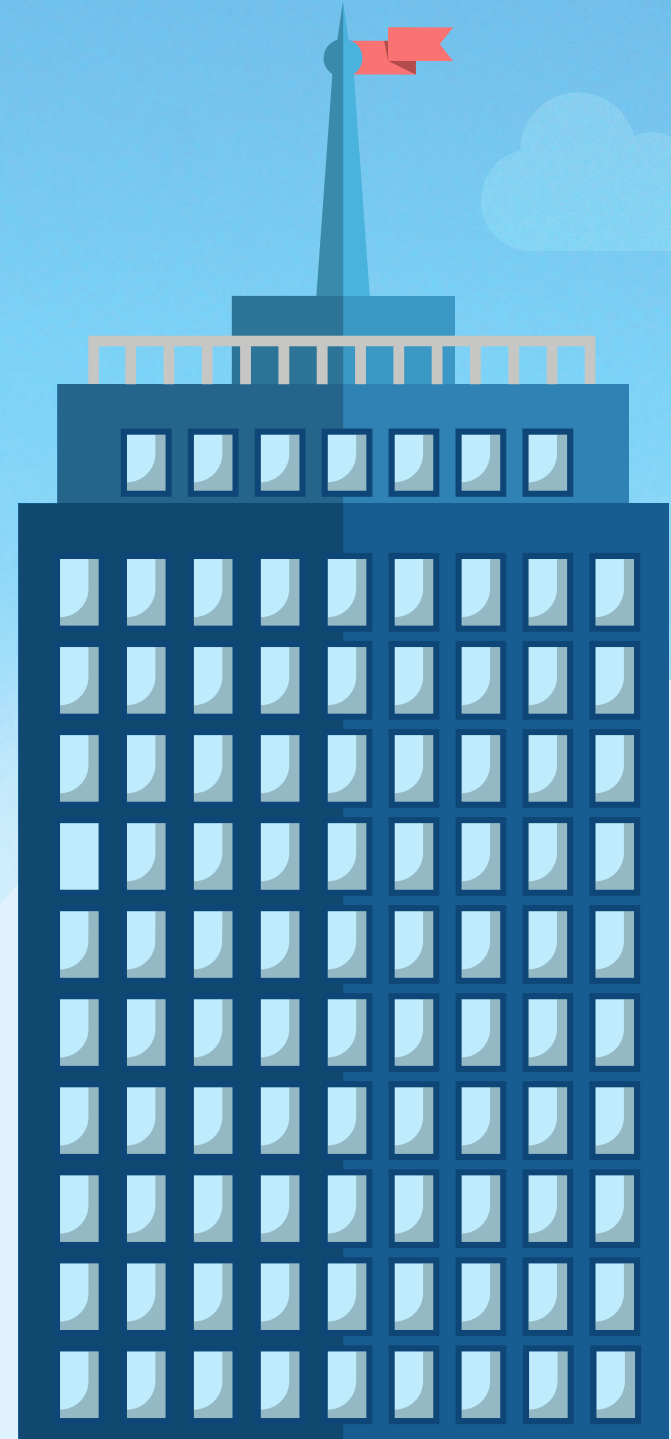
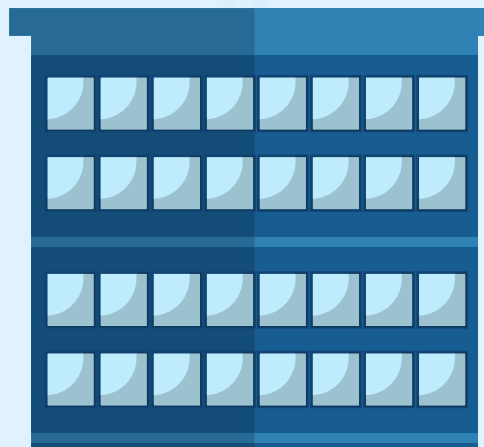


# Block Management:

a Great Opportunity for  
Letting Agents?



