



Letting Fees - 2017 Update

A **Generation Rent** Report

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

Available online at **lettingfees.co.uk/update-2017**

Summary

Last April, Generation Rent produced [a report](#) into the state of Letting Fees in England and Wales.¹ Using the crowdsourcing site lettingfees.co.uk a group of volunteers assembled the most comprehensive picture of letting fees to date - determining not just the typical fee charged across a number of areas, but categorising individual fees so that we could understand the variation of what was being charged for each service. We echoed findings from Shelter² and Citizens Advice³ that letting fees did not represent a functioning market. The limited power of tenants to shop around for the cheapest fees meant that there was little incentive for letting agents to provide a more efficient or cheaper service, resulting a very large range of possible charges. We argued the solution to this was a ban on letting fees that would move the cost of fees to landlords - who have a greater ability to choose between rival letting agents.

Since then there has been good news on this front. In the 2016 Autumn Statement the Chancellor announced an intention [to ban fees charged to tenants](#).⁴ This is a now an issue with cross party support - in the on-going general election the Conservative Party, Labour Party, and Liberal Democrats have a commitment in their manifestos to banning fees.

The purpose of this update is to feed back into the live Department of Communities and Local Government (DCLG) consultation on letting fees and provide the most up-to-date impression of letting fees. In addition to adding new areas of coverage, we have revisited those areas and agents previously researched in early 2016 to see how the picture of compliance and costs has changed.

The Association of Residential Letting Agents (ARLA) have commissioned several pieces of research in the effects of letting fees and argue against a ban. This update will address the issues raised by that research. In particular, arguing that an analysis showing a cost to long term tenants failed to take into account the effects the widespread practice of "renewal fees" have on annual costs to tenants - and the general distortion fees have on the smooth running of an efficient lettings market.

¹ Generation Rent, [Letting Fees: What We Know And Why They Need To Go](#), April 2016

² Shelter, [Letting Agencies: The Price You Pay](#), 2013, p. 17

³ Citizen Advice, [Still Let Down](#), 2015, p. 2

⁴ BBC News, [Autumn Statement 2016: Lettings agent fees will be banned](#), November 2016

How have fees changed?

We have expanded our coverage to 1,087 agents across 20 councils. We have also revisited agents researched for the previous report to see how the picture of fees (and accessibility to fees) has changed in the last year.

We now show an average fee of £404 for two tenants. This ranges from £40 to £813 for two tenants (ignoring those agents who charge no fees). Breakdowns of these fees can be seen in more detail at: <http://lettingfees.co.uk/stats/>

We revisited the 742 agents that were on the system in mid-April 2016 to see how the picture had changed over time. To make this comparison we made adjustments to the old database to account for later corrections to modifiers (e.g. where we had a discount rate applying for the third rather than second tenant, and vice versa) - this helps isolate changes in fees from transcription errors (although some fee changes will still represent error correction rather than new fee schedules).

Looking at agents who had fees available in both periods (598) - we found 197 (33%) with higher fees and 113 (19%) with lower fees. 48% of these agents saw no change in this year. While there is a slight average increase in fees (there is a £3 increase in the average between these two sets of agents) - the two sets cannot be statistically distinguished in a t-test because of the large number of agents who stayed the same. While more agents are now recorded with higher fees, this average increase (£79.6) was less than the average change in the fewer agents now recorded with decreased fees (-£125). The increase in the average fee across our database from our initial report results more from improved handling of discount rates and new additions than an increase in fees in the original agents.

In terms of compliance, 40 of our 100 letting agents that were previously not compliant now displayed their fees. There were 10 agents who previously displayed fees for whom we can no longer find listed fees. There were also instances where comprehensive fees pages had been replaced by abridged comments in the listing description. In these instances we would remove the additional fees we had in the system as we could no longer find sources.

Compliance as a whole in our dataset is up (from 87% to 88%) - but this reflects a survivorship bias as agents who were non-compliant were more likely to leave the market. 16% of agents who did not list fees appeared to have stopped trading, as opposed to 3% of those who previously had. In areas where we looked for new agents we tended to find new non-compliant agents to replace those that had previously gone

out of business. We did not search for new agents in all areas, so our compliance statistics are now generous in some areas due to this effect.

