

A lender's guide to the Renters' Rights Act

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Introduction

The much-discussed Renters' Rights Act seeks to provide greater flexibility and security for residential tenants in England by abolishing the “no fault” grounds of possession under section 21 of the Housing Act 1988, as well as imposing additional restrictions and obligations on private landlords.

The changes have the potential to widely affect supply and value of PRS properties. Increased regulation means that smaller landlords are expected to leave the sector, leaving opportunity for investors and professional BTR developers to capitalise on any reduction in quality stock.

However, the Act seeks to protect tenants by imposing prohibitions on deposits, rent increases and the grounds for obtaining possession – which all increase the risk of rental voids, with the potential to cause a knock-on effect to a landlord's ability to make loan repayments.

The key reforms under the Act will take effect from 1 May 2026 – with immediate effects to existing residential leases. Whilst lenders are not directly affected, you need to be alive to the effects of the Act, ensuring that borrowers are compliant with the new legislation, as well as more generally how they plan to deal with any rental voids or changes in value.



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The proposed changes from 1 May 2026

Landlords' ability to increase rates of rent are affected by Phase 1 of the implementation of the Act, as well as their options to protect their rental income stream.

Rent up front: Landlords and their agents will be prohibited from inviting, encouraging or accepting multiple months' rent in advance. Landlords will still be permitted to ask for the initial payment of rent upfront (once a letting agreement has been signed), although because the tenancy will always be a rolling periodic contract, this will be limited to a maximum of one calendar month's rent (or 28 days where the rental period is less than one month). The Tenant Fees Act 2019 already caps deposits at 5 weeks' rent (or 6 weeks' rent where the annual rent is £50,000+).

Rent review: Any contractual rent review clause will be void, and landlords will instead be required to use the procedure under section 13 of the 1988 Act in order to increase the rent, by serving a specific form of notice giving two months' notice. This rent review can only be carried out once a year, and tenants can challenge rent increases (or the initial level of rent) via application to the First-tier Tribunal.

Possession: arrears, anti-social behaviour and repossession

As you may already be aware, residential leases in the private rented sector will no longer have a fixed end date and will roll over indefinitely until a valid notice is served by either the landlord or tenant.

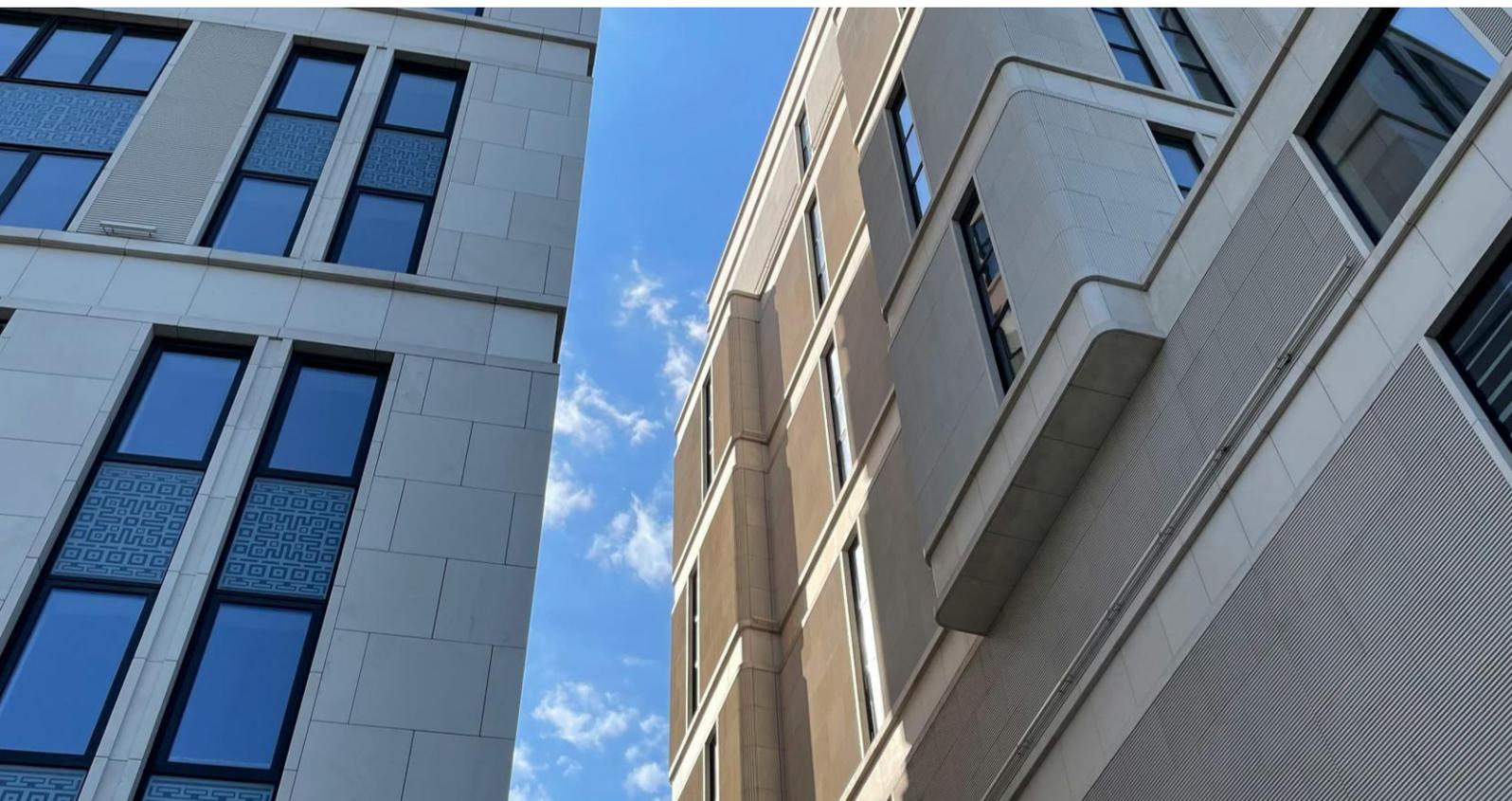
The key reform is therefore the removal of landlord's abilities to serve notice relying on s.21 'no fault' evictions, without needing a ground for possession. Landlords will instead need to rely on the s.8 regime, which sets out a number of mandatory and discretionary grounds including where a tenant has fallen into substantial arrears.