# Introduction

Every article or eBook we write these days seems to start with a reference to the Tenant Fees Bill, but it really is dominating discussion throughout the property management sector at the moment, especially now that the legislation's been published for everyone to pore over and complain about.

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In truth, the Bill isn't telling us much that we didn't already suspect. It's now confirmed that all fees which don't fall under the rent, holding deposit or security deposit banners will now be prohibited. And that's going to have a significant effect on property managers' revenue streams.

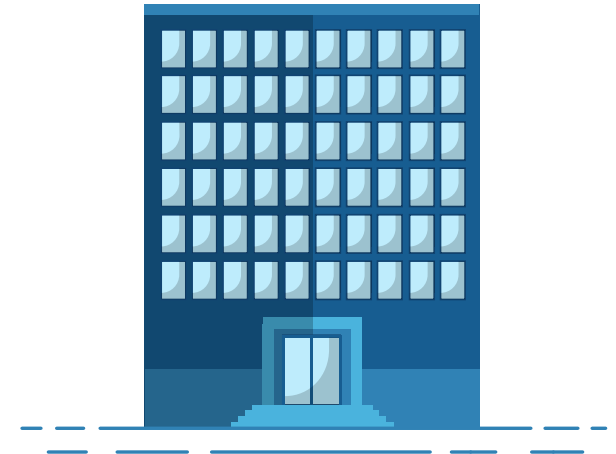
Everyone is going to have to adjust to this new situation and find other ways of remaining profitable. One way in which they might be able to do that is by moving into other sectors of the property management industry - lettings property managers, for instance, could start to break into block management.

The advantages of residential block management from a business standpoint are clear - not only could you take on the management of the block itself, but you could

also target the properties within it. It depends on how you're looking to develop your portfolio and what you're most comfortable dealing with.

However, breaking into block management when your main experience is in lettings is easier said than done - there are a wealth of differences between lettings and block management, and you'll need to know what those are before you start thinking about how you can get into the block management sector.

In addition to our own knowledge, we've talked to Mike Basquill, RICS's UK Residential Associate Director, to find out what he sees as the main opportunities, challenges, risks and benefits as far as letting agents moving into block are concerned.



Some of the areas covered include:

- **Legislation that prospective block managers need to be aware of**
- **The best ways of finding block management clients**
- **Stakeholder relationships**
- **The risks and challenges of block management**

We hope you find this eBook useful and informative as far as your plans and long-term business goals are concerned. Please don't hesitate to pass it on to contacts if you feel it might be relevant to them, or to get in touch if you have any thoughts or comments - we're always looking to make our free resources as useful and actionable as possible.

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# Common Terminology

This section covers terms which are used throughout this eBook and which you are likely to hear on a daily basis once you step into the block management sector - it's vital, therefore, that you familiarise yourself with them now.

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## **Block:**

Premises containing multiple units (including at least one residential unit) that share communal areas (common parts).

## **Estate:**

More than one block under the control of a single landlord and sharing common areas and/or services between them.

## **Flat:**

Any residential dwelling unit in a purpose built or converted block that is separated from other units (residential or commercial) within that block.

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## **Ground rent:**

The consideration (money) payable by the leaseholder for a long lease of land and/or buildings on a regular basis.

## **Landlord:**

The person or company which owns and/or leases a flat or house; any party who has a right to enforce payment of a service charge (this will include any person or company, including RMC and RTM companies, that has a right to collect monies under a long lease including ground rent and service charge monies); the party who has granted a lease or tenancy or who has succeeded

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to that position; the party entitled to receive the rents and enforce the covenants; the party entitled to terminate the lease by forfeiture (subject to the legal restrictions on forfeiture).

## **Lease:**

The legal contract between the landlord and the leaseholder by which the leaseholder has exclusive possession of a property (flat or house) setting out the terms and conditions that both parties must comply with, including any deed of variation.

