

Go big or go bust?

Adam J Walker discusses whether there is a future for independent letting agents.

The big national and regional letting agents are buying up their smaller competitors at an astonishing rate. In the last few months alone, several quite sizeable letting agents including John German, Lampons, Perry Bishop and Chambers, Sullivan Thomas and, most recently, Fitz-Gibbon, have all taken the decision to sell their lettings businesses and I know of several dozen other firms who are currently considering their options. So why is this happening now and is there a future for the small independent letting agent?

The major lettings firms have a number of key competitive advantages over their smaller rivals. These include:

■ ECONOMIES OF SCALE

Nearly all the major firms have specialist staff to cover each of the different functions. A valuer takes the property onto the market, a negotiator arranges the viewing, an inventory clerk prepares the inventory, a tenancy administrator prepares the contracts and chases references, a property manager deals with management, a maintenance manager organises the repairs, the collection and payment of rent is dealt with by a specialist accounts team and renewals are dealt with by a separate department. That is eight different specialist people in one transaction each with very specialist skills.

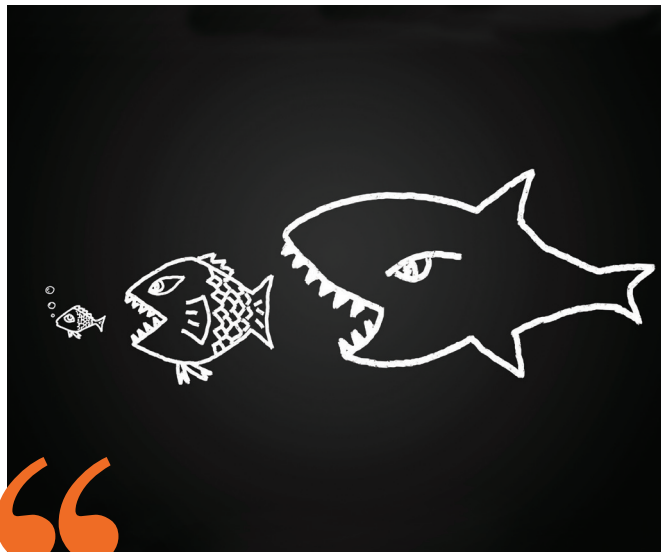
In smaller businesses it is not uncommon for one person to perform all of these functions and it is almost impossible for them to be good at all of them.

■ AUTOMATION

Large firms have invested heavily in sophisticated software that reduces the time necessary to handle each property. For example a lot of property management systems allow landlords to look at their own files using a secure pin number, to check on the cost of repairs or whether or not the month's rent has been paid. This saves a telephone call to the property manager. As a result some property managers are able to manage over 300 properties each. The smaller firms have not been able to afford this technology and as a result their labour costs are much higher.

■ MARKETING

The larger firms have invested in sophisticated marketing methods to generate valuations from new and exiting landlords.



“The smallest and weakest independent agents don’t have a long term future.”

For example, one of my largest clients has recently invested over £500,000 in a sophisticated CRM database that will keep in touch with all known landlords for many years after their initial enquiry. Too many small firms have a box of mouldy files in a basement somewhere.

■ SECURITY

Almost every week a letting agent somewhere in the UK goes bankrupt after stealing their client account. Major firms use their financial security as a key tool to persuade landlords to instruct them over their smaller unregulated rivals.

■ MAJOR ACCOUNTS

Institutional Investors are at last beginning to enter the buy to let market and some have hundreds or even thousands of properties to manage. These contracts will almost inevitably

go to the major chains who can offer the financial security that these clients require.

So with all of these disadvantages, can independent letting agents survive? My opinion is that the smallest and least professional lettings firms do not have a long term future. A great many residential estate agents started a lettings division in 2008 when the sales market collapsed. Many of these firms have made an appalling job of running a lettings business. Their compliance systems are dreadful and expose themselves and their clients to significant risk.

A second major issue is that they are not charging sustainable fees. When landlords ask why they should instruct them rather than a much more established competitor they say “Because we are cheaper.” As a consequence they are not making a proper level of profit. Now that the residential sales market is improving again these firms will decide to sell their lettings books to a competitor.

The medium size lettings firms probably do have a future. What they lack in marketing skills and efficiency is often more than made up for by personal service and the flair and ability of the proprietor. However if they are to survive they will have to up their game by investing in sophisticated marketing methods and property management solutions. Those that do not will see their profits dwindle to the point where an offer from a competitor of as much as two times turnover will become irresistible.

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