



## Letting Fees - What We Know And Why They Need To Go

A **Generation Rent** Report

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Based on data gathering by **lettingfees.co.uk** volunteers

Available online at **[lettingfees.co.uk/report](https://lettingfees.co.uk/report)**

## Executive Summary

When arranging a new tenancy, agents in England and Wales commonly charge fees to both landlords and tenants.

Historically there has been nothing forcing letting agents to disclose these fees publicly. Tenants could not easily make comparisons between letting agents and fees might only become apparent when it was time to pay. In 2015 the [Consumer Rights Act](#) changed that, requiring agents to publish all their fees on their website. If they don't, they can be fined up to £5000.

We built [Letting Fees UK](#) to try and make the most of this new transparency by creating a system that makes research, comparison and enforcement more straightforward.

We looked through the websites of hundreds of lettings agents over eleven local authorities and checked to see if they listed fees we could add to our database. This has given us the data we need to produce the most thorough investigation of letting fees to date.

We've found that:

- 14% of letting agents still don't list fees on their website.
- Other agents are non-compliant in the way that they list fees (for instance, not including VAT).
- Average fees are high (£386 for a two-person household) and the range of fees charged (from £40 to £780) show that the actual cost of the services listed have little to do with what tenants are actually charged.
- Analysis shows that additional fees charged over the common 'core' fees tend to be charged by agents already charging higher than average 'core' fees.
- The power letting agents have over tenants' homes is being used to get tenants to pay for 'services' that are in reality only of benefit to the landlord or letting agent.

Figures in this report were accurate as of April 2016. Figures on [lettingfees.co.uk](#) will reflect future changes.

The hope of the transparency legislation was that it would empower tenants - there is little sign that this has (or will) happen. Based on our findings we are sceptical that transparency alone is capable of driving change. The core problem isn't lack of disclosure, but the structure of the market that allows letting agents to charge fees when there is no real competition between agents for tenants.

With the aim of creating a more transparent and competitive lettings market, we echo the calls from the [Citizen's Advice Bureau](#) and [Shelter](#) for a ban on tenant-side fees. As we'll show, allowing letting agents to charge fees creates a perverse incentive for them to undermine the relationship between landlord and tenant that is technically their main purpose to facilitate. Fees encourage churn rather than stable tenancies.

The solution is all fees need to be charged to the landlord alone. A landlord is more able to "shop around" than a tenant and so has a more powerful position to avoid and force down uncompetitive charges. Even if the costs are returned to the tenant through higher rent the total amount paid would be reduced - and importantly spread over the length of the tenancy, which reduces the financial shocks of renting.

Fees are corrosive to the renting market and current regulation is failing to improve the situation. More comprehensive change is needed.

## **Fee Transparency**

### **Compliance**

We surveyed 719 letting agents across eleven local authorities. We found that 14% of letting agents were not displaying their fees online. For an additional 4% while we couldn't find the fees on the website, we could find the fees listed on third party listings such as RightMove or Zoopla.

Where agents do not explicitly say they charge no fees, we assume fees haven't been listed.<sup>1</sup>

Where agents do not list fees we are sharing this information with the local authority in question.

We did find four agents who explicitly say they charge no letting fees to tenants - these have been recorded as such.

We also tracked if letting agents were being compliant with the requirement to list their redress scheme on their website - we found that one third were not. This again is fineable.

### **VAT Compliance**

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<sup>1</sup> This assumption seems reasonable given the agents we found without fees on their website but with fees listed elsewhere.

Of the letting agents that do list fees, 18% of letting agents list fees exclusive of VAT. Several letting agents were inconsistent with themselves, mentioning VAT for some fees but not others.

Not including VAT in the price is recognised as being misleading to tenants – and as such is banned by every corner of the regulatory system.

