

LAWPACK

PROPERTY SERIES

# Buy-to-Let Bible

A property millionaire's guide  
to the buy-to-let world

INCLUDES TOP 10  
PROPERTY  
HOTSPOTS

Ajay Ahuja BSc ACA

This is an excerpt from Lawpack's book *Buy-to-Let Bible*.

To find out more about buy to let property investment, [click here](#).

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by Ajay Ahuja

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For convenience (and for no other reason) 'him', 'he' and 'his' have been used throughout and should be read to include 'her', 'she' and 'her'.

# Contents

<i>About the author</i>	ix
<i>Introduction</i>	xi
<b>1 The initial investment</b>	1
Raising the initial investment	7
If all else fails	11
Get a 100 per cent loan to value residential mortgage	12
Create a vendor deposit	12
Get cashback on completion	14
<b>2 Finding the right buy-to-let mortgage provider</b>	17
What's best for you?	18
Your initial investment	18
The purchase price	19
The type of property	19
Your personal credit history	20
Your attitude to risk	21
The degree of aftercare	23
Duration of borrowing and maximising cash flow	23
Typical profile	24
<b>3 Finding the right property</b>	25
What if you cannot find a 12 per cent yield?	26
What about capital appreciation?	27
What to do in the event of a crash	27
How to achieve a higher return of 12 per cent	28
Refurbishment	29
What to look for when viewing a property	30

Making an offer	31
Buying at auction	34
Step 1 – Go to an auction!	35
Step 2 – Register	35
Step 3 – Get the sales schedule and view	35
Step 4 – Instruct your solicitor	35
Step 5 – Financing	36
Step 6 – Bidding	36
Step 7 – Successful bid	37
Step 8 – Unsuccessful bid	38
Step 9 – From contract to settlement	38
Step 10 – Doubts	38
<b>4 Finding the right tenant</b>	<b>39</b>
The property	39
You!	40
Your lender	42
Advertising for a tenant	42
Contacting the local council	42
Advertising with large local employers	43
Contacting local accommodation projects	43
On the Internet	43
Advertising in the local press	43
Through a letting agent	44
If you can't let the property	45
Credit checking your tenants	46
Dealing with councils for housing benefit payments (DSS)	49
The relationship between landlord and tenant	50
Rent collection	50
Using a letting agent	51
Via your bank	53
Through the post	54
Face-to-face	54
Minimising void periods	55

Neutral decoration	55
Invest in high demand areas	55
Be less fussy!	56
Invest in a property for which there is high demand	56
Advertise the property in adequate time	57
<b>5 Expanding your portfolio</b>	<b>59</b>
The revaluation trick	59
Risk analysis for the future	61
React to changing market conditions quickly	61
Protect against threats to your long-term income	62
Property crashes and how to avoid them	63
<b>6 Tax</b>	<b>67</b>
Types of tax	67
Income Tax	68
Capital Gains Tax	74
<b>7 Legal aspects</b>	<b>77</b>
Contractual	77
Lender	78
Tenant	78
Insurers	86
Letting agents	87
Regulatory	87
Gas safety	88
Electrical safety	88
Fire resistance	89
Tenancy deposit schemes	89
Property licensing for houses in multiple occupation	92
All-encompassing	94
The law of tort	94
Criminal law	95

<b>8 Reference chapter</b>	97
100 per cent LTV mortgage providers	98
Buy-to-let mortgage providers	108
90 per cent LTV	108
85 per cent LTV	113
80 per cent LTV	122
75 per cent LTV	132
65 per cent LTV	139
List of property websites	145
Sales and rental websites	145
Sales only websites	147
Rentals only websites	147
Mortgage brokers	148
List of accommodation projects	148
England (North)	148
England (South)	156
Northern Ireland	167
Scotland	167
Wales	171
List of hotspots	175
What is a hotspot?	175
Identification of a hotspot	175
My top 10	176
List of freephone/lo-call providers	194
List of credit-checking agencies	195
Guaranteed rent and maintenance contracts	196
Letting agents	197
Management software providers	198
EZPZ Landlord – product details	198
Local newspapers	200
List of auctioneers	201
 <i>Glossary</i>	 205
<i>Index</i>	211

**List of figures**

Figure 4.1 Standing order set-up	53
Figure 7.1 Example Assured Shorthold Tenancy Agreement	80

**List of tables**

Table 1.1 Risk classes	2
Table 1.2 Raising the initial investment	7
Table 2.1 Types of interest rate	22
Table 4.1 The eight categories of tenant	40
Table 5.1 Threats and effects of diversification	63

# About the author

Ajay Ahuja has been investing in property since 1996. He personally owns a portfolio of 200 properties worth £13.6m and has helped over 500 people invest in exactly the same sort of properties he has invested in.

