

## Letting Agent's Renewal Fees



Rookie Landlords are often caught out by a short clause in their Letting Agent's terms and conditions. It will look something like this:

*"A fee of x % plus VAT will be charged for a tenancy renewal/extension for a second year or further period"*

The fee is normally between 60% and 100% of that charged for the original let. The clause is usually tucked away on the last page of the document and many first time Landlords only become aware of it when they receive an invoice from their letting agent following a renewal. Their reaction is normally disbelief that an agent could charge such a large amount for what they see as re-typing a Tenancy Agreement.

Renewal fees are a long standing convention in the industry. Was the Government to pass a new law today making them illegal I suspect that we would see an immediate increase in the initial commission rate charged of between 20% and 30% as without renewal fees agents would need to take all of the commission upfront rather than on a pro-rata basis. The losers in such an arrangement would be those unlucky Landlords whose tenants only stay for one year and then move on.

Ruses pulled by Landlords to avoid the renewal fee include arranging for the tenant to move out for a single day, claiming to have sold the property to another family member or the most common; arranging the renewal directly with the tenant and then writing to the agent informing them that they no longer require their services. None of these tactics work.

I've seen Landlords ask excellent tenants to leave rather than pay the agent's renewal fee and it is a classic example of false economics. The Landlord ends up paying a higher fee for what will probably be a less reliable tenant. Landlords can ease the pain of the renewal fee by addressing it at the start of their agreement with that agent.

Agents will be far more amenable to negotiate when they are not already holding your signed agreement to the fee. Getting the fee waived is perhaps too much to expect but you should certainly aim for a 50% reduction on the initial fee. I would estimate the less than 50% of tenants stay past their initial term agents will not want to jeopardise a let by playing hardball over a renewal fee that may never materialise.

Furthermore when the time comes to renew the tenancy make your agent work for their fee. You are quite entitled to ask for an increase in rent after 12 months and your agent should negotiate this on your behalf. An increase of 3% is normally acceptable to tenants that don't want the hassle of moving and would

offset a large chunk of the renewal fee. If the property is looking dirty ask the agent to make a major clean-up a condition of the renewal and get them to check that it has been done.

Finally, while renegotiating the renewal fee you may also want to take a look at the other clause in the agreement that is often overlooked by Landlords; the sale clause:

*“Should a sale be effected with the same tenant or an associated party, a sale commission fee calculated at 1.5% of the purchase price, plus VAT, will become payable at the time that the sale is completed”.*

After all, if you were instructing an agent just to sell the property you would try and keep the commission to a minimum. The type of property that a previous tenant looks for when they decide to buy is often similar to the last place that they rented so it is not that unusual for them to buy their last rental property.

*Written by Justin Burns MRICS, owner of a busy [North London Lettings Agents](#) and a practising Chartered Surveyor.*

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