BUSINESS IN ARREARS
PREVENTING COLLAPSE IN SECTORS HARDEST HIT BY COVID-19

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EXECUTIVE SUMMARY

Despite the early success of the vaccine rollout, the Covid-19 public health crisis is far from over; the economic fallout may continue long after restrictions have been lifted. The government has already taken action to help mitigate the impact. For example, the furlough scheme, grants, loans, and an eviction ban have prevented many businesses from going under. Survey data, however, suggests that around one in thirteen businesses have little or no confidence that they’ll make it through the next three months, and over one in six businesses either anticipate having to make redundancies or are not sure if they’ll have to. SME bank lending was 80% higher in 2020 than 2019, and it is estimated that approximately a third of firms with Covid Business Interruption Loan Scheme and Bounce Back Loan Scheme loans may struggle to make repayments.

This report reviews the differing experiences of UK economic sectors during the crisis so far, the support offered by the government, and why the financial viability of many businesses still looks precarious. We then outline and justify six criteria for assessing a successful government response to the commercial rent arrears problem. Three of these criteria are outcome principles, which describe the ends that an effective policy response ought to achieve. The remaining three are design principles that a policy ought to achieve in order to be feasible. An effective policy should protect productive capacity, minimise regressive wealth transfers (and prioritise UK citizens) and minimise the future debt-burden for SMEs. Its design ought to prioritise help to those in need ahead of ensuring that only the most deserving receive support, maximise legal enforceability, and minimise administrative work.

We use a multi-criteria analysis to compare current UK government policy and five alternative policies: partial rent cancellation, subsidised rent reduction, public sector pays, rent deferral, and Bank of England investment in land. The first four policies were inspired by international examples.

According to this analysis, all five alternative policies outperform the UK government’s current stance, with partial rent cancellation emerging as the most favourable policy, and the rent deferral and public sector pays options coming in joint second.

This report recommends that the government put in place a policy of partial rent cancellation, with up to 100% of rent being cancelled for those businesses forced to close and a significant proportion of rent cancelled for those businesses that can remain open but are in sectors with significantly reduced turnover. These reductions should also apply to rent arrears accumulated during such times. Turnover would be assessed at the
industry level; there would be no firm-level assessment. This sectoral approach strikes a balance between quickly getting support to businesses in trouble, while not expecting landlords renting to tenants in relatively unaffected sectors to forego their rents. Concentrating support on SMEs would help target the most vulnerable businesses. Most employment is also provided by SMEs. The policy would apply to unpaid historical rent and future rents, during periods of national and local restrictions, and compensation could be paid to landlords pushed into dire financial straits.
1. INTRODUCTION

The Covid-19 public health crisis upturned our lives and forced great changes in businesses, government, and households. Many UK businesses had to significantly change the ways they worked or temporarily stop trading. The effects were particularly severe for customer-facing businesses, many of whom were negatively impacted by shifting consumption. For example, online shopping increasing from 19% to 31% of total retail sales between February and December 2020. Data on debit and credit card purchases indicates that, as of mid-January 2021, "staple" purchases were similar to the February 2020 average, while "delayable", "social" and "work-related" purchases remained 50%, 55%, and 45% respectively below levels seen in February 2020. At the same time, the location of work also shifted. Among UK businesses that had not ceased trading, 45% of the workforce in January 2021 were not working at their normal place of work.

Between 22 March and 4 April 2021, 22% of UK businesses had temporarily closed or stopped trading, rising to 50% for Accommodation and Food Service Activities sector. The furlough scheme has lessened the pain for some, and grants, loans, and an eviction ban have prevented many businesses from going under. However, with 7% of businesses having little or no confidence that they’ll make it through the next three months, the government must go further to prevent a wave of insolvencies.

In normal times, rent accounts for approximately 15% of costs for small and medium-sized enterprises (SMEs) on average. In current conditions, with reduced turnover and limited ability to make full use of commercial spaces, rents are threatening to undermine the financial viability of businesses in some industries. For example, during lockdown, major food outlets warned the UK government that many restaurants were unable to pay their rent. This is in part because rent is one of the stickiest non-staff costs faced by businesses. Whereas business can, within months, cut spending on other costs, such as stock and marketing, to adjust to trading conditions, rental payments are often contractually fixed over many years. We have heard first-hand from commercial tenants that, despite government guidance that landlords and tenants seek mutual solutions that recognise impact of Covid-19, many have not been able to come to an agreement. Meanwhile, data from the large retail landlord, Hammerson, suggests that only 41% of rent due from retail tenants for January to March 2021 was collected. In June this year, only 18% of commercial property rent due was paid, with only 14% of retail rent paid. It is estimated that UK commercial tenants, in total, will have accumulated £5.5–6 billion of rent arrears in the first year of the crisis.
This report reviews how the UK government has responded to this challenge so far and compares this to international responses. It also examines businesses’ experiences of the pandemic and explores how the government might provide rent-relief for businesses during the crisis, before outlining a set of recommendations.
2. HOW COVID-19 HAS AFFECTED COMMERCIAL RENTS

SECTOR IMPACTS

Although no sector has been unaffected by the pandemic and lockdown, the magnitude of impact has varied by industry. Between 22 March and 4 of April 2021, for example, 50% of businesses in the Accommodation and Food Services sector had paused trading, compared to 7% of businesses in the Real Estate sector. Similarly, 58% of employees in the Arts, Entertainment and Recreation sector had to be furloughed, compared to 3% of people working in Professional, Scientific and Technical Activities.

