

Suspending rents: how to protect renters from eviction during Covid-19

Policy briefing | Joe Beswick, Sarah Arnold, Lukasz Krebel, Christian Jaccarini and Alfie Stirling | April 2020

1. Summary

- 1.1 **Research by the New Economics Foundation (NEF) shows that even with the government's new measures, many renters will face severe rent arrears and financial hardship as a result of the pandemic, and could risk losing their home.** Private renting is the most expensive form of housing,¹ and 35% of private renters are living in poverty.² But despite this, they are being asked to shoulder the economic cost of the crisis.
- 1.2 **Our research shows that, of the 5.6 million workers at high risk of losing their jobs or hours as a result of social distancing measures,³ more than 1.2 million are living in privately rented accommodation.** Many of these workers are likely to be missed by the government's job and income protection schemes and will therefore be forced to rely on universal credit (UC). But, depending on the availability and generosity of advance payments, many will have to wait weeks, if not months, to receive their full payment from UC despite the need to continue paying for essential costs such as food and rent.
- 1.3 **Even when UC payments are received, they are likely to represent a significant income shock.** For example, a minimum wage worker who loses their job and has to rely on UC will have their disposable income reduced by 45%. In London this means they will have just £238 per month for food, all bills and other essentials after paying rent.⁴ Outside London, the same worker would have just £386 per month left to meet these essential costs. A recent estimate for the average monthly household cost of electricity, gas, water, phone, broadband and TV licence gave a combined total of £237 per month, without taking food or other bills such as council tax into account.⁵
- 1.4 **And even those that are supported by the job retention system will struggle to make ends meet.** NEF modelling has shown that an employee on the median wage, who is put

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<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/living-longer/changesinhousingtenurevertime>

² <https://researchbriefings.files.parliament.uk/documents/SN07096/SN07096.pdf>

³ <https://neweconomics.org/2020/04/millions-slipping-through-the-cracks>

⁴ <https://neweconomics.org/2020/04/an-income-floor-for-all>

⁵ <https://www.moneyadviceservice.org.uk/blog/what-is-the-average-cost-of-utility-bills-per-month>

onto the job retention scheme, can expect to have their income after tax reduced by 16%.⁶ Renters spend on average a third of income on rent, so a reduction in income by almost a fifth could rapidly make housing costs unaffordable.⁷

- 1.5 In order to avoid plunging renters into financial hardship, and potentially triggering an eviction crisis following the pandemic, we are proposing a UK-wide suspension of rents and mortgage freeze. These measures would have no significant additional cost to the government, although Bank of England loans would need to be made available for banks to cover lost liquidity from mortgage payments, and some landlords may need to rely on the job retention schemes.

⁶ <https://neweconomics.org/2020/04/an-income-floor-for-all>

⁷ English Housing Survey Private rented sector, 2017-18

2. The current support package for renters

2.1 **The government has announced a raft of measures designed to support incomes generally during the pandemic, including some policies specifically targeted at supporting renters.** These measures provide a more generous safety net than the system which existed just a few weeks ago, following a decade of austerity cuts to welfare. However, the measures are not enough, and many people will find themselves having to decide between food, bills and other essentials, and their rent.

The measures the government has announced include:

- An 80% income guarantee, up to £2,500 per month, for employed and self-employed people.
- An expansion of housing benefit for private renters to the level of the 30th percentile of private rents in a given market geography.
- An increase of universal credit by £20 per week, and the suspension of the minimum income floor within UC for self-employed people.
- A discretionary £500 million hardship fund to be distributed by local authorities, which may be used to support rent payments.

2.2 **The government has also announced that it will suspend evictions.** Initially this amounted to simply an extension of the eviction notice period to three months, so evictions could still be served during the pandemic. In addition, existing eviction proceedings were not halted, meaning that tenants were evicted even after lockdown had begun. The government has now changed tack, stopping eviction proceedings from being started, and pausing all current eviction proceedings.

