

THE INS AND OUTS OF RENT PROTECTION

Are you a landlord who is feeling the pinch? Then you may have decided to skimp on insurance to cover problem tenants. But is this a false economy? To help you decide, we explain how rent guarantee insurance works

this covers any rent that is unpaid by tenants, as well as legal fees incurred evicting tenants.

Paul Shamplina, founder of eviction and housing law specialist Landlord

Action and regular fixture on *Nightmare Tenants*, *Slum Landlords*, says for a relatively low average cost of £100 to £150 a year, he sees rent guarantee insurance as a “no-brainer”.

“I would always recommend it for having peace of mind that your rent is covered and you can pay your legal fees.”

Shamplina, whose company mostly represents landlords who have not taken out such insurance, says many, particularly those with only one or two properties, do not realise it is available.

“Landlords are not well informed on rent guarantee. I think they get confused with regard to landlord insurance, which is a separate type of policy,” he says.

There is a valid reason for this confusion. Landlord insurance policies, which offer buildings and contents cover for rented properties, often include ‘loss of rent’ cover, which some people mistakenly believe covers non-paying tenants.

In fact, this is designed to cover periods when a property is uninhabitable due to crises such as a fire or flood, rather than tenants who do not pay the rent.

While landlord insurance is the most important type of cover for landlords and

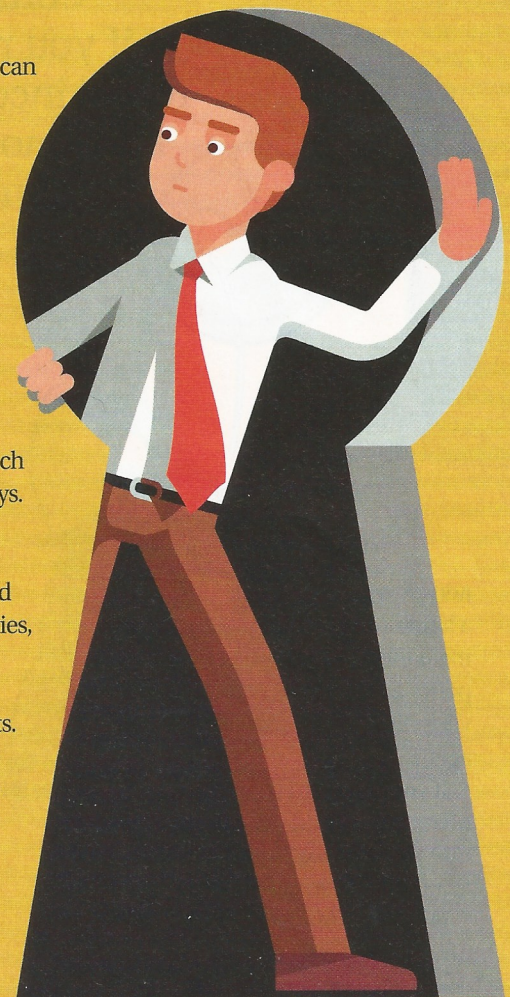
a condition of most buy-to-let mortgages, rent guarantee is worth considering, plus the cost is tax deductible against property income.

How to get a rent guarantee

There are three main ways rent

guarantee (sometimes called rent protection) insurance is sold: as a standalone product, as an

“Landlords wrongly think ‘loss of rent’ clauses will cover them”



BY JOANNE CHRISTIE

Any landlord who has ever watched TV series *Nightmare Tenants*, *Slum Landlords* or *Can't Pay? We'll Take it Away!* is probably aware there is a risk someone will move into their property and not pay the rent.

What many landlords are less aware of, however, is that it is possible to insure against this risk by taking out rent guarantee insurance. Typically,

How rent guarantee insurance policies stack up

Insurer	Add-on or standalone	Cost	Legal cover	Months of lost rent covered	Excess	Vacant possession cover
Simply Business	Add-on	£112.80*	Yes	12	None	50% of monthly rent for three months
Legal for Landlords	Standalone	£245**	Yes	6	One month's rent	None
RSA (via insurance broker Alan Boswell)	Both	£150 add-on/ £175 standalone	Yes	6	Nil	None

Notes: Prices based on a 12-month policy for a property with a monthly rent of £1,200. *Price made up of £72.50 rent guarantee and £40.30 legal expenses. Legal expenses must be purchased by landlords to be able to buy rent guarantee. **Prices also valid for properties with monthly rents up to £2,500. Source: Moneywise 10/06/20

“Consider it if you rely on rental income to meet mortgage payments”

add-on to a landlord insurance policy and via letting agents.

If your landlord insurance provider offers it as an add-on – and not all do – this is probably the easiest and cheapest way to get cover.

However, standalone insurance policies may offer more comprehensive cover and will likely

have a greater range of policies to choose from.

Letting agents are increasingly providing it to their clients, either for a fixed fee or for an additional percentage of their management fee, as a way of earning additional commission to make up for the tenant fee ban that recently came into force.

