

Housing, Communities and Local Government Committee Inquiry
Impact of COVID-19 (Coronavirus) on homelessness and the private rented sector
response from ARLA Propertymark

November 2020

Background

1. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents, representing over 9,500 members. ARLA Propertymark agents are professionals working at all levels of letting agency, from business owners to office employees.

How effective has the support provided by the Government been in addressing the impact of COVID-19 on tenants, landlords, rough sleepers and the homeless?

2. In order to assess the effectiveness of the support provided by the Government in addressing the impact of COVID-19 on tenants, landlords, rough sleepers and the homeless, the Committee must look at this in two ways. Firstly, support to letting agents as businesses which has been effective and allowed letting agents to provide a valuable service in sustaining tenancies and maintaining property for landlords and tenants. The property market was one of the first sectors to reopen and letting agents have been able to continue to operate throughout the pandemic.¹ Secondly, however, support to tenants and landlords as individuals has not been effective. While measures through the welfare system have been welcome, more needs to be done to alleviate Covid-related arrears, remove the risk of eviction and prevent landlords from exiting the market.
3. Letting agents have worked hard to support landlords and tenants and manage tenancies safely throughout the public health crisis. Following lobbying from Propertymark, the Government ensured that commission was included within furlough pay for agents, high street branches received Business Rates Relief and the property industry was one of the earliest sectors to re-open. Furthermore, property agents have been able to continue to operate through further local and national restrictions. For instance, in August, from a snap survey of 154 letting agent businesses when asked how many staff within their organisation

¹ <https://www.gov.uk/government/news/housing-secretary-sets-out-plan-to-re-start-housing-market>

remained on furlough, 69% said none and 21% had between one and ten members of staff on furlough. Additionally, as a result of the property sector remaining open, amongst our members in September this led to rent increases being down by almost a fifth year on year and renters staying in their tenancies for longer.² Moreover, many agents have adapted their processes for managing tenancies, such as making a greater use of technology to allow inspections to continue or through carrying out more checks on the outside of the properties they manage to maintain roofs and windows and inviting tenants to email photos of the inside. As a result of Government assistance, whilst concerns remain in the market, such as changing legislation and increasing compliance as well as the challenges of the pandemic, letting agents have been able to support both landlords and tenants to sustain tenancies and maintain property standards.

4. During the time that many letting agents have done what they can to support tenants, the overwhelming majority of landlords are individuals, with many renting out just one property, often as a pension, and are unable to continue to subsidise struggling tenants indefinitely. For instance, since the stay on evictions was lifted and the courts reopened in September, we have seen an increase in letting agents issuing Section 21 Notices to their tenants. The two main, and consistent, reasons for the issuing of these notices are extreme rent arrears and landlords wanting to sell the property to live-in or leave the sector. Whilst we recognise that there has been support from the Government for many renters, this has not always met the full cost of rent and has not reached all tenants. Furthermore, to date there has been no direct financial support for the rental market, with individual landlords unable to access small business grants or bounce back loans. To this end, our survey figures in October revealed that most letting agents (53%) thought that support from the Government in helping with rent arrears and preventing evictions has not been effective, with only 12% thinking it had been very effective. As a result, more support is needed to help tenants who have built up Covid-related arrears through no fault of their own to remove the risk of eviction and stop landlords exiting the market.

² <https://www.arla.co.uk/media/1049026/prs-report-september-2020.pdf>

What might the impact be of a second wave of coronavirus on homelessness and the private rented sector?

5. We believe that the private rented sector could be impacted in four ways following a second wave of coronavirus. Firstly, the number of tenants in rent arrears will likely increase. Secondly, landlords will continue to be impacted financially. Thirdly, difficulty for the sector to comply with new and existing legislation including an inability for agents and landlords to fully comply with local authority licensing schemes. Fourthly, continued protection for those in extreme rent arrears and refusing to pay rent.