The sectors most impacted varies depending on the metric used, but, by most measures, the Accommodation and Food Service Activities, Transportation and Storage, and Wholesale and Retail Trade sectors have been particularly impacted, while Financial and Insurance Activities, Professional, Scientific and Technical Activities, and Administrative and Support Service Activities have experienced more minor impacts.

ABILITY TO PAY RENT DURING LOCKDOWN AND RECOVERY PERIODS

The impact on turnover experienced by many sectors as highlighted, means that many firms were simply unable to pay their rents. As discussed in Chapter 1, the retail and restaurant sectors already made this clear. The following simple model, based on survey data, helps illustrate the problem firms faced.

The New Economics Foundation (NEF) conducted a survey of 75 small businesses in East London between November 2017 and February 2018. We asked them about their various costs relative to turnover. The average business spent 15% of its turnover on rent; 29% on wages; and substantial further parts of its turnover on stock, machinery, business rates, and other costs, such as utility bills, insurance, maintenance, marketing, and delivery. As shown in Figure 1, these costs accounted for 93% of turnover in total, leaving 7% of turnover to contribute to profits.
Figure 1: Cost items as a proportion of turnover, averaged across a sample of 75 East London businesses in 2017/2018

Source: NEF survey of 75 small businesses in East London between November 2017 and February 2018. The remaining 7% of turnover constitutes profits.

Assuming the average business \textit{temporarily closed}, their turnover would fall to zero for the period. At times when the furlough scheme was in place, they could maximise their reduction on wage costs if they furloughed all staff without top-up payments.\textsuperscript{18} Firms in the retail, hospitality, and leisure sectors could also take advantage of a business rates holiday, reducing this cost to zero. Even assuming this maximum use of the available support for wages and business rates, businesses would face significant fixed costs from rent, supplies, and other costs.\textsuperscript{19} In this scenario, assuming that rent is unchanged and supplies and other costs remain at 80\% of pre-crisis levels, the average firm in the survey sample would make a loss of 51\% of pre-crisis turnover for the period of closure. An elimination of rental costs would reduce this to 36\%.

Based on data from the Business Impact of Covid-19 Survey (BICS),\textsuperscript{20} the reduction in turnover in the worst affected sectors would have been substantial \textbf{even for firms remaining open}. For example, in the Arts, Entertainment, and Recreation sector, 69\% of firms continuing to trade between 23 March and 5 April 2020 reported a “substantial” reduction in turnover in these two weeks compared to what would normally be expected at that time of year. Turnover was reduced even after the national lockdown was lifted,
as, in the Arts, Entertainment, and Recreation sector, 33% of firms that continued to trade between 7 and 20 September 2020 reported a more than 50% reduction in turnover in these two weeks compared to what would normally be expected at that time of year. Additionally, 21% of firms that continued to trade reported between a 20% and 50% reduction in turnover compared to what would normally be expected at that time of year. A similar picture was observed for this sector between 22 February and 7 March 2021, with 37% and 20% of firms that continued to trade respectively reporting a more than 50% and between 20% and 50% reduction in turnover compared to normal expectations for that time of year.

Assuming a firm’s turnover fell by 50% relative to the pre-crisis period, and they furloughed staff equivalent to 50% of their wage bill (without top-ups) in response, with supplies and other costs falling to 80% of their pre-crisis level, the average firm in the survey sample would have made a loss equivalent to 15% of pre-crisis turnover. In addition, this may underestimate the impact on cash flows, as many of the businesses that remained open during the pandemic may have faced increasing supply costs and other costs, such as those relating to health and safety measures or adapting their business to lockdown, say, via changes to product mixes, and increasing deliveries and online sales.

As discussed in Chapter 1, rent is one of the stickiest non-staff costs faced by businesses, so rent and rent arrears relief measures could substantially reduce the scale of a firm’s losses and debt burden.

**UK GOVERNMENT RESPONSE**

The UK government has introduced a number of temporary measures to support businesses during the Covid crisis, including furlough and short-time working schemes, large volumes of low-interest and publicly guaranteed loans, and tax deferrals.

Though no policy has explicitly tackled the issue of commercial rents, the government has introduced a temporary ban on eviction of commercial tenants, which it has extended many times and is now due to expire in March 2022. Landlords are also temporarily prevented from recovering payments by taking and selling a tenant’s goods until that date.

