

Landlords and Rent in the Personal Care Industry - Survey Summary

Key insights and findings

1. The relationship between the business owner as a commercial tenant and a property landlord is qualitatively different to that between a business owner and chair renter in the Personal Care sector.
2. Business owners in the Personal Care sector understand the situation of chair and room renters much better and are much more likely to be amenable to negotiating on rent terms.
3. The relationship between a business owner as a commercial tenant and a commercial landlord is more difficult.

For business owners as commercial tenants:

- 59 per cent had approached their landlord for a reduction or deferment in their rental agreement due to COVID, but only 36 per cent were successful
- 3-5 months was the most common deferral period that premises tenants were able to negotiate with their landlords
- 50-59 per cent was the most common deduction in rent that premises tenants were able to negotiate with their landlords
- 57 per cent were bound by personal guarantees in their lease agreements

For chair or room renters:

- 70 per cent had approached their landlord for a reduction or deferment in their rental agreement due to COVID, and 75 per cent were successful
- 6-11 months was the most common deferral period that chair/room tenants were able to negotiate with their landlords
- 60+ per cent was the most common deduction in rent that chair/room tenants were able to negotiate with their landlords
- 28 per cent were bound by personal guarantees in their lease agreements

Background

In December, the Government announced it would extend a ban on commercial landlords evicting tenants until 31 March, providing more breathing space to companies hit hard by the coronavirus crisis. The eviction moratorium, introduced by the government at the beginning of the pandemic to protect businesses after their revenues were cut as a result of Covid-19 economic and social restrictions, has been a major lifeline to businesses on the brink.

From 18-23 February, the National Hair & Beauty Federation, British Association of Beauty Therapy & Cosmetology, UK Spa Association and British Beauty Council issued a joint survey in order to gain a clear picture of how the Personal Care sector is managing its rental commitments and explore the need for a further extension of the eviction moratorium.

Responses

The survey received 3,901 responses. It gathered views from a good representation of businesses in the Personal Care sector across all areas including city centres, town centres and villages in England, Northern Ireland, Scotland and Wales.

Responses covered those renting from individual landlords, small or medium enterprise landlords, large commercial real estate property owners. 20 per cent of businesses responding were VAT registered.

Approximately two thirds (64 per cent) of those that responded to the survey were premises renters. 36 per cent were chair or room renters (Q5).

Full details of individual responses can be seen in the accompanying survey data document.

Business owners as commercial tenants:

- Deductions

Of the 36 per cent that were able to successfully negotiate, 52 per cent received a deduction, 37 per cent a deferment and 11 per cent both (Q11).

Most commonly, those that received a deduction received a 50-59 per cent deduction (33 per cent). 20 per cent received a deduction of 60+ per cent and 14 per cent received a 20-29 per cent reduction (Q12).

- Deferrals

3-5 months was marginally the most common period of deferral for rents owed (26 per cent). 1 year+ was the second most common period (25 per cent), followed by 1-2 months (22 per cent) (Q13).

- Personal guarantees within lease agreements

Considerably more than half (57 per cent) said they were bound by personal guarantees within their tenancy agreement (Q7).

59 per cent of premises renters said they had approached the landowner for a reduction or deferment of their rent due to COVID (Q9). Of the 59 per cent that did, only 36 per cent had any success (Q10).

- Other means of rent recovery

Whilst 92 per cent of responses said that property owners had not threatened the use of other means for rent recovery, 8 per cent had (1 in 12 respondents) (Q14). Means of rent recovery included personal guarantees, debt recovery agencies, county court judgements, losing security deposits and threatening letters in order to recover funds (Q15).

Chair or room renters:

- Deductions

Of the 75 per cent that were able to successfully negotiate, 41 per cent received a deduction, 40 per cent a deferment and 19 per cent both (Q20).

Most commonly, those that received a deduction received a 60+ per cent deduction (49 per cent). 25 per cent received a deduction of 50-59 per cent and 14 per cent received a 0-10 per cent reduction (Q21).

- Deferrals

6-11 months was the most common period of deferral for rents owed (35 per cent). 1 year+ was the second most common period (25 per cent), followed by 3-5 months (18 per cent) (Q22).

- **Personal guarantees within lease agreements**

Only 28 per cent of those responding to the survey indicated they were bound by personal guarantees (Q17).

70 per cent of chair or room renters had approached the business owner for a reduction or deferment of their rent (Q18). Of the 70 per cent that did, 75 per cent were successful, with only 25 per cent unable to reach a mutual agreement (Q19).

- **Other means of rent recovery**

Whilst 92 per cent of responses said that business owners had not threatened the use of other means for rent recovery, 8 per cent had (1 in 12 respondents) (Q23). This statistic mirrors the responses from premises renters.

Of that 8 per cent, 1 in 5 respondents (19 per cent) had experienced means of recovery such as enforcement of personal guarantees, debt recovery agencies, county court judgements and losing security deposits in order to recover funds (Q24). In a small number of cases, some had been evicted by the business owner.

Conclusion and Recommendations

The survey shows a very different picture between businesses renting premises from landlords and chair or room renters renting space from business owners.

It demonstrates that whilst business owners in the Personal Care sector are largely willing to negotiate with their respective tenants, they are not getting same level of help and support from their own commercial landlords.

It is also reasonable to surmise that where a business owner has not been willing to offer deductions or deferrals to chair or room renters, that this could be motivated by their own landlord being unwilling to offer some degree of latitude.

Our findings indicate that the majority of landlords can be expected to take a tough approach to rent arrears should the moratorium be lifted on 31 March.

According to our data, rent is the second highest overhead for the sector after labour costs¹. For businesses dealing with mandated closure and with no ability to generate income, rent is a punishing cost that is increasingly difficult to meet.

We are therefore calling for:

- A further extension to the protection from forfeiture for commercial properties post 31 March 2021 to assist business owners as commercial tenants.
- The introduction of a 'Property Bounce Back Grant' targeted at businesses hit hardest by lockdown as proposed by the British Property Federation, British Retail Consortium and UK Hospitality.

The principal aim of the original moratorium was to protect commercial tenants and jobs. The removal of the current protection would put commercial tenants back at risk as we begin the Government's roadmap to reopening and enter the 2021/2022 financial year. Our most recent industry data² shows that:

¹ Personal Care Profit and Loss data – January 2021

² Pragmatix Report 'An Industry at the Sharp End' – January 2021

- two-thirds of businesses within the sector are now in debt
- 61 per cent have no cash reserves left
- 55 per cent are using the owner's personal savings to stay afloat

Anecdotally, many salon, spa and barbershop owners doubt that they will be able to generate adequate funds due to restrictions on capacity and services through following close contact guidance. Further support on rent is needed until business can truly begin to recover.

The livelihoods of those employed in the 45,000 salons, spas and barbershops throughout the UK is in real jeopardy without action in this area.