

Where Now for the Private Rented Sector?

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This short analysis from the London School of Economics estimates the possible impact on the private rented sector of Covid-19 and rising unemployment; looking at the scale of the current problem, the immediate and longer-term consequences for evictions and homelessness, and potential solutions.

Key findings

- **Spikes in evictions are highly unlikely. Rather there will be a slow burn that will go on at least into 2022. Formal evictions, while potentially much higher than in the past, are likely to be a small part of the story.**
- **Tenants are more likely to find somewhere cheaper to live – often, among younger people, going back to Mum and Dad or sharing in overcrowded and insecure conditions.**
- **But the longer tenants remain in accommodation where they can't pay the rent, the higher their future debts will be.**
- **Local authorities can help mainly through their prevention powers and through (currently under-used) Discretionary Housing Payments.**
- **Reasonable estimates suggest that there could be at least three times the numbers of formal evictions than before COVID-19, leading to an additional 30,000 more households in temporary accommodation.**
- **Even if we return to some sort of normality by the end of next year, the long-term arrears and loss of credit-worthiness among tenants, and loss of income and confidence for landlords, will continue to scar both individuals and the private rented sector for years.**

The scale of the current problem

Around 4.5 million households in England rent privately (English Housing Survey, 2018/19) - accounting for around 20% of all households (27% in London) and many of them, along with their landlords are very worried.

How many of these are potentially at risk of eviction? The answer is frightening. Only those who have a current Assured Shorthold Tenancy (AST), who are up to date or have less than eight weeks' rent in arrears, are secure. And this is only until the end of their contract, which is rarely more than a year. After this, the landlord can issue a Section 21 'no fault' eviction notice. The tenant who is more than eight weeks in arrears can be issued with a Section 8 eviction notice. Both are automatic once they get to court.

How many will actually be threatened with eviction? That clearly depends on the nearly 2 million landlords. At the limit, their decisions will be based on how good a tenant they think they have, and how easy is it to find a better one. The latest evidence from the National Residential Landlords Association (NRLA) suggests that 87% of tenants are paying in full and a further 7% are not in arrears as they have an agreed plan. Even so, nearly a quarter of landlords have lost income, including 9% who have lost money because of tenants leaving without notice – which can be very costly. Given the current environment, a good tenant is clearly worth keeping, even if there are some arrears.

But the key issue, specific to evictions, is around the legal system: Until March 2021, landlords must normally wait six months before issuing an eviction notice. So only the 6,000 or so pre-lockdown cases, the few tenants who received eviction notices issued from lockdown to September 25th, and those with particularly high arrears or other egregious behaviour are at risk of legal eviction before

next April. As importantly, the Courts are in a mess and are already putting off hearings for months – some into 2023 – so evictions could well be further postponed.

As a result, there is almost no chance of a spike in legal evictions. Instead, there will be a long slow-burn which will leave more and more tenants – and sometimes their landlords – running up debt and feeling highly insecure. Moreover, although so far local authorities have seen little evidence of illegal evictions, there are plenty of lodgers, sofa surfers and others with few rights ‘asked’ to move on. The end of furlough, the continuing growth in unemployment in response to a less generous support system, and continuing lockdowns can only make things worse.

What will happen over the next year?

Estimates of the proportion of private tenants who are already behind on their rent vary widely (partly because the questions differ slightly). The latest YouGov poll in August suggested about 6% were behind – half as a result of COVID-19. Shelter’s rather earlier evidence also suggested around 6% in mid-2020 and a doubling of arrears in the first few months of lockdown. The NLRA figures are in the same ballpark. Importantly, evidence from the Resolution Foundation suggests unemployment among tenants has similarly doubled over roughly the same period. We can use these figures as a starting point to give some idea of what might happen over the next year.

The central macro-economic forecast, made before the latest set of local lockdowns, suggested that over the next year unemployment, which was at 4.1% in July 2020, could be 50% higher in a year’s time, having been considerably higher in between. The worst scenario was 8.6%, i.e. more than double. Given the changing environment, maybe 8.6% is a safer central estimate with some suggesting the worst case could be 2% higher – so 10.6%. If we can assume that the growth in arrears, starting from 6% in July 2020 is closely correlated with, if not always caused by, unemployment, this would imply that by mid to late 2021 arrears would be between 12.6% and 15.6% of all tenants i.e. between 560,000 and 700,000 private tenants. Unhappily, even these could be underestimates, as private tenants are generally younger and have been shown to be the group most at risk of losing income. The proportion of Londoners affected is likely to be particularly high.

How many evictions? The answer, based on past behaviour, is almost certainly that most will not be formally evicted. To get at some sort of estimate we can use evidence from the English Housing Survey which suggests that landlords only serve notice on about 10-15% of those who are in arrears at some time over the year. (Note that the number who experience arrears in a year has been roughly double the number in arrears at any point in time). In part this is because, in normal times, large numbers of private tenants would move on rather than build up debt, and many more would find the money to clear off the arrears.

