SCR-16 — Unauthorized Subleasing & Illicit Corporate Housing Arbitrage Guide

A Complete Handbook and Web Resource for Residential Landlords, Condominium Boards, and Property Managers

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Landlord & HOA Defense: Shutting Down Illegal Airbnb Arbitrage, Rooming House Conversions, and Commercial Sublet Exploitation

Executive Summary: The "Passive Income" Arbitrage Trap

Over the past five years, social media platforms have been flooded with real estate "gurus" promoting a concept known as **"Rental Arbitrage"** or "No-Money-Down Corporate Housing." Promoters instruct their followers to sign long-term residential leases on single-family homes or luxury apartments, furnish the units, and list them on short-term rental platforms (Airbnb, Vrbo) or rooming networks for 2x to 3x the monthly rent—pocketing the difference without owning the underlying asset.

While legitimate corporate housing operators execute formal commercial master leases with full landlord consent, a predatory wave of unauthorized subleasing syndicates systematically deceives residential landlords:

- **The "Model Tenant" Straw Application:** An individual with pristine credit applies for a lease, claiming they work remotely as a corporate executive or are relocating for medical residency. In reality, they are a "straw tenant" who will never spend a single night in the home.
- **Immediate Conversion to Unpermitted Short-Term Rentals:** The moment the lease is executed, the operator installs keyless digital door locks and lists the property on Airbnb, Vrbo, and Booking.com as a party house or high-turnover tourist rental.
- **The Unpermitted Rooming House / Group Home:** Alternatively, the tenant installs partition walls in living rooms and basements, subleasing individual beds to 8 to 12 transient individuals on Craigslist for weekly cash payments.

The consequences for the property owner are devastating:

- **Insurance Policy Invalidation:** Standard residential landlord insurance policies strictly exclude claims arising from unapproved commercial short-term hospitality operations. If a weekend guest causes a fire or suffers an injury, the insurer denies coverage, leaving the homeowner personally liable.
- **Municipal Ordinance Fines:** Cities across Michigan (e.g., Ann Arbor, Detroit, Grand Rapids) and nationwide enforce strict short-term rental licensing ordinances. Operating without a permit triggers civil infraction citations and municipal fines ranging from $500 to $2,500 per day against the deed owner.
- **Catastrophic Property Damage:** High-turnover guests cause severe plumbing blockages, structural floor damage, broken fixtures, and intense neighborhood friction.

This handbook outlines ironclad lease drafting defenses, digital detection strategies, and legal eviction protocols for unauthorized subleasing.

Section 1: The 4 Red Flags of an Arbitrage Infiltration

Watch for these warning signs during the tenant screening and move-in process:

- **1. The Relocating Executive Who Never Moves Furniture:**
  - The applicant claims they need a long-term home, but on move-in day, professional staging crews or flat-pack furniture delivery trucks arrive instead of a standard family moving van.
- **2. Requests for Multiple Keyless Smart Locks:**
  - The tenant immediately requests permission to install external Wi-Fi keypad locks or asks for extra sets of keys and parking passes.
- **3. The "Corporate Lease" with a Newly Formed LLC:**
  - An applicant asks you to execute the lease under a business entity (e.g., "Premier Executive Stays LLC").
  - A check on state corporate databases reveals the LLC was registered 60 days ago with zero assets, no Dun & Bradstreet rating, and no operational history.
- **4. Applicant Lives Locally in the Same City:**
  - An individual with a permanent residence 10 minutes away applies to rent your single-family home, claiming it is "for visiting relatives" or "an executive workspace."

Section 2: Essential Lease Drafting Protections

Standard boilerplate residential leases frequently contain ambiguous subleasing clauses. Ensure your lease includes these four non-negotiable clauses:

Clause 1: Absolute Prohibition of Assignment, Subletting, and Hosting

- *"Tenant shall not assign, sublet, transfer, license, or encumber this Agreement or any part of the Premises. Any attempt to sublet, license, or host guests on a transient or short-term basis (including, but not limited to, listing the Premises on Airbnb, Vrbo, Booking.com, Craigslist, or any peer-to-peer hosting platform)*

without Landlord's prior written consent is strictly prohibited and constitutes an incurable, material breach of this Agreement."

Clause 2: Liquidated Damages for Unauthorized Online Listings

- *"In the event the Premises is advertised, marketed, or listed for sublease or short-term rental on any website or social media platform without authorization, Tenant agrees to pay Landlord liquidated damages of $500.00 per day for each day the listing remains active, in addition to reimbursing Landlord for all municipal fines, legal fees, and re-keying costs."*

Clause 3: Restriction on Occupants and Guest Duration

- *"Only the individuals specifically identified as Authorized Occupants in Section 1 of this Agreement may reside on the Premises. Any guest remaining on the Premises for more than seven (7) consecutive days or more than fourteen (14) days in any calendar year without Landlord's prior written approval shall be deemed an unauthorized occupant."*

Clause 4: Right of Immediate Inspection Upon Suspicion

- *"Landlord shall have the right to inspect the Premises upon twenty-four (24) hours' written notice if Landlord has a reasonable, good-faith belief that unauthorized occupants, commercial hosting, or unapproved subleasing is occurring."*

Section 3: Detection Protocol — Uncovering Rogue Listings

If you suspect your rental property has been converted into an unauthorized short-term rental:

- **1. Geofenced Search on Short-Term Rental Portals:**
  - Open Airbnb and Vrbo. Search the map area corresponding to your property's neighborhood. Filter for homes matching your bedroom and bathroom count.
  - Look closely at interior photos: Recognize your kitchen backsplash, bathroom tile, flooring, or window views?
- **2. Reverse Image Search Listing Photography:**
  - Take your original rental listing photographs and search them on Google Lens. Rogue operators frequently reuse your original high-quality photos on their Airbnb listings.
- **3. Monitor Neighborhood Foot Traffic & Ring Cameras:**
  - Talk to neighbors. Ask if they notice rotating groups of travelers carrying rolling suitcases every Thursday and Sunday.
  - Check exterior perimeter security cameras for high-volume turnover.

Section 4: Eviction & Legal Remedies Protocol

If you confirm unauthorized subleasing or rental arbitrage:

- **1. Document the Evidence:**
  - Capture full screenshots of the active Airbnb/Vrbo listing, including the URL, host profile name, listing price, calendar availability, and guest reviews.
  - Document exterior photographs of guests arriving or lockbox hardware.
- **2. Serve an Immediate Notice to Quit for Material Lease Breach:**
  - In Michigan, serve a **30-Day Notice to Terminate Tenancy for Material Breach** (or statutory 7-Day Notice depending on lease language and local jurisdiction).
  - State the specific violations: unauthorized commercial operation, illegal transient occupancy, and violation of municipal short-term rental ordinances.
- **3. Notify the Short-Term Rental Platform:**
  - Contact **Airbnb Neighborhood Support** (airbnb.com/neighbors) or Vrbo Host Support. Provide proof of deed ownership and demand the immediate removal of the listing.
- **4. File for Summary Eviction in District Court:**
  - If the tenant refuses to take down the listing or vacate, immediately file a summary eviction complaint for possession. Request emergency injunctive relief to halt commercial hosting pending trial.

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