We set out the grounds which are most likely to be of interest to lenders on the next page – in particular, ground 2 which permits repossession for the landlord's lender, and in respect of which the notice period has been increased.



Grounds for possession

GROUND	NOTICE PERIOD	COMMENTS
2: Repossession by the landlord's lender (amended ground)	Four months (increased from two months)	Available where the property is subject to a mortgage and the mortgagee is entitled to exercise a power of sale. No longer necessary for the mortgage to have been granted before the beginning of the tenancy, or for prior notice to have been given to the tenant.
7A: Antisocial behaviour (no change)	Immediate, but the possession order can only take effect at least 14 days after service of the notice	Available where certain conditions are met such as the tenant being convicted of a serious offence, and anti-social behaviour offence or has been found in breach of an anti-social behaviour injunction.
7B: Tenant does not have a right to rent (no change)	Two weeks	Available where certain conditions are met such as the tenant being disqualified from occupying the property due to their immigration status.
8: Serious rent arrears (amended ground)	Four weeks (increased from two weeks)	Where possession is sought on basis of rental arrears and where arrears: <ul style="list-style-type: none"> • total at least three months' worth of rent (where rent is paid monthly); or, • more than 13 weeks' worth of rent (where rent is paid weekly). When calculating arrears, if the tenant is entitled to receive universal credit for housing under Part 1 of the Welfare Reform Act 2012, any amount unpaid only because the tenant had not yet received the payment of that award is to be ignored. Note that there are also discretionary grounds relating to any or persistent rent arrears, which may be pleaded in the alternative..



Possession lists

If a tenant of a residential property does not vacate a property in accordance with a notice, a landlord is required to obtain a possession order and, if needs be, to enforce that order by way of obtaining a warrant for execution by a bailiff.

Currently there is a significant delay of about 30 weeks in possession claims being heard (although in London this can sometimes be higher), and these waiting times are rising, rather than falling as there is likely to be a large uptick in the number of possession claims issues before the proposed changes become law, putting further pressure on an already overwhelmed and under resourced court system.

The Government has stated that they will support the justice system with more funding, to include the provision of a new digital end to end possession service in the county courts from 2026 and an alternative body to the First-tier Tribunal to deal with rent reviews.

The proposed changes: mitigation

While some landlords may consider rental guarantee insurance to mitigate loss of rent if a tenant falls into arrears, any premium cannot be directly re-charged to tenants, due to restrictions imposed by the Tenant Fees Act 2019.

Incorporating a premium into the starting rent may not be commercially viable as increased rents are likely to be unattractive to potential tenants. However, we are already seeing larger corporate landlords taking out insurance and absorbing the costs themselves, rather than losing out on income if tenants do fall into arrears. Alternatively, landlords will still be able to ask for a guarantor where appropriate.

Landlords will also need to be alive to the changes to the rent review process, in particular the need to stay on top of the level of market rent and give notice of any increase promptly.

However, the system is likely to remain under strain in the near term, which may result in voids and loss of rent for extended periods.