Also relevant for those with business premises is the government’s decision to waive business rates (a property tax) for most businesses in the retail, hospitality and leisure sectors and offer a series of state backed loans.
It also made grants of up to £3,000 per month available for businesses forced to close due to national or local restrictions. In addition, limited discretionary grants were available for those business not forced to close but operating in national lockdown or very high alert restrictions. There were also some sector-specific grants for example, grants for nightclubs and dancehalls that have been closed since March 2020. Finally, the recent March 2021 budget announced a new Restart Grant scheme, providing grants of up to £18,000.

Data from the Bank of England in December 2020 suggested that these fiscal measures had eased cash flow issues for firms by about 40%; however, even taking this into account, the Bank estimates that businesses could have had a £180 billion cash-flow deficit in the 2020/2021 financial year. This is around 44% higher than what the Bank would typically expect.

While larger businesses have typically financed this cash-flow deficit by issuing more equity and bonds, SMEs have been very dependent on bank loans, including government-backed Covid loan schemes. As of 2 March 2021, 1.6 million businesses had accessed £75 billion of government-backed Covid-related loans.

**CURRENT OUTLOOK**

In addition to Bank of England estimates, the latest data from the Office for National Statistics (ONS) reinforces the conclusion that, in spite of government action taken to date, businesses across the country are in need of further support. Between 1 June and 13 of June 2021, 7% of UK businesses that had not permanently ceased trading said they had low or no confidence that their business would survive the next three months, 37% had moderate confidence that their business would survive the next three months, and only 46% said that they had high confidence. The Accommodation and Food Service Activities sector had the highest percentage of businesses that had no or low confidence that their business would survive the next three months, at 13%. This was followed by the Transportation and Storage sector, at 10%.
3. PRINCIPLES OF AN EFFECTIVE POLICY INTERVENTION

To assess the merits of an approach to outstanding commercial rent arrears (and any upcoming commercial rental payments during further periods of restrictions), this chapter sets out the six principles that an effective policy intervention should satisfy.

OUTCOME PRINCIPLES

1. Protect productive capacity

The primary goal of the intervention should be to reduce the impact of the pandemic on the UK’s supply capacity and support the country’s ability to recover from the crisis. It can take businesses years to amass the capital, expertise, and customer base to work effectively. Once these are lost, they may not be recouped quickly or easily. Establishing a business, for example, can involve paying large sunk costs, which may be lost if the business collapses.\(^{27}\) In addition, if a business falls into administration during the crisis, it may not be possible for an administrator to restructure the company to enable it to successfully trade again when the crisis is over. Small and medium-sized enterprises (SMEs) in particular can be difficult to restructure.\(^ {28}\) The process, even if successful, would be long and deeply stressful for those involved. Furthermore, many owners will have invested personal wealth in the failed business,\(^ {29}\) and these personal losses could impede their future consumption and appetite for risk. Assets may also be distributed to creditors.\(^ {30}\) Moreover, firms going into administration en masse could cause widespread supply-chain disruption, which could raise operating costs and be devastating for firms.\(^ {31}\) Finally, unemployment can have longer-term economic consequences, as skills can be lost.\(^ {32}\) In short, the economic damage sustained during recessions can have long-term effects on investment and productivity,\(^ {33}\) a process economists call ‘hysteresis’ or ‘scarring’.

In this light, supporting the commercial property market itself is not a key priority. While commercial property owners may add some value via property development and maintenance, the vast majority of their income and capital gains stem simply from holding land in a certain location. Land, a finite resource, appreciates in value in the long run due to ever-increasing demand, albeit with short-term fluctuations. The increase in value comes from demand from a growing population and investors increasingly looking to speculate on UK property, and sometimes also improvements in
the local community, for example, from state spending on infrastructure. The sector is therefore not a strong candidate for a state bailout, as it is primarily based on unearned income rather than productivity. Similarly, supporting creditors who lend to the commercial property market is not a priority, because many of their activities are also centred on unearned income. Furthermore, it is unlikely that indirect losses experienced by banks who lend to commercial property owners will cause a financial crisis, such as the 2007/2008 crisis. The Bank of England’s December 2020 Financial Stability Report notes that UK banks have sufficient capital buffers to support households and businesses even if economic outcomes are considerably worse than expected.

SMEs are, in general, more vulnerable in crises than larger businesses, as they are typically less diversified, struggle to downsize, have less credit history, and have fewer financing options. For example, they generally do not have access to capital markets. They also have fewer fixed assets and are offered less favourable loan conditions, such as higher interest rates and having to pledge more collateral.

