

# NAVIGATING COMPLEXITY IN THE R3NTAL MARKET



The process of finding and selecting a property can be convoluted and time consuming. This newsletter sets out some useful tips and pointers on how to navigate the multifaceted world of residential lettings and bring the complexities of lease negotiation to a successful conclusion.

## A complex market

London has a complex residential rental market – this is confusing for Londoners, let alone international assignees coming to The Capital for the first time.

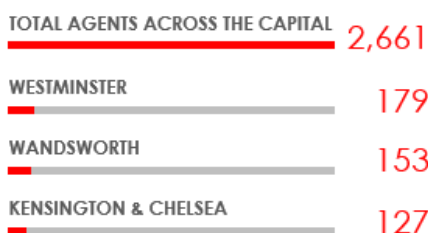
### The streets of London are paved...with estate agents

Research which used only Rightmove data and therefore does not include any agents not on the portal, has found that across London there are over 2,600 high street estate agents' branches – with an average of 83 for each London borough.

Too much choice is not always good for consumers who are often left baffled by this staggering number.

**FIGURE 1**

Number of Estate Agents in London



## Perplexing market rental valuations

Choosing the right agent(s) is not the only choice a prospective tenant has to make. A quick online search on strict criteria for a 3 bedroom property in SW3 (Chelsea), for example, throws out 179 houses and flats, ranging from between £750 per week to £5,000 per week. A similar search in SW7 (South Kensington) generates over 258 properties ranging from £10,000 a week to £595 a week. No wonder prospective tenants are left perplexed.

**FIGURE 2**

Rightmove search on specific postcode for a 3 bedroom property

| Search Criteria |         |           |
|-----------------|---------|-----------|
| London Borough  | Chelsea | South Ken |
| Post Code       | SW3     | SW7       |
| Property type   | 3 Beds  | 3 Beds    |

| Search Results        |         |           |
|-----------------------|---------|-----------|
|                       | Chelsea | South Ken |
| Number of properties  | 179     | 258       |
| Highest weekly rental | £750    | £595      |
| Lowest weekly rental  | £5,000  | £10,000   |

A London-based relocation company such as R3Location can really add value here, to identify the best match to criteria and add clarity to the process of choosing a rental home.

## To hold or not to hold, that is the question

Having found a property of choice, it is often advisable to enquire about the possibility of a paying **holding deposit**. A holding deposit is a sum of money paid to a landlord or letting agent to reserve a rental property before the signing of a tenancy agreement. A holding deposit is normally non-refundable if tenants were to withdraw an application for a tenancy. The London Market (especially for good quality stock) is a fast moving market and such a deposit, while not legally binding, can be a useful tool to allow sufficient time to finalise the paperwork involved in completing a tenancy agreement.

## A complex transaction

### Legally binding contractual agreement

When prospective tenants rent a home, they may feel pressured by Agents to make a quick decision, or to sign

documents before they've had time to think about them. Agents are there to negotiate for the best interest of Landlords not tenants. And remember: entering into a tenancy agreement is entering into a **contractual arrangement**. This gives important rights to tenants and landlords, but also sets out obligations and responsibilities for both parties. Not all rental agreements are the same – and Agents often develop their own in-house versions. Most agreements need to be in line with conditions required by The Housing Act (this is true of Assured Shorthold Tenancies – most tenancies where the annual rent is less than £100,000 per annum), but this is not always the case.

Prospective tenants should think carefully before signing. Relocation companies such as R3Location are ultimately operating to advise and protect them during this negotiation phase, and help them to make the best choice whether the final lease is a personal lease or a corporate lease (yet another additional complication!).

## Heads of terms

The negotiation phase normally starts with an offer based on heads of terms. Heads of Terms are designed to ensure that the landlord and tenant agree all significant points of principle before the landlord prepares and issues the draft lease (or asks his Letting Agent to do so).

Heads of Terms are important because they prompt both parties to record administrative information, such as the parties' contact details, and to set out what has been agreed in relation to key points such as:

- Personal or corporate lease
- The lease term (length)
- The rental value
- The amount of deposit
- Any renewal options and subsequent rental increases
- Any break rights, and
- Specific wish list (e.g. furnished, unfurnished, repainting, re-carpeting etc)

Prospective tenants should make sure these are very clear from the outset so that the right expectations are set from the beginning. R3Location always ensures this document is signed and agreed by the Landlord prior to finalising the tenancy agreement itself. Anchoring these heads

of terms with the Landlord/Agents is an important tool in the negotiation process, as is agreeing any possible increase of future rent up-front.

