

Why upfront rental payments should be approached with caution

While a landlord may be impressed and happy to receive upfront payments for between six to 12 months' rent in advance, the TPN Credit Bureau advises a cautious approach. The landlord may be primed to trust the tenant as upfront payments have a powerful positive impact on the relationship of trust and the landlord may allow the tenant some leeway to their own detriment.



Image source: Gallo/Getty

While not always the case, a willingness to pay upfront could allude to the fact that money comes and goes for that tenant.

Another problem which often arises is that landlords and tenants don't agree upfront on how the payment for utilities will be handled. This should be clearly set out in the lease agreement, especially if the tenant is required to pay that monthly over and above the upfront rental payment.

Consumer Protection Act

Landlords should also note that regardless of whether the tenant has paid the lease upfront or not, the tenant is still entitled to cancel by giving 20 business days' notice in terms of the Consumer Protection Act. Save for a cancellation penalty or any damage repairs, any remaining upfront rental will need to be refunded.

The money should therefore not be spent but invested and only drawn on a monthly basis. TPN advises that it's best to make use of an estate agent as an intermediary who can ensure that all is above board and that the money is in trust and accruing interest for the tenant's benefit and only drawn and paid over to the landlord as it becomes due. Alternatively, the landlord can place the money in a separate account with a monthly withdrawal set up to periodically release the rental amount.



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Adrian Louw, Seeff's manager at the Century City branch, says that there are definitely benefits to tenants paying rent upfront as it offers excellent security and could put the tenant at the top of the list of applicants.

The difficulty could, however, arise if the upfront rent is only for a period of the lease; say six out of the twelve months of the contract. He recommends that all tenant applications should be vetted thoroughly regardless of how the tenant intends to pay. Offering to pay the lease upfront should not be a way for a bad applicant to circumvent the process.

Tenants looking to pay upfront should also be subjected to FICA scrutiny to combat any potential that it may be a money laundering ruse. What could for example happen is that the tenant would pay six months upfront, but then use the CPA provision and cancel giving 20 business days' notice by their second month. This time though they would provide a different bank account for the rental refund.



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Mark Johnson, Seeff's MD for the North Coast, says while always cautious, they do accept upfront rental payments provided the source of the funds can be verified to ensure that it is not part of a money laundering scam. Upfront payments are often ideal for those looking to negotiate a better rental price.

While it might be preferred by someone with a negative credit score, he says the agency always does additional reference checks to satisfy the landlord that we are not dealing with a delinquent tenant. Qualifying the tenant thoroughly should alleviate any concerns over upfront rental payments. Keeping the money in a trust account and then making monthly payments to the landlord is also always preferred.

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