

WHY PRIVATE LANDLORDS ARE TURNING TO GUARANTEED RENT SCHEMES TO COMBAT CHALLENGES IN THE CURRENT MARKET

By Leigh Young and Elliot Altman



In 2003, Leigh Young and Elliot Altman, both landlords at the time, founded Elliot Leigh. Experiencing first-hand the challenges that came with void periods, when an opportunity arose to let properties to their local authority in Tower Hamlets in return for secure rental income. The duo realised that a Guaranteed Rent Scheme was a solution that many landlords who wanted to be hands off would be interested in.

Twenty years on, having ridden the cyclical ups and downs of the market, experienced recessions and a fair few housing ministers, Elliot Leigh has become a trusted name in property management and rent guarantee/private sector leasing, paying out more than £400 million. Over the last 12 months, the organisation has seen a 25% upturn in the number of both private and corporate landlords turning to Guaranteed Rent.

Here, Leigh and Elliot discuss the challenges of being landlords today and why, in a market where demand to view a rental property has more than tripled in just four years and rental prices are rising at the quickest annual rate on record, landlords are looking for alternative approaches to 'landlording'.

What are the main challenges for landlords in today's market?

Elliot: Despite the significant imbalance between supply and demand, which has largely eliminated the void periods that Guaranteed Rent was originally designed to address, landlords are dealing with a host of other challenges. Think higher mortgage costs, rent arrears on the rise, eviction snags, and the big one—upcoming regulatory changes which puts increased pressure on landlords to stay compliant. We work in this sector, and just keeping track of all these changes feels like a full-time job. That's not even touching on the day-to-day juggling act of managing and maintaining rental properties, and of course dealing with all the associated costs. It's not just about landlords spending more money for less return; it's also about the extended time it takes to be a compliant landlord today.

Leigh: Agreed. Working in this sector, but also being landlords ourselves, we have been astounded by the amount of legislation landlords have faced over the last 10 years, so the addition of the Renters (Reform) Bill is a major source of concern for many landlords. The introduction of periodic tenancies which removes financial security, and the abolition of Section 21 are key issues. Although the 'can has been kicked down the road' on the latter for now until improvements to the court system are in place, landlords are mindful that it is inevitable.

Elliot: It's no secret that there are landlords who have made the decision to sell up, some perhaps forced due to financial challenges because of rising interest rates. However, I would say the majority of landlords we've dealt with in the past year are seeking a way to navigate the existing challenges while remaining active in the market. Most know that in the long-term, property can still provide strong capital growth.

However, in the current market, rent arrears and evictions are perennial concerns for landlords, particularly in the cost-of-living crisis which elevates the risk of arrears. The Renters (Reform) Bill further complicates matters by confirming the abolition of Section 21, making the eviction of tenants even more challenging and costly.

Leigh: Specifically, we've noticed an uptick in inquiries from smaller landlords with one or two properties who have encountered difficulties with significant rent arrears and subsequent challenges with evicting tenants due to delays in the possession process. These landlords are not necessarily eager to sell their properties but are keen to mitigate such risks in the future.

Similarly, as a result of the slowdown in the sales market due to escalating interest rates, we have seen a growing number of developers finding themselves unable to sell their new build properties. Some are opting for refinancing and utilising a guaranteed rent scheme to establish a five to seven-year plan while waiting for the market to stabilise.

Why Guaranteed Rent?

Leigh: We are waiting for further clarification on the specifics, however, we believe that Guaranteed Rent Schemes could help mitigate much of the perceived risk of incoming legislation for landlords. For instance, the transition to periodic tenancies is unlikely to affect fixed-term lease agreements, as the lease is directly between the landlord and the company. Landlords can have their rent guaranteed for the agreed fixed term, irrespective of whether the tenant decides to vacate.

The local authorities we partner with take on the responsibility of rent collection and manage any arrears. Landlords don't have to worry about the financial impact of late payments, or the costs associated



with eviction processes. In addition, since guaranteed rent schemes offer lease agreements not ASTs (Assured Shorthold Tenancies) we believe we will not be impacted by the abolition of Section 21. This offers landlords peace of mind and a reliable income stream without the headaches of chasing overdue rent or dealing with legal proceedings.

Is there a stigma towards Guaranteed Rent?

Elliot: Unfortunately, even the term 'landlord' has been tarnished with negative connotations. Thanks to a small group of unprofessional and, frankly, criminal landlords, some landlords are eager to distance themselves from the industry. It's no different for us either.