All in all, he has sourced over 1,000 cash flow positive properties for clients in the UK and USA and he has helped clients build a healthy current income. He has even helped people leave their nine-to-five jobs and go on to be prolific professional property investors.

You can find out all about what Ajay has to offer at [www.ahuja.co.uk](http://www.ahuja.co.uk).

# Introduction

I started virtually with nothing. I bought my first property when I was 24 with £500 and now, at the age of 35, I own 200 properties worth over £13 million and I earn an income in excess of £500,000 per annum. It's not difficult but it requires DEDICATION, PERSISTENCE and DISCIPLINE. If you lack any of the above, then forget it.

My dedication, persistence and discipline about being rich were not driven by money but by freedom – the freedom to do what I like, when I like, without worrying about my boss or my wallet. Freedom doesn't have to be your driving factor; it could be a brand new Ferrari or private schooling for your children. Whatever it is, it's this that will keep you going. With the right properties, financial products and tenants, there is no doubt you'll succeed, and this book will show you how to go about finding the right properties, financial products, tenants and more.

So why choose property? Why not invest in stocks and shares? The first reason is that property carries an inherently low risk factor. Houses will not go out of fashion or become obsolete like services or products. They are an essential for us all. That's why house prices have consistently doubled every 10–15 years over the last century. Coupled with the fact that monthly rental values rise with wages (which is a function of inflation) and that the mortgage payment is relatively fixed (only altering with interest rate fluctuations), the profit element always rises. In addition, after the bills have been paid, the rent is all profit. That's why many people see investing in property as their pension fund.

The second reason is basic economics. With an expanding population, fragmenting families, an increasingly mobile workforce, fewer properties for sale and fewer council owned properties, THE DEMAND FOR RENTAL PROPERTIES EXCEEDS SUPPLY.

The third reason is an inherent attribute in all of us – we're lazy! To play the stock market properly requires lengthy research, ongoing monitoring and nerves of steel for the duration of the investment. That's why three out

of four private investors lose money. When a property is set up properly, you just sit back and watch the money roll in.

I am a chartered accountant. I left employment when I was 27 to get into the property business and I must admit the training I received in accountancy and, more importantly, in business has helped me in my success. However, the principles involved are not difficult to grasp. I bought my first property in 1996 for myself to live in, couldn't get used to it, and so let it out. I soon realised that the tenant was paying my mortgage as well as my beer money (about £120 per month), and it required minimal effort from me. I thought, 'This is easy!' so I bought another one and did the same. 198 properties later...you get the idea.

So whether you're thinking of creating a multi-million-pound property empire or simply buying the house next door to earn a modest secondary income, this book is for you. But before you get pound signs in your eyes you have to ask yourself: Is property right for you? There are four key questions you have to ask yourself:

1. Can I budget well?
2. Do I like and am I capable of dealing with people from a range of backgrounds?
3. Do I like property?
4. Am I a responsible person?

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## **Can I budget well?**

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Are you the type of person who spends his wages before they are earned? Do you often use your overdraft facility and credit cards to fund your lifestyle? Do you make impulse purchases on the high street and then regret them later? Do you wake up in the morning after an evening out and wonder how you managed to spend all of the £100 that was in your pocket the night before? If this sounds familiar, then investing in property is currently not for you. Investing in property could be an option at a later date but your spending has to mature. A mortgage is a legal commitment to pay a sum of money on regular set dates and a breach of this commitment can result in damage to your credit rating and it could ultimately lead to bankruptcy.

Sometimes rent from several properties comes in cash on the same day. I might have £3,000 in cash in my pocket and it certainly gives you a feeling that you're £3,000 richer, but you're not! You've got to pay the mortgage, service charges, building insurance, etc. You have to be disciplined enough to bank the cash and not assume that all the rent is profit, which is surprisingly easy to forget.

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## **Do I like and am I capable of dealing with people from a range of backgrounds?**

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The type of people you'll be meeting with will be:

- **Tenants:** They can be of any age over 18, from any profession, male or female, from any race or religion. Have you got any hang-ups about a certain group of people?
- **Estate and letting agents:** Despite what people say about agents, my experience with them is that they conduct themselves in a professional manner. They can be a bit pushy sometimes, but you've got to expect that when dealing with people whose business depends on the sale or management of an asset worth many thousands of pounds. Are you easily persuaded? Can you stand your ground?
- **Solicitors:** Usually very intelligent people. Can you convince him of your intelligence so that he doesn't keep you in the dark when you want to know what's going on?
- **Lenders:** Your point of contact is normally a call centre operator. Are you able to keep your cool to extract the right information from the operator?
- **Mortgage brokers:** Again, very sharp people. Can you keep up with his calculations? Are you asking the right questions?

