

# End the rent debt crisis



**GENERATION RENT**  
The national voice of private renters

**No home at risk:**  
A recovery plan for  
private renters

# Summary

Renters are facing rising levels of debt as a result of coronavirus, despite Government packages to protect incomes.

Over half a million households are currently in rent arrears, and the majority of struggling renters have been asked by their landlords to pay the rent now, and in full.

The coronavirus rent debt crisis is likely to get worse before it gets better, as the furlough scheme is wound down and the economy heads into recession.

Generation Rent is calling on the Government to end the rent debt crisis and ensure no renter is at risk of homelessness as a result of the economic impact of coronavirus.

## Our calls are as follows:

- 1 **Suspend evictions for rent arrears**, to ensure that renters who have lost income due to the pandemic do not also lose their home.
- 2 **Ensure the benefits system covers housing costs**, through restoring Local Housing Allowance to the median rent, removing benefit caps, expanding eligibility, and scrapping No Recourse to Public Funds.
- 3 **Introduce a new Coronavirus Home Retention Scheme** making £750 million of support available to cover lost income and end rent debt.



**60% of renters**

have suffered a loss in income since the pandemic hit



**1.2 million**

are at high risk of losing their jobs

# Context

Private renters' incomes have been hard hit by coronavirus. Two thirds of renters had no savings going into this crisis, leaving them vulnerable to economic shocks

At the outset of the pandemic, renters paid on average a third of their income on rent, compared with 17 percent for homeowners, and as a result are in a weaker position to manage an economic downturn than those in other tenures. Since the pandemic hit, 60 percent of renters have suffered a loss in income<sup>1</sup> and 1.2 million are at high risk of losing their jobs.<sup>2</sup>

Renters are more likely to be in financial difficulty than homeowners. Research by the Standard Life Foundation found that 64 percent of those surveyed in serious financial difficulty were renters, compared with 31 percent who were homeowners. Private renters have been protected against eviction since 27 March 2020, but debts continue to pile up, putting them at risk of homelessness once protections are lifted. The eviction ban is not a permanent solution.

The debt advice service StepChange estimates that 590,000 privately rented households are behind on rent, averaging £1,076 in arrears.<sup>3</sup> The Resolution Foundation estimated in May 2020 that 13 percent of England's 4.5 million privately rented households are in arrears, around 585,000.<sup>4</sup> An estimated 1.2 million renters have been left out of Government support schemes, and more than half of landlords with tenants struggling to pay rent are demanding the rent in full.<sup>5</sup> Those not eligible for support include renters who are self-employed, students, those with no recourse to public funds, or with savings over a certain threshold.

Despite the restoration of Local Housing Allowance (LHA) to 30 percent of local income, many renters face significant shortfalls. Those moving onto the system for the first time experience at least a five week wait for their first payment. Generation Rent figures found that just 7 percent of landlords offered a rent reduction that did not have to be paid back, indicating a lack of will or ability to reduce rent.<sup>6</sup> The Government has encouraged landlords and tenants to work together to arrange affordable payment plans, but this overlooks the significant proportion of renters for whom no level of repayment will be affordable.

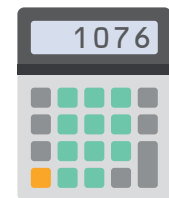
Rent repayments will also pose a problem for renters who have only lost income for a short period. ONS figures recorded rents at an all-time high in the year ending March 2020. At the outset of the pandemic, the median average rent for England was £700, and £1450 in London.<sup>7</sup> The comparatively weak financial position of renters relative to other tenures will make it difficult for many to repay debts, even when earnings are restored.

Repayments on top of ongoing commitments to pay rent will constitute an unaffordable proportion of earnings and have a knock-on effect on the cost of living. With the UK's GDP predicted to fall by over 10 percent this year alone, it appears unlikely that earnings will recover and increase in line with rent repayments. The measures proposed in this paper are designed to support private renters, both in and out of work, who would otherwise find themselves in problem debt.



**590,000**

privately rented households  
are behind on rent.