6. As coronavirus continues to hit the economy and with employers cutting hundreds of thousands of jobs, letting agents are concerned about an increase to the number of tenants in rent arrears. Since the start of the pandemic, employment levels for those aged 16-24 have fallen by 357,000 and for those aged 25-64 it has fallen by 141,000. Furthermore, the number of people claiming unemployment related benefits increased by 1.4 million between March and October this year.³ Considering that latest figures show that the private rented sector accounted for 4.6 million of households in England, hundreds of thousands of people who rent their homes face an uncertain future due to the economic impact of coronavirus and many could risk losing their homes because of rent arrears arising through no fault of their own.⁴ As the financial fallout continues, the Government need to sustain tenancies wherever possible. The best way to ensure this happens is to make sure that tenants can pay their rent, which is why the Government must introduce a financial support package to reduce COVID-related rent arrears.

7. The Government must recognise that the private rented sector has already been heavily impacted financially in recent years based on the phasing out of tax relief on mortgage interest for landlords, the additional Stamp Duty Land Tax surcharge on buy-to-let property and the Tenant Fees Act 2019. However, the ongoing repercussions of the pandemic means that landlords costs have increased significantly, and many landlords can no longer make ends meet. Our Private Rented Sector Report from September shows an increase in the number of landlords selling their buy-to-let properties and the figures are the highest we have on record

³ <https://commonslibrary.parliament.uk/research-briefings/cbp-8898/>

⁴ <https://www.gov.uk/government/statistics/english-housing-survey-2018-to-2019-headline-report>

for the month of September.⁵ Fundamentally, private landlords cannot be expected to provide homes without being paid. In many instances, rent covers the landlord's mortgage and maintenance costs, meaning that non-payment puts the tenant at risk of eviction and the landlord at risk of repossession. To reduce the impact of a second wave on the private rented sector the Government must take a holistic approach that considers the financial implications of both the pandemic and existing costs that landlords face.

8. A second wave will present the sector with difficulty in obeying recent legislative change such as the requirement for all existing tenancies to comply with the Electrical Safety Standards in the Private Rented Sector (England) Regulations 2020 by 1 April 2021⁶. From a snap survey of 220 letting agent businesses in September, 50% have more than 60 tenancies signed before the rules came into force that will require every fixed electrical installation at the property to be inspected and tested by April next year. Furthermore, it is not just the test and inspection but the time and expense of arranging remedial work to ensure tenancies are compliant. Even before the regulations were passed, we raised concerns about the number of electricians available to undertake inspections and tests by the April 2021 deadline but received assurances from the Ministry of Housing, Communities and Local Government about capacity in the supply chain. With the added complications of coronavirus and access to property, the supply chain capacity issues have not improved and therefore, to help the sector comply with the rules, the Government should extend the requirement for the inspection and testing of fixed electrical installation on all tenancies by at least twelve months until April 2022.
9. We are also concerned that many local authorities in England are continuing to push ahead with selective licensing schemes, despite Government advice which says, "Local authorities may need to be prepared to pause the process completely where it is not safe and reasonable to continue or if it will conflict with latest government advice regarding the COVID-19 outbreak."⁷ Recent examples include Liverpool City Council⁸, Oxford City Council⁹ and Doncaster Council¹⁰. The requirement for applications to still be submitted and fees paid will

⁵ <https://www.arla.co.uk/media/1049026/prs-report-september-2020.pdf>

⁶ <https://www.legislation.gov.uk/uksi/2020/312/contents/made>

⁷ <https://www.gov.uk/government/publications/covid-19-and-renting-guidance-for-landlords-tenants-and-local-authorities/guidance-for-local-authorities>

⁸ <https://liverpoolexpress.co.uk/landlord-licensing-consultation-your-questions-answered/>

⁹ <https://www.oxford.gov.uk/propertylicensing>

¹⁰ <https://www.doncaster.gov.uk/services/housing/hexthorpeslc>

place additional pressure on the sector in three ways. Firstly, tenants will likely see the cost of licensing passed on to them via rent increases. Secondly, if landlords who cannot afford the license fee decide not to pay and remove their property from the market, tenants will be forced to seek new homes. Thirdly, with some agents furloughed or working from home they are unable to access relevant paperwork and documentation to complete licensing scheme applications and process fees. Councils who are pursuing the implementation of licensing schemes are being socially irresponsible as it needlessly puts vulnerable people at risk of being infected. The implications of a second wave are that landlords and letting agents will not be able to comply fully with the requirements of licensing schemes and Council resources are unlikely to be able to effectively enforce them.