Taking the lower, 10%, figure because tenants will have had a long while to make adjustments before a notice can be issued, would imply around 112,000 – 140,000 such notices. But, of those issued, only around 75% actually lead to orders and perhaps around a half of these orders are actually executed. On this basis, the numbers who are formally evicted might be between 42,000 to 52,500 – around 2.5 to 3 times the numbers of private tenants formally evicted in the period before COVID-19. If instead we take the 15% estimate with respect to orders, obviously these figures would be 50% higher, at between 63,000 – 79,000.

How will those in arrears but not formally evicted cope? The options for tenants who lose income or become unemployed and cannot pay their rent are:

- (i) to remain and negotiate an arrangement with the landlord (which is great – especially if the tenant gets another job – but cannot go on for ever) or borrow e.g. from their family;
- (ii) to find alternative, presumably cheaper or more crowded, rental accommodation;
- (iii) to go back to Mum and Dad (especially because many of those who will lose jobs are relatively young). In the early stages of the pandemic the evidence showed that the majority of those under 35 moved back home - while in the USA the latest figures suggest over 50% of those under thirty are now living with parents; or
- (iv) to approach the local authority for support in finding accommodation.

What proportion will end up homeless? In July Generation Rent, using a simple ratio approach, suggested that some 45,000 tenants might come forward in need of temporary accommodation, assuming arrears were running at around 13%. This is roughly 3 times the number accommodated in 2019 as a result of losing a private tenancy.

As the crisis continues however, the relationship between arrears and acceptances is unlikely to remain stable. Importantly, the very long notice period and the likelihood of court delays makes it much more likely that tenants will, over time, find some other solution, however unsatisfactory. Secondly most non-family households, while they make up the majority (55% plus) of those coming forward for local authority assistance, will receive advice rather than accommodation.

In 2019 there were 30,000 plus eviction orders made. It is at this point that we might expect people to seek help from the local authority. On our figures, there might therefore be between 75,000 to 100,000 such orders over the coming year, so perhaps 2.5 – 3 times as many as pre-COVID. If the ratio between orders and homelessness acceptances remained constant, that would imply some 45,000 households potentially accepted as homeless – almost a 200% increase – with as many as 1 in 3 of these households being in London. At an average cost per household of £15,000 per annum per household, and assuming an average six-month stay in temporary accommodation, the cost to the Exchequer would be some £225m.

What next?

The big problem is really not so much formal evictions but all the months of insecurity, mental stress and hardship facing so many tenants and indeed landlords. The difficulty in recommending actions is in identifying the tenants (or indeed landlords) who cannot, in one way or another, solve the problems themselves. That said, the following actions have potential:

1. Low interest loans to tenants but paid directly to landlords to cover arrears, like those in Wales and Scotland, could offer hope to both landlords and tenants by giving time for current conditions to ease.
2. Modifying Universal Credit – maintaining the Local Housing Allowance (LHA) at the fiftieth percentile and increasing the welfare cap in specific circumstances is undoubtedly good policy. But it still excludes significant proportions of those potentially in line for eviction.
3. Discretionary Housing Payments – these have hardly been discussed but do enable local authorities to help – and there is money already available.
4. The highest return in would probably come from enabling people facing possible eviction to approach local authorities quickly. As part of their regular responsibilities, local authorities manage to support large numbers of tenants into settled accommodation, by negotiation with and sometimes incentives to landlords. They have the skills and at least some money which government could supplement.

Unfortunately, these solutions are at best partial. In a crisis of this magnitude, there are no easy answers. Even with a rapid transition back to normality (say by the end of next year), the long-term arrears and loss of credit-worthiness among tenants and loss of income and confidence for landlords will continue to scar both individuals and the private rented sector for years. Private renting accommodates one in five households and other options are not bountiful. If we are to avoid catastrophic future problems, we must ensure that the private rented sector remains sustainable.

Data sources:

The main structural relationships are based on English Housing Survey data from 2017 and 2019: <https://www.gov.uk/government/collections/english-housing-survey>

A range of macro-economic forecasts are published by HM Treasury - the latest in September: <https://www.gov.uk/government/collections/data-forecasts>

Yougov data published early in September provides the latest estimates of arrears: https://yougov.co.uk/topics/economy/articles-reports/2020/09/04/third-renters-worry-about-affording-food?utm_source=twitter&utm_medium=website_article&utm_campaign=renter_worries

Earlier estimates from Shelter and Resolution Foundation, which use somewhat different definitions: (https://england.shelter.org.uk/media/press_releases/articles/230,000_renters_at_risk_of_covid-eviction_when_the_government_ban_lifts) (<https://www.resolutionfoundation.org/publications/coping-with-housing-costs-during-the-coronavirus-crisis/>).

Landlord surveys cover the issues from the landlord perspective:

The latest data are at : <https://news.rla.org.uk/wp-content/uploads/2020/06/Tenants-Survey-Research-Briefing.pdf>

Supporting material in: <https://news.rla.org.uk/wp-content/uploads/2020/06/Tenants-Survey-Research-Briefing.pdf>