The rise of the novice landlord: an opportunity for insurers and landlord service providers to build customer loyalty and lifetime value.
UK pension reforms, a buoyant property market and low interest rates are, in combination, expected to result in a surge of over-55s investing their pension savings in buy-to-let properties. But is buying to let such a safe bet? What are the risks facing these novice landlords, and what can insurers and service providers do to help protect them against serious financial losses or even prosecution?

This paper identifies the issues and introduces new ways to address them.
Introduction

2015 is set to be an important year for the buy-to-let property market, thanks to the biggest shake-up in pension management for decades. Known as ‘pension freedom day’, 6 April 2015 saw changes in the law that are expected to lead to an onrush of ‘silver landlords’, as people reaching retirement age opt to invest their savings in property.

For a number of years, soaring house prices, low interest rates and volatile stock markets have made the private rental sector an obvious choice for people looking for a good long-term investment. Many over-55s will be tempted to exploit this opportunity and fund their retirement through rental income. In fact, a recent study by Secure Property Investment found that 54% of over-55s plan to reinvest their pension once the reforms take effect, with a third of them investing in a property in the following 12 months. A separate study by Direct Line for Business showed that 32% of people with a pension are considering using some or all of their savings to purchase a buy-to-let property. Forty-three per cent said the attraction for them was the prospect of a regular income, and 23% saw property as a secure investment, while 17% were attracted by capital appreciation.

The rise and rise of the novice landlord

In contrast to other countries where lettings markets are dominated by professional landlords, the UK market is characterised by amateur landlords owning just one or two properties. According to a joint report authored by Shelter and British Gas, 89% of all landlords are private individuals and more than three-quarters (78%) own a single rental property. Two-thirds (69%) have been letting property for 10 years or less, and 22% have only been in the market for three years or less. Furthermore, only 5% of landlords regard letting properties as their main or full-time job and, according to Rightmove, 30% of landlords are ‘accidental’, having entered the rental market through circumstances like separation or inheritance.

By their very nature, these novice or accidental landlords will have little understanding of their legal obligations as landlords, making them vulnerable to a number of risks that could have serious consequences, both financial and reputational.

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Risks and challenges

So what are the risks and challenges facing every landlord in the UK – not just the new or part-time? According to the Residential Landlords Association, there are currently over 100 rules and regulations governing letting a property in the private rental sector, and more are set to follow. Not only can tenants expect their landlords to uphold a number of legal obligations, such as providing a suitable tenancy agreement and a tenancy deposit scheme, but landlords must meet a raft of health & safety requirements covering gas, electricity, furnishings, repairs and energy performance. These obligations are just a few of the countless potential pitfalls for landlords, which could result in fines, spiralling legal costs and considerable stress. Worryingly, many of the growing number of novice landlords are unprepared and ill-equipped to deal with these legal requirements.

This lack of skill and awareness of legal requirements is widespread according to Shelter – a view shared by many of the UK’s local authorities, who are now more concerned about accidental and incompetent landlords than rogue ones.

Furthermore, Shelter saw an 86% rise in tenancy deposit complaints in the years following the introduction of the tenancy deposit scheme (TDP) due to a widespread lack of compliance by landlords. Other research conducted by Landlord Action in 2014 showed that as many as 38% of landlords who needed help to evict a tenant had not protected the tenant’s deposit in a TDP. Failing to place tenants’ deposits in an authorised scheme within 30 days of a tenancy starting risks a penalty of between one and three times the value of the deposit.

In addition, the Government’s Private Landlord Survey revealed that only 15% of landlords had heard of the Housing Health and Safety Rating System (HHSRS), while 29% of landlords required more information on gas regulation and 27% on fire regulation.

Research conducted by YouGov on behalf of Shelter and British Gas in 2013 supports this assessment. It showed that:

- 60% of landlords only have an active EPC on all of their rental homes even though there is a penalty of £200 for not providing one.
- 19% of landlords were not able to correctly state that gas safety certificates need to be renewed each year. Non-compliance with this regulation is a criminal offence, and could mean thousands of pounds in fines and imprisonment in the worst cases.
- 6% of landlords were breaking gas safety laws by not servicing boilers or providing up-to-date CP12 certificates.
- 1/4 of landlords did not know how often their energy performance certificate (EPC) should be renewed.
What other legal pitfalls do landlords face?

As well as the regulations highlighted in the research above, there’s an array of legal problems that can affect landlords and make a buy-to-let property a risky investment.

One of the first hurdles for landlords is the provision of a suitable tenancy agreement, which governs the terms of the relationship between the parties and, crucially, protects the interests of the landlord. Not having a tenancy agreement in place can have serious consequences in the event that things go wrong and a landlord wants to regain possession of the property. Despite this, 11% of tenancies have no written contract at all11. This may be down to the fact that using a solicitor to draw up a tenancy agreement can be expensive for someone operating on a tight budget – our own research has shown an average charge by law firms of £25012. Similarly, most residential agents charge upwards of £200 for an Assured Shorthold Tenancy (AST) agreement, and very often these documents are of poor quality.