10. Unfortunately, our members report that a small number of tenants have taken the Government's decision to protect renters during the national restrictions and over Christmas with no bailiff enforcement action, as a green light to refuse to pay their rent. This includes tenants who will not correspond with a letting agent or their landlord and tenants who are working but will not make any payment or a "reasonable payment" towards their rent. As a result of the Government's decision to change the law to ensure bailiffs do not enforce evictions, this means that no eviction notices are to be served until 11 January 2021 at the earliest and, given the 14 day notice period required, no evictions are expected to be enforced until 25 January 2021 at the earliest.¹¹ Consequently, people willing to abuse the system have been provided with additional protection by safeguards designed to help those in genuine need. In these scenarios, landlords who cannot cover their mortgages are very concerned that their property will be repossessed. Furthermore, many landlords, only have one rental property and do not have several other rental incomes to help absorb the loss they are suffering. This means that many landlords face extended non-rent payments with no reasonable certainty of how to recover costs. A second wave could make these cases much worse and lead to the landlords who are experiencing problems selling their properties and leaving the sector altogether, reducing the number of homes people can rent.

¹¹ <https://www.gov.uk/government/news/new-protections-for-renters-over-duration-of-national-restrictions>

What estimates or data are available on the number of eviction notices served during the ban on evictions?

11. When legislation was originally passed to delay eviction proceedings most of our members (82%) said that the change in rules would impact between one and ten tenancies that they manage. Consequently, many landlords were already dealing with issues such as anti-social behaviour or extreme non-rent payment periods before the pandemic, which the ban on evictions exasperated. To put this into context, in September 2019, 57% of our members said they had issued less than ten Section 21 Notices in the past two years. Subsequently, the issuing of Section 21 Notices is not widespread and only used in the most severe circumstances. To this end, throughout the pandemic our members have worked hard with both tenants and landlords to ensure that everyone shows flexibility and avoids anyone being evicted because of Covid-19. This meant that by July, 83% of our members had rent repayment plans in place, 62% had spoken to their tenants to explain the problems of building up rent arrears, 24% of agents had agreed rent reductions and 13% agreed rent holidays. However, in September from a snap survey of 236 letting agent businesses, since the stay on evictions was lifted and the courts reopened, our members reported that 50% of their landlords had issued a Section 21 Notice to tenants and in October from a survey of 278 letting agent businesses this figure rose to 55%. The two main reasons for serving these notices were rent arrears and landlords wanting to sell their property.

What are the best policy options for helping tenants with rent arrears caused by coronavirus?

12. There are four main policy options to help tenants with rent arrears caused by coronavirus. Firstly, ring fenced funding delivered to local authorities and sent to tenants via the Discretionary Housing Payment. Secondly, a Government backed interest free loan delivered to tenants who cannot access the Discretionary Housing Payment and paid directly to landlords. Thirdly, ensure Universal Credit is adequate and more effective. Fourthly, the Government should raise and restore the Local Housing Allowance to the 50th percentile to cover the average cost of rents in a local area.

13. To help tenants with rent arrears caused by the pandemic funding should be ring-fenced and administered through local authorities using the Discretionary Housing Payment. This

Discretionary Housing Payment could take the form of a grant with five conditions. Firstly, it is ring fenced by the local authority for COVID related arrears only. Secondly, the fund should have a limited timeframe so that it does not inadvertently discourage tenants from making rent payments where they are able to do so. Thirdly, tenants should be able to claim for support from the fund to cover any arrears built up over the specified period. Fourthly, this should be paid as a lump sum directly to the landlord. Fifthly, the landlord, as a condition of receiving the payment, must provide the tenant with a new fixed term Assured Shorthold Tenancy (AST) of at least six months' in length. This will mean that the landlord is prevented from using a Section 21 Notice to seek possession over this period.