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**Leaseholder:**

The person who, or company or Limited Liability Partnership that, owns the leasehold interest and is liable to pay the service charge and/or ground rent under the terms of the lease. Sometimes referred to in law as a tenant.

**Managing Agent:**

A person or organisation that acts on behalf of the landlord within terms of reference and/or instructions from the landlord, subject to any legal restrictions.

**Occupant:**

Person who resides within a flat. This can be the leaseholder or a sub-tenant of the leaseholder.

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**Residents' Management Company (RMC):**

An organisation which may be referred to in the lease, which is responsible for the provision of services, and manages and arranges maintenance of the property, but which does not necessarily have any legal interest in the property. As the term implies, all or most of the members of RMCs will be leaseholders.

**Residents' or Tenants' Association:**

A group of leaseholders with or without a formal constitution or corporate status. It is also possible to have a Residents' Association "recognised" by law and with a formal constitution. This is known as a "Recognised Tenants' Association" (RTA) which applies where a Residents' Association successfully gains formal recognition from the landlord or the Property Chamber. Formal recognition confers extra rights.

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**Service charge:**

An amount payable by a leaseholder as part of, or in addition to, ground rent in respect of services, repairs, maintenance, insurance, improvements or costs of management. A "variable service charge" is where the amount may vary according to the costs incurred or to be incurred. If the service charge is fixed under the terms of the lease, this is referred to as a "fixed service charge". The service charge provisions of the Landlord and Tenant Act 1985 and 1987 do not apply to fixed service charges.

# Stakeholder relationships

In residential lettings management there is a fairly clear and standardised set of relationships in a fully managed rental property between the tenant, the landlord and the landlord's agent (the professional property manager). In short, the property manager acts as conduit for communications between the occupant of the property (who is also the tenant), there are limited rights and obligations on the tenant in respect of the area outside of the property (e.g. any shared garden) and there is very little (or no) direct contact between landlord and tenant.

In residential block management, things are a little more complicated, and the roles of tenant and landlord can be split, resulting in more stakeholders to manage.