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## **Do I like property?**

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There is absolutely no point in getting involved in property if you're not interested in property. Any successful businessman will tell you that if

you're thinking of starting a business, the first thing you've got to ask yourself is if you enjoy the business you're getting into. Do you believe in the product? Is the business you are contemplating something that your mind naturally wanders to? Is the line between work and pleasure blurred when it comes to looking at and maintaining property?

It's your interest in property that will ensure that you dedicate the correct amount of time in order for your property business to succeed.

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## **Am I a responsible person?**

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You have many legal obligations to your tenant, lender and letting agent. Property is a serious business. You have to be aware of these obligations and be prepared to fulfil them. Failure to do so can have serious repercussions, including jail!

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## **Well, is property for you?**

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If you can answer 'Yes' to three out of four of those questions, then you're basically ready for property investment. To be really good, though, you need to work on the question you answered 'No' to. If you answered 'Yes' to all questions, then there is nothing to stop you from becoming a millionaire within the next 10 years, and that is fact. The most common type of business in the last 50 years that made people millionaires is either commercial or residential property.

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## **The formula**

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The formula detailed below is the formula that has made me a millionaire. The same formula has created many millionaires – it's nothing groundbreaking or original. Property is inherently a long-term path to wealth – that is the nature of property. If you have the patience to play the property market, you'll make money. I have to admit that my rapid acquisition in wealth is partly due to the property boom since 1996, but it's also adhering to the principles I stuck to, detailed in this book.

## The formula is simple

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- **Find the initial investment:** Starting a business requires some initial capital, but getting into the property game isn't as expensive as you may think. It's possible to start with nothing! Chapter 1 deals with how you can identify your attitude to risk and it provides inventive ways of how you can raise your initial investment so you can purchase your first property. Once you've raised the initial investment, you can progress to finding the right lender to finance the property you wish to buy.
- **Find the right lender:** In chapter 2 you'll create a profile most suited to your personal circumstances and attitudes in order to find the right lender for you.
- **Find the right property:** From chapter 3 you'll be able to identify easily properties that can give you a significant return on your investment. You'll be taught what to look for when looking for a property, how to make an offer, how to identify properties with returns in excess of 25 per cent and whether or not to refurbish.
- **Find the right tenant:** Finding the right tenant is the key to the success of your investment. In chapter 4 you'll identify what tenant is best for your property, you and your lender and where to advertise. Chapter 4 will examine the benefits of credit checking, the relationships between landlord and tenant, and rent collection.
- **How to create and expand your portfolio:** How to own a multitude of properties by the secret of remortgaging and to keep your portfolio by adopting risk management techniques. Check out chapter 5.
- **Minimise tax:** Chapter 6 deals with how to avoid (but not evade!) tax in connection with property.
- **Operate legally:** Chapter 7 deals with all the legal aspects a landlord might face when investing in property. It covers the types of contracts you'll enter into, the regulations governing residential letting property and the law in general.
- **Essential references:** Chapter 8 is a one-stop shop of all the addresses, phone numbers and websites that relate to investing in property. This includes, among others, hotspot areas to invest in, lenders, insurers and accommodation projects.

## CHAPTER 4

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# Finding the right tenant

It's no good just finding a tenant. It has to be the right tenant. What defines the right tenant will depend on the following factors:

1. The property
2. You!
3. Your lender

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### **The property**

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If you've acquired a private one-bedroom riverside apartment in a central location, then a single mum on benefits is probably not the most suitable tenant. When looking at properties, it's a good idea to build up a picture of the tenant you think is most suited to it. A tenant can only fall into one of eight general categories based on the size of the family unit and whether he is working or claiming benefit. The table on pages 40–1 suggests which property is suited to each category of tenant.

So, if you buy a private one-bedroom flat, you know that the right tenant is a working single person or couple. You need only advertise for that tenant – 'suit working person or couple', the advert might read. If you misplace a tenant at your property, it will only lead to the hassle of finding another tenant later on. It's worth noting that a two+-bedroom ex-local authority house meets six out of the eight tenant categories.

You could use this table to dictate the type of property you buy. For example, if there are a lot of single parent DSS claimants in the area looking for properties, then a two-bedroom ex-local authority flat might be the right property to go for. If you wish to go for the minimum risk route, then go for the two+-bedroom ex-local authority house.

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## You!

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If you're going to manage the property yourself, then the most important person in this whole tenant-choosing process is YOU! If you feel you can get on and deal with only a certain category of people, then choose them exclusively. If you're a professional person used to dealing with only professional people, then steer towards private properties in the nicer areas and vice versa.

Personally, I have no prejudices or hang ups – apart from two:

1. People who can't speak English
2. Young couples under 25

It can be very difficult to extract rent from tenants when you cannot communicate with them. If there is an initial language barrier, then I can foresee only problems. Unless there is an intermediary, such as a social services officer because social services are paying the rent, then it's OK. Otherwise, I would steer clear of such tenants.