**£1,076**

average arrears for  
those households

1. *Opinion polling for the Guardian, conducted in April 2020*

2. <https://neweconomics.org/2020/05/1-2-million-private-renters-at-high-risk-of-job-loss-and-missing-out-on-income-support-schemes>

3. <https://www.stepchange.org/policy-and-research/debt-research/post-covid-personal-debt.aspx>

4. <https://www.resolutionfoundation.org/publications/coping-with-housing-costs-during-the-coronavirus-crisis/>

5. <https://neweconomics.org/2020/05/1-2-million-private-renters-at-high-risk-of-job-loss-and-missing-out-on-income-support-schemes>

6. [https://www.generationrent.org/relying\\_on\\_compassion\\_isn\\_t\\_workinghttps://www.stepchange.org/policy-and-research/debt-research/post-covid-personal-debt.aspx](https://www.generationrent.org/relying_on_compassion_isn_t_workinghttps://www.stepchange.org/policy-and-research/debt-research/post-covid-personal-debt.aspx)

7. <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/private-rental-market-summary-statistics-in-england/april-2019-to-march-2020>

# Current support for private renters

The Government has introduced a range of measures to protect renters' incomes, and to protect those in debt from eviction.

In March 2020, the Government introduced a three month moratorium on all evictions in the PRS, which was extended to last until 23 August 2020. While notice can still be served, all possession proceedings are suspended, meaning evictions cannot take place. Lodgers were not covered by this scheme. This intervention has prevented thousands of renters from losing their home in the middle of a public health crisis. The Government also extended the notice period landlords must give to tenants to three months, which will be in effect until 30 September 2020. However, the ban does not prevent arrears from accruing. Many local authorities, housing lawyers and homelessness services have warned of a rise in evictions and homelessness cases once the ban comes to an end. Generation Rent's April 2020 survey found that a majority (58%) of renters were worried about eviction despite the Government's ban.

The Government restored LHA to cover the lower 30 percent of rents in a local area. LHA was previously not linked to actual rents, having been frozen since 2016. The standard Universal Credit (UC) allowance was also increased by £20. This move greatly improved the availability of affordable properties, particularly in cities with high rents. But many renters still face significant shortfalls, particularly those affected by the benefit

cap, or those moving onto UC for the first time. Students and those with no recourse to public funds are unable to access support with housing costs.

The Government introduced the Coronavirus Job Retention (furlough) Scheme, which guaranteed employees 80 percent of their income. However, the Treasury Select Committee has identified that at least a million workers are ineligible for support, including new starters, the newly self-employed and freelancers.

The government also provides local authorities with a pot of money for Discretionary Housing Payments, to aid with rent payments where the bedroom tax, household benefit cap and the LHA freeze result in shortfalls. The size of this is £180m, which was set before the pandemic so is not set up for a dramatic increase in unemployment; there were around 300,000 awards in 2018-19.

As we move past the immediate peak of the crisis and towards economic recovery from coronavirus, renters who have lost income need additional support to protect them from debt and homelessness.

**“I am struggling to pay any rent or bills and food for me and my son. I think I will be homeless in a little while. The government does not help people on lower incomes. I am very upset, and this happened because they miscalculated my wage.”**

**Tara, Yorkshire\***



**58% of renters** were worried about eviction despite the Government's ban

# Rent debt causes immediate and long-term harm

Arrears are pushing renters into significant financial hardship. Due to the risk of eviction, rent arrears are classed as a 'priority debt' meaning those seeking professional help with debt are advised to prioritise paying down these debts ahead of other debts, such as consumer debts.

As a result, renters are faced with the choice of either taking out loans to pay the rent, cutting back on other essentials, or risking homelessness. StepChange estimates that 4.2 million people in the UK have borrowed to make ends meet, most often using a credit card (1.7 million), an overdraft (1.6 million) or a high cost credit product (980,000).<sup>8</sup> Opinion polling for the Guardian conducted in April 2020 found that one fifth of struggling renters had skipped an essential bill such as food and heating.

Even if eviction has been avoided, for example if the tenant has already left the property, rent debt can continue to cause long-term financial harm. Landlords are entitled to deduct arrears from deposits at the end of a tenancy, which makes moving home in the short term very difficult. For arrears outside of this, landlords can obtain a County Court Judgement (CCJ) as an initial step to claim back any rent arrears, which can last for up to six years and impede on a renter's ability to apply for credit or a mortgage in future.

County Court bailiffs can seize possessions to recover the debts. As landlords have also been hit financially by coronavirus, they may be more likely to use aggressive tactics, or the threat of them, to recover debts owed. Any strategy to reduce the burden of coronavirus rent debt must protect tenants from both the immediate risk of losing their home and the longer-term impact on their finances.