To start with, the [Consumer Rights Act 2015](#) says that all lists of fees should include:

*[T]he amount of each fee inclusive of any applicable tax or, where the amount of a fee cannot reasonably be determined in advance, a description of how that fee is calculated.*

It's also against the Competition and Marketing Authority's guidance on tenant fees:

*Because your clients are likely to include consumers and possibly businesses that will not be able to reclaim Value Added Tax (VAT), we consider that any charges you advertise should be inclusive of VAT (including charges that are expressed as a percentage, for example those expressed as a percentage of rent). [...] Further, we consider that a VAT exclusive percentage is more likely to mislead consumers about how much they will actually have to pay, and it is therefore less meaningful for them. There is a risk that this would constitute a misleading action under the CPRs<sup>2</sup>*

And against [Rule 3.18](#) of the CAP Code of Advertising:

*Quoted prices must include non-optional taxes, duties, fees and charges that apply to all or most buyers. However, VAT-exclusive prices may be given if all those to whom the price claim is clearly addressed pay no VAT or can recover VAT. Such VAT-exclusive prices must be accompanied by a prominent statement of the amount or rate of VAT payable.*

The Property Ombudsman's Code of Practice bans it in general:

*Where you charge a fixed fee you should state the actual amount payable including VAT in the contract.<sup>3</sup>*

And separately offers advice specifically on tenant fees:

*Fees should be inclusive of VAT and any other taxes.<sup>4</sup>*

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<sup>2</sup> Competition & Markets Authority, [Guidance for Lettings Professionals on Consumer Protection Law](#), 2014, p.41

<sup>3</sup> The Property Ombudsman, [Code of Practice for Residential Letting Agents](#), 2015, p. 3

<sup>4</sup> Warkwickshire County Council Trading Standards, National Federation of Property Professionals, and The Property Ombudsman, [Is It Misleading for a Letting Agent Not to Display Tenant and Landlord Fees in Their Office?](#) Primary Authority Advice, 2015

In their [guidance on fee display](#), the Association of Residential Letting Agents say that:

*Fees should be displayed including VAT.*<sup>5</sup>

ARLA then quote the Department for Communities and Local Government's (DCLG) Consumer Rights Act guidance:

*All costs must include tax.*<sup>6</sup>

Finally in "[Unfair Letting Fees: a Guide for Agents and their Tenants](#)", the Property Redress Scheme tells us:

*Any advertised charges should be inclusive of VAT. An advertised tariff that excludes VAT is more likely to mislead Tenants about how much they will actually have to pay for the service.*<sup>7</sup>

This might seem like a minor issue - but because it's so simple and so clearly understood as bad practice it's concerning that 18% of letting agents continue to exclude VAT. This is a very low bar that isn't being passed - the industry is failing to fall into line on a very simple and widely agreed point.

If all of the different agencies above have not resulted in VATless fees being regulated out of practice, this raises questions about the practicality of making subtle changes to letting agent practice through the current regulatory regime.

## Fee Breakdowns

Most previous reports on letting fees have worked out average fees through surveys asking tenants what they paid or letting agents what they charged – what we wanted to see is how easy it is to compare agents just on the information they provide the public.

To do this we fed all fees charged, whether they were per tenant or per tenancy, and if they should be considered 'mandatory' (e.g. an unavoidable part of moving in) into the system. The system then creates a comparison fee for each agent that represented how much two tenants moving into a property would be likely to pay their letting agent up front. This lets us look not just at the expected costs, but helps us understand what is going on with the 'optional' fees a tenant might run into along the way.

We found an extraordinary variation in fees - from £40 to £780. The average fee charged for two tenants was £386.

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<sup>5</sup> ARLA, [Guidance for Fees and Charges](#), 2015, p. 1

<sup>6</sup> Department for Communities and Local Government, [Improving the Private Rented Sector and Tackling Bad Practice](#), 2015, p. 57

<sup>7</sup> Property Redress Scheme, "[Unfair Lettings Fees: a Guide for Agents and Their Tenants](#)", 2015, p. 2

While letting agents insist that fees are essential in covering costs incurred providing services to tenants, this huge variation suggests that these costs can be met for far less than many letting agents charge.

## Core Fees

Preparation of the tenancy agreement and tenant referencing are the 'core' fees – charged one way or another by practically all letting agents.

Our results have shown an average of £143 is being charged to two tenants for referencing and £210 for a tenancy agreement.