	<b>Claiming benefit</b>	<b>Working</b>
<b>Single person</b>	Ex-local authority studio or one-bedroom flat. If you're running a rent-a-room scheme, then a room in an ex-local authority house.	Any – he may require just a room to lay his head or require a three-bedroom house because he wants a computer room and a spare room. If he can pay the rent, then he can dictate where he wants to live.
<b>Single parent</b>	Two-bedroom + ex-local authority	Two-bedroom ex-local authority or private house

	<b>Claiming benefit</b>	<b>Working</b>
	flat. If you let a one-bedroom flat to him, he will only be looking to move to somewhere bigger and you'll have to find another tenant again.	is preferable, as it will have a garden.
<b>Couple</b>	Ex-local authority studio/one-bedroom flat only. DSS are unlikely to pay market rent for a two-bedroom flat for a couple when they can quite comfortably live in a studio/one-bedroom flat.	Any – for the same reasons as above.
<b>Family</b>	Two+-bedroom ex-local authority house. A family will invariably want a property with a garden.	Two+-bedroom ex-local authority or private house. A family will invariably want a property with a garden.

*Table 4.1 The eight categories of tenant*

Couples aged under 25 are always troublesome. The tenancy will only last as long as the relationship does. They think it's a great idea to move in together after knowing each other for only two months, but when the couple fall out, neither one takes responsibility for the rent. You're left with the task of chasing them both independently for the rent, but when they blame each other, and you're the loser. If a couple under 25 are the only ones interested in the property, ask them how long they have been together and if they have lived together before. Try to get a larger deposit – two months is ideal.

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## **Your lender**

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If you're borrowing to finance the property purchase, then lenders often stipulate what type of tenant you can have. The main exclusions are DSS claimants and student lets. You need to check with the lenders what exclusions they have and let this be the criteria for your selection of the lender.

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## **Advertising for a tenant**

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There are six main ways of advertising for a tenant, the cheapest form of advertising first:

1. Contacting the local council (FREE)
2. Advertising with large local employers (FREE)
3. Contacting accommodation projects (FREE)
4. On the internet (possibly free)
5. Advertising in the local press
6. Through a letting agent

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## **Contacting the local council**

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Councils have a waiting list of people looking for a place to live. Since councils have fewer council properties on their books, they are always pleased to hear from private landlords willing to let their properties to residents in the local area. The councils have lists of working and unemployed people, as well as refugees and asylum seekers.

I would advise that you write a letter detailing the property you have to let to the housing section of the local council and follow it up with a phone call. Councils can be slow, so I wouldn't rely on this as your only source of finding a tenant.

## **Advertising with large local employers**

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There are two large local employers in the Harlow area. I wrote to both of their human resources departments detailing that I had various properties for their employees. I get a call once every other month, so I wouldn't rely on this as your only source of finding a tenant.

## **Contacting local accommodation projects**

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Local accommodation projects are always on the lookout for willing landlords to take on homeless people in the area. Homeless doesn't mean that they are currently living rough – they simply don't have a fixed place of accommodation. These projects usually collect the rent and guarantee the rent if the tenant fails to pay. They don't charge for their services, as they are charities or non-profit organisations.

A list of accommodation projects is included in the reference chapter at the back.

## **On the internet**

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There are numerous sites on the web for landlords and tenants alike. Examples of sites where you can place an advertisement for free are:

[www.letsdirect.co.uk](http://www.letsdirect.co.uk)

[www.loot.com](http://www.loot.com)

[www.roomsforlet.co.uk](http://www.roomsforlet.co.uk)

## **Advertising in the local press**

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This is probably the most effective way of advertising. It's best to advertise in a paper that is delivered free locally so that your advert reaches every resident in that area. There are certain key elements you need to put in your advert:

- **Area:** You must say where the property is. It's no good to assume that the reader will know the area where the property is when the

newspaper is distributed in a number of local areas. This way you avoid unwanted calls.

- **Private:** If it's in a private area (i.e. not ex-local authority), that is a selling point.
- **Furnished:** Again, if it's furnished, say so.
- **Number of bedrooms:** You must put the number of bedrooms the property has as readers will then know if your property can accommodate them.
- **Price:** In any advert, you must put the price. I always quote a weekly rent; for example, £80 per week. This way the tenant may assume that the rent is £320 per month (thinking that there are four weeks in a month whereas there are actually 4.33 weeks in a month), when in fact it's £346 per calendar month. Your property will appear cheaper than other properties that are quoted per calendar month. If you price your property at £79 rather than £80, the impact is even more significant.

