opinion on the amount of deposit to be returned
- A late rent payment
- Departing tenants not leaving the property clean and tidy.

**Major problems**, as you would expect, had been encountered by fewer respondents. Even so, seven out of ten had experienced at least one of the following situations:

- It became uncomfortable to visit the property
- Damage cost more to put right than the value of the deposit
- Unrecoverable rent arrears

Thirty per cent of respondents had never experienced any of these difficulties.

For all landlords, serious problems occurred at the following rates:

Uncomfortable to visit	1.2 cases per landlord
Damage exceeded deposit	1.3 cases per landlord
Unrecoverable arrears	1.7 cases per landlord

(note: cases could relate to the same tenant causing multiple problems)

Respondents were asked 'Did you learn enough from the experience, or was it sheer bad luck'. This question was to discover whether some landlords were able to 'manage out' problems.

On the face of it, landlords who said 'it won't happen again' *were* more successful at avoiding problems. The number of serious problems experienced by this group was almost half that of the 'bad luck' group. Unfortunately, the number of respondents in this study, and the number of different factors at play (length of experience, number of properties, use of an agent etc) means that it is not possible to give a definite view. This might be a profitable area for further research.

At any rate, the respondents who put their experiences down to bad luck were by far the majority (72%), with 28% saying that the problem would not be recurring.

This is a very striking statistic, and one that underlines the degree to which landlords are (or feel) powerless to protect their investment. Any reforms to the market will have to take account of this perceived vulnerability.

### Source of tenants

Respondents found their tenants in many different ways, including signs outside the property and links with local charities, colleges, and voluntary organisations. Each landlord will have a strategy that works best for them, and the study cannot prescribe the process. However, landlords might be interested in the following findings which match the source of the tenant to subsequent problems with the tenancy.

Usual source of tenant	Rate of major problems per respondent
Newspapers	1.7
Letting agent	2.0
Word of mouth	5.7

*(For other sources of tenant, there were not enough respondents in each sub-category to draw reliable conclusions.)*

The results of this study appear to lend weight to the respondent who wrote:

*Never rent to friends*

### Experience

Landlords with greater experience suffer fewer problems according to this study.

experience	Major problems
	(in 10 years)

2-5 years	3.5
6-12 years	2.4
	(per 10 properties)
2-5 properties	2.2
Over 30 properties	1.6

Interestingly, these figures suggest that more experienced managers can reduce the risk of serious problems by about one third. Perhaps it is two-thirds bad luck, after all!

## Are Credit Checks Worthwhile?

On balance, yes.

Over two-thirds of the worst-ever case histories related to tenants who had not been credit checked (68%), whereas the position was reversed for respondents who had 'never' experienced problems: 71% made credit checks as opposed to 29% who did not.

Of course, these statistics mean that 32% of worst-case stories occurred *despite* a credit check, and several respondents confirmed that the system was far from foolproof. It was said that references are much harder to obtain in areas of low rental demand, where many applicants have never worked or stayed with one landlord for any length of time.

Contacting employers, bankers, and previous landlords is an important part of any tenant credit check, but comments were submitted concerning the weaknesses of some references.

*Quite often the employer is not aware that the tenant does not intend to pay his rent and we therefore will get a good reference.*

*Our tenants have gone on to other rented properties we have not been asked for a reference for any of them.*

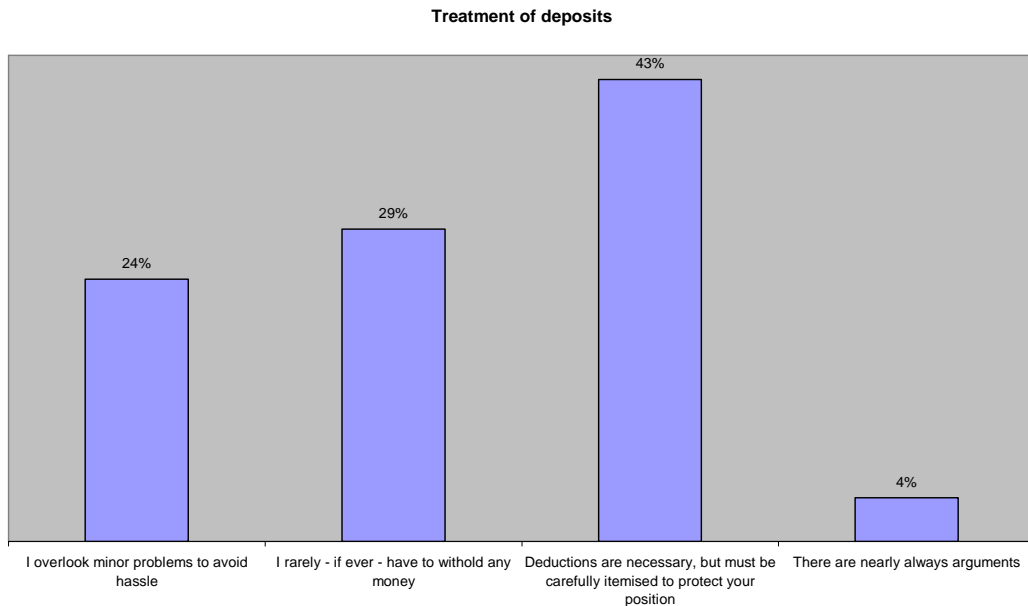
So, a credit check does not remove the risk of serious problems but it does raise the odds in favour of the landlord.