ARLA Research

ARLA have commissioned two pieces of research into the ban of letting fees. One is [a survey of letting agents](#) conducted by Opinium to determine services charged for and the work and time involved in providing them.⁵ The other was [an analysis by Capital Economics](#) into the likely effects on the lettings market of a ban.⁶

Neither report particularly disputes that letting fees are expensive. The Opinium research is notable for not asking at all what price agents were charging for these services and for combining 'tenancy agreements / renewals' into a single item (which obfuscates how many letting agents charge tenants annually - which as we'll explore would be a useful number to know). The Capital Economics report did not contest that letting fees were a substantial cost to tenants (in fact we were happy to see that they took lettingfees.co.uk statistics as the best available measure of the current cost of letting fees), but instead argued that in the most likely scenario, letting agents and landlords will absorb some of the cost but that there will be a rent increase to tenants (but that for the most part this cost would be less than the saving). They also argue that a ban would have an adverse effect on long-term tenants - who would see less of a benefit from a ban on fees while more costs as a result of rent rises.

The effect of the Opinium report is to convey that letting agents work hard doing real work and that tenants are annoying (example quotes: "*Some people take longer than others especially when we're dealing with people overseas and people with complicated employment arrangements*", "*Tenants constantly call asking for further information or information they have already been supplied*"). They found that letting agents spent a surprisingly long time on items they charge to tenants, including an average of eight hours on reference checks and five hours finalising tenancy agreements.⁷ If we take the Opinium statistics at face value (ignoring that surveying letting agents on the effects of losing an income stream might encourage exaggeration) it is an indictment of the state of the lettings market that the *average* time spend on these tasks is so high. If half of letting agents take more than five hours to prepare a tenancy agreement this gets [at exactly the market problem we've been complaining about](#): why are these inefficient agents not being forced from the market and replaced by their more efficient competitors? The answer is that the cost of their inefficiency (both in terms of

⁵ ARLA, [Our Findings: Letting Agent Fees Research](#), January 2017

⁶ Capital Economics, [Letting the market down? Assessing the economic impacts of the proposed ban of letting agents fees](#), March 2017

⁷ ARLA, [Our Findings: Letting Agent Fees Research](#), January 2017, p. 7

time-wasted and in being charged for agent inefficiency) falls on tenants - who can do little about this.

That letting agents' work is real is not in dispute - what is in dispute is who should pay for it. Tenants have no power to avoid or punish letting agents who charge extortionate fees (or take far too long to perform basic tasks) or reward letting agents who run efficient businesses with their custom. This can only be achieved by shifting all of the payment to the party with greater market power: the landlord.

The Capital Economics report deserves more consideration because they make a good-faith attempt to calculate what increase in rent might be expected - calculating an increase of £103 p/a as a likely result. They note that *"as rents will increase by less than the average tenant fees this will be positive for tenants"* but then go on to say: *"However, those that move property less often will not reap the same benefits in savings. Typically, these are likely to be lower income families who will probably move less often than younger, wealthier millennials."*⁸

That there is a point where this logically must be true our calculations find the Capital Economics figures to be too pessimistic, with both larger savings for short-term tenancies and that a positive effect exists for longer tenancies. Their report includes this table showing the effects of a ban - finding that by five years tenants are paying more through increased rent than they are gaining through savings.⁹

Move Every...	6 Months	1 Year	2 Years	5 Years	10 Years
Savings through not paying fees	£ 5,493	£ 2,747	£ 1,373	£ 549	£ 275
Rise in Rent (£103 pa)	£ 1,030	£ 1,030	£ 1,030	£ 1,030	£ 1,030
Net impact on savings	£ 4,463	£ 1,717	£ 343	£ -481	£ -755

There is an obvious problem here - despite Capital Economics accepting a figure of £412 from lettingfees.co.uk (March 2017) as a reasonable figure for the cost due to fees of moving, this chart says someone who only moves once in ten years is saving only £275. The explanation for this error is that they use the annualised cost to the letting agent of a fees ban (£412 over an average tenancy of 1.5 years == £274.66) as the saving each time

⁸ Capital Economics, [Letting the market down? Assessing the economic impacts of the proposed ban of letting agents fees](#), March 2017, p. 47

⁹ Ibid.

someone moves. For example, to reach a saving of £5,493 for a pair of tenants who move every six months (twenty times in ten years) they multiple £274.66 by 20. This is incorrect - they need to multiply £412 by 20 - which gives a saving in fees not paid of £8,230 if a tenant moves every six months. As their proposed rent increase is derived from the average fee, this would undercount the benefit to tenants no matter what figure for average letting fees was used.

