



# Bring back the lodgers:

How the UK housing stock could be used to combat the rental crisis

Sylvan Lutz, Intergenerational Foundation



The Intergenerational Foundation ([www.if.org.uk](http://www.if.org.uk)) is an independent, non-party-political charity that exists to protect the rights of younger and future generations in British policy-making. While increasing longevity is to be welcomed, our changing national demographic and expectations of entitlement are placing increasingly heavy burdens on younger and future generations. From housing, health and education, to employment, taxation, pensions, voting, spending and environmental degradation, younger generations are under increasing pressure to maintain the intergenerational compact while losing out disproportionately to older, wealthier cohorts. IF questions this status quo, calling instead for sustainable long-term policies that are fair to all – the old, the young, and those to come.

For further information on IF's work please contact Liz Emerson:

Intergenerational Foundation

19 Half Moon Lane, London, SE24 9JU

0044 (0)7971 228823

[liz@if.org.uk](mailto:liz@if.org.uk)

Sylvan Lutz, IF researcher, holds an undergraduate degree in Economics and Political Science. He is currently completing a double MSc. in Environmental Management (Peking University) and in Environmental Economics and Climate Change (London School of Economics).

This work is licensed under a Creative Commons Attribution-ShareAlike 3.0 Unported License.

Front cover image courtesy of Storiès on Unsplash.

# Contents

	<b>Page number</b>
Executive summary	<b>4</b>
<b>1. The Rent a Room Scheme</b>	<b>5</b>
<b>2. Why encourage Rent a Room Scheme uptake?</b>	<b>6</b>
<b>3. Reducing under-occupation</b>	<b>8</b>
<b>3.1 A win for mortgage holders</b>	<b>9</b>
<b>3.2 A win for renters</b>	<b>10</b>
<b>4. Creating the right incentives</b>	<b>11</b>
<b>5. Policy recommendations</b>	<b>13</b>
Appendix	<b>14</b>

## Executive summary

The UK is facing a housing crisis and historically high levels of rent. This is affecting people of all generations, but young renters are being hit particularly hard by the rising cost of living and the inability to find affordable housing near their work or places of education. Despite the rental crunch, over two-thirds of homes across the UK are under-occupied.

- Encouraging lodging will increase the supply of rooms, reduce demand for other rental products and better use the UK's current housing stock
- If just 1% of under-occupied homes agreed to take in one additional renter over 160,000 new rooms would become available in England alone
- The Rent a Room Scheme is not well publicised and should be encouraged to all resident landlords through an information campaign
- The Rent a Room Scheme should be adjusted to incentivise households with space to take two lodgers in separate rooms by doubling the allowance when two rooms are occupied by lodgers simultaneously
- The tax-free rent a room allowance should be increased to about £10,000/year in 2023 and indexed to CPI inflation going forward
- The tax-incentive and low administrative burden involved drives households' decisions to rent out a furnished room in their house under the Rent a Room Scheme
- **The rent a room allowance is a win-win for all generations:**
  - Benefits for younger generations: increases overall supply in the private rented sector; drives down rents; provides more rental choices; provides rental choices with more living space; fully furnished spaces; increased intergenerational social connections; and reduced social isolation
  - Benefits for older generations: higher tax-free income during the energy/cost of living crises; increased intergenerational social connections; and reduced social isolation
- Much more needs to be done to provide more and better homes that meet the needs of the UK's population

# 1. The Rent a Room Scheme

The Rent a Room Scheme allows households (owner-occupiers and tenants) to let a fully furnished room in their only or main residence to a lodger and earn up to £7,500 for an individual tax free per year. This changes to £3,750 if more than one person is receiving income from letting the same accommodation. The tax-free income limit is the same regardless of the duration of the stay of lodgers during the year.<sup>1</sup> You are eligible for the scheme if you are a resident landlord (owner-occupiers and tenants) or run a bed and breakfast/guest house which you also occupy. The scheme cannot be used for homes converted into separate flats.<sup>2</sup>

Those who rent under the Rent a Room Scheme are lodgers and not tenants. Therefore, they do not have all the rights of tenancy but generally have access to shared spaces in the household where their room is located. The lack of full tenancy rights should, in theory, lead to lodgers paying less than the private rental market price for a room.