## Deposits

A thorny issue for landlords and tenants alike – and the cause of much controversy in recent years – is the way that tenants' deposits are handled. (For a flavour of the debate, see Government papers and some of the campaign material in the links section.)

Current legislation does not oblige landlords to pay interest on deposit money. Fourteen per cent of landlords in this study claimed that they had done so. (The high proportion of landlord association members was neither more nor less likely than non-member respondents to pay interest on deposits.)

A quarter of landlords said that they overlooked minor problems in order to avoid hassle with the tenant (24%).



Respondents were asked whether they would buy a bigger fridge for a tenant on request (on the basis that the tenant was a keen cook). Legally, of course, there is no obligation to provide enhanced facilities, and this question was to reveal the extent to which landlords will go beyond the legal minimum to satisfy their tenants.

A very small number, 5%, said they would buy a new fridge unconditionally. Many more, 44%, said they *might* buy a new fridge, but it depended on what the *tenant* was like. It is obviously very important for tenants to make a good impression on their landlord. (It might be asked whether basing decisions on an impression of the tenant risks getting into a downward spiral – a reluctance to maintain a property for a ‘bad’ tenant makes the tenant worse and so on. However, this question was about an *improvement*, not a repair, so it is not possible to draw that conclusion.)

Showing sensitivity to the market, 11% said that they would not buy a new fridge straightaway, but would remember to upgrade it when it next had to be changed.

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Comments and questions to the author are welcomed

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## Links to further information

Links are for the possible convenience of readers only and should NOT be regarded as an endorsement or a criticism of the organisations concerned. All the links were working at the time of writing, but no responsibility can be taken for the content, security, and reliability of third party sites.

Accreditation Network UK (ANUK)	<a href="http://www.anuk.org.uk">www.anuk.org.uk</a>
For official reports on the Tenancy Deposit Scheme and the Government's Consultation document, visit the 'housing' section at	<a href="http://www.odpm.gov.uk">http://www.odpm.gov.uk</a>
Landlord-Law	<a href="http://www.landlordlaw.co.uk">http://www.landlordlaw.co.uk</a>
Landlordzone	<a href="http://www.landlordzone.co.uk/index.htm">http://www.landlordzone.co.uk/index.htm</a>
Law Commission (tenancy proposals)	<a href="http://www.lawcom.gov.uk/files/lc284sum.pdf">www.lawcom.gov.uk/files/lc284sum.pdf</a>
LettingZone	<a href="http://www.lettingzone.com/">http://www.lettingzone.com/</a>
The Association of Residential Letting Agents (ARLA)	<a href="http://www.arla.co.uk/">http://www.arla.co.uk/</a>
The Residential Landlords Association (RLA)	<a href="http://www.rla.org.uk/">http://www.rla.org.uk/</a>
The Royal Institution of Chartered Surveyors (RICS)	<a href="http://www.rics.org/public/">http://www.rics.org/public/</a>
The National Landlords Association (formerly the Small Landlords Association)	<a href="http://landlords.org.uk">http://landlords.org.uk</a>
To find your local association via the National Federation of Residential Landlords (NFRL)	<a href="http://www.nfrl.org.uk/homepage.htm">http://www.nfrl.org.uk/homepage.htm</a>
You can read about the campaign to regulate deposits at	<a href="http://www.shelter.org.uk/">http://www.shelter.org.uk/</a>