While some might baulk at the idea of taking it out via an agent earning commission, it is worth at least considering for two main reasons.

First, if the agent arranges the insurance, they will often deal with any claim that arises, which could save a lot of time.

Second, there is little chance the policy will turn out not to be valid as the agent will have made sure its referencing and documentation procedures meet the insurer's requirements.

Do you need a rent guarantee?

Meera Chindooroy, policy and public affairs manager at the National Residential Landlords Association, says the organisation recommends landlords check out such insurance.

“It is particularly important to consider it if landlords rely on their rental income to meet mortgage payments,” she says.

The cost of a non-paying tenant who requires eviction can be substantial, says Sim Sekhon, managing director at referencing, insurance and legal provider Legal for Landlords.

“If you didn't have rent and legal protection insurance and used our legal division, you would be looking at about £3,000 for legal costs, as well as an average of six months in lost rent. So you are probably looking at an average of about £10,000.”

There are, however, plenty of landlords who would argue that the risk of a tenant running up huge arrears is low, and that landlords are better off self-insuring. Indeed, according to the Office for National Statistics report, UK private rented sector: 2018, only 5% of private renters had been in arrears in the previous year.

Your Move's England & Wales Rental Tracker had the number of tenants in arrears at a higher 9.1% in its final report in May, though noted that this had been improving steadily in recent years. However, numbers may rise in the wake of the pandemic, although forbearance is required of landlords.

Even when tenants are in arrears, in many cases landlords are able to have them evicted within two months by using the Section 21 eviction process, the so-called 'no-fault' route [three months currently as a result of the pandemic].

The Government has said it plans to abolish this, which Chindooroy expects will lead to more landlords taking out rent guarantee insurance.

Although there is another process that can be used to evict non-paying tenants, Section 8, NLA research has shown that landlords are not confident about this.

"We know that the process for Section 8 just does not work effectively at the moment, so landlords are using Section 21 because there is more certainty," says Chindooroy.

"It takes our members, on average, five months, at a cost of over £5,500, to regain possession using Section 8."

For Michael Durr, a banker from London, it took much longer than this to deal with problem tenants who moved into his property in early 2018. Although they had been sourced and referenced via a letting agent and everything seemed fine initially, within a few months they had stopped paying rent.

Because they contested their eviction, it took Durr almost 18 months to get his property back, during which time two court hearings were needed.

Fortunately, he had a rent protection policy with Legal for Landlords, which he says proved a "godsend".

"I've had properties a long time, I have been accumulating a small portfolio for almost 30 years and have never had an issue. But for that one issue it was worth all the premiums I've paid and any premium I will pay until I no longer rent out properties because of the trauma you go through when people are not paying rent."

Durr, who estimates his total claim to be in the tens of thousands, says the value was not just being compensated for lost rent; without an insurer taking over the legal side of things he says

he would not have known where to start.

"It has been a nightmare for a year and a half and without having people you could speak to and guide you through this process, you could multiply that nightmare tenfold."

Check the small print

Insurers typically will not offer cover for tenants receiving benefits. Any tenant who does not pass referencing also won't be eligible.

Tenants must be referenced by a licensed referencing provider before the tenancy starts, including employment and previous landlord references, as well as credit checks. It is a good idea to run references past an insurer to get confirmation they are acceptable.

Insurers will require a proper tenancy agreement to be in place and that all required procedures were carried out at the beginning of the tenancy.

Most policies have strict guidelines about how long landlords have to notify them of a claim; it is often either 30 or 90 days.

If a policy is taken out at the start of a tenancy, landlords are usually covered straight away, but if it is mid-tenancy, there is usually a 90-day exclusion period.

Some policies only cover a certain number of months of missed rent, some have caps on legal costs, while others have excesses.

Some insurers require that landlords serve an eviction notice themselves and will only pick up legal costs after this, while others do all the legal work.

A number of policies will cover rent for a period after a tenant leaves, which can be useful if the property has been damaged or it has been impossible to arrange viewings. **mw**

JOANNE CHRISTIE is a financial journalist who writes for publications including *The Guardian*, *The Telegraph* and *The Times*



"IT IS A SMALL SUM TO PAY TO COVER A TENANT DEFAULTING"

Derek Tsang (pictured above), a performance analyst from London, says he has rent guarantee insurance for his three rental properties as it "provides peace of mind".

"Being a landlord is difficult enough with all the compliance and tax calculations, it's one less thing to think about."

At around £60 a year as an add-on to his landlord insurance through insurance broker Alan Boswell Group, Derek sees it as vital, despite not having made a claim so far.

"A landlord should have sufficient reserves to ensure they can meet any unexpected liabilities, like a new boiler, roof repairs or non-payment from tenants," he says.

"However, £5 a month for rent guarantee insurance is a fairly small amount to pay to cover the monthly rent in the event the tenant defaults, and it means the funds that would otherwise be lost are retained."

"This could be a few thousand based on London rents, which could be better used to either refurbish your properties to keep the tenants happy or to continue building your portfolio," he adds.