While reducing the scale of their argument this still shows tenants in longer tenancies are losing money; but there is a more fundamental problem with this analysis - it lacks an understanding of the role of renewal fees in the lettings market.

In our previous report [we covered](#) the perverse incentive fees create to encourage churn in tenancies. A Department for Communities and Local Government (DCLG) report noted that "*unscrupulous*" agents can "*frustrate landlords and tenants by generating an unnecessary churn of contracts to extract new tenant fees*".¹⁰ Renewal fees blunt this incentive by effectively buying off letting agents - tenants pay a sum to continue in the same property on the same contract. This is strictly speaking unnecessary and the Competition and Marketing Authority caution against agents giving the "*impression that [the tenant] is obliged to agree to a new fixed term agreement*".¹¹ In reality, the ever-present threat of eviction can be used to extract money every year (or for the unlucky, every six months) from the tenant.

While Capital Economics assume that letting agents only apply upfront costs to tenants, for those with letting agents charging renewal fees there are additional annual costs. As previously mentioned, Opinium have failed to give us a useful number for how many agents charge renewal fees - so we will have to extrapolate from the lettingfees.co.uk database.

The average renewal fee in the database is £117 and this is charged by 609 agents. As not all agents charge renewal fees we will adjust this downwards by a ratio of 609:1045 (representing all agents in the database who display fees and charge fees). Assuming annual tenancies, this gives us an average cost of £68.18. As a tenant who moves every six months will never pay renewal fees (and so saves nothing from their ban) - accounting for this fee benefits long term tenants more than short term tenants. This amended table shows how this affects net gains: not only are the average savings to tenants in shorter tenancies higher as a result of using the correct figure for tenant fees - but accounting for renewal fees gives a net benefit at five years, and a net loss of only £4 at ten years.

¹⁰ Department for Communities and Local Government. [Improving the Private Rented Sector and Tackling Bad Practice](#), 2015, p. 4

¹¹ Competition & Markets Authority, [Guidance for Lettings Professionals on Consumer Protection Law](#), 2014, p.83

Move Every...	6 Months	1 Year	2 Years	5 Years	10 Years
Savings through not paying initial fees	£ 8,240	£ 4,120	£ 2,060	£ 824	£ 412
Savings through not paying renewal fees	£ 0	£ 0	£ 341	£ 545	£ 614
Rise in Rent (£103 pa)	£ 1,030	£ 1,030	£ 1,030	£ 1,030	£ 1,030
Net impact on savings	£ 7,210	£ 3,090	£ 1,371	£ 339	£ -4

Being as precise as 'losing £4 over ten years' reflects the problems of this exercise. Some long term tenants are not charged renewal fees and so will see less benefit - but among those that are currently charged the fee is likely to be greater than £68 - and so they will receive more benefit. Rent increases remain hypothetical, if they materialise they will interact with conditions of the housing market in different areas to lead to different rises in different places. This analysis presents an average picture - but it is useful simply to say that the data does not say that a tenant fee ban benefits the young and rich over the old and poor.

It is worth remembering that most tenancies are short. The majority, 59.5% are under three years, with 76.5% under five.¹² While long term tenants benefit less from a ban on initial fees, they benefit more from the effect on renewal fees and in aggregate there is a net benefit even for relatively long tenancies.

Distorting Effects

The Capital Economics report argues that poorer tenants are less likely to move, and so are less affected by fees - but for some of these tenants the cost of fees is part of the reason why they can't move. In our original report we argue for a ban on the basis that distributing the cost over the length of a tenancy is good for tenants as it makes payments more manageable. If tenants do not have the savings required to pay the upfront costs of moving, they are trapped in their current property.

