

Guaranteed Rent Schemes

As a landlord or property owner, your profession provides you with the unique opportunity to let high-quality, healthy and safe living spaces throughout your property (or properties) to tenants—all while reaping the financial benefits. However, this occupation also comes with various added responsibilities and tedious tasks. Between dealing with administrative duties, handling unruly tenants, ensuring the property meets regulatory standards and conducting routine maintenance, managing a property is exhausting work.

Nevertheless, many property owners have found a solution to this problem—guaranteed rent schemes. These schemes, also known as rent-to-rent schemes, allow property owners to establish a legally binding contract with a third party (eg an individual, company or local council) who becomes responsible for controlling and managing the property for an agreed-upon period.

This third-party ‘tenant’ then pays the property owner a fixed monthly fee, guaranteeing rent for the term of the contract. Essentially, such a scheme allows you to continue receiving the financial benefits of letting while the third party handles your property management responsibilities.

Of course, these schemes aren’t risk-free. Indeed, having less control over your property management practices could end in disaster without proper risk management precautions. Use the following guidance to understand the basics of guaranteed rent schemes, analyse the potential benefits and consequences, and utilise top risk management methods.

How Guaranteed Rent Schemes Work

At a glance, guaranteed rent schemes establish a third party as a ‘tenant’ of your property with the

responsibilities of subletting the premises and conducting all property management tasks. This could include finding tenants (and handling any tenant-related issues), paying property bills or other costs of ownership, and establishing an effective maintenance routine to ensure the health and safety standards of the property are met.

Implementing a guaranteed rent scheme could end in disaster without proper precautions in place. Consider this risk management guidance.

What’s more, a guaranteed rent scheme generates a legally binding agreement that requires the third party to pay you (the property owner) a monthly fee, ensuring that you will receive rent payment every month regardless of property tenancy. This fee is slightly less than the price that the third party will charge tenants for rent, allowing them to make a profit—as long as they can attract tenants.

Guaranteed rent schemes are not to be confused with rent guarantee cover. While these schemes allow property owners to guarantee their rent through payment from a third party via contractual agreement, rent guarantee cover is a form of insurance (typically added to your legal expenses cover) that offers protection in the event that your tenants stop paying rent and you are in the process of evicting them.

Pros and Cons of Guaranteed Rent Schemes

A guaranteed rent scheme could offer a range of benefits and consequences to both you and your property. Consider these pros and cons:

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Pros of Guaranteed Rent Schemes

- **Guaranteed payments**—Since you are guaranteed to receive monthly rent payments from the third-party ‘tenant’, you don’t have to worry about finding tenants (or evicting them), gaps between tenancies or empty property periods—you’re getting paid regardless.
- **Property emergencies are someone else’s problem**—While many property owners possess a rainy day fund to help protect against loss of rent or property emergencies (eg property damage from a fire or natural disaster, vandalism or electrical issues), you don’t need to use this practice in a guaranteed rent scheme. Handling emergency concerns—and paying for them—falls on the third party.
- **Fuss-free maintenance**—In addition to property emergencies, you no longer have to worry about conducting routine maintenance or fixing property damage—the third party will need to establish their own maintenance routine.
- **No regulatory concerns**—The third party also becomes responsible for compliance matters—including maintaining health and safety standards and following all property management law.
- **No worries about extra expenses**—The weight of paying a pile of extra costs in property utilities (water, heat, gas and electric) and other related expenses is also shifted to the third party in these schemes.

Cons of Guaranteed Rent Schemes

- **Untrustworthy tenants**—Since the third party is responsible for finding property tenants, they could use an ineffective vetting process (or no process at all) to determine appropriate tenants. This increases the risk of having unreliable, dangerous or destructive tenants that could leave your property with serious damage.
- **Property damage and devalue**—Although the third party may have agreed to handle property emergencies effectively and conduct routine maintenance, you run the risk of your third-party ‘tenant’ breaching the contract and leaving you with the aftermath. Indeed, you could end up with a severely damaged, less valuable and low quality property by the end of the agreement due to improper third-party management practices (eg having an inconsistent maintenance routine, hiring low-quality or unlicensed contractors to carry out property-related work, or ignoring property damage).
- **Liability issues**—Although the third party is technically responsible for ensuring regulatory compliance during the contract term, you remain the property owner. With this in mind, you would still suffer the consequences of non-compliance issues and costly liability claims.
- **Extra fees and limitations**—Being that a contract is necessary for a guaranteed rent scheme, setting up the contract can be a time-consuming process that often involves legal fees to cover the paperwork. In addition, you become legally bound to the contract for the duration of the term (typically between three and 10 years) upon agreement. This means you have less control of your property in terms of remodelling, installing new features or selling the premises.
- **Insurance pitfalls**—It’s important to note that even though the third party is managing the premises, you are still responsible for purchasing proper cover for the property. Further, some insurance policies have restrictions related to guaranteed rent schemes. With this in mind,

- **Scamming risks**—Without taking proper precautions, you run the risk of entering a contractual agreement with a third party that ends up scamming you or the property tenants (eg not paying monthly rent or overcharging tenants). Such a scam could lead to serious financial concerns, legal expenses and reputational downfall.

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failure to review your policies could lead to invalid cover and financial issues in the event of a claim.

- **Non-suitable properties**—Even if you are interested in a guaranteed rent scheme, not all properties are suitable for such a scheme. The location, size, age and market value of your property can make it more difficult to find a trustworthy and willing third-party ‘tenant.’

Risk Management Best Practices

If you are looking to implement a guaranteed rent scheme for your property, review the following risk management guidance to ensure a smooth process, protect your property and keep your finances secure:

- **Do your research**—Be sure you are selecting a safe, experienced and responsible third-party ‘tenant’ to sublet your property by conducting a robust vetting process. This includes a background check that reviews criminal, employment and credit records. Further, ensure the third party has appropriate licensing, qualifications and property management experience. Respected housing associations and local councils are your safest bet when selecting a third party. Failing to do your due diligence and selecting a third-party ‘tenant’ that was unsuitable could make you liable for any physical or property damage they cause by breaching your duty of care.
- **Create a secure contract**—Don’t let anything slip through the cracks when creating your scheme contract. Make sure both parties understand and agree on all aspects of the contract. This includes handling tenant concerns appropriately, establishing a well-documented and timely maintenance routine, dealing with property emergencies safely and efficiently, paying additional property costs on time and complying with all relevant regulations.
- **Have a payment plan**—Make sure to establish a secure monthly payment method with your third-party ‘tenant’ by requiring the same payment process (eg electronic, cash or cheque) on the

same day of each month. In addition, consider setting up a rent collection service to ensure the third party never avoids payment.

- **Provide proper resources**—Apart from finding an experienced and trustworthy third party, be sure to provide property management resources—such as the government’s [How to Rent Guide](#)—for your business third party to help prepare them.
- **Purchase robust cover**—Finally, it’s crucial for you to have appropriate insurance for your property, seeing as you are still responsible for providing cover in a guaranteed rent scheme. Also, communicate your plans to implement a guaranteed rent scheme with your broker. From there, they can review your current policies and make any necessary updates to ensure they remain valid in the event of a claim.

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