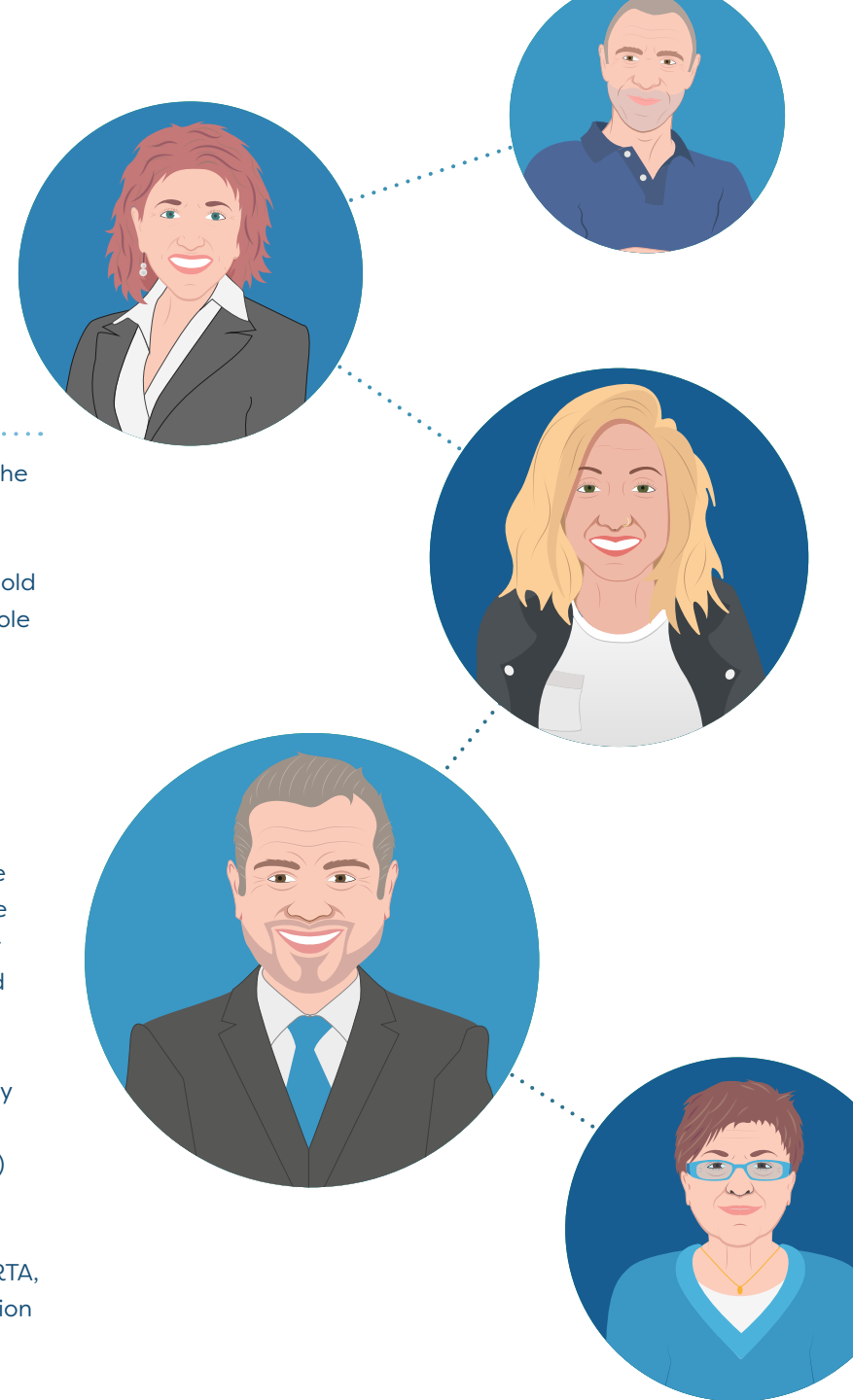
For example, although the leaseholder is the person (or party) that the landlord has a contractual relationship with, the occupiers may be different, for example if the flats in the block are rented out under short term tenancies. This

means that the legal flow of information and the practical flow of information can diverge.

The freeholder may not actually own the freehold and instead could have a long lease of the whole development. Understanding the hierarchy of legal relationships for a block (or estate if the block is part of a wider development) is critical before attending a pitch or taking on a new instruction.

It has now become very common for flats to be demised by way of a tripartite lease, where the landlord's obligations and the rights to recover costs as a service charge sit largely with a third party. This party is often referred to as "the manager" within the lease and is typically, but not always, a residents' management company (RMC). A similar tripartite situation occurs following completion of right to manage (RTM) and/or collective enfranchisement.

A further stakeholder may be the Residents' or Tenants' Association which, if recognised as a RTA, will have additional information and consultation rights.



# What legislation might you need to know about?

There is a lot of governing legislation involved when it comes to block management.

As with residential lettings management, the Government is actively and currently looking to reform the block management sector so the regulatory framework should remain under constant review if you are planning to launch (or buy) a block management business.

Relevant legislation includes:

- Housing Act 1988/1996/2004
- Landlord and Tenant Act 1927/1985/1987
- Law of Property Act 1925
- Leasehold Reform Act 1967
- Leasehold Reform, Housing and Urban Development Act 1993
- Protection from Eviction Act 1977
- Rent Act 1977
- Commonhold and Leasehold Reform Act 2002
- Companies Act 2006
- Data Protection Act 1998
- Equality Act 2010
- Health and Safety at Work etc. Act 1974
- Control of Asbestos Regulations 2006
- Control of Substances Hazardous to Health Regulations 2002
- Furniture and Furnishings (Fire) (Safety) Regulations 1988
- Gas Safety (Installation and Use) Regulations 1998
- Regulatory Reform (Fire Safety) Order 2005
- Construction (Design and Management) Regulations 2015



# What are the complications and risks involved with block management?

Block management is undoubtedly a more complicated proposition than lettings, not least because of the increased number of parties involved. There are a lot of risks associated with it, but many of them can be alleviated by devising a proactive management strategy that minimises the likelihood of them arising but puts you in a good position to react to them if they do.



