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Resident Hosting: The solution to unapproved short-term rentals in your development

In this article we will explain what resident hosting is, the risk it poses to BTR portfolios, how you can get ahead of this new market trend and introduce the typical resident hosting models.

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Short-term rentals and Resident Hosting options are now maturing with incremental net yields of 10-20%, but the real driver for change is the risk to BTR long-term rental portfolios that arises through not offering options for tenants around length of stay and the consequent impact on lending and NOI.

Read on to better understand the emerging market landscape and financial risks and how solutions currently operating live, including Airbnb's model, short term rental industry options and TrustedStays corporate/GDS access can help you stay in control of these risks.

Resident hosting has existed on a small scale in the UK for many years. Indeed, it's now relatively common practice for landlords to allow their tenants to rent out their home on a short-term basis. But there are also many more cases where the tenant does it under the radar and landlords often find out when something goes wrong.

With the likes of Airbnb launching their Resident Hosting model in the US in the past couple of years and companies like Greystar participating in programmes which turn a risk into an opportunity, residents are becoming more aware of the opportunity. Pair that with rental price inflation and it is an opportunity to help residents afford to rent nice places to live and have the flexibility in their lifestyles that they often desire – all while enabling developments to increase yield on the same assets.

But it's easy to misunderstand what it is all about, and what it means for renters, landlords, and building owners and operators.

So, what is resident hosting – and why is it relevant in 2024?

How it works

Resident hosting refers to a model of short-term renting whereby a tenant can list or rent out their home with full permission from their landlord and building owner. It is usually practised in large rental buildings where building managers or owners have oversight, and each tenant's rental agreement has a clause enabling them to opt into the building's short-let resident hosting scheme.

Some buildings may let residents manage the short-term stay themselves, while others may stipulate that the building manager or a third-party company, such as a property management company (PMC), manages the home while the resident is away to ensure a degree of control. The different ways that resident hosting can be managed are grouped into three different 'models' of resident hosting – but more on that later.

In some cases, landlords can also take a share of the revenue of every booking – without even getting involved in the operations side of hosting.

In the grand scheme of things, it's a win-win situation for all parties: long-term tenants have a way to keep their apartment when they go away for longer periods of time while covering some of their rent; landlords unlock a new revenue stream; and building owners and operators have a new way to attract long-term renters with who are enticed by this perk.

A win-win

Tenants can leave their homes for short periods of time – typically up to three months – and earn income from their home while secure in the knowledge that they still have a place to stay when they get back. It is important to note it is not a sub-let, as in the UK normally only a license to occupy would be granted for any guests who stay on the scheme (note, this is down to the contract that your operator would have with the guest).

In the not-so-distant past, this wasn't usually feasible: rental buildings weren't short-term stay-friendly, and many tenants would need to either move out of their homes or sublet their rooms 'off the books' – often illegally – when they left for a holiday or a longer period of time.

With resident hosting, this isn't an issue, and in some models of the scheme, they won't even need to manage the listing themselves – leaving them free to enjoy their time away while the short-term stays are handled by either a PMC or the building management. For tenants who prefer longer-term leases, this flexibility is a huge draw and can entice many high-quality renters. Plus, tenants can earn rental income while they're away, subsidising their own rent or funding their next holiday – perhaps the biggest appeal of them all.

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Landlords, building owners and operators can unlock new revenue streams by claiming a share of the earnings of each short-term stay that results from the resident hosting scheme. In some cases, this be up to 10% and can even go as high as 25%. Much of this income may go towards providing building amenities or upkeep, such as the building's concierge. This extra income stream can also be helpful in maintaining the quality of the development, ensuring the building remains attractive to both tenants and short-term stay guests.

Resident hosting is also a great sales and retention tool for owners and operators, and can act as a powerful marketing draw for renters who crave flexibility as well as longevity. It can also operate as a try-before-you-buy scheme for the building's sales and marketing team, and it can reduce voids (the period between tenancies or during lease-up) if required.

The different models
There are three different models of resident hosting that a build to rent development can choose when implementing the scheme.

The resident/OTA model
In this model, the resident is responsible for the short-term stay, including liaising with guests and ensuring things run smoothly. They will list the property on a single channel – usually an OTA, like Airbnb or VRBO – and they have control over the stay – including guest vetting, Check-in, check-out, cleaning, linen management, maintenance and ancillary services/upsells. The building has no involvement and trusts the resident to manage everything from wherever they are.

The tech-only model
This model introduces three new concepts: first, the idea that the building, rather than the resident, manages the short-term stay; second, it introduces more than just a single channel to market, allowing for a diverse audience to become potential guests; third, a dedicated software company, like Hospiria, Guesty, or Mews, provides the technology layer and distributes the property to all channels – and gives the building both visibility and control over its management. This model assumes a central management layer with operations delivered by either the building and/or a series of suppliers.

The partnership model
This model has all the benefits of the tech-only model, with the added perk of having a dedicated short-term rental PMC providing a full service, which includes technology, distribution as well as operations. Buildings can utilise the services of companies like Altido, CityRelay, GuestReady, onefinestay, or UnderTheDoormat, where the entire operation is managed end-to-end by a single company.

Next Steps
There's a lot more to each of these models, so stay tuned for the next blog in our Resident Hosting series where we'll go into more on the pros and cons of each model. In future articles we will also consider how to select the best model for your development and implementation issues as well as bringing you the insights from key industry leaders at the 2024 ARL conference, into the risks and opportunities of Resident Hosting.