---

<sup>1</sup> GOV.UK (2022) HS223 Rent a Room Scheme: <https://www.gov.uk/government/publications/rent-a-room-for-traders-hs223-self-assessment-helpsheet/hs223-rent-a-room-scheme-2022>

<sup>2</sup> Ibid

## 2. Why encourage Rent a Room Scheme uptake?

Young people are struggling to find affordable places to rent in the U.K. and UK rental prices are growing at the fastest rate in over a decade, as can be shown in Figure 1.

Over the summer of 2022 rental prices across the UK rose rapidly. In the year between October 2021 and October 2022, average rental prices grew at the fastest rate ever recorded by the Office for National Statistics' (ONS) Experimental Housing Price Index.<sup>3</sup> Across the UK, average rental prices rose by 3.8% year-on-year in October 2022 (historical average 1.7%). The highest growth rate came from England excluding London at 4.1% year-on-year (historical average 1.8%).<sup>4</sup> London was the only region not to experience unusually high year-on-year growth in rental prices in 2022; rents increased at a relatively low rate of 3.0% (compared to a historical maximum of 5.3% and average of 2.2%).<sup>5</sup>

**Figure 1**




Source: Office for National Statistics (October, 2022). Experimental Index of Private Housing Rental Prices.  
© Intergenerational Foundation 2022 [www.if.org.uk](http://www.if.org.uk)



<sup>3</sup> Office for National Statistics (2022) Experimental Index of Private Housing Rental Prices: <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/latest>

<sup>4</sup> Ibid

<sup>5</sup> Ibid



Nevertheless, some analyses put the cost of an average room in London's rental market above £500 per week.<sup>6</sup> This increase should be understood within the context of sudden price increases across the UK economy.

The rental price increase is particularly affecting young people, as they pay the highest share of their income on housing out of any age group. In 2020-2021 an average household of under-30s spent 31% of its total expenditure on housing.<sup>7</sup> This was 77% more than the average share of expenditure on housing for all households. Unless young people in the UK receive immediate relief from these rapid rent increases, the share of expenditure they must allocate to housing will only continue to grow. As young people already spend two-thirds of their expenditure on essentials, further rent increases will cause even more financial strain for young households who were struggling already before the worst of the energy crisis and cost-of-living crisis hit.

---

<sup>6</sup> Sweney, M (2022) Average London Rent Hits Record £553 a Week amid Property Shortage, The Guardian: <https://www.theguardian.com/money/2022/oct/17/average-london-rent-record-property-shortage-foxtons>

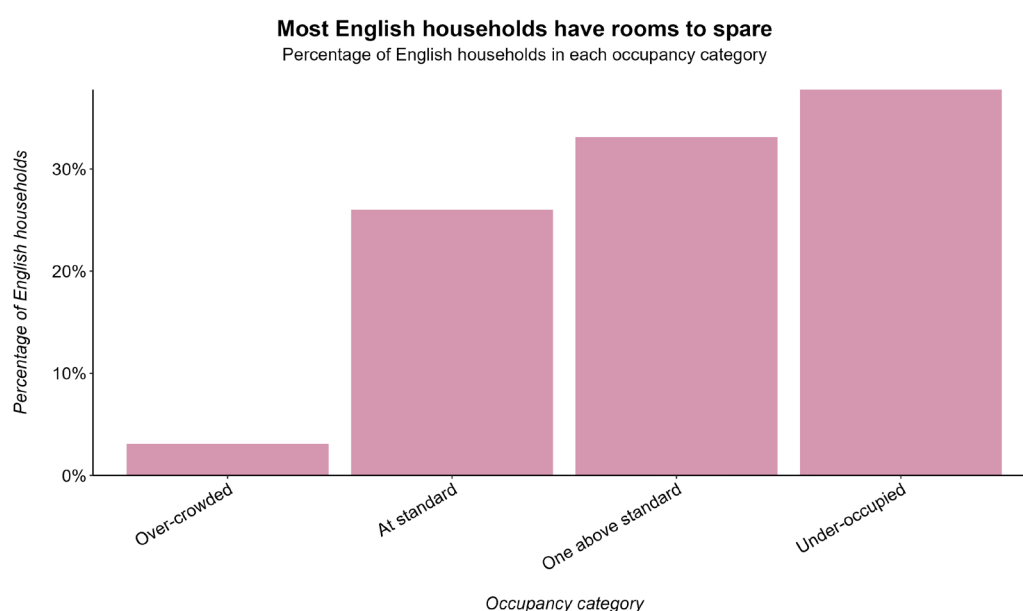
<sup>7</sup> Office for National Statistics (2022) Family Spending: Workbook 2 Expenditure by Income - Table A9: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook2expenditurebyincome>