As the Resolution Foundation [points out](#), these costs seem out of kilter with what they describe:

*A full credit check can be obtained online for approximately £20 and all agents will have a standard contract that can be edited and printed off. While there will be a time cost involved in these activities, it is difficult to see how such charges are proportionate to the costs incurred.<sup>8</sup>*

More significant than the averages is the range of fees – a tenancy agreement's cost varies from £48 to £450. While there are real costs to preparing a tenancy agreement, that some agents manage to charge far above the average suggests these costs are being padded. One letting agent we talked to said that preparing a tenancy agreement took no more than four hours. The DCLG list "excessive fees that do not reflect the effort involved" as a bad letting agent practice - which it is - but it's also clearly common.<sup>9</sup>

From third-party reference services you can get quotes for a reference from around £20-40 per tenant. Beyond that the more expensive services are often just offering rent insurance in addition to referencing.

From these prices we would expect a range from £40 to £100 in referencing fees for two tenants – allowing a generous cost for internal paperwork. Instead we get a range from £40 to £444 – with an average of £142.

Fees are resented by tenants because of the impression that fees are being charged out of proportion to any service offered - a petition by The Debrief to ban fees gathered [over 200,000 signatures](#) in just a few weeks. Agents do themselves no favours with high charges for services where it is incredibly easy to look up the 'real' cost.

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<sup>8</sup> Resolution Foundation. [Renting in the Dark: Creating a Lettings Market That Works for Tenants](#), 2011, p 8

<sup>9</sup> Department for Communities and Local Government. [Improving the Private Rented Sector and Tackling Bad Practice](#), 2015, p. 9

While referencing is ultimately a service to the landlord (minimising the risk of tenants unable to pay rent) the argument [is made](#) that tenants need "skin in the game" to avoid tenants who know they will fail references wasting time. According to this argument that's why tenants, not landlords should pay for referencing.

Maybe this also justifies a small amount of padding (ignoring the letting agents who will keep the holding deposit if reference checks fail). Maybe this is how we can justify a cost of £143 for two tenants.

But how can it be justified that fully half of letting agents are charging more than that?

## **Check In + Check Out**

We record the minimum amount charged for comparison processes - so for check in and check out our number is often the price for an unfurnished, one bedroom/studio property (with more details available on individual agent pages). Because of this the average check in/out fee charged by each agent will be higher than we record and hence 'minimum' fees for most renters will be higher than we suggest.

The minimum check in and check out fee are both around £120.

A number of agents referred to the idea that the landlord pays for check in and the tenant pays for check out. This is roughly reflected in that twice as many charge the tenant to check out than check in - but still a significant number of letting agents charge for check in. Seventeen agents charge for check in *and* check out.

Inconsistency here can cause problems for tenants. If you are unlucky enough to leave a property charging a check out fee and move into a property charging a check-in fee you will be incurring another substantial fee at the same time as your other moving expenses.

## **Ongoing Reference**

In addition to large referencing fees 21% of letting agents will then charge to provide a reference to future landlords and letting agents (other agents we researched mentioned explicitly doing this for free).

While this does obviously involve a small bit of administration, we can use our database to see that those charging for an outgoing reference already have an average 'mandatory' fee £83 higher than those that don't - not including the charge for ongoing

reference. An extra £50 on top of this seems excessive and shows that agents charging extra fees often do this in addition rather than in replacement of a high core fee.<sup>10</sup>

As it is highly likely tenants will not be leaving the rental sector this fee can be understood as a non-optional top-up to that initial, already high, fee. They have you coming and going.

## Renewal Fees

49% of agents we investigated charge renewal fees - where it costs to stay put, with the same landlord and same letting agent on a new version of essentially the same contract.

This is extracting far more from the tenants than the cost of photocopying a new contract. Agents charging renewal fees are again charging more in general than agents that don't (their average is £33 higher for two tenants).<sup>11</sup> High 'core' fees and hard-to-avoid 'extras' are business practices that go together.

The trick here is that at the end of a normal contract it will automatically convert to a rolling contract – there is no 'need' as such to agree to a new contract. The Competition and Markets Authority make a point that renewal fees shouldn't be implied as a requirement for continuing in the property:

*(g.11) Where a tenant wishes to remain in the property, he should not be charged any additional fee for holding over under a statutory periodic tenancy, or given the impression that he is obliged to agree to a new fixed term agreement.<sup>12</sup>*

However, the letting agent has substantial leverage to force this point – threatening eviction or a real or imagined rent-hike unless the new contract is agreed. The DCLG say that "unscrupulous" agents can "*frustrate landlords and tenants by generating an unnecessary churn of contracts to extract new tenant fees*".<sup>13</sup> This is win-win for the agent, who will receive either the renewal fee for almost no work or the fees associated both with moving out the current tenant and finding and moving in the next one.