## Compliance breaches

Mike Basquill says that the biggest risk, in his view, is the knowledge gap between the two sectors, which could lead to compliance breaches. For instance, it's important to understand the obligations associated with serving a Section 20 Notice, which kicks off the three-stage consultation procedure that a management company needs to follow if they wish to carry out qualifying works to a building where the contribution from any one leaseholder exceeds £250. If the consultation procedure is not carried out properly, leaseholders can only be liable for a maximum of £250, which can be extremely costly for you.

It's particularly important to consider the legal obligations around consultations relating to building work, as this can often trip up an inexperienced block manager. Everyone involved in the management of the block should also be aware of their responsibilities around data protection.

Care will also have to be taken around CDM (Construction, Design and Management) regulations, which relate to general health and safety precautions in the event of repairs and planned maintenance.



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“Ensure that you always send service charge demands - from a legal standpoint, if someone stops paying, there’s no way of recovering the debt if you haven’t sent the demand.”

Additionally, lettings agents will need to quickly get to grips with money handling, protection and accounting and efficient proactive maintenance. There can also be issues around dealing with leaseholder requests and resident breaches of covenant (as we are increasingly seeing with unauthorised alterations and people subletting their properties via short stay websites).

#### **Residents’ Management Companies**

If there is an RMC in place, the directors could re-tender the management contract and bring in somebody else to manage the block in accordance with the terms of the management contract. If your performance drops or you are too closely linked to previous directors who are now gone, your position could become vulnerable, so it is important to try and maintain good relationships with everyone.

#### **Service charge mistakes**

As we’ve already seen, leases typically provide for a landlord to be responsible for maintaining and insuring the structure and common parts of a scheme, and for providing relevant communal services. The landlord’s costs are

usually recoverable as a service charge from the leaseholders. Recovery of these costs, often in advance, is usually a primary role of the managing agent.

Specific lease terms will identify what costs are recoverable as a service charge and when they are due for payment. There are no statutory rights in this regard - all are purely contractual - so the lease is paramount. The lease will normally dictate individual apportionments of the overall service charge expenditure and the method and frequency of payments.

Service charges are the main source of funding used to pay for works - leaseholders are committed to paying a service charge under the terms of their lease - which is fine when the charges are paid on time, but problematic when they’re not. These charges may be your only source of income from the block, so ensure that you always send service charge demands - from a legal standpoint, if someone stops paying, there’s no way of recovering the debt if you haven’t sent the demand. Some software systems allow you to automate this task, but others don’t, so you need to stay on top of it.

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### Common errors

Some of the most common mistakes that property managers tend to make when managing blocks are:

1. Not knowing and understanding their building, both as it is now and how it has changed in recent years
2. Not getting expert advice and attempting to tackle problems without adequate expertise and experience
3. Not implementing a proactive maintenance plan for planned and preventative maintenance, meaning they rely on dealing with repairs reactively
4. Not collecting sufficient reserve funds to cover the service charge costs for leaseholders
5. Not having enough information to make decisions that will serve and protect the investments of relevant parties
6. Not addressing known problems head on or seeking professional advice on time
7. Frequently spending small sums of money on repeated reactive repairs for one element of the block instead of getting a professional assessment to reveal underlying problems

### Future complications

In the coming months and years, Mike Basquill has highlighted that RICS is expecting increased regulation, which may be more prescriptive than current regulations - industry professionals anticipate it being the latest property management sector to feel the force of a government crackdown.