### 3. Reducing under-occupation

In 2021, 71% of households in England and Wales were considered to have spare bedrooms with 38% considered under-occupied and 33% having one spare bedroom (Figure 2).<sup>8</sup> Over half of households with space capacity had two or more extra bedrooms. Based on the 2021 data, if even 1% of these households rented one or two of their unoccupied rooms, there would be over 160,000 additional rooms available for rent in England alone (Figure 3).<sup>9</sup>

Given the housing crisis in the UK, the government should adopt long-term policy that aligns the size of UK residences with the needs of households. However, immediate action should also be taken to encourage better use of the currently under-occupied housing stock.

Figure 2



Source: 2020-21 English Housing Survey: Table FA5401. Department for Levelling Up, Housing and Communities © Intergenerational Foundation 2022 [www.if.org.uk](http://www.if.org.uk)

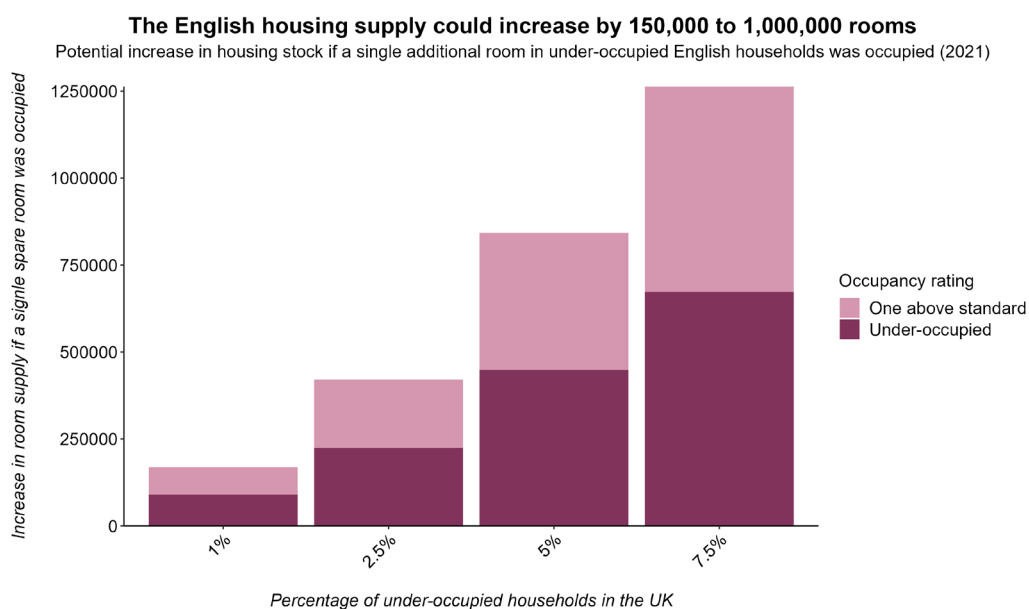


<sup>8</sup> An under-occupied household has two or more additional bedrooms than set in the bedroom standard for the occupants of a household. A household with one extra bedroom is considered one above standard. Source: Department for Levelling Up, Housing and Communities (2022) English Housing Survey: Table FA5401, accessed 10 November 2022: <https://www.gov.uk/government/statistical-data-sets/tenure-trends-and-cross-tenure-analysis>

<sup>9</sup> Ibid



**Figure 3**



### 3.1 A win for mortgage holders

The energy crisis, inflation and interest rate hikes are making large, under-occupied homes less affordable. The Bank of England's interest rate hikes have left the overnight interest rate at the highest level since the financial crash of 2008. Rising interest rates affect the estimated two million homeowners with variable rate mortgages and those whose mortgages are up for renewal in the next few months. Households are now facing mortgage rates hundreds to thousands of pounds a year more expensive than they were when they took them out.<sup>10</sup>

Around 19% of owner-occupiers in England have no savings.<sup>11</sup> Many will not be able to afford the interest rate hikes and will face the difficult task of cutting back on expenses during a cost-of-living crisis. An alternative for those with one or more spare bedrooms in their house is the extra revenue generated from having lodgers. By renting a spare room to a lodger, homeowners with mortgages will be in less precarious financial situations and will better weather the cost-of-living crisis.

