

Contents

AML regulations for Letting Agents
 What Type of Property Rentals Fall Under AML Rules
 Why Do Lettings Fall Under AML Regulations?
 Potential AML risks of Commercial Lettings
 The Proceed of Crime Act & Rental Income
 Suspicious Activity To Look Out For in Property Rentals
 What Checks Are Needed on Landlords and Tenants?
 Podcast: AML & the Rental Sector?
 How Credas can help

AML Compliance: A Critical Guide for UK Letting Agents and Property Managers

Many letting agents think that anti-money laundering legislation doesn't apply to them, since they aren't involved in buying and selling property.



Posted: 25 June 2024 | Updated: 25 June 2024

Many letting agents think that anti-money laundering legislation doesn't apply to them, since they aren't involved in buying and selling property. However, Anti-Money Laundering (AML) regulations can and do apply to rental properties in certain situations. Therefore, agents must comply with these rules to prevent fraud or other illegal activity.

Are you a letting agent and aren't sure where to begin with AML rules? Don't worry – we're here to help. In this article, we'll explain when and why AML regulations apply to letting agents and give you the information you need to keep your agency AML compliant.

When Do AML Regulations Apply to Letting Agents?

AML legislation applies to all rental properties with a monthly value of at least €10,000 – approximately £9,000. Any property being rented for this amount is subject to AML regulations, meaning letting agents must take certain steps to ensure landlords and tenants aren't using the property to clean dirty money.

Before 2020, AML rules didn't apply to property rentals. However, in January 2020, the EU's 5th Money Laundering Directive (often abbreviated to 5MLD) came into effect, changing AML regulations for letting agencies across Europe.

What Type of Property Rentals Fall Under AML Rules?

According to 5MLD, all properties rented for €10,000 a month or above are subject to AML regulations. This might seem high for the private rental sector, so your letting agency might not think it has any AML obligations, but there are certain situations where you're more likely to see this value of letting.

Residential Properties

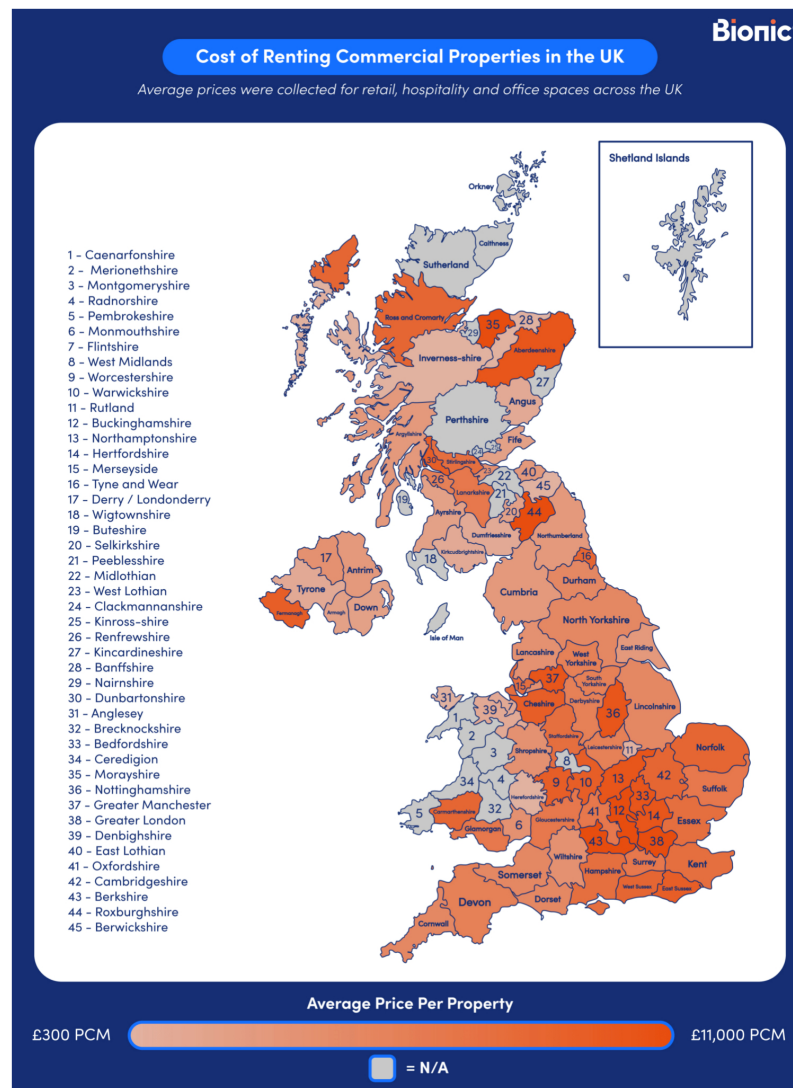
In most parts of the UK, it's unlikely that a private residential property would fetch a rental value of £9,000 a month or above. If your letting agent only works with private landlords, you might not need to worry.