Thanks to government support schemes, many UK businesses are well placed to grow when the economy begins to recover. 53% of small businesses surveyed by the Federation of Small Businesses between the 8 and 22 of March 2021, for example, said that they hope to grow over the next year. However, as with households, the impact of Covid on companies has been highly unequal. While some companies, even many small businesses, have been able to increase their cash reserves during the crisis, others, particularly in sectors highly affected by Covid, like pubs or restaurants, are still really struggling. 31% of small businesses surveyed by the Federation of Small Businesses between the 8 and 22 of March 2021 expected their finances to worsen over the coming three months, and 14% anticipated having to make redundancies. In contrast, between 8 and 21 March 2021, only 2% of all-sized businesses that had not permanently stopped trading expected to make redundancies over the next three months.

SMEs are hugely important to the UK economy, as they are responsible for approximately 61% of UK employment and 52% of UK private sector turnover. It thus is crucial that the government supports SMEs in highly affected sectors through the crisis.

2. Minimise regressive wealth transfers

Large transfers of wealth from the average taxpayer to the wealthiest in society are both unjust and economically inefficient (particularly during a recession), as those on the
lowest incomes typically spend a greater percentage of any new income received, and so produce the largest macroeconomic multiplier effects.\(^{41}\) In addition, those on higher incomes typically have greater savings, which can be drawn on in times of crisis.\(^{42}\)

This principle suggests minimising the transfer of state funds to commercial landlords, as British property ownership data suggests that the individuals who own commercial property likely fall in the wealthier household income groups. For example, from 2016 to 2018, approximately 78% of all UK property was owned by the two wealthiest household income quintiles,\(^{43}\) with the three poorest household income deciles owning close to 0%.\(^{44}\)

In addition, in 2015, only around 2% of UK-workplace-defined contributions to pension schemes’ assets were in property,\(^{45}\) so UK pension fund exposure to commercial property is low. Moreover, from 2016 to 2018, approximately 72% of total UK private pension wealth was owned by the two wealthiest household income quintiles,\(^{46}\) which suggests that median and lower-income households have extremely low exposure to UK commercial property.

### 3. Minimise future debt-burden for business

Bank lending to SMEs was 82% higher in 2020 than in 2019.\(^{47}\) As of March 25 2021, one in four SMEs had taken out a government-backed pandemic bank loan.\(^{48}\) Before the government allowed businesses to extend loan repayments from six to ten years, 32% of SMEs with Bounce Back Loan Scheme loans were concerned about their ability to repay the loan, and 41% were concerned about their ability to pay other business expenses alongside their loan repayments.\(^{49}\) Even after this extension and other measures announced in the March 2021 budget, the Office for Budget Responsibility is anticipating that 36% of funds lent in government-backed Covid emergency loan schemes will not be repaid.\(^{50}\)

78% of SMEs that took out bank loans in 2020 reported doing so for cashflow support.\(^{51}\) The comparable statistic in 2019 was 49%. High levels of business debt, particularly that not used to support productive investment, hinder future business investment and firms’ abilities to grow, as profits are put towards servicing interest payments rather than investment.\(^{52}\) This, in turn, could hold back the UK’s economic recovery, through supressing growth. High levels of debt could also make companies more susceptible to failure if faced with any subsequent future short-term drop in revenue and undermine banking stability if companies default on loans en masse.\(^{53}\)
In contrast, government debt is less problematic, with the UK government borrowing costs at record lows.\textsuperscript{54} For example, as of 3 December 2020, the UK 10-year government bond yield was only 0.32%.\textsuperscript{55} With investors currently demanding such a low return on their investment, supporting the SME sector, which is responsible for around 50% of UK business turnover and 60% of UK jobs, will surely generate value for the UK in excess of this.

The policy intervention should, thus, prioritise minimising the future debt-burden for SMEs over minimising the future debt-burden for government.

**DESIGN PRINCIPLES**

4. Sensitivity over specificity

As it is difficult to target support precisely at those businesses who need it, there is a risk that eligibility criteria may lead to a policy offering too much or too little support. Due to the high costs of inaction (Principle 1), this report argues that it is best to prioritise getting support out quickly to those in need (sensitivity) over ensuring that only firms in true or deserving need receive support (specificity). However, provided the sensitivity criterion is satisfied, specificity is, of course, desirable. For example, to reduce government costs, support could be provided only to sectors that are particularly affected by the crisis. Determining these sectors would be quick and simple, and would add relatively minor additional administrative costs, as many of the policies already require landlords or tenants to submit some basic proof of eligibility, which the government must then check.

5. Maximise legal enforceability

As will be explained in Section 4, there is a risk that government action on rents or rent arrears will lead to a high volume of court cases that would put significant pressure on the legal system. An effective policy on commercial rents should aim to minimise the potential for legal challenge through a clear and proven means for legal implementation.