“In the coming months and years...RICS is expecting increased regulation, which may be more prescriptive than current regulations”



# What are the most important skills agents need to possess when moving into block?

Some of the key skills and knowledge it is vital for prospective block managers to accrue are centred around:

- property law and practice
- health and safety regulations
- contract law
- accountancy practice
- the law relating to client /trust funds
- an ability to deal with people problems, sometimes in extremely trying circumstances

## Managing people

Following on from that final point, there's perhaps no more difficult job than managing the expectations and demands of customers (leaseholders) and clients (landlords). This is because you may find in practice that different leaseholders have different views on the standard to which a block is maintained and that some leaseholders may misunderstand that you represent the landlord rather than the leaseholders who pay the service charge. With that in mind, people management training courses might be a shrewd investment for those who are going to be handling block management.

## Accountancy

The accountancy skill levels required can be quite high. If you manage straightforward blocks which do not have different schedules for different leaseholders to contribute to in different proportions then account-keeping shouldn't be difficult. However, more complicated blocks can mean different payment schedules and amounts which require a higher skill level to keep straight. Hiring block managers with accountancy qualifications could be a good way to get around this, otherwise training may be required.

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### **Access to legal advice**

This isn't a skill so much as simply being something you'll almost certainly need at some point in your block management career. Leaseholders and landlords or agents often come into dispute about alterations that haven't gone through the proper channels or subletting issues, and it is possible that a legal professional may need to become involved. Legal knowledge is advantageous but access to a lawyer who specialises in this area and whom you know and trust will, at least, limit the expense of preliminary advice.

### **Maintenance**

One of the key responsibilities for block managers is the planning and execution of a planned maintenance programme and capital expenditure plan (PMP and capex plan). This involves a detailed examination of the building and site as a whole to determine the overall condition and whether any works are required to bring it up to standard.

The costs of the actions specified in the plan are assessed and then allocated to a certain year depending on how urgently it is needed

according to elements including condition and potential impact on residents or the building as a whole. The priorities and costs should then be reviewed with the client (for instance, the Residents' Management Company) before being signed off on.

### **Block management software**

When creating a PMP or capex plan that could take years to fully execute, it can be a good idea to invest in software that can help you keep track of the tasks to be completed and the dates they have to be completed by. A solution with a performance and compliance matrix in which progress can be easily tracked would be ideal, especially if that solution can also be used to find and manage both contractors with whom you have a service agreement (e.g. a lift contractor for regular servicing) and ad hoc reactive repairs.

Before you begin operating within the block management sphere, you should take the time to investigate the digital block management solutions on the market to see which ones meet your needs - with most of them available on a trial or rolling monthly basis, you should be able to afford to try at least a couple to see how much easier they can make your job.

When creating a PMP or capex plan that could take years to fully execute, it can be a good idea to invest in software that can help you keep track of the tasks to be completed and the dates they have to be completed by.

# What is the best way to find block management clients?

This is key to your portfolio development - after all, as already noted, you're moving into block management as a new stream of revenue. While it can be just as difficult to find new block management clients as it is to find new lettings clients, there isn't much difference in the best ways to gain either type of client. Among other things, you should always:

- Maintain a strong website with a good organic search footprint to allow potential clients to find you off their own back - you'll want to ensure you rank for terms relating to block management and your local area or county (or wherever you operate), which a good SEO agency can help with
- Use your contacts across the industry to spread news of your business via word-of-mouth - if you're known for providing a strong lettings service, people will be more likely to accept that you provide a strong block management service

- Advertise the new arm of your business locally with flyers and signs to get the word out to those who might not think to find you online

Mike Basquill adds that there usually appears to be lots of leaseholders and landlords who are dissatisfied with their management at any one time, so it shouldn't be a huge challenge to build up a portfolio.



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“Ensure that you do not oversell yourself - you want to build a reputation as a competent block management company, not a company that over-promises & under-delivers.”