The presence of fees can have a negative effect even if never charged. In this wave of research we found an agent who was charging a 'Deposit Dispute Administration' of

¹² DCLG, [English Housing Survey 2014-2015 - Chapter 1: Figures and annex tables Generation Rent](#), July 2016, Table A.17

£120. This caught our researcher's attention because they personally had a letting agent in 2014 who sent a end of tenancy letter saying that: *"In the event of a dispute and a DVD recording is required as evidence for the deposit protection service, you will be held liable for this cost @ 75.00 + VAT".*¹³ That letting agent now does make their fees public, and doesn't mention this fee - so they may have stopped charging it. But seeing what seems like a version of that fee in public hints that there may be others like that out there. Not only are there agents that charge for deposit protection (which is a free service unless a letting agent wants to hold the deposit themselves and run their business using the money - so charging for this is [the equivalent of charging someone giving you an interest-free loan](#)) but there are some who threaten fees to tenants who want to exercise their right to use this service.

This example reflects that fees aren't only harmful when they're charged, they're harmful because of what they stop happening. Someone who accepts an unjustified £90 deduction from their deposit because the cost of disputing it is the same is financially punished by a fee, even if it's never charged. People who avoid moving because the fixed costs of moving is so great are hurt by letting fees even when they're not charged them. Letting fees cannot be viewed as simply costs, they have a distorting effect on the letting market - keeping people less mobile than they might otherwise be and creating incentives for agents to work against the best interests of both landlords and tenants.

Lowering the cost of moving and ensuring renters are able to exercise their rights freely by banning fees does not hurt poorer renters at the expense of wealthier ones - it creates a more fair lettings market for all.

Exceptions

The lettings industry would like to carve out an exception for referencing.¹⁴ The belief that tenants should pay for this is the result of a general confusion in the industry about what it means to provide a service. For instance, the Capital Economics report argues that: *"Fees are charged to tenants to reflect real work that is undertaken on behalf of them, including checking references, drawing up tenancy agreements, conducting credit checks and general administration".*

The key problem here is that credit checks and checking references are not activities done on behalf of the tenant. A good tenant gains nothing through being referenced, and a bad tenant would lose out through being referenced. Referencing is not a service to the tenant, it is a service to the landlord to secure against rental income loss (which is

¹³ Correspondence with Theydons, Leytonstone

¹⁴ Arla, [ARLA Propertymark Talking Points and FAWS: Consultation on Banning Tenant Fees](#), April 2017, p.1-2

why the more expensive third-party referencing services also offer rental insurance as part of the package).

Letting agents have fallen into the pattern of assuming whenever they are talking to a tenant they are providing a service - but in many cases they are acting as the landlord's agent in the relationship with the tenant. Either referencing is a useful tool to reduce risk to landlords (in which case they should be happy to have it included as part of their fees) - or it isn't and tenants are being charged for no reason.

[A reasonable argument](#) for retaining fees for referencing is that tenants need "skin in the game" to avoid people submitting for references they are likely to fail - but this requirement is met by holding deposits. Pleading at this point that certain fees need to be preserved might find a more sympathetic audience if the industry had shown restraint to date. The average fee charged to two people for referencing alone is £155. This is an incredible mark-up from third-party services that charge £40-80 for two tenants. Letting agents have had a chance to charge a reasonable deterrence fee - and the overwhelming majority have chosen not to do that. It is not credible that if allowed to retain any ability to set fees the industry will show restraint.

A Better Lettings Market

While it is natural that ARLA would attempt to marshal arguments in the interests of its members, the industry as a whole should reflect on the behaviour that has brought them to this point. It is to the benefit of hard- working and efficient letting agents that the true costs of their competitors are exposed to landlords - who will be able to make better decisions as to which agent to trust with their property. If agents who currently can undercut on landlord fees through heavy charges to tenants can no longer do so, competition becomes fairer. Letting agents who can proceed a reference in under eight hours should consider how long they want to be tarred with the same brush as their competitors.

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