**4.2 million** people in the UK are estimated to have borrowed to make ends meet

**“I was made redundant in December last year. I’m struggling to find another job as companies are increasingly freezing hiring until the coronavirus crisis is over, and more and more people are competing for the same jobs. Universal Credit barely covers 30 percent of my rent, but my landlord wants full payment of rent as normal. I suffer from mental health issues and this situation is extremely scary.”**

**Max, London\*\***

8. <https://www.stepchange.org/policy-and-research/debt-research/post-covid-personal-debt.aspx>

# Defining problem rent debt

In devising solutions to rent debt, it is important to consider what level of arrears or suggested repayments are likely to cause financial harm to renters, and are therefore an example of problem rent debt.

While there is a fairly clear case to make that arrears of over two months are a cause for concern, it is perhaps harder to establish whether a repayment plan is likely to result in unaffordable payments and insurmountable debt.

Defining problem debt is difficult; most debt charities suggest it is debt that is detrimental to the person attempting to pay it. However, there are accepted and widely used measures of housing affordability - anything over 33 percent of income is usually defined as unaffordable.

**So, for the purposes of establishing a problematic amount of rent debt, a renter is in 'problem rent debt' if:**

- They are already in arrears of more than two months
- They are in arrears of less than two months, or have come to an agreement with the landlord to defer rent, but normal rent payments and any additional payments are more than 33 percent of their income

Many renters already spend more than 33 percent of their income on rent, with estimates ranging from around 33-40 percent nationally, to over 50 percent in London.

For these renters any additional payments on top of their existing obligations would be classed as unaffordable and would therefore be addressed in the measures we have outlined below.

## What tests should any new measures deliver on?

To reduce the burden of rent debt on private renters; either rent must be legally written off and no longer contractually due, or it must be paid. As rent is a contractual obligation, the Government has limited ability to alter the tenant's liability to pay it, and depriving landlords of their ability to collect rent could be interpreted as an interference with property rights as set out in Article 1 Protocol 1 of the European Court of Human Rights. However, simply paying all rent arrears that accrue due to the pandemic would cost billions and would risk artificially inflating rents further at a time where they may otherwise fall.

We have therefore proposed an approach that strengthens the safety net and therefore reduces the risk of arrears, removes the legal consequences of failing to pay rent for the tenant, therefore clears arrears, and allows landlords to claim for up to 80 percent of lost income.

## Our tests:

- Any intervention should ensure that renters who have lost income due to the crisis should not be burdened with debt that they are unable to pay or find difficult to pay, defined above as 'problem rent debt.'
- Being in rent arrears and accessing support should have no impact on financial record of tenant, or their ability to rent again
- Any intervention to reduce the burden of arrears should be legally sound, and interference with landlords' income and property rights should be proportionate in relation to the clear public benefit of reducing the harmful impact of problem debt on renters.

**“My income has dropped 20 percent. Universal Credit helps a little, but I am cutting back on meals as my landlord has said they are not taking a mortgage holiday and expect tenants to pay. They are keeping note of who pays what and will be working to get arrears back asap.”**

**Kieran, Surrey\*\***

# Our solution

Our proposals would remove the threat of eviction, ensure the benefits system covers housing costs as we recover from this crisis, and clear arrears by enabling landlords to claim for lost income, in line with the furlough scheme.

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The policies below should be introduced as a package. We recognise that many renters at risk of arrears will have used credit to pay their landlord, and will therefore be in credit card, overdraft, or similar consumer debt.

We therefore recommend that the approaches considered below are implemented alongside a wider plan to tackle problem debt.

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## **Prevent evictions for rent arrears**

The stay on possession proceedings introduced in March 2020 has ensured renters have not lost homes thus far. However, with possession proceedings set to continue from 23 August 2020, the Government must take additional steps to protect those who are in debt.

The Government should amend the definition of 'rent legally due' under Ground 8 of Schedule 2 of the Housing Act 1988, and Schedule 15 case 1 of the Rent Act 1977 (from April 2020) to ensure that rent arrears cannot be used as grounds for eviction. Rent would still fall due under the tenancy agreement, but eviction for arrears accrued due to coronavirus would not be a legal option. CCJs should not be issued for arrears built up due to coronavirus.

## Ensure the benefits system covers rent costs

The most effective and sustainable method for preventing further arrears from accruing is to ensure that Universal Credit covers housing costs for those who need it.