14. It is vital that the Government develops interest free, government guaranteed hardship loans to help tenants pay off rent arrears built because of the coronavirus pandemic. Propertymark survey results from October show that 73% of our members would support an interest free loan for tenants to repay rent arrears arising from coronavirus, if paid directly to the landlord. An interest-free loan and could be administered by a third party such as a credit union or a bank or building society. Furthermore, the Government and their intermediaries should ensure that repayments are affordable and proportionate to income. Assessment of affordability should first consider a tenants' essential living costs, for instance by using the Standard Financial Statement. There should also be a limit on the period during which repayments are made. The policy will provide tenants with a means to pay off Covid-related arrears and help to sustain tenancies by removing any risk of eviction and cover all arrears accumulated since the start of the pandemic.

15. The Government must ensure Universal Credit is adequate and more effective. There are three things that the Government can do. Firstly, tenants should have choice over whether the housing element of their Universal Credit is paid direct to their landlord. Secondly, all claimants should be able to choose whether to have Universal Credit paid monthly or twice monthly to assist with budgeting. Under the current arrangements, paying awards monthly does not reflect the lived experiences of many claimants. It forces people to fit to the rigid requirements of the system and causes unnecessary budget and cashflow problems both for those out of work and for those who are used to receiving wages more frequently. Furthermore, whilst being paid weekly for many workers has declined there are still many workers who have no experience of monthly pay cycles. In the lowest decile of weekly

earnings, 17% of employees are still are paid weekly.¹² By making improvements to how Universal Credit works, and ensuring it is more flexible, and accommodates a diverse range of personal circumstances, the Government can provide stronger support to those that need it the most as well as ensuring that Universal Credit works for the private rented sector. Thirdly, to tackle rent arrears the Universal Credit advance should be turned into a non-repayable grant from the first day of the claim removing the five-week waiting period. The five-week wait is the reason that claimants find themselves with an income that is less than their outgoings for essential bills, due to the fact that requesting an advance payment means that deductions are taken (at a very high rate) for the next 12 months. Many tenants in the private rented sector have very limited savings and the Government must introduce measures that ensure they can access support straight away. This would help with COVID related arrears because tenants would be able to prevent the arrears building up in the first place if they could access this grant from day one. Ultimately, through these changes Universal Credit can provide more flexibility and better reflect the reality of claimants' lives, particularly those on low incomes and better support tenancies in the private rented sector.

16. The Government must raise and restore the Local Housing Allowance to the 50th percentile to cover the average cost of rents in a local area. The housing element of Universal Credit currently only covers the lowest third of market rents in an area, meaning those paying average rents will face a large shortfall, which is unaffordable during the COVID crisis. By lifting the Local Housing Allowance rates further this will make more homes affordable to renters and ensure tenants are not going into arrears if they are on reduced hours, or furlough. The gap between rent and Local Housing Allowance has more than doubled in most areas since 2016.¹³ The recent changes made to Local Housing Allowance rates are welcome but fall short of what is needed to provide comprehensive support to people living in rented accommodation. This has been exacerbated for many by the Coronavirus pandemic with 1.5 million Universal Credit claims made between 13 March and 9 April.¹⁴ Consequently, the Government must do all it can to ensure the benefits people receive cover their cost of living. Without increasing Local Housing Allowance rates, many households will find a huge shortfall

¹² <https://committees.parliament.uk/publications/2224/documents/20325/default/>

¹³ <https://www.bbc.co.uk/news/uk-england-48038833>

¹⁴ <https://www.gov.uk/government/publications/universal-credit-29-april-2013-to-9-april-2020/universal-credit-29-april-2013-to-9-april-2020>

between their income and their housing costs. To this end, the Government must raise the Local Housing Allowance to the 50th percentile to ensure that people get the support they need as well as being able to maintain their tenancies beyond the pandemic.