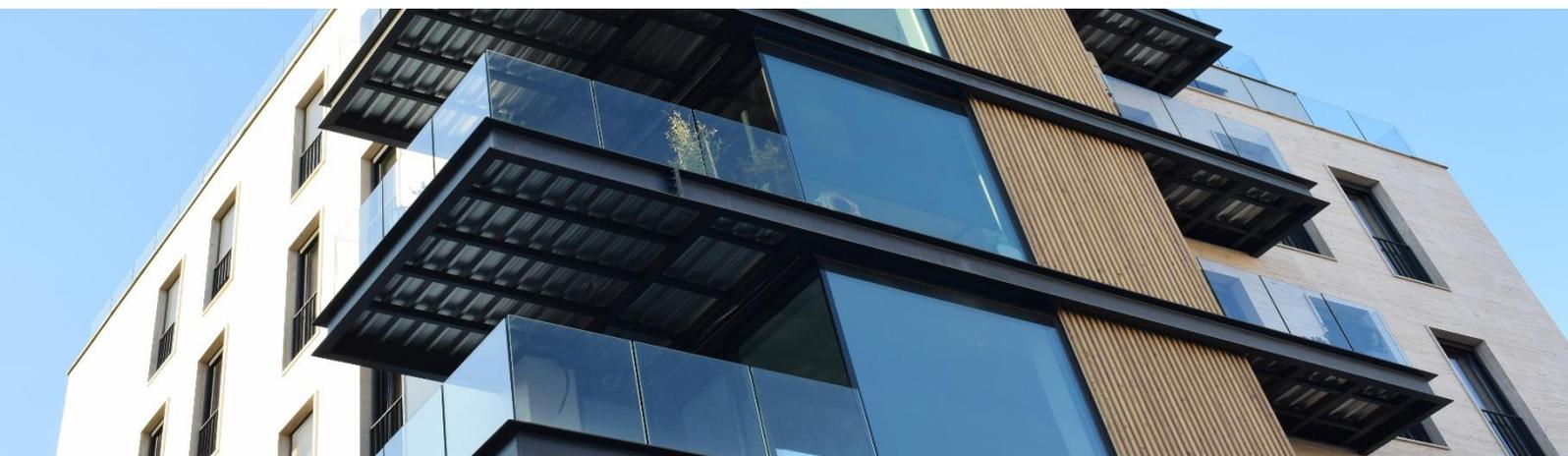
Landlords would be well advised to review their portfolios and put in place protection now before the changes come into force on 1 May 2026, so that they can continue to make their own repayments if tenants fail to meet their lease obligations. What measures can landlords take in the intervening period to mitigate loss of rent, particularly when the Act will make it more difficult for landlords to retake possession even when arrears are accruing?

Landlords will need to ensure that they have good evidence for any increase – and also that they keep that evidence updated as any claim progresses.

Whilst the FTT is given jurisdiction to assess and determine the level of market rent on review, it does not have jurisdiction to make a costs order or to backdate the new level of rent. Instead, the new – higher – rent will only be payable from the date the claim concludes.

However, in response to concerns about how this may remove the disincentive for tenants to challenge rent, the Act includes provision for the Secretary of State to amend the effective date for the new rent. Landlords will need to ensure that they have good evidence for any increase – and also that they keep that evidence updated as any claim progresses.

Hopefully these proactive steps will avoid landlords falling into arrears themselves.





The proposed changes: additional regulation

The Act introduces the concepts of:

- a new Private Rented Sector Database, which all private landlords will be required to join and to register each of their properties – notably, landlords will not be able to obtain possession orders without being registered; and
- a new Private Rented Sector Ombudsman, which will receive and resolve tenant complaints. All private landlords will be required to join and pay a membership fee.

Civil penalties (starting at £7,000 but as high as £40,000) and criminal prosecutions may be imposed for action taken by the Ombudsman, or for offences such as providing fraudulent information to the database.

Next steps

At this stage, the effects to lenders will be limited. Some landlords may, if commercially advantageous and/or by way of risk management, seek possession of properties now under no fault grounds (should they meet the criteria) and leave the market entirely. However, our expectation is that rates of rent will rise, and those prepared and organised ahead of the implementation of Phase 1 on 1 May 2026 will have the best pick of quality tenants.

The public database may prove to be a useful resource for lenders when carrying out due diligence on potential borrowers. As well as being an obvious administrative burden (with severe consequences for non-compliance), the Ombudsman in particular is again tenant-focussed, with no source for redress for landlords.

The Act also includes provisions to apply the Decent Homes Standard to all private rented homes, setting minimum quality requirements for private rented properties.

These three schemes will be introduced in Phase 2 of the implementation of the Act, from late 2026 onwards, so there will be a 'lead in' time before the obligations become mandatory.

Next steps

Shoosmiths have a dedicated residential landlord and tenant team who can help you with a review and due diligence exercises now, or advise on a case by case basis and issue any notices and possession claims required.



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