2.3 **This package of measures – suspending evictions and supporting incomes – is welcome, but nowhere near sufficient.** A large proportion of renters are likely to accrue significant rent arrears if they lose their income or job during this period, even with increased benefits. Under the current measures, when the moratorium on evictions is lifted, these tenants can then be evicted, unless they are able to find the money for rent – although landlords have been advised to show “compassion” in resolving the shortfall.⁸ And even during the period where evictions are suspended, renters may nonetheless come under significant pressure from landlords and letting agents causing financial hardship for tenants. The public health crisis could easily become an evictions and homelessness crisis, as is already being identified by London Councils, the representative body of London local authorities,⁹ unless rent is suspended for the emergency period.

⁸ <https://www.gov.uk/government/news/complete-ban-on-evictions-and-additional-protection-for-renters>

⁹ <https://www.londoncouncils.gov.uk/members-area/member-briefings/housing-and-planning/welfare-response-covid-19>

- 2.4 **In addition, the £500 million discretionary hardship fund for local authorities is insufficient, and not intended to cover rent payments.** Even if the whole fund were used to support rent payments, it would amount to less than £350 per household, if we assume that one third¹⁰ of private renting households will be unable to meet their rents and so would need to access it. The average monthly rent for a property in England is £867 per month.¹¹ The guidance for the fund, now published, states that it is primarily intended to provide council tax relief, not rent support.¹² Additionally, dispersing a discretionary fund of this form to renters will be labour intensive, and so is unlikely to be able to meet the need of renters in the necessary timeframe. A non-discretionary, non-means tested response is likely to be required in this context.
- 2.5 **The government's offer to homeowners and landlords with buy-to-let mortgages is inadequate, providing 'mortgage holidays' which will saddle the borrower with more debt and enable banks to make bigger profits from the crisis.** The holiday provides an option to pause mortgage payments, but interest continues to accrue on the mortgage, thereby increasing its total lifetime. Banks will make greater profits from a borrower who chooses to take up the mortgage holiday compared to one who does not. As banks currently take £27 billion a year in mortgage interest from borrowers, the potential additional profits are significant. Banks should not be able to profit from the crisis as household incomes dry up. The government and banks should bear the cost of the crisis, not tenants and homeowners.

¹⁰ Early research published on 9^h April found that residential tenants are already paying less than half of what they owe in rent, so one third is a conservative estimate of renters who may be unable to pay.¹⁰

¹¹ <https://www.statista.com/statistics/291787/average-mean-weekly-rent-of-private-renters-in-england-uk-y-on-y/>

¹² <https://www.gov.uk/government/news/government-confirms-500-million-hardship-fund-will-provide-council-tax-relief-for-vulnerable-households>

3. The current support package for renters

- 3.1 **The ability of private renters to weather an income loss is limited.** Housing costs are already higher for private renters, with on average one third of income going on housing costs, compared to 17% for mortgage holders.¹³ And renters are already comparatively economically vulnerable, with private renters in 2017/18 having a median household income of £583 per week, compared with £744 for owner occupiers.¹⁴ Furthermore, the most recent figures show that 63% of private renters currently report having no savings.¹⁵
- 3.2 **Even those that are supported by the job retention system will struggle to make ends meet.** NEF modelling has shown that an employee on the median wage, who is put onto the job retention scheme, can expect to have their income after tax reduced by 16%.¹⁶ In many high-rent areas, this could make meeting their rent costs impossible over time. Renting is the most expensive form of housing,¹⁷ and so a reduction in income by almost a fifth could rapidly make housing costs unaffordable and create financial hardship.
- 3.3 **In addition, our research shows that of the 5.6 million workers most likely to come to rely on universal credit, almost 1.2 million are living in privately rented accommodation.** Depending on the availability and generosity of advance payments, many will have to wait weeks, if not months, to receive their full payment from UC despite the need to continue paying for essential costs such as food and housing. Even with protection from evictions, delays in UC are likely to cause significant financial stress as tenants are still obliged to pay rent (see 2.5 below).
- 3.4 **But even for those who do receive UC payments on time, it is unlikely to be enough to protect against acute financial hardship.** For example, NEF modelling shows that a minimum wage earner who loses their job and moves onto universal credit stands to lose 45% of their income.¹⁸ In London this means they will have just £55 per week for food, bills and other essentials after paying rent. But the government's current plans to increase the generosity of local housing allowance (LHA) will not be enough. By necessity, LHA cannot cover all rents. It has been increased to now cover rents in the bottom 30% of the market, but even if it were to rise to the 50th percentile many renters would not see all of their rent covered, creating financial hardship. There is also the issue of eligibility and delays, with any new claims required to go through a process of means testing that could leave workers short of support for their housing costs for weeks on end.
- 3.5 **The need to pay rent is also at risk of forcing people to not comply with the government's social distancing measures.** Renters organisations, such as the London

¹³ Ibid.