It's worth noting that the landlord will often be unaware of this - as council tenancy relations officer Ben Reeve-Lewis's [experience shows](#):

*We are getting the usual threatening letters from our high street letting agents informing us of an astronomical proposed rent increase and the obligatory*

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<sup>10</sup> A t-test of this mean difference gives us a p-value of 0.0000000047 (p<0.01). So we can be very sure of the effect here.

<sup>11</sup> T-test p-value = 0.0023 (p<0.1).

<sup>12</sup> Competition & Markets Authority, [Guidance for Lettings Professionals on Consumer Protection Law](#), 2014, p.83

<sup>13</sup> Department for Communities and Local Government, [Improving the Private Rented Sector and Tackling Bad Practice](#), 2015, p. 4



*paragraph stating "Please let us know if you don't wish to renew your tenancy and if not we will issue you with two months notice to leave".*

*In response to which we make our bid for the "National Wooden Spoon Award" by once again playing the annual game of emailing our landlord asking him why he wants us to leave, to which he responds "I don't" and which we counter with "But your letting agents say they will serve us with notice if we don't pay them the £120 renewal fee".*

Banning renewal fees on their own would oddly make this problem worse. At least with renewal fees if you pay up they leave you alone - without them getting a new tenant in every time a tenancy expires would be better for the letting agent. As long as fees make the start and end of tenancies more profitable for letting agents than continuation, there will be this incentive to move people around as much as possible. It's worth remembering exactly what "churn" means here - unnecessary movement and misery that disrupts tenants' lives, increases stress and breaks schooling and healthcare links. This is both bad and easy to fix.

While we can absolutely judge letting agents for these practices, we can't realistically expect all letting agents to respond to incentives like this by doing the decent thing and making less money. The choice needs to be taken away from them for the good of landlords and tenants - and the only way to do this effectively is a ban on tenant-side fees.

## **Charging for Deposit Protection**

It is a legal obligation for landlords to protect tenants' deposits - but there are a small number of letting agents that charge a '*deposit protection fee*' to the tenant for the fulfilment of this legal duty. Others suggested that deposit protection fee was a component of the admin fee being charged.

There are two kinds of deposit protection schemes: custodial and insurance based schemes. In custodial schemes the money is locked away for the duration of the tenancy, these services are free to both landlord and tenant. Insurance-based schemes let the landlord or letting agent keep the money but will guarantee the return of the money to the tenant. Insurance based schemes do charge a fee for registration.

The average fee we've found is £38 – but the Deposit Protection Scheme [only charges](#):

- *To letting agents: £9.50 (further discounts will be available for volume)*
- *To landlords: £15 (under £500) £22.20 (over 500).*

And mydeposits [charges](#):

- £18 (up to £500) – £12.60 for LLA and LRS members.
- £24 (over 500) – £16.80 for LLA and LRS members.

This suggests that something more than just the cost of registering the deposit is being passed on. Of course the initial intention when the legislation was passed was that there should be *no cost to the tenant* regardless of the kind of scheme used:

*The custodial scheme will be funded from interest on deposits. There will be no extra cost to landlord or tenant. Insurance-based schemes are likely to charge landlords fees—the trade-off for landlords keeping deposits—but there will be no charges to tenants.*<sup>14</sup>

If you think about why letting agents would rather use the insurance rather than custodial scheme these charges become even more extraordinary. Insurance-based schemes essentially create a 0% interest loan from the tenant to the landlord or letting agent – and while the money is in the other pocket it can of course earn interest.

Part of the reason why we have insurance based protection is that it turns out letting agents were using this pool of deposit money to run the business (and collect interest from it) and requiring pure custodial schemes would have been fatal to this model.<sup>15</sup>

That letting agents are availing themselves of the cheapest loan possible is unsurprising - but that there are tenants being charged for the "service" of letting someone else use their money is outrageous. The list of agents who charge this fee we have identified so far can be seen [here](#), but it is perfectly legal for them to do so. Even when they very transparently say they are charging you to provide them a loan, what can you actually do about it?