<sup>10</sup> Laura Howard (2022) What's Happening With UK Mortgage Rates? Forbes Advisor UK, Accessed 24 November 2022: <https://www.forbes.com/uk/advisor/mortgages/mortgage-rates-24-11-22>

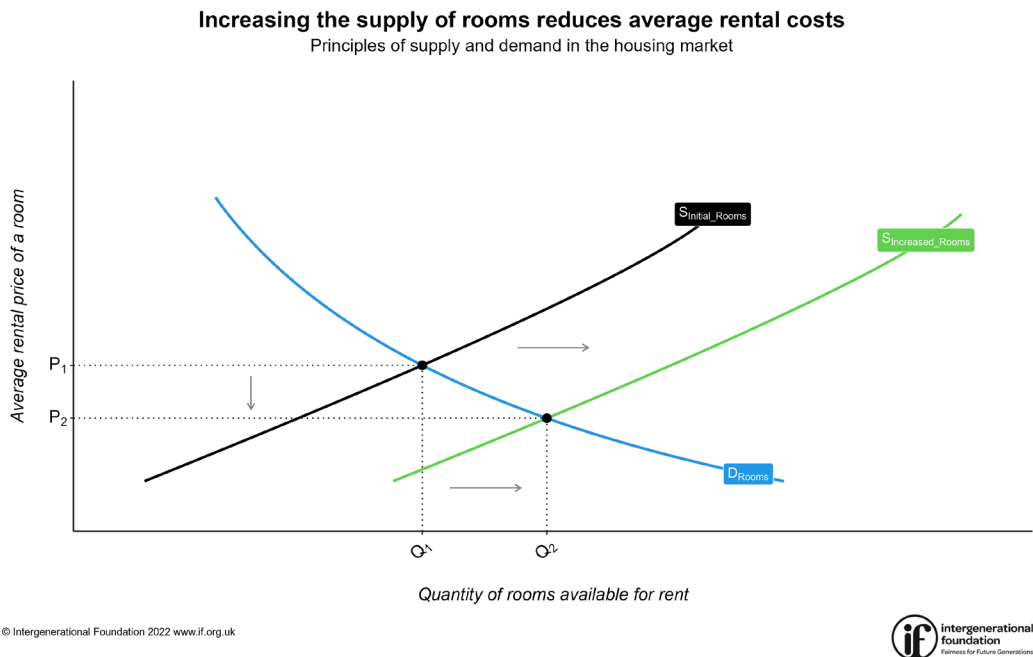
<sup>11</sup> Leonie Donaldson (2021) English Housing Survey: Owner Occupier Leaseholders 20-21, Department for Levelling Up, Housing and Communities

### 3.2 A win for renters

Since 2021, English Housing Survey data shows that a significant proportion of households are under-occupied. There is spare additional capacity that could be used to relieve pressure on the private rental market. The Rent a Room Scheme is already designed to make use of this additional capacity, but it is not well known amongst the public and there are useful changes that could be made to increase the number of rooms made available under the programme.

With more uptake the Rent a Room scheme could significantly increase the supply of rooms in the UK (see Figure 3). Figure 4 demonstrates that as more rooms enter the rental market (moving from the initial supply to the supply with lodgers) the average price of renting a room will drop from  $P_1$  to  $P_2$  (all else being equal).

Figure 4



While we are not able to quantify what the price drop will be, it will bring much needed relief to renters and may even support mortgage holders through the cost-of-living crisis. Increasing supply might also only reduce current inflationary pressure in the rental market as prices would go up less quickly. Either way better use of the existing housing stock by encouraging lodging is an important step in reducing the UK's rental crisis.

## 4. Creating the right incentives

In 2018 the UK government studied the Rent a Room Scheme in order to see if reform was required. It found that 69% of the individual respondents who let rooms to lodgers would be likely to stop if tax relief was not available. Tax-free income and a low administrative burden are what encouraged respondents to let out their spare rooms.<sup>12</sup> The report found “that rent a room relief remains an effective incentive for people to make their spare rooms available for rent.”<sup>13</sup>

Households who use the programme might be less willing to let out two rooms (an additional room) under the current programme structure. Households might only be willing to do so if an incentive was provided. The 50% of under-occupied households with two or more extra rooms could be better utilised by allowing households to claim double the amount of tax-free income if they rented two rooms simultaneously. It is likely that once households had a positive experience with one lodger, they would be more likely to continue renting under the programme.

