



Becoming a landlord: What you need to know

More people are turning to bricks and mortar to fund their retirement or as a more reliable investment vehicle by becoming a landlord.

Good returns on investment are possible, but there's more to being a landlord than just return on investment. There are rules, regulations, duties and legal obligations that must be followed. Here's our summary to what's involved.

Buy to let mortgages.

If you plan to become a landlord and you're not thinking of renting out your existing property, you'll need to find (and pay for) a suitable property you can let. It's essential that you consult legal, financial, tax and property management professionals first. Their advice will help prevent unforeseen problems and give you the information you need so you can make an informed decision about becoming a landlord.

The most common way of buying a property to let is through a buy-to-let mortgage, although there are restrictions on the age and property type these mortgages may cover. There are plenty of buy to let deals available from mainstream lenders and specialist brokers, yet they tend to be more expensive than conventional mortgages. The majority of buy to let lenders also demand a much bigger deposit than required for a standard 'residential' mortgage with most lenders currently unwilling to advance more than 75% of a property's worth.

There are numerous other costs to factor into the equation on top of the deposit and mortgage payments: conveyancing costs, legal fees, stamp duty, survey costs and letting and managing agent fees. Income tax (on the rental profits you make) and capital gains tax (if you sell the property). Mortgage repayments you will have to meet if the property is ever empty, the cost of landlord insurance, ongoing maintenance and repair and buying furniture if you want to let furnished.

Seeking advice from professionals will help you be certain you can cover these expenses before you take things further.

What to look for in a rental property

Identifying who you want as tenants-families, students, young professionals or corporate renters-will help you decide the kind of property you should buy. When you have a firm idea of the kind of tenants you would like, you should invest in the kind of property those tenants will find attractive.

The key to buying a rental investment rather than buying for your own residential use is to remember that you are looking for properties that offer the best return for your money, not necessarily those that appeal to your own taste. Older or period properties, although appearing more desirable and attractive to you, may require more expensive maintenance than recently



built flats or houses. Keep an eye on local press, property websites and visit estate agents to get an idea of rental hotspots and the kind of properties that seem in demand.

The location of the property will be important to the target market you want to attract. If you are identifying young professionals as your target market, look for proximity to the local tube, national rail or road links. If you are targeting young families, look for houses with a garden which are close to shops and good local schools. Whatever your target market, make sure the property you buy has the features those potential tenants would expect.

Preparing your property for letting

First impressions count so it's vital the property looks its best – inside and out. You may have to spend some time and money upfront decorating and modernizing the place to an adequate standard. Check upfront with your local council whether you will be responsible for council tax during empty periods and budget accordingly.

If the property is to be occupied by more than one family or by several persons, this constitutes a House in Multiple Occupation (HMO) so you need to check upfront with your local council whether you'll need to apply for a licence to let on that basis and further regulations will apply.

Finding a tenant and managing the let

The majority of private landlords prefer to leave the task of finding a tenant to a letting agent. There are advantages to using a locally-based, professionally qualified and licensed letting agent who will market your property effectively and conduct viewings. They know the rental prices being achieved in your area and have access to the kind of quality tenants interested in your property.

Once you've sourced suitable tenants, you have the option of managing the let yourself or hiring a managing agent to work on your behalf. Much depends on your circumstances and whether you have the time/contacts required in managing a rental property. If you are living abroad, for example, it usually makes sense to employ a managing agent. You will also need to inform the utility suppliers and local authority council tax department of the new tenants details when the property is let.

Whether you let and manage things yourself or employ an agent, someone will need to vet potential tenants, conduct credit checks and obtain bank details, arrange tenancy agreements, deposit protection and inventories, organise the collection of rent and make provision for repairs during the tenancy. It will also be necessary to take out buildings and/or contents insurance for the property to be let.

Discrimination

Whilst it is perfectly acceptable to specify preferences such as non-smokers, no pets, etc. for your rental property, it is illegal to refuse to let (or imply such in any advertising), imposing higher rental or deposit charges or offer less favourable terms of tenancy on the grounds of their 'protected characteristics' as defined in the Equality Act 2010. Those include age, gender reassignment, marital status, pregnancy or maternity, race, religion or belief and sexual



orientation. It is also an offence to discriminate against individuals with a disability as defined in the Disability Discrimination Act 1995. Although landlords are not obliged to alter a property to accommodate a person with a disability, they must not prevent a tenant with a disability altering the property to improve its access.

Health and safety responsibilities of a landlord

As a landlord, you have legally imposed and unavoidable responsibilities and duties to prevent tenants being injured and protect yourself from possible legal action that could result in substantial fines or even a prison sentence. If you let a property equipped with gas appliances you have three main responsibilities:

- **Maintenance:** pipe work, appliances and flues must be maintained in a safe condition.
- **Gas safety checks:** a 12 monthly gas safety check must be carried out on every gas appliance/flue. A gas safety check will make sure gas fittings and appliances are safe to use.
- **Record:** a record of the annual gas safety check must be provided to your tenant within 28 days of the check being completed or to new tenants before they move in. Landlords must keep copies of the gas safety record for two years.
- **Smoke and Carbon Monoxide Alarms:** As from 1st October 2015 all private rented property are required to have working smoke alarms on every floor of their property and carbon monoxide alarms in rooms where a solid fuel heating system/appliance is installed. Alarms must be tested at the start of every new tenancy.

