

Written evidence submitted by the National Residential Landlords Association

1.0 About Us

- 1.1 The National Residential Landlords Association is the UK's largest membership organisation for private residential landlords, supporting and representing over 90,000 members.
- 1.2 NRLA members range from full-time landlords running property portfolios to those letting single bedroom flats. We help our members navigate the regulatory and legal framework for the private rented sector and proudly offer some of the most comprehensive learning resources and market-leading intelligence available in the sector.
- 1.3 We seek a fair legal and regulatory environment for both landlord and tenant and actively lobby the Government on behalf of our members. In addition, our representatives run regular branch meetings and landlord courses in over 100 locations throughout England and Wales and also provide an important link for our members with local authorities and fellow landlords.

2.0 Executive Summary

- 2.1 We welcome the Select Committee's decision to examine different forms of inequality that have emerged or that may have been exacerbated by the COVID-19 pandemic and how the Treasury can mitigate them.
- 2.2 Our submission focusses especially on the impact of the pandemic on the private rented sector, addressing the committee's questions asking:
- What problems does the UK housing market have, in particular in relation to housing finance, and how has the housing market been impacted by the coronavirus crisis?
 - How successful have Treasury interventions in housing been?
- 2.3 As the evidence in our submission makes clear, those living in the private rented sector have been among the hardest hit groups through the pandemic. The Government's own data shows that the proportion of private renters in arrears has increased threefold throughout the pandemic.
- 2.4 Landlords themselves, the vast majority of whom are individuals and rely on their rental income, cannot afford any longer to be expected to shoulder the cost of mounting arrears.
- 2.5 Without further action by the Treasury, tenants whose arrears have built solely because of the pandemic face the twin threats of the loss of their home and damage to their credit scores, making it difficult for them to access new housing in the future.
- 2.6 The Treasury needs to act on two fronts:
- Ensuring the Local Housing Allowance provides the support that those in receipt of benefits need by reversing the decision to freeze rates in cash terms and, preferably, increasing levels to cover average rents in any given area.

- For the majority of tenants now in arrears who do not access benefit support, a new tenant hardship loan scheme should be developed to help them pay off arrears built since lockdown measures started last year. These should be interest free, government guaranteed and re-payable as a tenant's income recovers, similar in style to student loans. Similar schemes have already been developed in Scotland and Wales.

3.0 Impact of the Pandemic on Private Sector Tenants

- 3.1 The COVID-19 pandemic has, by the Government's own admission, hit private sector tenants harder than those in any other tenure. Its most recent Household Resilience Study¹ has reported that across England the proportion of private sector tenants in arrears increased threefold from 3% in 2019-20 to 9% in November-December 2020. In contrast, the same study noted that *"mortgage arrears have returned to pre-pandemic level, following a significant increase in June-July 2020"*, whilst *"over the course of the pandemic, the proportion of social renters in arrears has not changed."*
- 3.2 This closely mirrors our own survey data of private sector tenants, gathered by the research consultancy, Dynata in May this year². This found that:
- 7% of tenants had built rent arrears since lockdown measures started in March 2020.
 - Just over 82% of these tenants were not in arrears before lockdown measures started.
 - The average amount of rent owed by those in arrears during the pandemic is now almost £900.
 - 30% of those currently in arrears now owe £1,000 or more.
- 3.3 What we know from the data produced by both the Government and Dynata therefore is that the very best scenario is that the number of tenants in arrears remains constant, if not increasing. This is happening despite the financial support the Government constantly refers to including the furlough scheme and increases in the both the Local Housing Allowance and discretionary housing payments.
- 3.4 Research by the Resolution Foundation has found that most (56%) of private renter families with arrears *"are not in receipt of benefits, leaving them ineligible for a Discretionary Housing Payment"*³.
- 3.5 Alongside that, those who rely on benefit payments to cover housing costs face seeing its value being cut as a result of the decision in the Spending Review last year to freeze Local Housing Allowance rates in cash terms. We agree with the assessment of the Institute for Fiscal Studies that this is a policy that is *"arbitrary and unfair"*⁴. Commenting on the decision to freeze the rates the IFS noted:

¹ MHCLG, *English Housing Survey - Household Resilience Study, Wave 2 November-December 2020*, April 2021, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/978991/Household_Resilience_Study_Wave_2_November-December_2020_Report.pdf.

² The research consultancy, Dynata questioned 2,022 private tenants in England and Wales in May 2021.

³ Resolution Foundation, *Getting ahead on falling behind - Tackling the UK's building arrears crisis*, February 2021, available at: <https://www.resolutionfoundation.org/publications/getting-ahead-on-falling-behind/>.