One of the challenges we have faced is the rise in unscrupulous organisations, taking landlords' properties without the financial resources to back up their promises, tarnishing the reputation of long-standing Guaranteed Rent schemes like ours, which damages landlords' trust. Guaranteed Rent is not for everyone – some people enjoy being hands-on landlords, want to remain in control of their property, and have the capacity to manage and maintain the property and tenancy. But like we have said, in today's market that is ever more challenging. We don't feel that landlords who wish to keep their investment should feel they have to throw the towel in, and there are some excellent, professional alternative offerings providing a risk-free way of dealing with the increasingly complex regulatory framework, whilst maximising the opportunity to let property.

Leigh: As with everything, it comes down to due diligence. Before entering into any kind of agreement, some of which will be up to five years or even longer, landlords must check that the company has the resources to meet their obligations. Companies House is a good place to start – check out their accounts and credit score, and even go as far as looking into the directors of the company and what other organisations they may have been involved with.

Elliot: We have come across organisations which, from their website, look and sound like they have been running for many years, but in actual fact they have been in business less than six months! I would also recommend that if the provider is working with local authorities, ask for references from the local authority too.

Leigh: One of the other stigmas around Guaranteed Rent Schemes such as ours is working in partnership with local authorities. There is a societal stigma associated with tenants receiving housing benefits, leading to preconceived notions about their ability to be responsible and maintain a property. As Elliot mentioned the idea of negative associations with landlords earlier, this is no different. If all tenants in receipt of housing benefit did not pay rent or take care of the property, our business would not have existed for 20 years.

The key point here is even if those stereotypes were true, Guaranteed Rent Schemes removes that financial risk, administrative hassle, concerns over property damage, and provides an alternative to the time consuming, regulatory burden of being an independent landlord in the current market.

Elliot: As a landlord approaching a new era in the rental industry, with once-in-a-generation regulatory change, it is crucial to ask yourself whether you still want to be hands-on and fully manage your properties or if it's time to reconsider and potentially seek external assistance, such as property management support. There will be no room in the 'new era' to take a half-hearted approach at being a landlord.

Guaranteed Rent is designed so that landlords don't have to worry about the financial impact of rent arrears, the costs associated with eviction processes or the inconvenience of management and maintenance.

Leigh: Undoubtedly, landlords are currently grappling with notably demanding circumstances, yet there remains an inherent need for private landlords in this country. Landlords must be offered more solutions which mitigate risk and encourage them to remain in the market, otherwise we will continue to see an insufferable imbalance between supply and demand in the rental sector leading to rising homelessness. With both a private and social housing crisis underway, those landlords adept at overcoming challenges and effectively managing the market can still benefit from the buy-to-let sector. In the past year alone, 21,600 social homes were either sold or demolished, while a mere 7,500 new homes were constructed, resulting in a net loss of 14,000 homes. Local authorities are actively seeking support from landlords, and we are optimistic that collaborative efforts can be forged to address the needs of all stakeholders.

Using average costs across London, we have provided a breakdown below to illustrate the typical savings a landlord can make by opting for Guaranteed Rent Scheme, not to mention the hours saved by taking a hands-off approach to landlording:

	Renting Private	Guaranteed Rent Scheme
Monthly Rental Income	£1,650	£1,650
Annual Rental Income	£19,800	£19,800
Commission @ 10%	-£1,980	£0
VAT @ 20 %	-£396	£0
Reference fees/set up fees	-£250	£0
Inventory/check in/check out	-£250	£0
One month empty period/rent arrears	-£1,650	£0
TOTAL RENT PER YEAR	£15,274	£19,800

Elliot Leigh also includes the below items free of charge under the guaranteed rent scheme saving the landlord further expenses incurred when renting privately

Guaranteed rent with no excuses	£0.00
No void periods*	£800.00
Utility and council tax payments during void periods *	£250.00
Refurbishments of properties when tenant moves out**	£1000.00
Free minor repairs	£250.00
Free regular property inspections	£150.00
No evictions cost for rent arrears, breach of tenancy, etc during the term	£2000.00

* The above calculations are based on the property being void for one month every two years which is the London average.

**The above calculation is based on the need to refurbish a property every four to six years, accounting for fair wear and tear.

Elliot Leigh Property Management

W: www.elliotleigh.com
E: info@elliotleigh.com
T: 0208 983 4444

