

# The Hidden Costs of Private Renting in Northern Ireland

## An Investigation into the Practice of Letting Charges



May 2013

## 1. Summary

- Housing Rights Service and members of the Northern Ireland (NI) Private Tenants' Forum<sup>1</sup> carried out a mystery shopping exercise of 40 letting agents operating in the private rented sector (PRS) across NI in March 2013.
- The majority of letting agencies contacted in the survey charge additional fees which include charges for general administration costs; tenancy deposit protection costs; credit checking fees (for tenants and guarantors); tenancy renewal fees or check in inventory charges.
- There is wide variation both in the level of additional fees being levied on tenants and in the services being charged.
- These charges range from £25 to £100 with the average upfront fee being £47.69.
- Most letting agents do not advertise these costs on their websites.
- The additional fees charged to tenants appear to be much higher than the costs that would be incurred by letting agents to carry out routine administration services, such as reference and credit checks.
- Some letting agents could be 'double charging' i.e. charging tenants for services which they are also providing for landlords.
- We are concerned that upfront fees are acting as a barrier preventing people on low incomes from finding a home in the PRS.
- We believe there should be a requirement for letting agents to present landlord and tenant fees on their websites, in adverts and in all promotional material in a way that is easily comparable across agents.
- We also believe there is a need for the greater regulation of letting agents' practices.

## 2. Background

Housing Rights Service has identified through its casework many difficulties and issues relating to the practice by letting agencies of charging upfront fees or premiums in the PRS. Following the publication of a number of recent reports in Britain, Housing Rights Service (HRS) decided to investigate this practice by conducting a mystery shopping exercise of the fees charged by letting agencies. Members of the NI Private Tenants' Forum helped carry out the phone survey and thanks are due for their assistance in this regard.

A sample of 40 letting agents across Northern Ireland was telephoned in March 2013 and asked for details of a 2 bedroom property. All letting agents were chosen at random through an internet search. They had not been highlighted as agents who had been previously identified as making high charges. The following specific information was sought:

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<sup>1</sup> The NI Private Tenants' Forum involves tenants based in specific localities and communities of interest across Northern Ireland. Membership is drawn from private tenants whom, by choice or necessity, have found themselves in rented accommodation and wish to see an improvement in standards. The main aim of the forum is to encourage tenant participation in shaping relevant legislation, policy and practice in the private rented sector (PRS).

- The rent per month for the property.
- The amount payable for the deposit.
- Details of any upfront fees such as administration and/or credit reference charges.
- Any other charges/fees to pay.

We also examined the websites of the sampled agents (where available) to see if they contained information on additional fees and membership of professional bodies. Members of the NI Private Tenants' Forum conducted the majority of the short interviews.

### 3. Findings

The majority of letting agencies (60%) contacted in the survey charge upfront fees with a wide variation both in the level of additional fees levied by agents and the services that are being charged for. These charges range from £25 to £100 with the average fee being £47.69. The majority of Belfast agents charge an upfront fee – the average being £49.23. The average upfront fee charged by agents outside Belfast is £46.16. Most agents that don't charge fees are based in rural locations.

The types of upfront fees included charges for general administration costs; tenancy deposit protection costs; credit checking fees (for tenants and guarantors); tenancy renewal fees and check in inventory charges.

The average charge for administration costs in our sample is £40.36 with the average fee for tenant credit reference checks being £39.23 and credit checks for guarantors costing on average £33. We found that two agents are considering charging a fee in association with their costs under new tenancy deposit protection arrangements and one agent charging £25 for check in inventory costs with another charging £25 as a tenancy renewal fee. One agent charges a standard £25 for each letter sent informing tenants of rent arrears.

**Table 1: Average upfront fees**

Average upfront fee – all charges	£47.69
Average administration charge	£40.36
Average credit checking fee for tenants	£39.23
Average credit checking fee for guarantors	£33.00
Average upfront fee charged by Belfast agents	£49.23
Average upfront fee charged by agents outside Belfast	£46.15

Most charges are not advertised on agents' websites – only 4 agents (10% of the sample) made references to these costs. On a number of occasions probing questions had to be asked by our volunteers before the information on fees was provided over the phone.

All agents surveyed charge a deposit (normally equivalent to one month's rent) and also request a month's rent in advance. The average rent for a 2 bedroom property we found was £484.37 with the average deposit amounting to £479.87. The highest rent we found for an advertised 2 bedroom property was £675 per month. The largest deposit was also £675 for a letting in Belfast.