⁴ Institute for Fiscal Studies, *Initial reaction from IFS researchers on Spending Review 2020 and OBR*

“This has two consequences. First, as time goes on and rents rise, the fraction of housing that private renters can afford will steadily dwindle. Second, the support that low income renters get to help with housing will be related not to the current level of rents in their area, but to rents in 2019. That will look decidedly odd in, say, 2025. A similar policy over the past eight years resulted in those in some high rent areas getting less support than those in some low rent ones. It is entirely coherent to decide that the state should reduce its support for low income renters, but doing it in this fashion is arbitrary and unfair, and its consequences will only become more bizarre over time.”

- 3.6 Even before the rates were frozen, statistics showed that for many in receipt of benefits there was a notable gap between the housing element and rents. According to the Department for Work and Pension’s Stat Xplore website⁵, in February 2021, across the UK:
- The number of private rented households in receipt of Universal Credit with an entitlement to housing support as part of the payment had increased by 107% from almost 749,000 (748,908) in February 2020 to over 1.5 million (1,549,034).
 - Just over 55% of these households (858,606) had a gap between their housing cost support and the rent they had to pay. The DWP has said that that in such cases the average shortfall is £100 a month⁶.
 - Almost 700,000 (695,719) households in the private rented sector were in receipt of old-style housing benefit. Government statistics previously provided suggested around 45% of these have a shortfall between the housing allowance rate and their rent levels, with the average shortfall being around £75 a month⁷.

4.0 Impact of the Pandemic on the Private Sector Landlords

- 4.1 To date the Government has encouraged landlords and tenants to work constructively where rent arrears have been building as a result of the pandemic. We are pleased to confirm that in the vast majority of cases this is happening. However, such a strategy of muddling through has reached its limits. Private landlords cannot be expected indefinitely to shoulder the costs of rent arrears.
- 4.2 It is important to remember that the vast majority of private landlords are not property tycoons⁸:
- 94% of landlords rent property as an individual.
 - 45% of landlords have just one rental property.
 - 44% became a landlord to contribute to their pension.
- 4.3 Further survey data of NRLA members by the research consultancy BVA-BDRC⁹ found that in the first quarter of this year:

forecasts, 25th November 2020, available at: <https://www.ifs.org.uk/publications/15203>.

⁵ <https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml>.

⁶ See <https://www.theyworkforyou.com/wrans/?id=2021-05-24.6183.h&s=Karen+buck#g6183.q0>.

⁷ See <http://qna.files.parliament.uk/qna-attachments/1310094/original/Table.xlsx>.

⁸ MHCLG, *English Private Landlord Survey 2018 - Main report*, January 2019, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775002/EPLS_main_report.pdf

- 60% felt their lettings business would be negatively impacted as a result of the pandemic.
- 34% said their rental income had been affected as a result of the pandemic with 13% having experienced an increase in properties being empty as a result of lockdown.
- Among those landlords who had offered at least one tenant a rent-free period or allowed rent to be deferred, 58% absorbed the losses from their savings.

4.4 Whilst Ministers have persistently spoken about mortgage holidays being available to landlords where tenants have had problems paying their rent, we are troubled at the way this had been mischaracterised since rather than a ‘holiday’ it is a mortgage deferment. As the Economic Secretary to the Treasury has noted, those landlords who have secured one: *“will still need to repay the full balance of their loan, and will continue to accrue interest during the payment holiday, unless the lender has indicated otherwise.”*¹⁰ This creates a perfect storm of tenants who have built arrears and landlords who need to begin catching up on missed mortgage payments.

5.0 Policy Solutions

5.1 What is clear is that despite the Government’s welcome financial support to date, a rent debt crisis persists in the private rented sector as a direct consequence of the pandemic. As our tenant survey clearly shows, the majority of private tenants now in arrears did not have any prior to lockdown measures starting.

5.2 Without further support, tenancies that would otherwise be perfectly viable will be put in jeopardy, and affected tenants face the prospect of being unable to move to new accommodation as a result of unpaid rent debts. Our survey found that of those tenants still facing rent arrears built since March last year, 26% said that their landlord had attempted to reclaim these arrears through a court order (Moneyclaim). Such steps serve to damage a tenant’s credit score making it difficult to access new housing in the future, either a new property to rent or becoming homeowners.

5.3 Questioned on this by the Housing, Communities and Local Government Select Committee, Simon Mullings, Co-Chair at Housing Law Practitioners Association warned: *“We will end up at some point in the future, probably some considerable time in the future, with a very large cohort of private renters whose credit records and whose ability to re-enter the private rented sector, by meeting those criteria of being able to raise a deposit, to have a reference from a landlord or to rely on a guarantor, will be shot. I believe there will be a large cohort of people who are reliant on private rented accommodation but will find it very difficult to re-enter the private rented sector if they lose the home they have.”*¹¹

5.4 For those tenants in arrears and in receipt of benefits, at the very least the Local Housing Allowance should return to the 30th percentile, rather than being frozen in cash terms. The very fact that the Government felt compelled to return it to the 30th percentile rate as lockdown measures began last year was a sign that it did not feel

⁹ The research consultancy BVA-BDRC questioned 895 members of the National Residential Landlords Association using online interviews between the 14th March and 5th April 2021.

