



Rent to rent or guaranteed rent

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Agent guide

Rent to rent is where an individual or company rents a property from an 'owner landlord', effectively taking control of the property and then acting as an 'agent landlord' by renting it out to a sub tenant. In return the owner landlord receives a fixed guaranteed rent.

This can be attractive to landlords who want a hands-off investment with regular guaranteed rental income. The 'agent landlord' (the agent) then lets and manages the property, or rooms in a 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 owner landlord. You should enter into a commercial lease agreement and NOT an assured shorthold tenancy (AST) with the owner landlord as you are not going to live in the property yourself and there could be issues evicting the tenants who move in.

The commercial lease will generally be up to 5 years. It should make it clear that the owner landlord is entitled to a guaranteed rent from you, their agent; that you can let out the property, or rooms in the property, as well as lay out who is responsible for repairs and how the lease will end.

By entering into this type of agreement you effectively become the landlord in relation to the property/rooms that you will let out to tenants. As the landlord's agent, managing the property, the tenants will deal with you directly.

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 (HMO)?

An HMO is any property with the following combination(s) of tenants;

- 3 or more tenants
- with shared facilities like a bathroom or kitchen
- Or more than 1 household (each tenant from a separate family is classed as a separate household)

Each local council has its own rules on HMOs.

2. The property must have a licence if you are renting out a large HMO. <https://www.gov.uk/house-in-multiple-occupation-licence>

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
- some or all tenants share toilet, bathroom or kitchen facilities
- at least 1 tenant pays rent (or their employer pays it for them)

Even if your property is smaller and rented to fewer people, you may still need a licence depending on the area. You should check this with the local authority where the property is situated.

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

You should ask the owner landlord to check whether their buy to let mortgage allows the property to be let on this basis and consent should be in writing

4. Does the landlord have the correct insurance?

You should ask the owner landlord entering into a commercial lease to check whether their landlord insurance covers this type of letting arrangement. You should confirm this advice in writing to your client.

5. Is the property leasehold?

If the property is leasehold, you should consider the terms of the lease, the head lease and make sure the freeholder allows subletting and get consent where required.

6. Will a deposit be taken?

If you have provided the owner 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.

7. Joining a redress scheme

All agents who operate rent to rent or guaranteed rent arrangements with landlords must belong to a government authorised consumer redress scheme such as the Property Redress Scheme BY LAW.

8. Professional Indemnity Insurance

You should have an endorsement on your PI Insurance policy allowing you to act in the capacity as landlord. Endorsements such as 'Letting Agent' and 'Managing Agent' will not guarantee cover in the event a tenant brings an action against you where you are named as 'landlord' and your policy may not respond.

What is our approach to 'rent to rent' complaints?

Where an agent has joined the PRS and an owner landlord or tenant raises a complaint about a rent to rent arrangement, we will expect the agent to engage with us and try to resolve the complaint. We will be able to offer an opinion on how it should be settled.

However, as the relationship between the agent and landlord owner is a commercial one and the agent is technically the tenant's landlord rather than agent, our authority to enforce any decision we make is limited.

If the complaint remains unresolved, after using our process, the person making the complaint will be advised to take legal advice and pursue the complaint through the courts, using our decision.