In addition, updating the rent-a-room allowance indexed to inflation could ensure that resident landlords continue to have an incentive to house lodgers. The rent-a-room allowance has remained unchanged since 2015; as the goal of the policy is to incentivise the more efficient use of the housing stock it should be updated to reflect current prices.


There are multiple options of what index to tie the rent-a-room allowance to; the most obvious two are rental price inflation and CPI inflation. The advantage of rental price inflation is that it would accurately reflect the market price of rents across the UK. However, since households letting rooms to lodgers would have some (albeit minor) control over rental price inflation this may serve as a perverse incentive to raise rents. Therefore, CPI inflation, of which rental prices are only a part of the overall “basket” may be a preferred index.

If the £7,500 rent-a-room allowance had been indexed to CPI in 2015 it would have reached £9,450 in October 2022. In the fall of 2022, the average price of a room including bills in London was £853/month (£623/month across the UK) on SpareRoom.<sup>14</sup> Uprating the yearly allowance to around £10,000 starting in 2023 and then indexing it to CPI inflation thereafter would be reasonable in order to encourage resident landlords to increase the UK housing supply.

<sup>12</sup> HM Treasury (2018) Rent a Room Relief: Summary of Responses, London, UK

<sup>13</sup> Ibid

<sup>14</sup> SpareRoom (2022) Average Rent in London, accessed 24 November 2022: <https://www.spareroom.co.uk/content/info-landlords/average-rent-london>



Although the Rent a Room Scheme provides a short-term and flexible way to increase the supply of rooms available for rent, it is not a long-term solution to the misalignment of housing stock and housing demand in the UK. Therefore, the Rent a Room Scheme should be implemented alongside other long-term policies acknowledging the severity of the housing crisis in order to improve housing in the UK for all generations – the young, the old, and those to come.

## 5. Policy recommendations

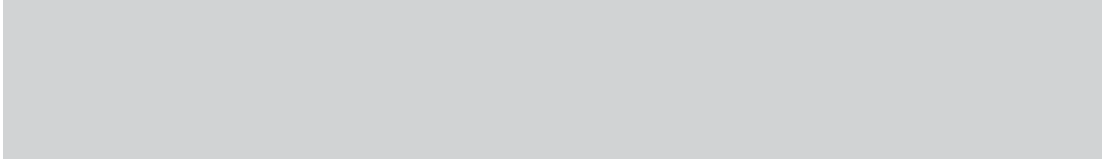
1. By increasing the incentive for people to rent a second room, the government could encourage more efficient use of the current housing stock. The Rent a Room Scheme should be adjusted to incentivise households with space to take two lodgers in separate rooms by doubling the allowance when two rooms are occupied by lodgers simultaneously. The tax-free threshold should also be increased to £10,000/year in 2023 and indexed to CPI inflation going forward.
2. The government should introduce a public information campaign promoting the use of the Rent a Room Scheme in order to alleviate the shortage of available rentals across the UK and help alleviate the cost-of-living crisis. By convincing just 1% of households that are currently less occupied than the standard occupancy rating to take in a lodger, housing supply would increase by over 160,000 rooms in England alone.
3. The government should add the Rent a Room Scheme to the English Housing Survey so that its effect on total supply can be tracked. As the UK looks for long-term solutions to the misalignment between the needs of its population and the existing housing stock, it is important to better understand how the current housing stock is being utilised.
4. All policy changes to the Rent a Room Scheme should ensure that it does not add an administrative tax burden to households as that will significantly curtail its uptake.



# Appendix

## Notes on Rent a Room Scheme data

There is a lack of publicly available data on the Rent a Room Scheme which makes it difficult to analyse the current uptake of the programme and the potential uptake should the recommended changes be implemented. The most specific public collection of information on the programme came from a 2018 government investigation which yielded many reports and responses but very little data collection. This is likely because there is no need to file a tax return when annual rent-a-room income is under £7,500; therefore, even the government may have very little idea of the impact of the Rent a Room Scheme.



**Intergenerational Foundation**  
**[www.if.org.uk](http://www.if.org.uk)**  
**email: [info@if.org.uk](mailto:info@if.org.uk)**

**charity no: 1142230**