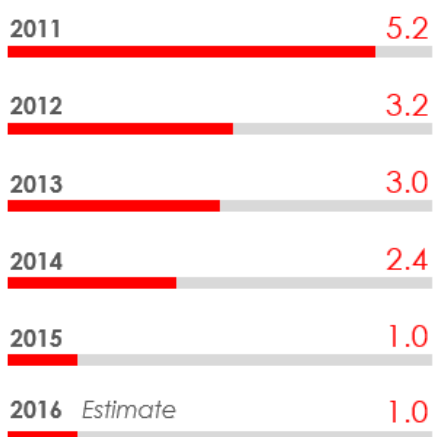
### Option to renew - RIP RPI

Rent increases are normally included in tenancy agreements. And Indexation is widely used as an alternative to open market review for such increases. As a result of historic use of RPI (Retail Price Index) for commercial leases, this index is often the index of choice in residential tenancy agreements. Unfortunately, many Agents and Landlords are lagging behind the current economic climate of lower interest rate and inflation.

- **RPI is outdated:** Firstly, RPI is probably out of date. An independent review published in 2015 by The UK Statistics Authority (UKSA) argues that the RPI is "not fit for purpose and should not be used" except in some very specific circumstances. It suggests phasing RPI over "an extended period".
- **Unrealistic level set:** Secondly, most Agents and Landlords continue to insist on including ranges capping the index between 3% and 8% increases that just no longer reflect the current economic climate (see graph below).

**FIGURE 3**

Annual RPI since 2011 (Office of National Statistics)



This simplistic view of the world **must** change and R3Location continues to challenge the inclusion of such archaic, unfavourable rates for tenants at every opportunity.

### Agency fees

While most Letting Agency fees are charged, rightly so, to the Landlord, many

Agents push for part of the administrative cost of finalising a tenancy agreement towards the prospective tenant. Don't be afraid to push back! R3Location always does so on behalf of its clients. Equally, there will be administrative costs associated with referencing, and these are generally unavoidable.

As is referencing itself, unfortunately.

## A complex reference system

Having managed to negotiate agreeable terms between tenants and landlords, the UK has a complex and rigid referencing system when it comes to leases. And the lack of uniformity on how this undertaken across the 2,600 or so letting offices across London certainly does not help prospective tenants.

### Painful but necessary

When you rent a property through a letting agent they will take up references on behalf of the Landlord. They may do this directly by writing to the employer and previous Landlord or more often these days outsource it to a specialist referencing company. Referencing is there to provide comfort to a Landlord that a tenant will be a good tenant, able to pay the rent, and one who will look after the property. Referencing would normally look at any County Court Judgements, poor income to rent ratio (normally, gross salary should be 2.5 times the annual rental value), poor credit ratings and employment status.

### Right to rent

If that wasn't enough, the Government has now also introduced the need for Agents and Landlords to check a tenant's right to rent in the UK. This normally involves physical checks with valid paperwork demonstrating one's immigration status in the UK. The name of the game here is to be prepared with such paperwork in advance, to ensure close working relationships with HR so that employment references can be drafted quickly, and generally supporting would-be tenant through this frustrating (but unavoidable) phase of a tenancy agreement.

## A complex set of final paperwork

Once referencing is passed, there are a number of important documents that tenants must gather as part of the lease. The landlord has an obligation to provide some of these such as:

- A gas safety certificate (in addition, if there are solid fuel appliances, the landlord **must** provide smoke and carbon monoxide alarms by law);
- Deposit paper work (for ASTs, the landlord must protect this using an approved Government scheme)
- Mortgage consent letter if applicable

In addition, as the tenant, it is always a good idea to formally agree the report Landlords often compile at the onset of the tenancy to record its condition (called an Inventory Check-In report). R3Location always uses its own independent clerk to draw up an equivalent document at the onset to record its condition and meter readings in order to minimise any disputes at the end of the tenancy, and as part of the damages negotiation.

## Finally...

Finally, tenants have an obligation to look after the property in a reasonable way. The agreement will set out the right way to behave as a tenant but having a positive relationship with the landlord and the managing agent during the term of the lease is never a bad idea, and can also minimise deposit deduction at the end.

It's a complex world out there, when it comes to finding the right home, and agreeing commercial terms as part of the residential transaction. Hopefully this article will help, but if you want to know more about this or other aspects of the rental market – contact Marco Previero or Anna Barker on 0203 463 9774, [info@r3location.co.uk](mailto:info@r3location.co.uk)

### R3Location Company Profile

With offices in St James's Park, R3Location offers a range of bespoke destination services, ranging from pre assignment and home finding support through to ongoing tenancy and departure support.

10 Greycoat Place | London | SW1