However, if you're based in an expensive part of Britain, like London or Manchester, you could have rental properties on the market for this value. A quick search on Right Move at the time of publication brought up over 2,500 properties in London and 50 in Manchester that meet the threshold. If your agency has particularly expensive properties on its books, you must follow standard AML procedures and best practices.

Commercial Properties

If your agency specialises in commercial properties, whether it's warehouses, office space, or retail, they all fall under AML regulations. The same £9,000(ish) a month limit applies which includes any management or any other fee(s) that form part of the tenancy agreement.

When a property is divided into multiple commercial units, such as office spaces, only the individual incomes from each unit are considered, rather than the total combined income. For instance, if managing an office block where two-thirds of the property is leased to one tenant for £6,000 and the remaining portion is leased for £3,000, the landlord receives a total of £9,000. However, because this income is not received as a single payment, the landlord does not fall under AML regulations.



Source: <https://bionic.co.uk/blog/the-cost-of-owning-or-renting-a-commercial-property-in-the-uk/>

Short-Term Rentals

Short-term rentals including holidays lets also fall under AML regulations if the monthly rental income is worth £9,000 or more and it is considered their main residence during their time in the UK. Holiday / short-term lets are exempt from [Right to Rent](#) rules, but the AML regulations do apply – even if it's only one month of the year when the earnings will exceed €10,000.

HMOs

Houses of multiple occupations (HMOs) might be more likely to meet the AML regulations threshold than standard occupancies.

Let's say a landlord has a large property in London with multiple bedrooms being rented out to separate tenants for a total sum of more than £9,000 a month. In this case, even if the landlord has separate contracts with each tenant, the property is earning more than the necessary threshold, so AML regulations apply.

Unlike commercial properties, HMOs are considered on a per-property basis rather than per-tenancy.

Why Do Lettings Fall Under AML Regulations?

AML rules were initially introduced in the lettings market to ensure checks on landlords. Letting Agents, unlike Estate Agents, handle and distribute money, increasing the risk of money laundering.

If someone earns over €10,000 a month from a rental property, it's essential to check that they aren't financially sanctioned or engaging in money laundering activities.

However, the regulations also apply to tenants. A tenant could also be electing to rent rather than trying to purchase a property to avoid the additional scrutiny that comes with this from banks and conveyancers.

The tenant could also be attempting to clean illegal gains by working with the landlord. They may already know them and as a way to clean dirty money, they are passing that money through a letting agent, lending it the appearance of legitimacy. [Customer due diligence](#) checks help prevent this.

Likewise, letting agencies themselves can assist in money-laundering activities. Suppose an agency owner knows that a tenant or landlord has earned money being used for the rental transaction through illegal means but accepts them as a client anyway. In that case, that person would be supporting and assisting in money laundering, which is a crime. Bringing letting agencies under AML regulations means it's harder for them to assist in money laundering.

Potential AML risks of Commercial Lettings

Commercial lettings also fall under AML regulations and impose specific risks compared with the Private Rented sectors.

Many people who want to launder money use shell companies to hide their identities. Shell companies make it harder to determine precisely who is and acting in a financial transaction. It would even be possible for someone to clean their money by paying rent on a property they already own by using a shell company to hide their identity.

Now rentals fall under AML regulations, commercial letting agencies are responsible for finding out who the person is at the end of the shell company chain to ensure this isn't the case.

The Proceed of Crime Act & Rental Income

Even when the rental income falls below the AML threshold, letting agents are still subject to the Proceeds of Crime Acts 2002 ([POCA](#)). Letting agencies in particular, as they both process and benefit from the money, need to be particularly aware of POCA and its implications.

If you suspect money laundering or illegal activity taking place at a property that you manage, even if it falls below the AML threshold, you still have legal responsibilities to investigate and report this.

POCA requires you to report any suspicious activity to the relevant authorities. This legislation is separate from AML regulations and applies to all transactions.

POCA used to apply to all transactions over £250, this was recently increased to £1,000 and would apply to both the rental income and any deposits. If you are suspicious about the source of that money or why someone wants to engage in that tenancy, you must report it to your appointed money laundering/compliance manager so they can

review it and submit their findings to the National Crime Agency.

Many people believe that if a property is rented for less than the AML threshold, they don't need to do anything. However, if a rental transaction turns out to be part of a money-laundering chain, you could be held accountable if you didn't follow the recommended steps. If it's seen as "reasonable" for you to suspect that a transaction is involved in illegal activity, you must report it – otherwise, you could face criminal charges yourself.

Suspicious Activity To Look Out For in Property Rentals

To ensure your letting agency complies with AML laws and the Proceeds of Crime Act, you should keep your eyes peeled for a few red flags.