However, do be aware not to include anything deliberately misleading as you'll be in breach of the Property Misdescriptions Act 1991.

- **Features:** If it's got a new bathroom, then say so! Anything that isn't standard with a property, such as a garage, separate dining room, large garden or new carpets, will attract more interest.
- **Telephone number:** Don't only give out your mobile number! You'll receive fewer calls as everyone knows that a five-minute call to a mobile costs a small fortune, especially to the people that you're trying to target. Put a landline down as well as a mobile. I have a freephone number which costs me 4p per minute to receive; a small price to pay to get someone talking about your property. Freephone providers are detailed in the reference chapter.

To find out about the local newspaper in the area of the property you have bought or are thinking about buying, visit [www.newspapersoc.org.uk](http://www.newspapersoc.org.uk).

## Through a letting agent

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This is the most expensive way to find a tenant. He usually charges one month's rent plus VAT. But he will show prospective tenants round, run

credit checks, ask for references, arrange a standing order and do an inventory check on the property. I would recommend this if you work or live far away from the property.

## **If you can't let the property**

If you're having trouble letting the property, there are a number of things you can do. I suggest you take action in the following order:

<b>Action</b>	<b>Why?</b>
<b>Reduce the rent.</b>	If you can't let it out at the price you want, then reduce the rent. It's the basic economics of supply and demand. I suggest reducing the rent by £2 per week increments.
<b>Widen the criteria for the type of tenant wanted.</b>	If you've asked for non-smokers, then consider smokers. The smell can be eradicated quite easily by a local cleaning company if need be.
<b>Accept a tenant without a deposit.</b>	A letting agent would be horrified by this advice. However, I've done this on a number of occasions, especially for DSS claimants who simply don't have that kind of cash to pay. I recommend this approach for properties that are not in the best of condition, and where the tenant is a family and are currently on benefits so the claim will go through smoothly. You have to ask yourself whether the tenant can do any more damage to the property considering its current state. Most people are looking for a place they can call home rather than moving into somewhere with the intention of wrecking it three months down the line.

Action	Why?
<b>Furnish the property.</b>	This will be expensive and it's no guarantee that the place will attract tenants. Consider it if you're getting calls rejecting the property because it's unfurnished.
<b>Sell it!</b>	This is a drastic measure as I think any property in the UK is lettable – it's simply the rent you're asking for that will deter possible tenants. However, if you're experiencing trouble letting it, get out! Sell it and buy something else.

## **Credit checking your tenants**

You can check the credit of your tenant like a lender credit checks a borrower. This costs between £10 and £94, depending on what service you require. Some credit-checking agencies guarantee the rent if your tenant defaults. All letting agents insist that landlords do this, but I disagree. Credit checks are advisable for only certain types of tenants and areas. Let me explain by way of a table detailing the different types of tenant (private or DSS) and area (low and high demand for rental properties). A 'Yes' in the box means that you should credit check your tenant.

		Tenant	
		Private	Benefit claimant
Area	High demand for rental property	Yes	No
	Low demand for rental property	No	No

So only in one out of four circumstances would you normally obtain a credit check on your prospective tenant. The justification for this is as follows:

- **Private tenant in high demand area:** The tenant is paying all the rent and you can afford to be choosy as there is high demand for your property, so it's therefore worth credit checking. This ensures that you get the best tenant. I would strongly advise you to get an employer's reference as confirmation that the company employs him and to use the credit check as only a supporting tool.
- **Private tenant in low demand:** If you've had few calls for your property and you wish to have only a private tenant, then you cannot be choosy. Most people will fail a credit check – even I do. I am a chartered accountant, but I have a default that I'm currently investigating from 18 months ago for £4.89, which renders my credit check as a failure. So a credit check doesn't always guarantee the best tenant; it can only support the tenant's case. That's why it's important to get an employer's reference.
- **DSS tenant in high demand:** The council pays the majority of the rent, so there is no point credit checking a tenant for, say, a £10-a-week top-up. The tenant would probably fail the check anyway.
- **DSS tenant in low demand:** The same reason as above.

Credit checking is also dependent on your risk factor. If you're a risk-averse investor (risk factor 1), then it's probably advisable to get the full credit check that guarantees the rent, if the tenant fails. If you're willing to accept some degree of risk (risk factors 2–6), then it's advisable to get a credit check in the circumstances noted above. If you're a risk-taker (risk factor 7) like me, then never get a credit check. Get an employer's reference. (See chapter 1 for more information on risk factors.)