6. Minimise administrative complexity

Policies’ administrative burdens should also be minimised, where possible, to save time and effort for stakeholders and to encourage high uptake from tenants and landlords.
4. POLICY APPRAISAL

Inspired by policies introduced in other countries, this chapter explores how potential policies that the UK government could implement to tackle the rent and rent arrears crisis would score against the six principles outlined in Chapter 3. Current UK policy is also appraised, alongside an additional proposal put forward by researchers at the University College London (UCL) Institute for Innovation and Public Purpose and Centre for Economic Justice (C4EJ).

SUMMARY OF PROPOSALS

Current UK policy

There is a temporary ban on the eviction of commercial tenants due to missed rent payments and a temporary ban on landlords recovering payments by taking and selling a tenant’s goods. These bans are in place until March 2022.

1. Partial rent cancellation

Rents could be completely cancelled for periods where businesses are forced to close and rent arrears accumulated during this time could also be written off. When businesses can remain open, businesses in sectors that have suffered significant reductions in turnover could be liable for, say, only 30%–50% of their normal rent, with the same deduction applied to rent arrears accumulated in such circumstances. Legislation would prevent the landlord from terminating the lease due to non-payment of the remaining rent during the relevant period. The scheme would be available to small and medium-sized enterprise (SME) tenants forced to close or in sectors that have suffered significant reductions in turnover, as determined by the government.

This is similar to policies adopted in Switzerland and Greece, where businesses in shutdown sectors – as well as affected sectors in the case of Greece – are only liable for 40% of their normal rent.

Such a sector focus would mean that landlords renting to tenants in relatively unaffected sectors would not be expected to forego their rents. As in Switzerland, a fund could also be created to provide support to landlords who can prove the policy has caused them financial distress.

2. Subsidised rent reduction
For any reductions agreed in outstanding or upcoming rent, the government would reimburse the landlord with a grant equivalent to, say, half of the reduction amount. The scheme would be available to SME tenants forced to close or in sectors that have suffered significant reductions in turnover, as determined by the government. The sectoral approach would prevent businesses in relatively unaffected sectors from benefiting from state funds.

This is similar to the approach taken in Sweden, where landlords who agreed to a rent reduction with their tenants could apply to be reimbursed for half of that reduction amount from public funds, capped at 25% of the original rent for that period, and subject to a cap of €800,000 in support per tenant. The support is voluntary for landlords and available only to tenants in sectors vulnerable to the effects of the pandemic. Similar schemes, where landlord, government, and tenant split the rent, have also been adopted in Slovakia and Canada.

3. Rent deferral

Tenants who give an affirmation that they could not pay their rent and rent arrears due to the impact of the pandemic would have those rents deferred for two years, so that the landlord would be unable to terminate the lease for non-payment of those rents until 2022/2023 at the earliest. The scheme would be available to SME tenants forced to close or in sectors that have suffered significant reductions in turnover, as determined by the government. The sector focus would mean that landlords renting to tenants in relatively unaffected sectors would not be expected to delay receiving their rental income.

In Germany, tenants who affirm that they are unable to pay their rent due to the effects of the pandemic are entitled to defer payment of that quarter’s rent by up to two years. The landlord may not terminate the lease for non-payment of that quarter’s rent during the subsequent two-year period. In the event of a dispute over eligibility, the tenant must prove that they are unable to pay rent due to the impact of the pandemic. This deferral applies equally to all commercial and domestic tenants in Germany. During the time when the rent is deferred, the tenant has to pay interest on their rent arrears.56

The government of Spain also enacted similar measures for SMEs and self-employed people forced to close or experiencing at least a 75% year-on-year fall in turnover. No interest or penalties are applicable to the rent arrears. Large landlords with more than ten urban properties57 are required to accept requests for deferral from eligible tenants, while the deferral measures are non-compulsory for all other landlords. A similar deferral policy was also enacted in France.58
4. Public sector pays

Tenants would not be liable for rents during periods where businesses are forced to close and rent arrears accumulated during such times could also be written off. At times when businesses can remain open, businesses in sectors that have suffered significant reductions in turnover could be liable for, say, only 30%–50% of their normal rent, and rent arrears accumulated during such times could be subject to the same reduction. The government would fully compensate affected landlords. The scheme would be available to SME tenants forced to close or in sectors that have suffered significant reductions in turnover, as determined by the government. The sectoral approach would prevent businesses in relatively unaffected sectors, and their landlords, from benefiting from state funds.

In Denmark, the government supports tenants affected by the pandemic directly by paying a significant proportion of their rent. Under the programme, public funds are used to pay 100% of the rent for periods in which tenants are forced to close, or up to 80% of the rent for tenants remaining open but suffering a loss in turnover of at least 35% relative to normal levels. For tenants applying due to loss of turnover, support is calculated based on the extent of the loss in turnover and they must submit an auditor’s statement to verify the accuracy of their financials. If successful, tenants can have 80% of the cost of this auditor’s statement reimbursed. Tenants are eligible if their fixed costs exceed DKK12,500 per quarter (approximately £1,500).