Letting fees cannot be reformed by piecemeal bans or transparency - the fundamental structure needs to be changed to make the market function correctly.

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<sup>14</sup> [House of Lords Debate 16/09/2004](#)

<sup>15</sup> Walker, R. (2016) - "No Rights"; in Walker, R and Jeraj S (2006), *The Rent Trap: How we Fell Into It And How We Get Out of It*, p 81 [Kindle Edition - Location 1139]

# Limits to Transparency

## Transparency Is Hard

We've put together a website that makes it easier to research and compare letting fees. We hope that doing so will help tenants avoid the worst fees out there, we hope that the pressure of having extortionate fees made obviously so will bring down fees over all. We hope that letting agents will take [our advice](#) to heart and make it easier to find and compare their fees, so that sites like this one become less needed.

We say 'hope' because this is all uphill work. It's work for volunteers to get these fees in one place (our coverage is still low across the country). It's work for tenants to make comparisons above and beyond all the other considerations they have to make when finding a home. It's work for letting agents to make themselves compliant and it's work for councils to enforce the rules. The end result of this process so far is not encouraging - in Waltham Forest, the first borough where research was completed and given to the council in June 2015, half the agents who were not publishing fees are still in breach of the law.

Transparency feels like it should be a simple intervention - make it clear what prices are and collectively the work of lots of tenants doing small sums will bring prices down. But making it clear is hard and requires enforcement we're not seeing. The sums aren't simple, they're complicated - letting agents charge varying fees per tenancy and per tenant, there are strange discounts for extra tenants and group rates, inconsistent use of VAT, optional fees that aren't. Working out which of two letting agents is actually cheaper is a difficult thing to do - let alone understanding if they're typical of the area you want to rent in.

To make it worse even if all of that happens, it is still unlikely to work. Ultimately there are plenty of potential tenants out there and letting agents are not really competing for access to them - tenants have very little power to compel fairer prices by voting with their feet.

## Transparency Is Insufficient

Even a perfectly transparent market in letting fees doesn't correctly align incentives. With poor supply of housing, opportunities for tenants to shop around are limited and market transparency is only superficially helpful. Tenants can't go to a different agent and pick up exactly the same house - one agent is going to have the preferred house for that tenant.

This means that while there are many letting agents, for the needs of particular tenants (particular area, particular size, particular cost) they will only be dealing with a market of a few letting agents. The lettings market is in reality a series of overlapping captive markets, where a limit of suppliers who can offer the needed product forces tenants to accept higher prices.

The knowledge that other letting agents charge lower fees is inconsequential if those agents do not offer the product needed. Where fees can't be unbundled from particular properties, transparency does nothing to promote competitiveness between letting agents.

## **A Better Way**

What we want is a mechanism for making differences in prices clearer that encourages competition and makes the sector more efficient. The answer here is simple: rather than do a lot of work to make transparent letting fees work, we should *just ban them*. Market forces then do the work of making costs transparent for us and are likely to do a better job of driving the underlying costs down.

We're hardly the first to call for this. Shelter [released a report](#) similarly finding limits to transparency:

*In a well-functioning, balanced market healthy competition would normally be expected to improve standards. However, Shelter does not believe that encouraging renters to shop around will be sufficient to improve standards and reduce costs, given the unique and inherently unbalanced tripartite relationship between landlords, renters and lettings agencies.*

*[...]Advocates of transparency argue that renters could shop around for the best fee offers, but the current imbalance of supply and demand places renters in a very poor negotiating position. Even in a transparent market agencies will continue to compete for landlords' contracts and attractive fees quoted to landlords will be subsidised by increased costs to renters.*

***Shelter believes all costs relating to finding tenants and setting up a tenancy should be negotiated between landlord and agency and charged to the landlord as the client.***<sup>15</sup>

The Citizens Advice Bureau has [also come out strongly for a ban](#):

***We believe there is now a sufficient case for the government to ban letting agents fees for renters for functions that are part of the routine letting and management process. This is not a call we make lightly; only rarely are outright***

*bans the best way to protect consumers. The intention is not to push good letting agents from business, but to shift the industry's business model closer to that of other agency markets, such as employment agencies, in which fees are charged only to one side of the transaction, in this case the landlord. We are encouraged by the ban on letting agent fees introduced in Scotland in 2012, where we see no clear evidence of an inflationary effect on rents.<sup>16</sup>*

Both of these reports get at the essential problem of letting fees: letting agents charge both parties, but they're not competing for tenants - they're competing for landlords and their property.

