

THE BUY TO LET MINEFIELD

As a Director of a Residential Property Management Company you need to be aware of the insurance implications of having short-hold tenants in your building - but your position can put you in control of the situation before it gets out of hand!

The combination of record low interest rates and the continuing strength of the property market has seen a significant rise in the trend to "buy to let". This is likely to affect those living in flats and apartments more than most. It is no surprise that apartments are at the top end of the wish list of those seeking to buy to let: Size for size, there is often a cost advantage and lack of individual responsibility for gardens means that flats and apartments are perceived as being relatively low maintenance. However, neither is it surprising that there is a "down side" to the equation, both from an amenity viewpoint and financially.

This generalisation may do some "short term" tenants a disservice, but it is fair to say that on the whole they are not nearly so inclined as an owner-occupier to take pride in the property. This may simply manifest itself by a relatively dilapidated appearance which is detrimental to other properties in the block, or it can have a more intrusive effect on neighbouring flats.

Evidence shows there is an increased claims potential among let properties, especially in connection with escape of water and fire damage, both of which, when they occur, are rarely contained within one property in the block.

An absentee landlord, who is more focused on profit than social conscience also can turn a blind eye to overcrowding; in one recent case a director of a flat management company complained that 15 people were regularly sleeping in a two bedroomed flat, let on a Shorthold Assured Tenancy - and despite the obvious health implications he was powerless to intervene.

As ever, prevention is better than cure, so it is well worth studying the terms of your lease and if necessary modifying regulations relating to letting and sub-letting to ensure the management company has sufficient control over the situation on behalf of the remaining owners.

If there is already property which is let commercially you probably won't be able to act retrospectively but you should ensure the impact which the situation has on insurance policies is also fully understood.

Statistically owner occupied flats and apartments present the lowest insurance risk and therefore attract low rates of premium with wider cover. Properties which are let are rated higher and normally have a more restricted cover.

The first consideration for management committees is to be aware of their responsibility to keep insurance companies informed of changing circumstances within the block. An increase in the number of rented dwellings, and in particular the accommodation of high risk groups, including holiday lets, may affect existing buildings policies unless the change in circumstance is disclosed to the insurers and accepted by them. (see question 1a of our quotation document for an indication of other high risk groups) On an individual flat by flat basis there is also a need for buy to let landlords to comply with other regulations: They must keep accounts for the Inland Revenue, comply with specific health and safety regulations for example in relation to gas supply and glazing and have proper insurance which includes public liability cover - home contents insurance is not adequate.

In short the advice is to control the situation before the situation controls you. The majority of tenants will be very good neighbours but just ensure that you have the legal authority to act should it prove detrimental to the majority of tenants, and make sure your insurers are kept fully apprised of any change in the ratio of properties which are let to ensure that your insurance policies are not compromised.

Disclaimer

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