5. Bank of England investment in land

This proposal was put forward by researchers at UCL and (C4EJ). Under this proposal, the Bank of England (BoE) would offer to buy the freehold of properties from landlords who are struggling with unpaid rent. The BoE would then grant landlords a long-term lease, for example, for 100 years. Under this lease, the landlord could operate or develop the buildings on that land, in return for paying an annual rent to the BoE on the land value. The scheme would be entirely optional and would be open to landlords with tenants of any size in any sector.

In normal times, the landlord could charge the tenant full rent, that is, rent pertaining to land and building value, so they could keep the part of the rent relating to the buildings. In the current context, however, the BoE would offer an immediate 12-month rent holiday on properties purchased under the scheme, during which time the landlord would be exempt from land rent payments to the BoE, on the condition that they also exempted the tenant from all rent payments for the same period. The valuation process
to separate land value from building value would be done every two years by the Valuation Office Agency, with the same approach as is currently used to assess property taxes in Denmark, New Zealand, the United States, and Canada. The bank’s purchases would be financed in a similar way to the BoE’s existing quantitative easing programme.

In this system, appreciation in land values, which accrue as a result of societal improvements, could return value to the public sector and support future investment. Additionally, it would incentivise landlords to focus on the productive elements of their role, that is, improving the value provided by the buildings and property on their land, while reducing their returns from speculating on the value of land, an unproductive activity.

**ASSESSING POLICIES AGAINST THE PRINCIPLES**

As shown in Table 1, all six policies were given a mark out of five for each of the six principles, with scores of one and five reflecting a principle being, respectively, not at all and entirely satisfied. Using this assessment framework, the current UK policy looks the least desirable option, as it rates 12 out of a maximum of 30, while the partial rent cancellation policy appears the most favourable, as it earns a score of 24/30.

All three policies, however, have shortcomings. Public sector pays is particularly poor for minimising regressive wealth transfers, and rent deferral is highly problematic from an SME debt-burden perspective. Meanwhile, partial rent cancellation could be subject to extensive legal action.

Legal issues arise as forcing landlords to forfeit any rents would likely be subject to the challenge that it violates a person’s right to property, under Article 1 Protocol 1 of the European Convention on Human Rights (ECHR). The issue is not clear cut. Legal advice suggests that the ruling will depend on whether the policy constitutes a ‘deprivation’ or a ‘control of use’, and whether proportionate compensation is provided to landlords. Higher compensation is required for a deprivation than for a control of use. The government can overrule people’s right to property in certain circumstances, if they can show that they struck a fair balance between the individual’s right to property and the public interest. For example, tax policies are exempt from Article 1.

It is also important to note that Switzerland and Greece, which are bound by the ECHR, enacted partial rent cancellations, so clearly felt able to make a strong legal case. This was perhaps helped by Switzerland creating a fund to support landlords who could prove the law had put them into situation of economic distress, and Greece offering tax
rebates equivalent to 30% of the rent lost. Hence, the partial rent cancellation scheme in this report also includes a suggestion that some state support is made available for landlords who can prove they are in dire financial straits.
# A plan for business support

## Outcome Principles (OPs)

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<tr>
<td><strong>Current UK policy</strong></td>
<td><strong>Score: 2/5</strong></td>
<td><strong>Score: 1/5</strong></td>
<td><strong>Score: 2/5</strong></td>
<td><strong>Score: 4/5</strong></td>
<td><strong>Score: 1/5</strong></td>
</tr>
<tr>
<td>Many evictions and insolvencies are still likely, as highlighted in Chapter 1.</td>
<td>Despite grants, 14% of businesses report having low or no confidence that they will survive next three months. So, in addition to the rent-debt burden, many businesses may be trying to get loans.</td>
<td>This application-based process prioritises sensitivity over specificity.</td>
<td>Some landlords have launched legal cases against the eviction ban, which could potentially result in the government paying compensation. To date, however, such legal cases appear minimal, and the government seems unlikely to lose in court.</td>
<td>There is a high administrative burden as there are many different types of grants. Tenants, rather than landlords, have to apply, which results in a very large quantity of applications to be processed. Tenants’ groups also report confusion around eligibility criteria.</td>
<td><strong>Total: 12/30</strong></td>
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## Design Principles (DPs)

<table>
<thead>
<tr>
<th>Principle 4: Value sensitivity over specificity</th>
<th>Principle 5: Maximise legal enforceability</th>
<th>Principle 6 Minimise administrative complexity</th>
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<tbody>
<tr>
<td><strong>Score: 4/5</strong></td>
<td><strong>Score: 5/5</strong></td>
<td><strong>Score: 1/5</strong></td>
</tr>
<tr>
<td>This application-based process prioritises specificity over sensitivity.</td>
<td>This supports all businesses forced to close.</td>
<td>This will likely be subject to many legal challenges, which increases administrative and legal costs and could potentially result in the government becoming embroiled. Little administration is required.</td>
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## Partial rent cancelation