I use my common sense and intuition; it hasn't failed me yet. A prospective tenant who fails a credit check could be better than a tenant who passes a credit check. Let me explain. The two most common causes for someone to fail a credit check, even though their credit rating is still good, are:

1. **The tenant has never had credit:** Just because someone has never had credit doesn't make them uncreditworthy. For example, you may have a university graduate looking to move into your property as he has just got his first job in the area. He may be from a good family who will bail him out if he gets into any money problems. One would imagine that he is responsible enough to take the financial

commitment of a tenancy, considering he has gone to university. He will probably be earning in excess of the national average wage and will be able to afford the rent comfortably. Taking these factors on board, he may still fail a credit check. However, he may be the most suitable tenant for your property after taking everything into consideration.

2. **Low value defaults:** I have a default for £4.89 as mentioned above. I would fail some credit checks because of this. A £4.89 default doesn't make me uncreditworthy under any circumstances. You have to look at the tenant's situation as a whole, rather than whether he passes or fails a credit check. Don't be afraid to ask what he earns and compare that to the rent you're charging. If the monthly rent is approximately one-third of his monthly income, then he can probably afford it.

The most common causes for a tenant to pass a credit check but ultimately end up defaulting are:

1. **The tenant loses his job:** No amount of credit checking can predict this.
2. **The tenant's household splits up:** When couples split up, their financial commitments are the last to get a look-in. If you've let to a group of students and one of them leaves, it can then be very difficult to chase him or to get the rest of the household to make up the difference. Just because a tenant passes a credit check now doesn't mean that he will honour his commitments in the future. His circumstances have now changed – this is why people default!
3. **The tenant misbudgeted:** If this is the first time the tenant has ever taken on the responsibility of occupying and paying for a home, then it's possible that the tenant has miscalculated or omitted some of the other costs associated with running a home. Add in rates, Council Tax, electricity, etc., and the tenant quickly falls in arrears. Ask the tenant if he has ever run his own household and ascertain if the tenant is aware of all the costs involved in doing so.

So you can see that credit checks have limited use. The key questions you need to be asking yourself about the prospective tenant is:

- Can he afford it now and in the future?
- Has he got a temporary or permanent job?

- Has he got a supportive family and can you get them to be guarantors for the rent?
- Does he appear to know all the costs involved in running a household?

I assume that if someone can afford to pay more than a month's deposit and one week's rent in advance, then he will probably be able to pay the rent in the future. So far I've not been very wrong; the time I've been wrong is when I've not taken a deposit and let a tenant move in with just one week's rent in advance. The tenant quickly falls into arrears because he cannot budget. That is why he never had a deposit in the first place!

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## Dealing with councils for housing benefit payments (DSS)

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If you decide to accept someone on benefits, then the local council will pay most of the rent. Many investors don't like DSS tenants, but I've had little trouble with them and once set up, the rent simply arrives at your doorstep. There are a number of key factors when dealing with the DSS:

- **You'll get paid four weeks in arrears:** All councils pay four weeks in arrears. If cash flow is crucial, then don't take on DSS. Initially the council invariably will take between four weeks and 16 weeks to pay. This is because you depend on the tenant providing all the information that the council requires. To help speed up the process, ensure that the application goes in long before the tenant moves into the property. Also, make sure that the original tenancy agreement and other original documents are sent to the housing benefit office promptly. Tenants should be asked to sign a letter of authority authorising the housing benefit office to provide information to the landlord. If the tenant is slow to respond to the council, consider issuing notices of eviction to the tenant to hurry him up.
- **Ensure that the benefit cheques get paid directly to you:** All housing benefit can be paid directly to the landlord if the tenant signs a consent form. It's a must if you take on DSS tenants. This way you get paid directly by the council and you avoid the tenants pocketing the cash.

- **Claw-backs:** If the rent from the housing benefit office is paid directly to you, you can present yourself with a potential problem that if the housing benefit office discovers that an overpayment of benefit has been made to a previous landlord of the tenant, it can deduct the overpayment from rent paid to you. To protect yourself, check out your tenants carefully and, if possible, obtain a reference from the previous landlord. However, under new regulations which came into effect in October 2001, if you report (in writing) your suspicion of your tenant being fraudulent, the local authority will not claw-back from you, provided that you haven't colluded with the tenant in obtaining the overpayment.

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## **The relationship between landlord and tenant**

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Your tenant isn't your friend! If your friend approaches you wishing to live in one of your properties, then say no – make some excuse. We all know the feeling when we've lent a friend £20 on a night out and we then have to ask for the money back; we all hate doing it. There is a good reason why we don't like doing so and that is because money and friends don't mix. Many friends in the past have fallen out over very small amounts of money, let alone a month's rent.

If your tenant tries to become friendly with you, by inviting you to his Christmas party, for instance, always decline. The relationship between landlord and tenant is strictly a business relationship and if this becomes blurred, then you're heading for trouble. This doesn't mean you have to be overly distant. Remember that you're in business with each other and that is the only reason why you know each other. For the relationship to last, the following simple contract needs to hold – you're supplying a safe property for the tenant to live in and the tenant is paying you the rent on time. Don't complicate matters by drifting into a friendship/business relationship.