Generation Rent joins a wide range of debt, housing and anti-poverty charities, and the National Residential Landlords Association, in calling on the Government to ensure that the safety net covers housing costs for those who have lost income due to coronavirus, through:

- Restoring LHA to median local rents
- Removing the benefit cap, which prevents many renters from accessing higher LHA rates
- Ending the five week wait for a first Universal Credit payment
- Suspending No Recourse to Public Funds
- Widening eligibility, to include students and those with savings over a certain threshold

Ensuring that the benefit system covers housing costs will prevent further arrears from building up and will prevent homelessness on a mass scale.

Increasing LHA to the 30 percent percentile has resulted in a significant increase in the number of affordable homes. Analysis by Crisis found that restoring LHA to the 30th percentile increased the availability of affordable homes tenfold in some areas of the country.<sup>9</sup> Generation Rent has calculated that around 197,000 renters with housing costs above the 30th percentile (based on DHP awards and recent increase in benefit claims) would benefit from a higher LHA rate.

The benefit cap prevents many families from accessing higher benefit rates. The Resolution Foundation has found that a couple living with two children in a three-bedroom home will run up against the benefit cap in 107 out of 152 local areas in England and Wales.<sup>10</sup> If LHA were increased, lifting the benefit cap is essential to ensure that those who needed it could access these funds.

The increased costs of these benefits will be offset through reducing local authority spending on homelessness duties. Analysis by Generation Rent suggests that increased arrears would result in local authorities spending an increased £117m on homelessness services, on top of the £1.1bn spent in 2019-20. We estimate an increased caseload for Discretionary Housing Payments of 284,000 in England, increasing the demand to £289m, £109m more than the £180m already pledged. Investment in our safety net is essential to prevent further homelessness and debt as we recover from coronavirus.

**“A couple living with two children in a three-bedroom home will run up against the benefit cap in 107 out of 152 local areas in England and Wales.”**

9. [https://www.crisis.org.uk/media/242274/cr0432\\_home\\_for\\_all\\_campaign\\_policy\\_briefing.pdf](https://www.crisis.org.uk/media/242274/cr0432_home_for_all_campaign_policy_briefing.pdf)

10. <https://www.resolutionfoundation.org/publications/housing-outlook-q2-2020/>



## Introduce a new Coronavirus Home Retention Scheme

Suspending evictions will keep renters in their homes and ensuring the benefits system covers housing costs will reduce debt for the majority of renters.

However, a final layer of protection is necessary for those not eligible for government support, unable to claim, suffering a significant shortfall, or in arrears for any other reason. It is also necessary to address rent debt already accrued. These renters will be among the most financially vulnerable in society, given their lack of support so far, and should not continue to shoulder the burden of the UK's economic recovery from coronavirus.

Renters in arrears built up due to the crisis should have them cleared, as should those who have entered into a repayment plan that is unaffordable and that puts them in problem rent debt. Landlords and tenants should be advised not to enter into repayment plans that are unaffordable, instead opting for our proposed new coronavirus home retention scheme.

If a tenant is in arrears due to coronavirus and LHA does not cover some or any of the debt, landlords can apply for funds to cover up to 80 percent of their monthly income as set out in the contract agreement. Landlords would be able to claim for a maximum of £2,500 per month through the scheme. This would put landlords on an equal financial footing with those who have been furloughed by their employer and will incur less cost to the Government than simply compensating landlords for all rent not paid. If landlords had multiple tenants in arrears, they could make multiple claims, provided the total amount did not exceed £2,500.

The money would be administered through a local authority fund. The Government has shown that it is able to act quickly to set up hardship funds when necessary and has already made £500 million available to local councils for those in need of council tax

relief. Due to the indeterminate length of lockdown and the scale of unemployment once the furlough scheme ends, it is difficult to estimate the amount of money needed to cover all debts for those in arrears<sup>11</sup>. At the time of writing (July 2020) private renters have accrued an estimated £634 million of arrears. To fully compensate all arrears over the coming months as the UK recovers from coronavirus could cost the Government billions. Indeed, because current rents were set before the economy started shrinking, covering them in full would be excessively costly and would prevent a necessary downward correction in rent levels in the market as a whole from taking place. We estimate that an initial fund of around £750 million would provide sufficient compensation to landlords with tenants currently in rent debt for three months.<sup>12</sup> If implemented alongside reforms to LHA and UC, the cost of the Coronavirus Home Retention Scheme would decrease significantly after the first three months.

Landlords would be able to apply via their local authority and would have to provide evidence that they had lost income. The local authority would then decide whether to make a payment, the length of this payment, and whether this should be backdated to when the arrears began. This scheme would put the onus on the landlord to claim for lost income, rather than on the tenant. The local authority would notify tenants that the claim had been made to ensure that rent would not be collected.