¹⁴ English Housing Survey Private rented sector, 2017-18

¹⁵ Ibid.

¹⁶ <https://neweconomics.org/2020/04/an-income-floor-for-all>

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<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglonger/changesinhousingtenureovertime>

¹⁸ <https://neweconomics.org/2020/04/an-income-floor-for-all>

Renters Union, with whom we work, are hearing from members who are continuing to go out to work in non-key worker roles, because of their need to pay their rent. Additionally, some members have reported continuing to work, despite having at-risk family members, because of the need to cover rent. Research by Shelter in 2017 found that one in three renters had gone into debt in the last year to cover their rent.¹⁹ In a time of reducing incomes, this is likely to be even more prevalent.

- 3.6 **It is clear that many renters will not be able to meet their housing costs.** The government's announcement suspending evictions asks that landlords display "compassion" in relation to tenants, and at the end of the emergency period states that "landlords and tenants will be expected to work together to establish an affordable repayment plan".²⁰ However, as renters groups have made clear, many landlords are demanding the full payment of rent regardless of circumstance.²¹ Light touch guidance is not adequate to address this growing issue.
- 3.7 **The recession which we are now facing, and the millions of households who will lose income, is the effect of social distancing measures implemented by the government to address the public health crisis.** Renters are not at fault, but many are being asked or forced to stop or reduce their work in order to restrict the spread of the virus, jeopardising their incomes. The government must support them through this, first by giving them the confidence to stop work, and then to ensure that the crisis will not lock them into rent arrears or cause the ultimate loss of their homes. Continuing the obligation to pay rent is likely to make compliance with the necessary social distancing measures in the long term economically impossible for many renters.

¹⁹ <https://www.theguardian.com/money/2017/may/12/tenants-borrow-money-pay-rent-low-earners-shelter>

²⁰ <https://www.gov.uk/government/news/complete-ban-on-evictions-and-additional-protection-for-renters>

²¹ <https://www.theguardian.com/world/2020/apr/13/millions-having-to-choose-between-paying-landlord-or-eating-research-suggests-coronavirus>

4. The policies we need to keep people in their homes

4.1 We are proposing the temporary blanket suspension of residential rents and freeze of residential mortgages to ensure that no one faces severe financial hardship or loss of their home due to housing costs. Research published on 13 April found an “overwhelming” majority of the public in favour of rent suspension during the pandemic, including three in four renters, and even a slight majority of landlords.²² Rents should be frozen with immediate effect for the emergency period of at least three months. Residential mortgages should also be frozen for the same period to ensure homeowners are secure in their homes, and to protect landlords from the effects of a mortgage suspension. Mortgaged landlords (61% of landlords²³) who lose income from the rent suspension would therefore have no mortgage payment obligations, and would not see their mortgage costs increase. Low cost loans from the Bank of England should be made available to banks and other mortgage providers to guard against lost liquidity, and repaid after mortgage payments have resumed.²⁴

4.2 To deliver this policy, we propose the following:²⁵

- a) The government should bring forward emergency legislation to suspend the obligation to pay any rent during the emergency period, for all private tenants. This could be done by ending section 21 ‘no fault’ evictions, as the government had already committed to do, and amending the other rent arrears-based grounds for eviction (sections 8, 10 and 11 grounds) to mean that arrears accrued during the emergency period cannot be used as grounds for eviction at any point, alongside a legislative amendment that stipulates that for the relevant period non-payment of rent would not constitute a breach of contract.²⁶

²² <https://www.theguardian.com/world/2020/apr/13/millions-having-to-choose-between-paying-landlord-or-eating-research-suggests-coronavirus>

