

## TENANT ARREARS TRACKER

### RISING RENTS DRIVE INCREASE IN SEVERE TENANT ARREARS

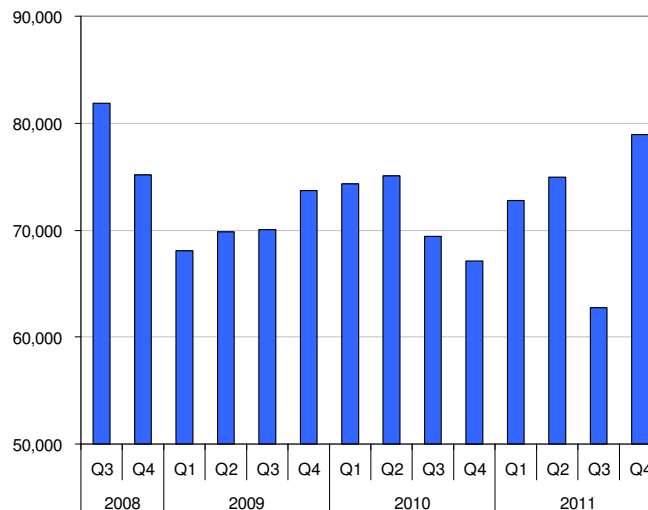
- Soaring rents push up the number of tenants in severe arrears by 18% annually to the highest level since Q3 2008
- Number of court orders to evict tenants up 11% in the last year as landlords take tougher stance

The number of tenants in severe financial difficulty has climbed in the last quarter of 2011, with nearly 11,400 more tenants over two months in arrears than a year ago, according to the latest Tenant Arrears Tracker by Templeton LPA, the specialist practice of LPA Receivers.

Although just 9.3% of all rent was late or unpaid in November<sup>\*</sup>, severe arrears cases (tenants with arrears of more than two months) are climbing rapidly. To the back end Q4 2011, nationally there were 78,970 tenants in England and Wales in severe arrears – an 18% increase compared to the same period in 2010<sup>†</sup>. This represents the highest level since the third quarter of 2008.

Despite the increase, tenancies in severe arrears represent just 2.4% of all properties in the private rental sector in England and Wales.

**Graph 1: Tenants in long-term arrears**



Source: LSL / Templeton LPA

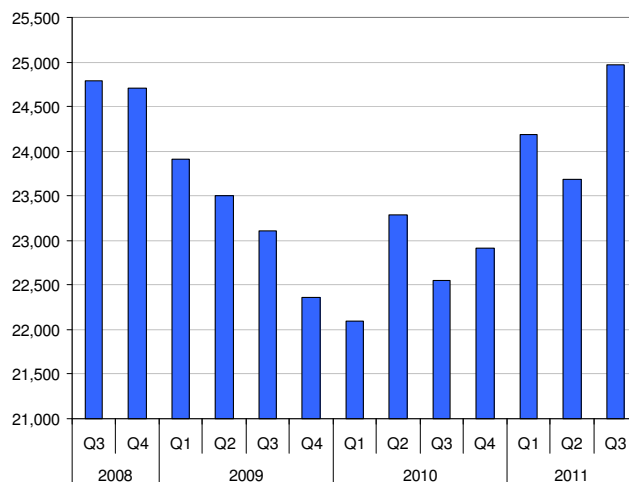
<sup>\*</sup> Based on LSL's latest Buy-to-Let Index data

<sup>†</sup> Based on analysis of LSL data from over 18,000 properties and the English Housing Survey 2009/10

Paul Jardine, director and receiver at Templeton LPA comments: *“The soaring cost of renting has created a two-speed market. The overall tenant population has coped relatively well with rising rents and soaring living costs - with total arrears actually down year on year in November. But a growing minority of renters are falling deeper and deeper into payment difficulties, and the number of severe arrears cases is rising. While the wider tenant mix has changed since the mortgage market downturn – with a greater number of financially sound yet frustrated first-time buyers – a growing number of tenants are seeing their job prospects affected by the UK’s economic malaise.”*