The local authority could decide to prioritise landlords who had:

- no income aside from rental income
- a mortgage
- tenants in significant arrears (more than two months)

This prioritisation would ensure that Government funds were targeted, and money was focused on the cohort of landlords who would otherwise suffer hardship, e.g. losing their sole source of income, or defaulting on mortgage payments. The proportion of landlords who would experience financial

**“Ensuring that the benefit system covers housing costs will prevent further arrears from building up and will prevent homelessness on a mass scale.”**

11. Around 590,000 rented households in arrears, with average arrears of £1,076

12. Full breakdown of the scheme costs available at: [https://www.generationrent.org/coronavirus\\_rent\\_arrears\\_analysis](https://www.generationrent.org/coronavirus_rent_arrears_analysis)

hardship if unable to recover arrears would be relatively small. Two thirds of landlords do not have outstanding mortgage commitments, and 65 percent of landlords have more than one rental property, with 17 percent of landlords owning five or more properties. Only 4 percent of landlords became a landlord to let property as a full-time business. For most landlords income from rent makes up two fifths (42%) of their total gross income.<sup>13</sup>

The changes to Ground 8 of Schedule 2 suggested above would ensure that landlords could not pursue eviction for the remaining 20 percent of income lost. If legislation had been amended in line with our first recommendation or otherwise not a mandatory ground for eviction, courts could be instructed not to grant possession orders, instead instructing landlords to claim through the Government's scheme.

Any remaining debt should not count towards a tenant's credit score and should not be considered arrears if and when the tenant is seeking a new tenancy. Depriving landlords of the right to collect the remaining 20 percent of income would be an interference with contract law and potentially at odds with A1/P1 ECHR. However, this is a relatively minor breach and is a response proportionate to the clear public benefit in ensuring renters are not subject to financial harm.

## Example scenarios

*Note: these are hypothetical situations but based on actual LHA rates and median rents.*

### Scenario 1:

#### **A renter is claiming LHA towards their rent, but facing a shortfall between LHA and their housing costs.**

Sally rents a two bedroom flat in Manchester. She lost her job in March, applied for Universal Credit, and received her first payment the following month. Her rent is £800, but since April she has only paid the £650.45 per month she receives in LHA. She is in £300 of arrears.

In this case, Sally is still paying 81 percent of her monthly rent, so her landlord would not be eligible for financial support.

### Scenario 2:

#### **A renter was not working and deferred a portion of rent payments, but has now found employment.**

Ian rents a three bedroom house in Cornwall with his family, at £1000pm. His household income halved at the outset of the pandemic, and he agreed to a three month rent reduction of £500, on the condition that this would be paid back. He is behind on rent by £1500, but his household income has not yet recovered to what it was at the outset of the pandemic.

Ian's landlord would be able to claim back any arrears to top their monthly income up to a maximum of £800.

### Scenario 3:

#### **A renter has lost income and is not eligible for any support.**

Flora is self-employed and rents a room in a shared house in London, costing £750 a month. Her work dried up due to coronavirus in March. Due to her status as a recent freelancer, she has not been eligible for any support scheme.

In April she paid what she could towards her rent, but in May and June she has paid nothing at all. She is in £1700 of rent arrears.

Her landlord is eligible for £600 a month to cover the loss of income under the scheme.

13. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/775002/EPLS\\_main\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775002/EPLS_main_report.pdf)

# Conclusion

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This package of measures would prevent renters from losing their homes, would clear debts that have already built up due to coronavirus, and would sustainably prevent those on lower incomes from accruing any further debt as the UK recovers from this crisis.

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Allowing landlords to claim for lost income rather than simply paying off all arrears would cost the Government significantly less and would ensure support is targeted at those who need it.

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It would also ensure fairness in that landlords' incomes would be protected at the same level as employees who have received support through the furlough scheme.

Renters would be able to remain in their homes, whilst paying what they could afford, and would not feel pressured into accepting repayment plans that would harm them financially.

Rent arrears result in long term hardship amongst those who are often among the most vulnerable in society.

As we recover from coronavirus it is essential that we build a fairer housing system that supports renters' wellbeing instead of harming it and prioritises people's financial security over profit and provides a safe and secure home for all.

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# Generation Rent is the national voice of private renters. We campaign to ensure that private rented housing is safe, fair and secure.

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