Additionally, approaching landlords (whether developers, private individuals or funds) or the Residents' Management Company directly might be productive as a means of ensuring that they are at least aware of you. If you can begin to build a relationship with them then they might come back to you a few months or a year or two down the line.

Ensure that you do not oversell yourself - you want to build a reputation as a competent block management company, not a company that over-promises and under-delivers. If you lose a pitch, there's no reason why you won't win the next one. Always ensure you get feedback, especially in the early days, to find out why you lost a pitch. What did you fail to offer? What swung things in the winning company's favour? Use the information to tailor your offering and pitch accordingly.

If you're focusing on obtaining instructions from developers on newly developed buildings, you'll need to build up relationships with those developers - ensure you can offer them

competent and honest management, and your business relationship should flourish. The same strategy applies if you're trying to win business from landlords who manage portfolios of freehold ground rents.

A note of caution to heed at the beginning of your journey: while it can be tempting (and exciting) to try and grab everything you can get your hands on to scale up your portfolio quickly, try to refrain from doing so. Some properties won't be suitable for a variety of reasons and could damage your business - only go for the ones which are a good fit.

# Next Steps

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In terms of next steps, the way you will go about setting up the block management arm of your business will depend on your resources and targets. For instance, there isn't necessarily a "best time" to begin this new branch of your business - the end of the year is traditionally a slow period in property in general, but there is no real "boom" period. However, you might have a month where the lettings side of the business tends to be quiet, which would make it an ideal time to launch your block management offering.

The most important thing to consider initially is the way in which the block management arm of the business will sit alongside the lettings arm. How much of the company's overall income targets should be attributed to block management? There's nothing wrong with being ambitious here, but you should also be realistic - don't try to run before you can walk.

Additionally, ensure that those employees who are going to be taking care of the block management side of the business are fully trained as far as their skills and legislative knowledge are concerned - we've already seen how those key differences can trip people up. Ideally they should be solely concerned with the block management portfolio, rather than spending time on both areas - this will go a long way towards ensuring positive results. They should also be given training, if they haven't already had it, that will help them manage people and relationships.

Consider how you want to initially market this block management arm, as well. Are there any contacts you have that might be able to help you kick off your portfolio so you begin with at least one block, as opposed to none? Set targets for your first six and twelve months in operation that you can use to assess success or failure, and adjust overall strategies appropriately.

# Resources

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**For further information, you might find the following resources useful:**

**RICS (Royal Institute of Chartered Surveyors)**

[Knowledge](#)

[Training courses](#)

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**ARLA (Association of Residential Lettings Agents)**

[Training courses](#)

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**ARMA (Association of Residential Managing Agents)**

[Training courses](#)

[Leasehold library](#)

**Disclaimer**

While every effort has been made to ensure the accuracy of the information provided, it does not constitute legal advice and cannot be relied upon as such. Fixflo does not accept any responsibility for liabilities arising as a result of reliance upon the information given.



# What is Fixflo Block?

Fixflo is a market-leading, award-winning repair reporting software solution. Fixflo Block is its block management-specific product, which is guaranteed to streamline your maintenance workflow and help you proactively manage the blocks in your portfolio.

From an occupant's perspective, Fixflo Block couldn't be easier to use. With over 40 languages to choose from, they can use their mobile device to report repairs through Fixflo's picture-based system. Guided advice lets tenants know when something is their responsibility to deal with, allowing them to fix small issues themselves. A clear, concise repair report is then sent to the right property manager in seconds, saving time and money for everyone involved.

Fixflo Block Plus goes further for block managers, featuring guided repair reporting, contractor management, planned maintenance, one-click work instruction and automated reminders. With the comprehensive compliance matrix, you can set and view a block's entire proactive maintenance management schedule at a glance, allowing you to see when tasks are due in addition to when they become overdue and breach compliance regulations.

**If you'd like to find out more about the Fixflo product range you can book your free demo here.**



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