If your letting agency believes a property's monthly rental value is £9,000 but the landlord wants to put it on the market deliberately below this value, this should ring an alarm bell. Why would they accept less than it's worth unless they're trying to avoid additional scrutiny?

Similarly, if a tenant is willing to pay significantly more than the advertised rental value, this is suspicious and warrants further investigation even if it is below the AML threshold. Of course, people can fall in love with a particular property, but being willing to pay significantly over the market value is a red flag.

You should also be suspicious if a tenant decides to pay the whole 12-month tenancy price upfront. Do they have a suitable reason for wanting to do so and where has the money come from?

If you come across any evidence that shows a close connection with the landlord and tenant you should also consider why they have decided to use you as an intermediary. It's not that uncommon an occurrence, as there are many reasons why a landlord would prefer to use a letting agent than deal with them directly but if it's a new landlord, you should take the necessary steps to ensure all is above board.

What Checks Are Needed on Landlords and Tenants?

You can perform several checks on potential landlords and tenants before you agree to sign them up with your lettings agency.

ID Checks

When taking on any new client, you should carry out [ID checks](#) to ensure they are who they say they are. ID checks are an essential part of customer due diligence and help you find out more about who you're working with. For privately rented properties in England, you must also perform a Right to Rent check on all tenants.

Background Checks

Background checks on prospective clients are always recommended, even if the potential letting is under the £9,000 monthly rental threshold for AML legislation.

Background checks can reveal past illegal activities and highlight anything to watch out for in terms of money laundering. They're also an effective way to protect your agency from profiting from crime (per the 2002 Proceeds of Crime Act). Examples of background checks include:

PEP & Sanctions Checks

It's also a good idea to check if the potential tenant or landlord is sanctioned or a Politically Exposed Person (PEP). These checks are commonly associated with money laundering regulations, but they're worth performing for all lettings to ensure you aren't dealing with somebody on a sanctions list or who might have ulterior motives for renting out a property.

If you learn that a client is a PEP, you can carry out [enhanced due diligence](#), following up by asking more questions about why they're trying to rent or rent out the property and how they're funding it.

Adverse Media Checks

Adverse media checks can also be an effective way to check for previous suspicious activity or crime. Sometimes, landlords might use a letting agency to hide who they are from a prospective tenant. If they've already been guilty of breaking tenancy laws, they might be less likely to get new tenants, so they could set up with an external agency to give themselves more anonymity. Adverse media checks can help you discover this before agreeing to work with a landlord.

Likewise, these checks could help you uncover other tenant issues, such as previous instances of selling or growing drugs from a property they are renting. If it turns out that a tenant had a well-known history of illicit activity and you didn't discover it, your agency's reputation could suffer, meaning it could be less likely for clients to trust you in the future.

Overseas Entities Checks

Sometimes, you must also confirm whether a rental property's landlord is registered as an overseas entity. The UK government introduced the Register of Overseas Entities (ROE) in 2022, but only around half of the affected people have actually completed the necessary registration steps.

If your letting agency has a rental property on its books under the €10,000 AML threshold, you aren't legally obliged to see if the owner is on the ROE. However, for properties over the AML threshold, you must find out precisely who owns the property in question; if they are based overseas but aren't on the ROE, you mustn't accept their business and should report them to the authorities.

Podcast: How the rental sector is used to launder money



How Credas can help

Since the EU's 5th Money Laundering Directive came into force in January 2022, compliance with AML regulations has become crucial for letting agents. For properties with a monthly rental value of €10,000 or more, you must comply with AML stipulations. Background checks, sanctions checks, and adverse media checks all have important roles to play.

Whether a property on your books meets the AML threshold or not, remember there is no plausible deniability when it comes to the Proceeds of Crime Act. Everybody and anybody profiting from criminal activity is liable, so always report any suspicious activity to the relevant crime body to protect your business and ensure you adhere to the legal requirements.

Our AML software can help streamline your customer onboarding for both tenants and landlords. We offer a range of solutions including biometric ID checks, PEPs and Sanctions screening and ongoing monitoring. Learn more about our [Tenant and Landlord Checks](#) here.

ABOUT US

Who are Credas?
AML resources
News and Updates
Careers
Case Studies

WHAT WE DO

ID Checks
Know Your Customer
Anti Money Laundering
AML Audit
Right to Work
PEPS and Sanctions

SUPPORTING SECTORS

Real Estate
Legal
Recruitment
Finance
Corporate Services
Resellers

USEFUL INFORMATION

Been asked to verify?
FAQs
Client Portal
Contact Us
API Integration

FOLLOW US

LinkedIn
Twitter
Facebook
Instagram



[Privacy Notice](#)

[Acceptable Use Policy](#)

[Complaints procedure](#)

[GDPR Compliance Statement](#)

Credas Technologies is registered in England & Wales No 10429398, Registered office: The Maltings, East Tyndall Street, Cardiff Bay, United Kingdom, CF24 5EA