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<tbody>
<tr>
<td>The rent burden is removed for businesses forced to close, and significantly reduced for open businesses operating in sectors that have been strongly affected</td>
<td>Some compensation is paid to landlords, but less proportionately than under the subsidised rent reduction policy.</td>
<td>The rent burden is removed for businesses forced to close, and significantly reduced for open businesses operating in sectors that have been strongly affected</td>
<td>This supports all businesses forced to close. The sectoral approach for those businesses that remain open strikes a good balance between getting</td>
<td>This will likely be subject to many legal challenges, which increases administrative and legal costs and could potentially result in the government becoming embroiled. Little administration is required.</td>
<td><strong>Total: 14/15</strong></td>
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**Score:**
- **Partial rent cancelation:** 14/15
- **Design Principles:** 7/15
- **Total:** 12/30
<table>
<thead>
<tr>
<th>Plan</th>
<th>Description</th>
<th>Score</th>
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<tbody>
<tr>
<td>Subsidised rent reduction</td>
<td>Landlords have to opt into this, potentially harming efficacy.</td>
<td>3/5</td>
<td>This involves significant transfers to landlords from public funds, but unlike the public sector pays option, landlords would have to share some of the losses.</td>
<td>5/5</td>
<td>The scheme is voluntary for landlords, so many tenants may still have to turn to debt; although some businesses in trouble may not receive support.</td>
<td>5/5</td>
<td>As it is a voluntary scheme, no legal challenges arise.</td>
<td>2/5</td>
<td>It has relatively high administrative costs, as the tenant and landlord would need to submit signed evidence of the reduction agreed, which the government would then have to check.</td>
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<td>Rent deferral</td>
<td>This scores well as it temporarily relieves</td>
<td>4/5</td>
<td>While the scheme provides good</td>
<td>5/5</td>
<td>This sectoral approach strikes a good balance</td>
<td>5/5</td>
<td>Minimum administration</td>
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<td>Public sector pays</td>
<td>Score: 5/5</td>
<td>The rent burden is removed for businesses forced to close, and significantly reduced for open businesses operating in sectors that have been closed.</td>
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<td>Score: 1/5</td>
<td>This involves a large transfer of public funds to landlords.</td>
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<td>tenants who are struggling the most with their obligation to pay rent.</td>
<td>Score: 5/5</td>
<td>The rent burden is removed for businesses forced to close, and significantly reduced for open businesses operating in sectors that have been strongly affected by the crisis. Businesses are thus supported.</td>
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<td>There are no direct public subsidies to landlords.</td>
<td>Score: 5/5</td>
<td>This supports all businesses forced to close.</td>
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<td>temporary relief, the debt does not disappear; it just needs to be paid later. Even if interest is not charged on missed rental payments, which would provide some debt relief as debts are slightly reduced over time due to inflation, many businesses could still struggle to pay down these debts. In addition, even for those who can pay, these payments would divert funds away from investment.</td>
<td>Score: 5/5</td>
<td>No legal problems expected to arise.</td>
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<td>between getting support to businesses in trouble, while not expecting landlords renting to tenants in relatively unaffected sectors to forego their rents (which should also help reduce legal costs for the state).</td>
<td>Score: 5/5</td>
<td>This involves relatively high administrative costs, as landlords would have to submit proof of the rent amount and that the tenant is still on site (preventing fraudulent claims). The government would be required, as the tenant just needs to affirm. If a landlord believes the affirmation is false, the landlord can take the tenant to court.</td>
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<td>BoE investment in land</td>
<td>Score: 2/5</td>
<td>This scheme is voluntary and means landlords would miss out on future capital gains from increases in land values, thus, take-up could be low.</td>
<td>Score: 5/5</td>
<td>If commercial property is purchased at market price, then the public sector has received assets approximately equal in value to the funds transferred to landlords. So, there are no windfall gains to landlords.</td>
<td>Score: 2/5</td>
<td>This scheme is voluntary and means landlords would miss out on future capital gains from increases in land values, thus, take-up could be low – probably lower than for voluntary subsidised rent reduction. Many tenants may still have to turn to debt, although some businesses will benefit from the scheme and thus be less likely to need to borrow.</td>
<td>Score: 1/5</td>
<td>This scheme is voluntary and means landlords would miss out on future capital gains from increases in land values, thus, take-up could be low – probably lower than for voluntary subsidised rent reduction. In addition, a sectoral approach is not taken, which means that businesses in relatively unaffected sectors could benefit from the scheme.</td>
<td>Score: 5/5</td>
<td>Scheme is voluntary, so no legal challenges arise.</td>
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5. RECOMMENDATIONS AND CONCLUSION

All five alternative policies – partial rent cancellation, subsidised rent reduction, rent deferral, public sector pays, and BoE investment in land – appear to outperform the status quo according to the multi-criteria analysis presented in Chapter 4. This analysis explored the policies’ abilities to protect productive capacity, minimise regressive wealth transfers, minimise the future debt-burden for businesses, get support out quickly, and limit administrative costs and legal cases against the government. Each criterion was given equal weight. Partial rent cancellation received the highest score against the criteria in total, with rent deferral and public sector pays coming joint second.

