

AN HMO FOR TENANTS ON BENEFITS

THE HIGHS AND LOWS

By **Arsh Ellahi**

This month, in line with YPN's feature on different HMO markets, I thought it would be useful to write about my experience of the day-to-day running of HMOs filled with tenants on benefits.

As some of you may know from a cameo role on the Channel 4 programme, *Britain's Benefit Tenants*, I am a very straight-talking landlord and investor. I have developed extremely thick rhino-style skin, and certainly do not take any prisoners.

There is a stigma attached the benefit tenant market that identifies them as being the worse client group you could ever have. Although there is some truth in this, I would also like to bring to light a lot of the benefits of housing a tenant on benefits.

Let's go through some pros and cons ...

THE PAYMENT PROCESS

Prior to the introduction of Local Housing Allowance and Universal Credit, housing tenants who were claiming state benefits was quite a lucrative business. Prior to 2008, councils would pay the rent directly to the landlord every four weeks and as a result, the rent was a very secure form of income.

In many of my properties, the rent for a room in an HMO with shared facilities would be circa £70 per week. The local authority would pay £60 towards this amount, meaning that approximately 85% of the rent was secure. The tenant would only be liable for £10 per week, which often came from the tenant's personal benefits, eg Jobseekers Allowance.

At the time, the market rent for rooms was circa £60 per week, and we were achieving 15% more. It really was a simple and effective system.

The pros ...

- Benefit tenants had a place to live
- Landlords were being paid
- Council housing list was much shorter

WIN – WIN – WIN

But then ...

The government went and screwed it up. In 2008, they introduced a scheme known as the Local Housing Allowance. They decided that they wanted to give unemployed people some financial independence. And what better way to start than by giving tenants the rent to see how many people could handle paying it to their landlord?

Everything I had loved about the previous benefit system had now gone straight out of the window.

In order to claim Local Housing Allowance, tenants would have to submit their personal bank details online. It was like Christmas every month for them. They would receive in excess of £400 into their account and, as a result, the local bookies and pubs were thriving.

Recent statistics show that since the introduction of LHA, and now Universal Credit, rent arrears have increased by 63%.

I currently use a service called Tasker Payment Services (www.taskerpaymentservices.co.uk), which is a nationwide credit union-style service. The tenant has to open an account online and all the housing benefit portion is paid to us within seconds of reaching the account.



LONGEVITY OF TENANCY

One of the massive benefits of housing tenants on benefits is the fact that if you choose them right and treat them as you would any other person, they will become a tenant for life. Now just to clarify, I believe there are three kinds of benefits tenants:

- Can't work
- Will occasionally work/temp work
- Won't work

I have had tenants who have been with me for more than 20 years in the same property, and then I have also had tenants who have been with me for one month and absconded.

The key to any successful HMO in any tenant market is tenant selection. Asking simple questions such as:

- Who are they?
- Where are they living now?
- Why they are moving?

It seems simple, but understanding a little about the person and their background will give you an indication of the life they live and how your property will be treated.

Tenants on benefits are slightly trickier. A lot of the people I meet are homeless or are of no fixed abode. Unlike working professional tenants, they may not have:

- Deposits
- Rent in advance
- Guarantors
- References

I have to work on a gut feeling. I try to understand why they are moving and how they have ended up in their current position. For example, a homeless tenant may have become homeless for one of two reasons:

- Not conducting their tenancy at their previous property in the correct manner. This could mean rent arrears, anti-social behaviour, drug use, or even the association of unwanted guests.
- The previous landlord not fulfilling their obligations, ie providing hot water and heating. I have met many tenants who have lived in sub-standard accommodation because the landlord refused to invest in the property, which then naturally deteriorates in condition.

The benefit tenant market is one of two extremes: tenants who are grateful for their property, keep it clean and maintain a good

tenancy; and those who believe the world owes them a favour, and the property is simply a place where they sleep. The latter leaves the property unkempt and untidy and hosts many others by using it as a mini hostel. It would also be common to be called out by the police in the early hours of the morning to let them into the property before they break the door down.

Over the past 20 years, I have experienced both types of tenants. Learning from those experiences, I have fine-tuned the business so we only attract the first type of benefit tenant. Some of my long-standing tenants have been with me since the beginning and I now consider them almost as friends.