¹⁰ John Glen MP, Economic Secretary to the Treasury, in response to written question 145037 available at: <https://questions-statements.parliament.uk/written-questions/detail/2021-01-28/145037>.

¹¹ Simon Mullings oral evidence to the HCLG Select Committee, December 2020, available at: <https://committees.parliament.uk/oralevidence/1417/html/>.

the rate, as it was previously, was sufficient to provide the protection that recipients needed. We see no reason why that position has changed.

- 5.5 More broadly, we believe it vital that the benefits system provides a proper safety net to those who need it most. As such, we are calling for the Government to set out a path to ensure that housing allowance rates meet average rents in any given area. We recognise however that this would require changes to the benefit cap to ensure that recipients felt the full benefits of such a move.
- 5.6 The second group, for whom a bespoke package is needed, is the majority of private tenants now in arrears who are not claiming benefits.
- 5.7 We recognise that there are arguments that grants should be made available for such renters. Whilst we accept that this might be the simplest solution, it would cause considerable moral hazards. For example, how would it be fair to those who have struggled but just about met their rent payments each month? How would it be fair to provide grants to those who may, for example, have purposefully not paid their rent, even if they could afford it, knowing that the repossessions ban meant the landlord could not take action against them?
- 5.8 That is why we are calling for the development of a hardship loan scheme to support those tenants ineligible for benefit support to pay off rent arrears built since lockdown measures started last year. Similar schemes are already in operation in Scotland¹² and Wales¹³ and they have the support of a coalition of organisations including the debt charity, StepChange, the Money Advice Trust, Generation Rent and Shelter¹⁴.
- 5.9 The key parts of our proposal are as follows:
- Loans should be available to cover rent arrears built since lockdown measures started in March last year.
 - Given the circumstances of individuals and households likely to apply for hardship loans at this time, the standard affordability criteria is unlikely to be a useful measure of the risk of default. Applicants will seek a loan because their income has been disrupted. As such, eligibility should be assessed on the basis of prior affordability of the tenancy by demonstrating that the household was able to meet a standard affordability assessment prior to March 2020.
 - Repayments should be made in line with the recovery of the tenant's income using a similar model to that used for student loan repayments.
 - The loans should be interest free. This is a principle the Government appears to have already accepted elsewhere. The 2021 Budget Red Book notes: *"The government will provide up to £3.8 million of funding to deliver a pilot no-interest loans scheme. The scheme will help vulnerable consumers who would benefit from affordable short-term credit to meet unexpected costs as an alternative to relying on high-cost credit."*¹⁵

¹² Scottish Government, *Rental sector loan schemes extended*, March 2021, available at: <https://www.gov.scot/news/rental-sector-loan-schemes-extended/>.

¹³ Welsh Government, *Scheme to help tenants affected by coronavirus launches in Wales*, October 2020, available at: <https://gov.wales/scheme-help-tenants-affected-coronavirus-launches-wales>.

¹⁴ See <https://www.stepchange.org/Portals/0/assets/pdf/Covid-Rent-Arrears-Joint-Briefing.pdf>.

¹⁵ HM Treasury, *Protecting the Jobs and Livelihoods of the British People*, March 2021, page 48, available at:

- Loans should be guaranteed by the Government. Again, there is already precedence in respect of current mortgage guarantee schemes.

5.10 As of yet, the Government has not taken steps to develop such a scheme, which could be for a number of reasons, all of which, we believe can be easily answered:

- If the concern is the cost, the Housing, Communities and Local Government Select Committee has put the cost of tackling COVID related arrears at £200 - £300 million¹⁶, a small amount in Treasury terms. Furthermore, as the Committee rightly notes: *“Given the number of potential evictions this would prevent, it would likely save the Exchequer a substantial amount in homelessness assistance.”*
- That the Treasury does not want to be propping up failed tenancies. This ignores the fact that many tenancies which are under pressure are as a direct consequence of the pandemic and nothing else. A failure to pay off rent arrears also risks damage to a tenant’s credit score make it more difficult for them to access new housing in the future.
- That the Government does not, as the HCLG Minister, Lord Greenhalgh has recently observed, want to see tenants building further debt. Aside from the fact that the debt charity, StepChange, supports the development of a hardship loan scheme, by having built arrears, the tenant is already in debt. A hardship loan scheme would simply transfer the existing debt from the landlord to the loan scheme. It would not increase the debt. In fact, if there is no interest it would reduce the debt compared to if the tenant has to borrow the money to pay it off from other lenders who would charge interest.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf.

¹⁶ HCLG Select Committee, *Protecting the homeless and the private rented sector: MHCLG’s response to Covid-19*, March 2021, available at: <https://committees.parliament.uk/publications/5342/documents/53217/default/>.