

How Does 'Guaranteed Rent' or 'Rent to Rent' Work?

Guaranteed Rent also known as Rent to Rent is where an individual or company takes an interest in a property for a period of time from a landlord and guarantees to pay a fixed rent to the landlord. The landlord gives consent to the third party, 'the Renter', to then rent the property to other tenants. The Renter and they become the tenant liable for the rent. There are several ways to legally sublet a property, usually involving commercial or corporate tenancies, management agreements, and leases or guaranteed rent schemes.

Why do landlords choose to use Guaranteed Rent rather than a traditional letting agent to rent out their property?

The benefits of the arrangement to the landlord is that their rental income is guaranteed regardless of whether the tenants who live at the property pay the rent or if the property becomes empty. The 'Renter' would generally also take care of any damage to the property as it is their responsibility to return the property back to the landlord in the same condition as when they took it. This all gives the landlord a peace of mind.

The landlord would not incur any letting, management or renewal fees. The 'Renter' would be expected to comply with all the numerous laws and compliance issues that an agent would generally deal with, saving the landlord time and money. The landlord can also request a longer contract with the 'Renter', being anything from 1-5 years. This provides more security for the landlord, so they can possible budget long term.

What are the benefits to The Renter?

As the Renter has taken a lease of the property they become the landlord. This gives them the opportunity to find tenants for the property and they get to keep whatever rent the tenants pay. They generally allow more flexible arrangements with the tenants. For example, properties with multiple rooms can accommodate single tenants who rent a room with some shared areas or facilities.

What legal issues should the parties consider?

The agreement between the landlord and the Renter is of a commercial nature so really they should enter into a lease of the property for the period of time the Renter is going to pay the Guaranteed Rent. Also, the parties should have clear and unambiguous terms of business as to exactly how much the Renter is due to pay the landlord and what they are responsible for in terms of the management of the property and the landlord's compliance with the various legislation related to renting property.

Redress Scheme arrangements

Although the Guaranteed Rent model does not fit the traditional definition of lettings or property management work the Renter does have a relationship with both the landlord and the tenants acting as a 'middleman'.

They find the tenants for the property and they generally undertake property maintenance and repairs on behalf of the landlord. For all these reasons the work they do is very closely linked to the definitions of both lettings and property management work so we recommend that all Guaranteed Rent operators join a consumer redress scheme.

Why is it important to have Redress?

Both the landlords and the tenants are consumers as the Renter is offering a service to both parties. If there is a dispute as to the terms or the service provided then the consumers can escalate the concerns to an independent body. The Renter is providing the consumers with peace of mind that they will deal with letting the property correctly and professionally. Also, the Renter could face suffering a penalty for undertaking work which means they are legally required to join a redress scheme.

An Agent Guide to Rent to Rent or Guaranteed Rent

PRS Property
Redress
Scheme



Rent to Rent is where an individual or company, known as the agent, rents a property from a landlord for a specified period of time during which the landlord receives a fixed guaranteed rent from the agent.

This can be attractive to landlords who want a hands-off investment with guaranteed income. The agent then lets the property, generally on a room by room basis and manages the property.

How the arrangement should be set up

If you are an agent offering Rent to Rent/Guaranteed Rent to a landlord, you should be entering into a commercial lease agreement with the landlord. There are legal precedents available. You should not enter into an assured shorthold tenancy (AST) with the landlord as you are not going to live in the property yourself and there could be issues evicting the tenants who do move in.

The commercial lease will generally be from 3 to 5 years. It should make it clear that the landlord is entitled to a guaranteed rent from the agent, that the agent can let out rooms in the property, make it clear who is responsible for repairs and also set out how the lease will end.

By entering into this type of agreement the agent effectively becomes the landlord with regards to the rooms that are to be let out to tenants. As the landlord's agent, you are managing the property. The tenants will deal with you directly, not the landlord.

The rent

You collect the rents from the tenants but this is not considered to be client money. Under the commercial lease you are responsible for paying rent to the landlord. The rent you receive from tenants is money you use to run your business.

Legal points to consider

1. Is the property a House in Multiple Occupation? This is defined as:

A property rented out by at least 3 people who are not from 1 'household' (eg a family) but share facilities like the bathroom and kitchen. It's sometimes called a 'house share'. Each local council has its own rules with regards to HMOs.

The property must have a licence if you are renting out a large HMO. The property is defined as a large HMO if all of the following apply:

- it's rented to 5 or more people who form more than 1 household
- it's at least 3 storeys high
- tenants share toilet, bathroom or kitchen facilities

2. Does the landlord's mortgage allow this type of arrangement?

The agent should also ask the landlord to check whether their buy to let mortgage allows the property to be let on this type of arrangement.

3. Does the landlord have the correct insurance?

The agent should ask the landlord who enters into a commercial lease to check whether their landlord insurance covers this type of letting arrangement.

4. Will a deposit be taken?

If the agent has provided the landlord with a deposit as part of the commercial lease then this does not need to be protected. For any deposits taken from tenants who move into the property these should be protected with a government authorised tenancy deposit scheme such as mydeposits.