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## **Rent collection**

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You can collect your rent in four main ways:

1. Using a letting agent

2. Via your bank
3. Through the post
4. Face-to-face

Apart from using a letting agent, the way to collect the rent should be dictated by the tenant. You need to make the way the tenant pays his rent as easy as possible and this will be determined by the tenant. Your choice of tenant shouldn't be dictated by the ease of collection of rent. The choice of tenant should be dictated by the factors mentioned above. It's your duty to work around the tenant if you want the right tenant and to receive the rent on time.

## Using a letting agent

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Letting agents can handle the whole process of letting your property. This involves finding a tenant, taking inventories, collecting or guaranteeing rent and dealing with all tenant and property problems – sounds too good to be true. However, letting agents are expensive! For a full management service the fee charged can range from 12 to 20 per cent plus VAT of the rent collected. We accountants call this 'top line commission'. It's called this because the letting agents are charging commission on the rental income rather than the overall profit you're making. The expression 'top line' comes from the fact that income is the top line in any profit or loss account.

An agent's fee can wipe out a significant proportion of the profit you potentially could make. Look at this following example, where method 1 is with an agent and method 2 is without an agent:

	<b>£</b>	
	<b>Method 1</b>	<b>Method 2</b>
Rental income	400	400
Mortgage	(200)	(200)
Building insurance	(10)	(10)
Sundry expenses	(10)	(10)
Agent's fee (15% + VAT)	(70)	Nil
Net profit	110	180

We can see that a 15 per cent agent's fee can reduce your net profit by 40 per cent – basically just under halving the profit you would make if you didn't have an agent! That isn't to say that you shouldn't use an agent. You need to decide how involved you wish to be in the day-to-day running of the property you've just bought. I would use an agent in the following circumstances:

1. **You work full-time:** This isn't to say that you shouldn't try without the help of an agent. I have a few properties that I've never seen since I first let them or I haven't spoken to the tenant since I first met him. This is because the tenant's rent is paid directly into my bank account by standing order, nothing has gone wrong with the flat since I bought it and I get workmen to do the annual inspections. In this situation, who needs an agent? Only use an agent once letting your property has eaten into your leisure time or you've just simply got fed up. You don't want your tenant ringing you up complaining of a blocked drain when you're in the middle of an important meeting!
2. **The property is far away:** If a property is more than three hours' travel away, then it's probably better to use an agent. The gross yield must be very good, though; I would say 24 per cent should be the minimum, if not higher. This is because you're using an agent and if you were only receiving a 12 per cent yield, after agent's fees, you would be making a loss.

When I first started I used an agent, as I worked full-time and didn't want to get bothered at work when something went wrong. Sometimes it can be very time-consuming chasing your tenant for rent. Remember, letting agents are experts in handling tenants and cannot do only what you do, but they can do it better; that's their business!

The only time I use an agent now is for my properties in Norton, Middlesbrough, which are at least four hours away from me by car. The rental yield on these properties is around 70 per cent! I can afford to use an agent when the profit margin is so high.

I would advise you to use an Association of Residential Letting Agents (ARLA)-accredited agent, as you're then insured against frauds committed by, and bankruptcy of, the agent. This means that you would receive all the rents collected by the agent even if the rents were not handed over by him. Proof of the fraud wouldn't be needed as the rents are covered by an insurance scheme backed by ARLA. ARLA agents can be found by visiting [www.arla.co.uk](http://www.arla.co.uk).

**STANDING ORDER SET-UP****PAYER**Name: *Put the tenant's full name here*Branch: *Put the tenant's bank branch and full address*A/C number: *Put the tenant's account number here*Sort code: *Put the tenant's bank branch's sort code here***PAYEE**Name: *Put your full name here*Branch: *Put your bank branch and full address*A/C number: *Put your account number here*Sort code: *Put your bank branch's sort code here***PAYMENT DETAILS**Amount: *Put the weekly or monthly rent here*Transfer date: *Put the first date you want the transfer to occur here*Repeat: *Put the frequency either weekly or monthly here*Last transfer date: *Always put 'To be notified in writing'*

Please could you set up the above standing order on my behalf as soon as possible, to ensure that the first transfer payment is paid on time.

Date

Signed (the tenant)

Print Name

Please now send on to the payer's bank branch.

*Fig 4.1 Standing order set-up*

**Via your bank**

Assuming that your tenant has a bank account, you can set up a standing order that deposits the rent directly to your bank account from the tenant's

bank account. I suggest that you use the template on page 53 and ensure that it's sent to the tenant's bank branch at the time of the tenant signing the lease. This template will set up the standing order.