Surprisingly, I have also found that a lot of my benefit tenants keep the property in much better condition than some of my working professional tenants.

THE PROPERTY ITSELF

I am a firm believer that a property housing benefit tenants cannot be set up the same way as if it housed working professionals. I have created an HMO model, which I believe works harmoniously. In the model I have created:

The property does not have a communal lounge. I aim to limit the amount of contact between parties.

I have an HMO in West Bromwich which houses 23 tenants on benefits. Can you imagine 23 benefit tenants in a communal lounge? I can imagine being called out to an issue almost daily. Therefore, we remove any communal spaces. But to compensate, the rooms must be larger (circa 15 sqm) to accommodate the fact that the room will be used for living and sleeping.

Over the past few years, I have adopted the same model for the working professional

HMOs. If you look at the HMO market in general, all the HMOs have communal lounges and facilities. I have found that tenants actually like to have their own facilities, as they're not dealing with any issues such as other tenants leaving areas untidy.

Finally, in all my HMOs I have adopted a model different to the HMO norm. All tenants are responsible for their own energy use.

Previously, I had HMOs where the rent was all-inclusive. I found that, as benefit tenants were in their properties for longer periods of the day, the energy bills were very high. As a result, I decided to create a system where all my HMOs are fully electric. Each tenant has their own electric meter.

It is now extremely rare to find a TV on standby, as they understand that they would be paying for this. Previously, the heating would have been on full blast, TVs left on and the only person who would have paid for this would have been me.

2 HEAD TENANT/ CARETAKER

The best thing I have ever done! In my 23-bed HMO, I have always had a head tenant. They live in the building and act as my eyes and ears inside. This role has evolved over the years, and they now conduct all the viewings for me. Previously, I could only accommodate a viewing between 9am and 5pm, but with the head tenant in place, they can show people around at any time. I find this works extremely well, and I have asked the current head tenant for his opinion on the prospective tenant. I value his input on how he would feel if they moved in. I generally go with his decision as it is in my best interest to ensure he stays!

I have also bought him a laptop and printer so that I can email him documents. For example, if one of the tenants' housing benefit claim has been suspended, I can email the head tenant the document, he can get the person to sign it, scan it back into the computer and email it back to me.

Some of my head tenants are trusted with collecting rents, and some even deposit into the bank for me. This has come over time as I've built trust.

I have adopted this process in all my HMOs. I find it works extremely well and all issues are reported to the head tenant who in turn reports them to me. It saves me having to communicate with lots of people, and instead only deal with one person – the head tenant.

In order to get a good head tenant, however, you have to offer some incentive. I generally give them a reduction in rent along with other incentives, such as £10 per viewing and £25 for every property they let.



3 PAPERWORK

Keep on top of it. Every now and again, you will receive confirmation to say that you will not be paid housing benefit due to the tenant's circumstances. This could be that they missed a job interview, or have not made enough effort to find a job, etc. Some landlords leave this to the tenant to sort out and I believe this is a mistake. It can lead to a mass of arrears in rent.

My office does all the paperwork on the tenant's behalf, and we email it and post it to each tenant to know that it has been actioned. All tenants need to sign a third party authority form, which allows us to speak to the council about any part of their claim.

We find that this helps all parties. Generally, tenants are not great with appointments and paperwork, so the more we can assist, the better it is for them and the more likely we will get paid.

Stay on top of it and keep communicating with the tenant.

So there you have it guys, I hope you will have found this article of some use. It may sound like it is a lot of hassle dealing with benefit tenants, but believe me, if you choose the right ones, it can lead to long-standing tenants. It can be rewarding too, as you have probably helped someone who other people would have turned their noses up at.

THE KEY TO RUNNING A SUCCESSFUL BENEFIT HMO

Running HMOs can be financially rewarding but also very taxing. If not managed correctly, having benefit tenants could seriously shorten your life with worry. Here are my top tips to run a successful HMO:

1 MASTER KEY SYSTEM

One key fits all. It allows me to access all parts of the building without ever needing to look for keys. When tenants lose their keys or maintenance needs to be done, I simply open any door with the master key and save a load of time. I also gave a copy of the key to the local police station in case of an emergency. They no longer need to force a door, as they have the key and my permission to access any of my properties.

If you have a question you would like me to answer in next month's article, please email arsh@arshellahi.com and I'll aim to answer as many as I can over the following months.

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