5. Joining a redress scheme

All agents who operate rent to rent or guaranteed rent arrangements with landlords should join a government authorised consumer redress scheme such as the Property Redress Scheme. The agent is managing the property on behalf of the landlord.



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The Property Redress Scheme is a government authorised Consumer Redress Scheme for Lettings, Property Management and Estate Agents and other Property Professionals. HF Resolution Ltd trading as Property Redress Scheme. Registered Office: Lumiere, Suite 1-3, 1st Floor, Elstree Way, Borehamwood, WD6 1JH. Registered in England 08994516.

A Landlord Guide to Rent to Rent or Guaranteed Rent

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Under a Rent to Rent or Guaranteed Rent arrangement, you the landlord would enter into a commercial agreement with an individual or company, known as the agent, for a specified period of time in return for a guaranteed monthly income.

The agent then lets the property, generally on a room by room basis and manages the tenancy. The agent makes their money on the difference between the rent they pay you and the rent they receive from the tenant(s) who live in the property.

Most rent to rent arrangements promise to cover any void periods and general maintenance costs. This can be attractive to landlords who want a hands-off investment with guaranteed income

How the arrangement should be set up

The agent should provide you as the landlord with a commercial lease agreement. You should not enter into an assured shorthold tenancy (AST) with the agent as the agent is not going to live in the property and there could be issues evicting any tenants who do move in.

The commercial lease will generally be from 3 to 5 years. It should make it clear that you are entitled to a guaranteed rent from the agent, that the agent can let out rooms in the property, make it clear who is responsible for repairs and also set out how the lease will end.

By entering into this type of agreement the agent effectively becomes the landlord with regards to the rooms that are to be let out to tenants. The agent will be managing the property and the tenants will deal with the agent directly.

Any deposits received by the tenants should be protected by the agents in a Government authorised tenancy deposit protection scheme such as mydeposits.

Benefits to the landlord

- No Empty Void Periods
- No missed rent payments or late payments
- No Tenant queries or management issues
- Guaranteed start date of contract
- Same day rent payments
- Maintenance work carried out and internal condition of the property guaranteed.

Points for the landlord to consider

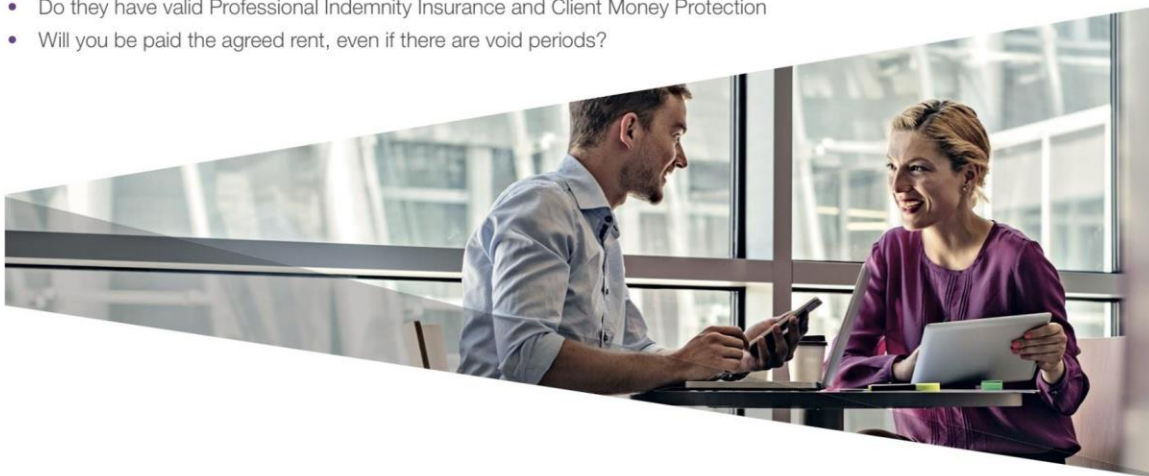
Sometimes agents or even tenants will sublet a room in a property without permission from the landlord or owner of the property. This is breaking the terms of their agreement and in some cases they would be committing a criminal offence. As a subtenant, this could leave you at risk of being evicted so always ensure the person/company you are renting from has permission to rent to you.

If you are thinking of instructing an agent to take over managing your property be sure you do the following:

- If you have a buy to let mortgage then check with your lender that you are allowed to enter into this type of arrangement.
- Make sure your landlord insurance allows you to enter into this type of arrangement.
- Ask what experience the agent has in property management and trading as a Rent to Rent operation.
- Research the financial status of the company/individual before signing over your property and obtain references from other landlords that have used this service.
- Remember the money that the agent collects from the tenant is not client money so if the agent fails to pay or disappears you cannot claim on a client money protection scheme the agent may have joined for its standard lettings business.
- If the property becomes a House in Multiple Occupation as a result of the arrangement then you as landlord will be legally responsible for any local authority licensing requirements – check this with the agent and take advice if necessary.

Questions to ask the agent

- Do they belong to a consumer redress scheme such as Property Redress Scheme?
- Do they have valid Professional Indemnity Insurance and Client Money Protection
- Will you be paid the agreed rent, even if there are void periods?



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