However, the growth in tenant arrears has been mirrored by a rise in the number of tenants being evicted through court orders. In the last quarter, 24,966 tenants faced eviction notices – an increase of 11% on the 22,558 a year ago. But the change is not just annual. In Q3 2011, there were 5.4% more than in the second quarter of 2011.<sup>‡</sup>

**Graph 2: Landlord possession claims leading to a court order**



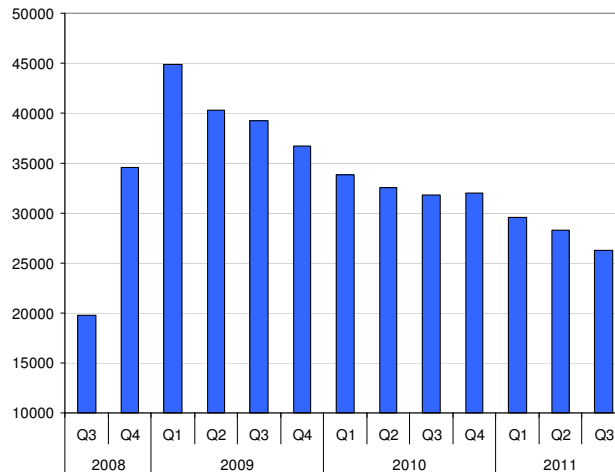
Source: Ministry of Justice

Buy-to-let mortgage arrears have not yet felt the impact of growing severe tenant arrears and evictions. In the last quarter, the number of buy-to-let mortgages more than three months in arrears fell by 7% compared to the previous quarter, representing an annual decline of 17%. However, at 26,300, there are still more than five times as many buy-to-let mortgages in severe arrears compared with Q3 2006.<sup>§</sup>

<sup>‡</sup> Based on analysis of Ministry of Justice figures for landlord possessions claims leading to an order

<sup>§</sup> Buy-to-let mortgage arrears data taken from CML

**Graph 3: Buy-to-let mortgages over three months in arrears**



Source: CML

Paul Jardine continues: *“The growing level of severe tenant arrears has yet to filter through into mortgage payment problems for landlords. Mortgage rates have kept monthly payments low, but there has also been a change in landlords’ behaviour. With capital gains falling by the wayside in the past six months, rental income has become the most important component in an investor’s annual return – but it also pays a landlord’s mortgage cheque. As a result, many landlords are being less lenient with tenants facing initial payment problems, and are looking to use court orders to replace tenants quickly in expectation of finding a financially sound substitute – and potentially an increased rent, given the strength of competition for rental property in many areas of the UK. However, a growing number of landlords are also exploiting higher rents to set aside slush funds for future arrears and void periods, or signing up to rental indemnity schemes.”*

*“Nevertheless, we expect that mortgage arrears will climb next year. Given the economic challenges the UK faces, and the worsening labour market, we anticipate that both overall arrears and severe arrears will rise in 2012 – and this will feed into increased tenant evictions and hamper a growing number of landlords’ ability to meet their monthly mortgage costs.”*

--ENDS--

## NOTES TO EDITORS

**Templeton LPA** is a specialist practice of chartered surveyors, which offers Law of Property Act (LPA) receivership services to lenders. Much of its work relates to buy-to-let mortgages where borrowers have defaulted.

The receivership process allows continuity of occupation by tenants, who are usually blameless in the default, and professional management of the lender’s security. This avoids the risks associated with vacant property and encourages the beneficial use of valuable assets to the benefit of lenders, borrowers, tenants and the community as a whole.

**LSL Property Services plc (LSL)** owns a mix of residential property companies including estate agents Your Move, Reeds Rains and e.surv Chartered Surveyors. Following the purchase of 218 branches (including 93 franchised operations) from a major high street estate agency, LSL is the UK's second largest estate agency group (584 branches). LSL is also the largest residential lettings agent in the UK.

- LSL Property Services: <http://www.lslps.co.uk>

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