All installation, maintenance and safety checks need to be carried out by a Gas Safe registered engineer.

Any electrical wiring in the property must be safe and should be inspected by an electrician approved by NICEIC (National Inspection Council for Electrical Inspection Contractors). Wiring more than 15 years old should be inspected on a regular basis. Even recent installations should be re-inspected at least every 10 years. If electrical equipment is provided (fridge, washing machine, microwave, etc) for the tenants use, those must be regularly tested for safety and recorded accordingly.

Regulations about fire-resistant furniture are strict for rental accommodation and all relevant items must conform to the guidelines set out in the Furniture and furnishings (Fire) (Safety) Amendment Regulations 1993. Anything made before 1988 is unlikely to comply with the required standards which also applies to any upholstery items, bed bases and mattresses.

Landlord inventory

The landlord inventory details the contents of the property and their condition on the day the tenant moves in. Most insurers insist this document is comprehensive and complete as it is essential evidence in any possible dilapidations dispute. When the tenant moves in, the tenant and agent (or you depending on the service chosen from the agent), will be expected to agree the exact condition of the contents of the property. All parties will sign the inventory. It is usual for a check out against the inventory to be scheduled on the day the tenant moves out.



Assured Shorthold Tenancy Agreement (AST)

The tenancy agreement is the legally binding contract between you and the tenant that will form the conditions of the let. The Assured Shorthold Tenancy (AST) is now the most common form of tenancy agreement and sets out the obligations of both tenant and landlord. The AST gives the landlord the right to repossess the property at the end of the agreed term. It's not unusual for the tenant to be given a Section 21 Notice after the outset of the AST confirming the landlord's right to start repossession proceedings at the end of the agreed term if the tenant does not vacate voluntarily. The Section 21 Notice is only valid if served after any deposit has been lodged in a recognised tenancy deposit scheme.

There is no minimum fixed term specified in an AST although the tenant has the right to remain in the property for at least 6 months. Where the tenancy is for a fixed term of more than 3 years, it must be created by deed otherwise it will be void.

It is possible to obtain DIY tenancy agreement packs from high street stores or the Internet. Generally, these documents are at best too general to be of any real use and at worst, so badly written that they lead to problems at the termination of the tenancy. When the tenancy agreement is prepared by legal experts (whether via an agent or directly), you can have confidence it will be fit for your unique circumstances and that you have complied with the required deadlines and actions to make the agreement valid.

Tenancy Deposit Schemes

It is standard practice to request a deposit from the tenant to cover possible damage beyond normal wear and tear or in case the tenant leaves without paying the rent. The deposit is usually equivalent to more than 1 months rent and is paid alongside the first month's rent in advance. Since April 2007, any deposit taken from a tenant as part of an AST must be protected by lodgment in a Tenancy Deposit Scheme to avoid severe penalties. There are 2 types of scheme: 'custodial' and 'insurance based'.

Problems: dilapidations claims

These can be a source of contention because tenants often dispute claims on the basis that: they did not cause the damage in the first place, the damaged items was like that at the outset of the tenancy or the condition of the item was such it was worthless in any event. The obvious way to avoid problems here is to ensure you have a fully comprehensive and mutually agreed inventory and schedule of condition at the outset of the tenancy including receipts for items purchased. This will make it much easier to reclaim costs at the end of the tenancy, especially if the tenant has only been in the property a short while. Tenancy Deposit Schemes will insist that any landlord has such an inventory and schedule of condition document and will probably refuse to deal with any dispute without it.

Problems: rent arrears

Rent arrears are a serious matter and do require immediate attention, but often taking legal action (even if entitled to do so) is not the best way to handle things initially. It's always best to contact your tenant first. If your tenant is usually dependable and appears to be having a



temporary problem, it's often best to help them through a short term sticky patch. That way, they'll be grateful and be a better tenant in future.

However, if your tenant still owes rent and remains in the property, you can serve a Section 8 Notice for possession. Drafting this notice requires careful attention to detail and making sure that it's served correctly in accordance with the regulations so in most cases, is best prepared by a legal expert. If the tenant still doesn't pay by the time the Notice expires, proceedings can be issued in court to get a possession order. If your tenant still doesn't leave by the date set by the court, court officials (court bailiffs) can then be called to remove the tenant.

Problems: squatter evictions

It's important to remember that a tenant who refuses to leave our property on the expiry of a tenancy or the expiry of a Section 8 or Section 21 Notice is not a squatter. However, if you do have squatters who refuse to leave your property, recent changes to squatting laws promise a swifter and more efficient remedy with the Legal Aid Sentencing and Punishment of Offenders Act 2012 making 'squatting in a residential property' a criminal offence punishable by up to 51 weeks in prison or a fine of up to £5,000.

Want to know more?

If you are thinking of becoming a landlord, talk to me first. Letting is a complex, specialist field incorporating more than 50 Acts of Parliament and 70 sets of regulations which landlords should be aware of.

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