Knowing in advance exactly how much an agent will charge to let you move in doesn't change the underlying logic of the market. Charging slightly higher fees to tenants means you can slightly undercut your competition by charging lower prices to landlords. Landlords can take their property elsewhere, tenants ultimately need a place to live (probably soon).

It's not that tenants are paying more to these agents to produce more property - these properties would be physically in the same place and advertised by one letting agent or another anyway. They're being charged more to give one letting agent an advantage over another in the market they're actually concerned with - landlords.

## **A Ban is Good for Transparency**

There is a simple argument why anything other than fees that are direct services to tenants (e.g. photocopying) should be abolished - the tenant is not the client. Letting agents are discharging the legal duties of landlords and acting as agents for them. The services they provide are often things that landlords are legally obliged to do. The landlord should be charged for the cost of these services.

Ah, the reply to this goes, but that's a rather simple way of looking at it isn't it? If you ban tenant fees the costs don't go away - they'll have to be pushed back on the landlord who will increase rent to maintain their revenue. So what have you actually accomplished?

Firstly, if we want a transparent market it is actually a good thing if fees get included with rent. If the exact same fees that are charged now end up as a component of increased rent tenants are no worse off - but it has become much simpler for them to understand the relative merits of two properties. None of this *"add fees, multiply by number of*

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<sup>16</sup> Shelter. "[Letting Agencies: The Price You Pay](#)," 2013, p. 17

*tenants, discount if more than three" nonsense, the more expensive one has higher rent. That's it. Two numbers, one is bigger.*

Secondly, thinking that it makes no difference to tenants when they have to spend the same money makes no allowance for financial circumstance. Shelter point out that:

*More than half (54%) of people who have used a letting agency reported experiencing one of a range of financial difficulties and sacrifices to cover fees, including: depleting their savings, cutting down on food and fuel costs and borrowing money.<sup>17</sup>*

And that paying fees through rent is better off for those in financial hardship:

*A small increase in rent spread across the tenancy is preferable for renters, who otherwise have to deal with sudden one-off costs to secure a tenancy. Over half of people who have dealt with a letting agency in the past three years support spreading costs over the course of a tenancy, rather than paying fees up-front. It is easier for households to budget for regular, predictable costs than be hit with unexpected high levels of fees every time they move, particularly as tenants moving home will also have to budget for rent in advance, deposits and moving costs.<sup>18</sup>*

Given these massive shock costs of renting, spreading one of those costs over the length of the tenancy by banning fees and increasing rent makes costs more manageable. If a tenant doesn't need to take out a loan to cover the immediate cost of moving in, then they aren't locked into interest repayments and are financially better off even if the letting agent is ending up with exactly the same amount of money.

Reducing upfront costs also empowers tenants - reducing the cost of moving home by £400 makes it easier for tenants to move elsewhere, making it easy to leave bad properties or strengthen their negotiating position with their landlord. By charging fees direct to tenants letting agents are helping to trap people in bad situations. Shifting when the money is paid does some work towards freeing them.

Letting fees can't be separated from rent because the tenant can't demand a property be managed by another agent. They are a package - let's make that package easier to understand.

So we should ban fees even if letting agents end up passing the costs along because it makes the process of renting a property more straightforward. Easier comparisons and spreading the cost over time is better for the tenant regardless.

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<sup>17</sup> Citizen Advice Bureau. [Still Let Down](#), 2015, p. 2

<sup>18</sup> Shelter. ["Letting Agencies: The Price You Pay"](#), 2013, p. 4

We achieve a more transparent market through banning fees than by displaying them.

## **A Ban is Good for Renting Costs**

That said, there's good reason to believe that all current costs would not be passed back to the tenant.

Resistance from letting agents to banning fees isn't out of concern to tenants being charged higher rent, it's because they know they won't be able to charge the same fees to landlords.

The big assumption made in the *"all fees will be passed on anyway"* argument is that current costs are all real costs and aren't inflated by the inability of tenants to shop around.