This report recommends that the government put in place a policy of partial rent cancellation, with up to 100% of rent being cancelled for those businesses forced to close and a significant proportion of rent cancelled for those businesses that can remain open but are in sectors with significantly reduced turnover, as determined by the government. These reductions should also apply to rent arrears amassed during such times.

This policy scored significantly highest in terms of outcomes, while also doing fairly well in terms of design. The sectoral approach strikes a balance between quickly getting support to businesses in trouble, while not expecting landlords renting to tenants in relatively unaffected sectors to forego their rents. It would also introduce relatively minimal administrative costs. Concentrating the support on small and medium-sized enterprises (SMEs) would ensure that the policy supports these vulnerable businesses that are responsible for the majority of UK employment and private sector turnover. The policy is relatively progressive, despite the state having to pay some compensation to relatively wealthy landlords pushed into dire financial straits.

The policy could, however, expose the government to legal challenges, with landlords arguing that the loss of rent overrules a person’s right to property, under Article 1 Protocol 1 of the European Convention on Human Rights (ECHR). The scheme would provide some compensation for landlords who can prove that the policy pushed them into a financially impossible situation; however, many landlords probably would not qualify for support. Nevertheless, other countries that are subject to the ECHR have implemented variants of this policy.

As shown in Chapter 2, while the UK government has already put in place various grant and loan schemes, business survey data indicates that many businesses are not
confident they will survive the crisis, so the latest Restart Grant scheme looks unlikely to close the cash-flow deficit for many SMEs. In addition, many businesses that do not have a cash-flow crisis have avoided this by taking out extensive loans, and this debt burden is likely to impair their future ability to invest. The government should thus take further action to protect the UK’s productive capacity but do so without exacerbating business-debt levels.

Protecting the commercial property market itself is not a key objective here, as only a portion of this sector’s income stems from productive economic activity, such as property development and maintenance; the majority stems simply from holding land in a certain location. Meanwhile, data suggests that UK middle- to lower-income households have low exposure to the commercial property market. For example, investment in UK commercial property via pension and insurance funds equates to £456 for the median man and £371 for the median woman. A policy-induced 5% loss would thus constitute a median loss of £23 and £19 for the median man and woman, respectively. This is a small price to pay for avoiding a prolonged economic downturn.
ACKNOWLEDGEMENTS

The authors would like to thank everyone who contributed to the development of the ideas in this report and provided valuable advice, including Leni Jones of Guardians of the Arches, Krissie Nicolson of the East End Trades Guild, member businesses of both organisations who generously gave their time, Andrew Perves at the Centre for Economic Justice and UCL’s IIPP, Laurence Raeburn-Smith and Ion Fletcher at the British Property Foundation, David Sheen at UK Hospitality, Scott Corfe at the Social Market Foundation, Michael Large at Colman Coyle, and Pete Gladwell at Legal & General Investment Management.

2 ONS. (2020). Internet sales as a percentage of total retail sales (ratio) (%). Retrieved from https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi


4 Ibid.


7 NEF conducted a survey of 75 small businesses in East London between November 2017 and February 2018, in which the questions included estimating their major cost categories relative to turnover.


13 Hammond, G. (2021). Steepest rent shortfall in a year piles more pain on UK’s high street landlords. Financial Times. Retrieved from https://www.ft.com/content/2a2cb1d7-3dff-41e7-8af6-db9f11fde6b1


17 The survey of tenants whose operations classified as: light industrial, manufacturing, retail, takeaway food, restaurants and cafes, and professional services.

18 The furlough scheme is currently due to end on 30 September 2021.

19 The cost of supplies would be somewhat fixed in the short term as orders would already have been placed or inventories held, and similarly many of the 'other costs', such as marketing or insurance, would be difficult to reduce, though there may be some savings on utility bills.


21 For example, local governments determine eligibility for Local Restrictions Support Grants (for open businesses).


This estimation assumes that everyone in a household income decile owns that decile’s median amount of wealth.


56 This may be a substantial cost to the tenant: interest rates of 5% to 9% above the base rate apply in this instance.

57 Perez L. (2020). Special Information Briefing COVID-19 (No. 14): Measures related to real estate included in Royal Decree-law 15/2020, of 21 April 2020, adopting additional urgent measures to support


60 This is explained in more detail in section B4 of the Guide on Article 1 of Protocol No. 1 to the European Convention on Human Rights. https://www.echr.coe.int/Documents/Guide_Art_1_Protocol_1_ENG.pdf