Another way you can collect rent through your bank is to ask the tenant to give you a series of post-dated cheques to cover the rent. So, for example, if he is to pay a rent of £400 on the first day of the month, then ask for six cheques for £400 dated the first of the month for the next six months. You then simply present these cheques when the cheques' dates become valid.

You could also give your tenant a paying-in book for your bank account. This is best for tenants who earn cash but don't have a bank account. This way the tenant could visit your branch and deposit the rent when possible, rather than you both organising a rendezvous for the tenant to hand over the cash.

## **Through the post**

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I receive the majority of my rent through the post. This is either from the tenant himself or from the council's housing benefit departments. I prefer this method as it's easier to keep a mental check of who is supposed to be paying (because a cheque physically lands at your door on a regular basis), rather than me continually checking your bank account.

I have one tenant who consistently sends me the rent cheque by recorded delivery. As I'm never up when the postman knocks on my door (around 8am), I have to go to the sorting office to get my cheque. I asked my tenant not to send it by recorded delivery but he prefers to do it that way, so I have to accept that I have to go to the sorting office every week! Remember, the tenant always dictates the method of payment.

Under no circumstances should you allow the tenant to pay cash through the post.

## **Face-to-face**

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It's unlikely that the tenant will insist on face-to-face collection of the rent. You may feel more comfortable collecting the rent face-to-face so you can see what state the property is being kept in. If the tenant is happy with you

collecting the rent that way, it's important that you don't let him feel that you're checking up on him. This will make him feel uncomfortable and it could lead to him moving out. If you've chosen the right tenant, you won't need to check up on him so often and you can revert to the payment method that suits the tenant.

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## **Minimising void periods**

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There are five key ways to minimise the time between the old tenant leaving and the new tenant entering:

1. Neutral decoration
2. Invest in high demand areas
3. Be less fussy!
4. Invest in a property for which there is high demand
5. Advertise the property in adequate time

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### **Neutral decoration**

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This is simply common sense. If the property has been decorated in a feminine way, such as flowery borders and pink colours, then you're already cutting out half the market: the boys! If the property has been decorated to a specific taste, such as chintz, then you're going to exclude tenants who don't like chintz.

You have to make your property suitable for the widest range of tenants. Ensure that the decoration is neutral and not personalised. Tenants personalise their properties with their possessions. You have to rely on luck, if you don't neutralise the decoration, that the right tenant turns up when the property becomes available to rent again.

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### **Invest in high demand areas**

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My philosophy is that any property can be let out eventually. If you want to minimise the time the property is left vacant between tenants, then go

for a property where you know demand is high for rented properties. A local letting agent will be able to tell you this. Also, you can speak to the accommodation projects listed in the reference chapter or you can place a rogue advert in the local paper and see how many calls you get.

Investing in high demand areas has a cost. It's probable that high demand areas will have higher property purchase prices than a low demand area. This will affect your yield but remember, don't break the rule of 12! You'll also be competing against other landlords so you'll have to be able to move on the purchase quickly; have your finance in place.

## **Be less fussy!**

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If you're excluding a certain type of tenant, then you run the risk of having a void period. The more prospective tenants you exclude, the greater the likelihood of the property being vacant. If you're relying on your strict perception of the right tenant to appear around the time your existing tenant decides to leave, then you're relying heavily on luck.

Ways of becoming less fussy without compromising too much on the quality of tenant are:

- **Consider non-professional tenants.** There is nothing to say a professional is any better than a hard-working builder as a tenant, so don't advertise for 'professionals only'.
- **Consider pets.** You could consider cats but no dogs, or accept only caged pets. What damage could a goldfish do?
- **Consider DSS.** I have no problem with DSS claimants. You could just consider claimants on Incapacity Benefit rather than Jobseeker's Allowance.

## **Invest in a property for which there is high demand**

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As mentioned elsewhere, a two-bedroom ex-local authority property generally covers a high percentage of prospective tenants. If there is high demand for a certain type of property, then invest in that type of property. Currently there is high demand for private two-bedroom flats in London

because there is less stigma now for professionals to share. Again, there will be high demand for these properties from investors and private people and this will drive the purchase price up, consequently affecting your yield.

## **Advertise the property in adequate time**

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Your existing tenant has to give you sufficient notice if he wishes to vacate the property, usually of one month. This gives you ample time to find a tenant. If you've had a good relationship with your tenant, he will probably not mind showing prospective tenants around during his one-month notice period.

As soon as you do get notice, then follow the instructions given in this chapter for advertising for a tenant. There is no point in hanging around, as the longer you leave it the less time you have to find one.

However, do remember that by law a landlord must not sign a new tenancy agreement until the existing tenant has moved out. Otherwise, you'll be in breach of contract.