Given what we now know about the structure of letting fees, this argument doesn't pass muster. Why is the average reference fee several multiples of what we know the reference companies charge? Because there's very little the tenant can do about it. Is the same true for the landlord?

## **Use Landlords as Pressure**

We need to align incentives in such a way that obviously exploitative fees are forced out of the market. We do this by shifting the payment of fees entirely onto the party with greater power over letting agents.

It is better for the tenant if the party that has leverage (e.g. the one who owns the house) is shopping around for the better rates - this will create better competition between agents and reduce fees by more than the corresponding increase in rents.

Let's imagine we have a letting agent who has the perfect house for a pair of tenants - but who charges £100 per tenant for referencing. If the tenants ask: *Why is your referencing fee three times the place down the street?* The agent has a simple answer: *"Because we have the house you want."*

Now flip this around, if we push all costs on the landlord and the landlord is eyeing up different fees - suddenly that 3x differential is a lot harder for the agent to defend. Landlords can (and will) go elsewhere. Agents will be forced to be more efficient to compete for the limited supply of rental property. Even if all the costs of the more efficient system were pushed back on the tenant these costs would be less than the ones they currently pay.

There is no scarcity of letting agents - but there is a scarcity of rental property. This is arguably the one case where we can use that fact to lower costs for renters.

If letting agents want to charge tenants for services beyond the landlord's legal obligations they are of course welcome to. But after looking at hundreds of letting agents we've only seen a handful of fees that would qualify (for instance, charging for an 'express move in'). Nor would we really expect this – letting agents aren't really competing for tenants, they're competing for access to landlord-tenant relationships. The landlord is the rarer part of that deal, tenants are not the customer.

All of this is assuming ideal market conditions - in reality when the ban on letting fees in Scotland was "reconfirmed" in 2012 most landlords didn't notice any change to their fees.<sup>19</sup> It's all very well for letting agents to say the costs are inevitably passed back to the tenant, but stage one in this involves actually telling their landlord customers that their fees are going up (while hoping everyone else is doing the same). It is easy to see that this might actually be quite a difficult step for letting agents to take and the effect is likely to be staggered over time.

## Improving Transparency

While we still have fees we want to make it easier for tenants to understand them. While most letting agents do display fees on their sites the experience of our researchers has shown that even displayed fees can be far from transparent.

Websites are often primarily used to attract landlords and so sections on tenants (and tenant fees) can be thin. Some websites proudly state they are transparent with their fees – but they mean landlord fees and turn out to not mention tenant fees at all. Most letting agents are small businesses and so (as is typical for small businesses) rarely update their websites. Letting agents need to stay aware of the changing legal situation and what this means for their website.

After reviewing hundreds of letting agent websites we've come up with the following advice for letting agents on the best way to transparently display fees to tenants:

- The page containing tenant fees needs to be easy to find, with a link from the homepage and the property search. Ideally fees should be visible directly on each item in the property search.
- Fees should be presented on the website, rather than in a pop-up window or pdf.
- Fees should be shown inclusive of VAT.

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<sup>19</sup> Shelter. [End Letting Fees - Lessons from the Scottish Lettings Market](#), 2013



- Letting Agents should display a minimum fee for 1, 2 and 4 tenants at the bottom that represents the minimum that can be expected.
- Fees should be displayed in tables rather than in blocks of text.

Or to put it simply, fees should be **Easy to Find** and **Easy to Understand**.

## Easy to Find

The first thing our volunteers had to do was find where a website might be storing its letting fees. We think this should have been a fairly trivial step but some letting agents made this more difficult than it should be.

**Site Location** - Even on websites that do list fees it can be difficult to find them. In some cases the fees would be buried two or three layers deep into the site.

The Competition and Markets Authority point out that having fees on the website does not guarantee compliance with consumer law if those fees are well hidden:

*It may be a misleading omission to provide material information exclusively in a form that tenants cannot reasonably be expected to see. For example, even if you provide information about additional fees on your website, this may be insufficient if it is not prominent enough for consumers to find it easily.<sup>20</sup>*

We'd like to see a clear link from the homepage to the page in question that flags it for the attention of tenants ('Information for tenants', 'tenant fees', etc). If the website contains listings of lettings these should also either contain the fees or link to the fees page.