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/7249/2010380.pdf

²⁴ We would also propose additional income protection for landlords who rely on their rental income for basic subsistence, such as a retired adult who relies on rental payments to supplement any pension income. This could take the form of a monthly grant from the government, equal to the difference between a landlord's disposable rental income and their mortgage payments (if any) up to a nominal fixed value (for example £221 per week, the value of the minimum income standard for an adult after housing costs). NEF has also proposed the creation of the new Minimum Income Guarantee (MIG) also at the value of the minimum income standard, which would be eligible to all working age adults. If this was implemented alongside a rent holiday, then eligibility to the MIG could be extended to all landlords (of any age group), which would supersede the need for separate government grants. For details of NEF's Minimum Income Guarantee: [URL] <https://neweconomics.org/2020/03/building-a-minimum-income-protection>

²⁵ The policy as outlined is intended to apply only to private renters, not social renters. NEF will be bringing forward specific policy recommendations for how social renters should be supported during this period shortly. Those tenants who are essentially private tenants of social housing providers should be covered by the rent suspension policy. Where this may create a loss of income streams for social housing providers, the government should consider using savings in housing benefit to support to those providers.

²⁶ Further work would need to be done on how to unwind the rent suspension policy, in line with the labour market effects of the pandemic. This may include a freezing of rents, in order that landlords do not

- b) The rent suspension policy should apply to all private renters, including those who are outside the formal economy, for example those who have irregular immigration status. The pandemic, and its economic consequences, affect everyone. No private renter should pay rent during this period, irrespective of status, and no private renter should be subjected to immigration consequences as a result of enforcing this.
- c) The government should implement a mortgage freeze for the same period to protect homeowners, and prevent banks from profiting from the crisis. In order to ensure that landlords and mortgage holders can weather the crisis period, we propose that mortgage payments (interest and principal) are frozen for the same period as the rent suspension. The term of mortgages should be extended by the final length of the emergency period to make up for the period of the mortgage freeze, and so for example, a typical 30 year mortgage would become 30 years and three months in duration, if the emergency period was three months long. No further interest would be accrued during the mortgage suspension and, in line with Financial Conduct Authority guidance on mortgage holidays, the mortgage freeze should not negatively impact borrower credit ratings.
- d) The Bank of England should offer low cost loans to banks and other mortgage lenders, to smooth over any cash flow issues caused by the mortgage freeze. As payments from mortgages (£7 billion is paid in interest per quarter) will stop during the emergency period, and interest will not accrue on the mortgages, banks will be deferring a significant income stream. Low cost loans would allow banks to replace these income streams, and these would be paid back over a time period which allows for the deferred income to be recouped from extended mortgage contracts.

4.3 **The policies described above would carry no significant additional cost to government.** Rent and mortgage suspensions do not in themselves require any additional public spending. The only permanent costs to government would come through any public grants needed to protect a minimum share of landlord rental income required for basic subsistence (or higher demand for NEF's MIG, see footnote 17 above) and any higher demand for the job retention schemes, but these increases are likely to be marginal compared with existing costs. Banks would also be required defer mortgage payments for the length of the emergency measures, and while significant loans would be required from the Bank of England, these would also be recouped over time.

attempt to informally recoup lost income through rent rises. It will also be important to ensure that, as the obligation to pay rent is reinstated, rent payments do not become unaffordable before tenants have regained their income and work, which may take some time. This may require a further expansion of local housing allowance.

5. Conclusion

5.1 **The government needs to act swiftly if it is to prevent many renters from going into deep financial insecurity or hardship caused by housing costs.** Renters are already economically vulnerable, but despite this private tenants are being asked to shoulder the burden of the pandemic. For some, continuing to pay rent will mean breaking the social distancing guidelines or going into debt. Low income tenants who lose their job and have to rely on universal credit will in many cases see their incomes fall by around 50%. In these circumstances the choice will be between eating, paying bills and paying rent. An overloaded and inadequate housing benefit system means that the only way to circumnavigate this looming social and economic catastrophe is to suspend rents with immediate effect. Research published on 9^h April found that, as the crisis bites, residential tenants are already paying less than half of what they owe in rent.²⁷ As incomes dry up, families' means of paying their rent dries up too. If we are to avoid an eviction crisis following the public health crisis, we must suspend the obligation to pay rent immediately.

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²⁷ <https://www.ft.com/content/0fe28f08-b340-4191-a9e0-dd723eb062e2>