However, even with a tenancy agreement in place, dealing with tenants can be troublesome for landlords. According to the Department of the Environment, Transport and the Regions (DETR), nearly all agents and half of all landlords in the residential market have asked tenants to leave on at least one occasion, usually due to arrears and for unacceptable tenant behaviour, such as damage, noise and violence13. Further, the tenancy arrears tracker by Your Move and Reeds Rains reported that 68,100 tenancies were in severe rent arrears in Q4 201414. In these circumstances, it’s vital for landlords to follow the right legal processes and use professionally drafted letters to communicate with tenants if they are to protect their interests and avoid costly and stressful disputes.

Getting legal help to evict tenants can easily cost landlords over £1,000 – plus agent and court’s fees – and, as a result, many landlords try to manage the eviction process themselves, often with disastrous results. A 2014 survey by Landlord Action found that 62% of eviction notices issued by landlords or their agents were invalid due to incorrect expiry dates, inaccurate information, typing errors and method of service15. These errors could put the entire possession claim at risk and lead to an order for costs being made in the tenant’s favour. In the worst cases, failure to recover possession with a court order can not only prevent the landlord from recovering possession, but may also lead to a claim against them for harassment or unlawful eviction.
What can insurers and landlord service providers do to help?

As we’ve established, being a private landlord isn’t always easy. The rules and regulations governing property letting are numerous, frequently changing and costly to comply with. At the same time, there’s a huge gap between the knowledge required by landlords and the limited experience of the amateurs who make up the majority of the lettings sector. What’s more, the fragmented nature of the market makes it difficult to educate landlords about their legal responsibilities, leaving many without the support or tools they need to safely rent out their property.

This situation presents an opportunity for landlord insurance and service providers to step in and offer assistance to their customers. As the research in this paper makes clear, amateur landlords can be overwhelmed by regulations and paperwork, and are exposed to the risk of fines, damage to their investment and severe stress should they get things wrong. However, this need not be the case if landlords are given access to legal assistance through their existing letting agency, referencing agency, insurance or other service provider.

For example, a service that delivers more than just advice and includes easy online access to all the documents, contracts and letters necessary to comply with landlord regulations will give novice landlords practical tools with which to manage their day-to-day landlord needs and protect their interests. The addition of jargon-free guides which inform landlords about their legal rights and obligations will empower customers with the knowledge they need to minimise the risks and stresses of being a private landlord.

When included with an insurance policy or other landlord product, this type of service will enable providers to move beyond their core offering and give landlord customers a more holistic protection solution – one that will support them safely through the whole life cycle of the lettings process, from taking on a new tenant and drawing up tenancy agreement, to dealing with disputes or regaining their property through possession proceedings if things go wrong. It could even help deal with broader home-owning issues such as troublesome neighbours, small-scale building contracts and disputes with utility suppliers.

Landlord legal document needs

Below are some of the legal documents and letter templates a private landlord will need when letting out a property to protect their interests and legally regain possession.

- Residential and assured shorthold tenancy agreement
- Notice to tenant(s) of deposit protection scheme
- Letter requesting references for a prospective tenant
- Notice under section 21 of the Housing Act 1988
- Initial letter to tenants regarding rent arrears
- Landlord’s demand for rent
- Notice under section 8 of the Housing Act 1988
- Form N215 - Certificate of service
- Form N119 – Particulars of claim
- Schedule of rent arrears for form N119
- Form N325 - Request for warrant of possession of land
Benefits for the provider

Providers of landlord insurance and services are operating in an increasingly competitive market, and one which is under constant scrutiny by the regulators, the media and consumers. If providers are to thrive in this environment, they need to find innovative ways to not only attract and keep more landlord customers, but also demonstrate to the regulators that they’re providing good value for money.

The addition of a practical risk management tool, as described above, will significantly enhance the utility of the insurance policy or landlord service and, in doing so, enable the provider to meet its commercial goals, as well as demonstrate exceptional value and service to regulators and customers. Furthermore, this type of assistance service has been shown to increase customer retention, so can make a valuable contribution to customer lifetime value.

Conclusion

Whilst buy-to-let can undoubtedly be a wise and safe investment choice, it’s not without risks – some quite serious – especially for the new and inexperienced landlord. For providers of insurance or services to landlords, however, the upward trend of buy-to-let affords the opportunity to build deeper, longer-term relationships with customers by providing a practical risk management solution that can be used by landlords to protect their interests every day, not just when they need to make a claim.
Formed in 1994, Epoq is a pioneer in the development of online legal document services, which are now the most widely used solutions of their kind in the UK. Typically white-labelled and delivered to customers by insurers, banks and affinity groups, our tools are making access to legal services simpler than ever before.

They include over 300 easy-to-prepare documents, contracts and letters, including Wills, powers of attorney, and employment and tenancy agreements; jargon-free online law guides; and legal advice lines staffed by experts in both consumer and business law.

Our services can help private residential landlords to:

- Create tenancy agreements
- Prepare accelerated repossession documentation
- Manage building and landscape gardening projects
- Engender good neighbour relations
- Resolve issues with utilities

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