This also applies to display of redress schemes - there is a convention among many letting agents of displaying the badges of the various schemes they are a part of in the footer of their homepage. This is suitably prominent and easy to understand - letting agents who don't do this should make sure they have an equally prominent way of displaying legally required information.

*The page containing tenant fees needs to be easy to find, with a link from the homepage and the property search. Ideally fees should be visible directly on each item in the property search.*

**Readability** - The common practice of having fees in a pop-up window in the property search has two problems:

1. Poor mobile readability.

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20 Competition & Markets Authority, [Guidance for Lettings Professionals on Consumer Protection Law](#), 2014, p.318

2. This is often technically achieved in such a way that the fees aren't visible to search engines (so searching Google for 'Westchester Lettings – letting fees' will fail).

Many letting agents upload a PDF of their fees - we'd advise against this as PDFs are often difficult to download and read on mobile devices.

*Fees should be presented on the website, rather than in a pop-up window or PDF.*

## **Easy to Understand**

Letting Fees UK does a lot of work behind the scenes to make it easy to compare letting agents. In many cases this is because letting agents make it needlessly difficult to compare their fees to other letting agents.

**VAT** - As shown in the last section, many agents list fees exclusive of VAT. They, legally, need to include VAT in the prices listed to potential tenants.

*Fees should be shown inclusive of VAT.*

**Fee Structure** - Letting agents structure their fees a number of different ways. Some charge an all-inclusive single administration fee and others split fees into 3-5 different components.

Where they charge a single admin fee letting agents need to be careful they describe exactly what is being covered by this fee (referencing, inventory, etc) to be compliant.

While a single fee is simpler for tenants to understand and compare, the second is more transparent as it allows tenants to question if costs (e.g. £150 for a reference check conducted by a third party) are proportional to the work involved.

Neither approach is obviously superior to the other in terms of transparency or tenant experience – but luckily they're not mutually exclusive. Fee schedules should include not just a breakdown of the fees but also a rough guide to the fees that would be charged to one tenant, two tenants or four tenants.

This is the equivalent of our 'comparison fee' - the total fee that a tenant cannot avoid paying. In most cases this would just be a matter of bundling together admin fees, referencing and minimum check in/out together for a total. This makes it clear to the tenants both what they are being charged for and gives an easy basis for comparison between letting agents.

*The fee list should display a minimum fee for 1, 2 and 4 tenants at the bottom that represents the minimum fee that can be expected.*

**Narrative Fee Descriptions** - Many letting agents list their fees in a block of text like the below:

*As part of the start of a tenancy we charge various admin fees. For the preparation of a tenancy agreement we charge £250 (inc. VAT). To reference each tenant we charge £100 for the first two tenants and £50 for any additional tenants. Any guarantor checks are an additional £60 per guarantor. A pet licences costs £200. Checkout is £106 for a studio/one bedroom flat, £136 for a two bedroom property, £166 for a three bedroom property and £196 for a four bedroom property (including VAT).*

This starts to feel more like a maths puzzle than something that is helpful to tenants. In other cases fees will be described over many different paragraphs - and you have to look over several different pages of a pdf to figure out the final total.

Other letting agents make it clear what tenants pay by putting the fees all in one place, in an easy to understand table. Here is a better way to display that same information:

<b>Fee</b>	<b>Price Inc Vat</b>
Tenancy Agreement (per tenancy)	£250.00
Referencing (per tenant, for first two tenants)	£120.00
Referencing (per tenant, for additional tenants)	£60.00
Guarantor Checks (per Guarantor)	£72.00
Pet Licence	£240.00
Checkout: Studio/One Bed	£127.20
Checkout: Two Bed	£163.20
Checkout: Three Bed	£199.20
Checkout: Four Bed	£235.20
Checkout: Five Bed	£271.20
-	-
Minimum Fees for One Tenant (tenancy, referencing and 1 bed checkout)	£496.80
Minimum Fees for Two Tenants (tenancy, referencing and 1 bed checkout)	£616.80
Minimum Fees for Four Tenant (tenancy agreement, referencing and 2 bed checkout)	£772.80

There is nothing wrong with adding further notes explaining exactly what is meant by each fee – but this makes it clear to tenants in one easy to see place exactly what they're being charged for and what they're likely to pay.

*Fees should be displayed in tables rather than in blocks of text.*

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