In regard to the largest financial outlay expected from tenants taking on a PRS letting, we found one Belfast agent charging a non-returnable fee of £40 for both a tenant and guarantor credit reference check, on top of a deposit and rent in advance (both £675), therefore requiring an initial upfront payment of £1,430 for the tenant to move in.

Only 15 (37.5%) of the 40 lettings agents surveyed advertised their membership of professional bodies such as RICS, ARLA, the Property Ombudsman, IPAV and NAEA. The majority of these (7) are members of the Property Ombudsman.

#### **4. Case Studies**

HRS also collected a number of recent case studies from our clients regarding tenancy fees and charges. A selection of these is provided below:

1. Two separate clients reported being charged £150 by a letting agent, in Belfast, for amending names on a tenancy agreement. No explanation or breakdown of this fee was provided by the letting agent. The clients felt this was unfair as the initial agreement was drawn up on the advice of the agent. They believe landlords should cover these fees as part of their arrangement for management services with the letting agent.

2. A client reported that a letting agent in Larne, as standard practice, charges a £100 administration fee per tenancy allocated.

3. A client reported that a letting agent in Belfast was charging foreign nationals who have been in the UK for less than six months, a non-refundable credit reference fee of £95, while charging £40 for all other applicants. This difference in practice was felt to be a possible breach of the Race Relations (Northern (Ireland) Order 1997. This issue was referred to the Equality Commission NI for follow up and we understand this differential practice has now ceased.

4. A client reported that a letting agency in Belfast charges £40 to check the reference of every guarantor provided as a condition of taking on a tenancy. If the reference check fails, the fee is non-refundable and the applicants have to provide another contact and pay the fee again. The policy is described on the agent's website as follows: "There will be a small administration charge of £40 for each guarantor's reference and, without this, it is

impossible for the application to proceed.”

## 5. Conclusions

HRS believes that the evidence from this survey supports the call for regulation of the letting agent industry and that no charges should be imposed on tenants for functions which are part of the routine letting and landlord management process.

This issue has been the subject of recent policy attention.<sup>2</sup> For example, the Advertising Standards Authority (ASA) in March 2013 ruled against an estate agent for not being upfront about administration fees and now expects all letting agents to make clear what compulsory fees are charged when letting a property and to include these in the price quoted.<sup>3</sup>

More recently, the UK Government has confirmed it will consult on making letting and management agents join a redress scheme, following amendments made to the Enterprise and Regulatory Reform Act which allow the Secretary of State to make an order requiring letting and managing agents of privately rented and residential leasehold homes in England and Wales to belong to a redress scheme.<sup>4</sup>

HRS believes both the Department for Social Development (DSD) and Department of Enterprise, Trade and Investment (DETI) should jointly examine these developments and their implementation in Northern Ireland. We also believe the following proposals should be considered:

- Letting agents in Northern Ireland to be brought under the Estate Agents Act (1979), thereby giving the Office of Fair Trading (OFT) powers to ban agents who act improperly.
- All letting agents in Northern Ireland to be required to become members of an ombudsman service, giving tenants the opportunity to pursue redress in cases of poor practice.
- Letting agents to be required to present landlord and tenant fees on their websites, in adverts and in all promotional material in a way that is easily comparable across agents.
- Government to clarify the scope and effectiveness of existing legislation as contained in the Commission on Disposals of Land (Northern Ireland) Order 1986 which relates

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<sup>2</sup> See for instance CAB (2009). *Let down. CAB evidence on letting agents and their charges*, CAB Briefing, London: Citizens Advice Bureau; Shelter Scotland Research Report (October 2011). *Premiums in the Private Rented Sector*; Resolution Foundation (December 2011). *Renting in the Dark: Creating a lettings market that works for tenants*; Which? (November 2012). *Renting Roulette. Consumer experience of the lettings market*.

<sup>3</sup> See <http://asa.org.uk/News-resources/Media-Centre/2013/ASA-clamps-down-on-hidden-letting-agent-fees.aspx>

<sup>4</sup> See <http://www.legislation.gov.uk/ukpga/2013/24/part/6/crossheading/redress-schemes-lettings-and-property-management-agents/enacted>. Please note that the relevant sections (83-88, Part 6) of the Act only apply to England and Wales.

to the charging of 'commission' by letting agents in Northern Ireland.

- Government to consider whether it is necessary to ban the practice of charging upfront fees (as is the current position in Scotland) if problems with opaque and disproportionate fees persist.

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