

Tenant Arrears Tracker

JANUARY 2014

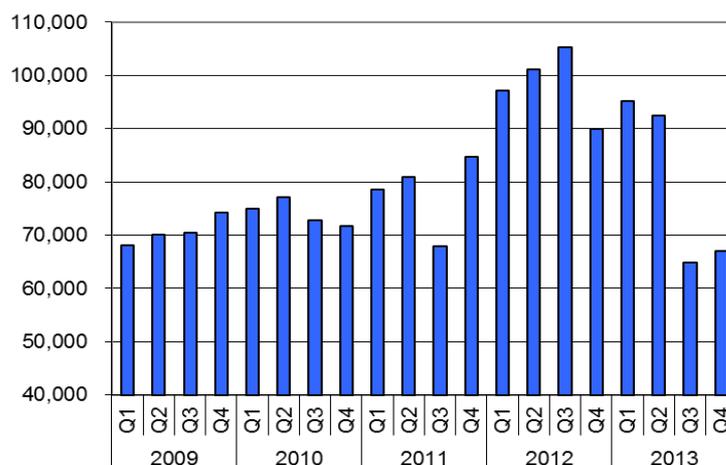
SETBACK FOR TENANTS SEVERELY BEHIND ON RENT

- 67,000 households now owe more than two months' rent
- Severe arrears rise 3.4% in three months, despite 20% improvement over course of 2013
- Difficulties for some tenants are reflected by more evictions, as court orders rise 11% in Q3 2013
- Landlords pay down mortgage arrears, despite more tenants two months' behind on rent

Tenants suffer a setback paying down late rent in the final quarter of 2013, according to the latest Tenant Arrears Tracker by LSL Property Services plc, owners of Templeton LPA, the specialist practice of LPA Receivers.

In Q4 2013, the number of tenants in severe arrears – those more than two months behind on their rent – rose by 3.4% on a quarterly basis.¹ In absolute terms, there are now 67,000 tenants in severe arrears, after an increase of 2,000 since the third quarter, when this figure had previously seen a sharp improvement to 65,000 tenants.

Graph 1: Tenants in severe arrears



Source: LSL / Templeton LPA

¹ Based on analysis of LSL and English Housing Survey data. Data subject to revision. Quarterly figures revised since last edition as more data became available

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However, the final three months of 2013 still represent the second best quarter for tenant finances in two years, with 26% fewer households in severe arrears compared to the same period a year ago.

There was also a quarterly setback in the proportion of tenants in serious arrears of more than two months. Those owing more than two months' rent now represent 1.6% of all tenancies in England and Wales, up from 1.5% in the previous quarter. Despite this, the proportion of tenants in severe arrears has shown a dramatic improvement on an annual basis – down from 2.2% of cases in Q4 2012.

A moderate setback in levels of the most severe arrears contrasts with wider improvements in tenant finances as a whole. According to LSL's latest Buy-to-Let Index, *overall* tenant arrears fell in November, with 6.6% of all rent late or unpaid². This compares with 7.1% of all rent in the previous month.

Paul Jardine, director and receiver at Templeton LPA, comments: *"Economic prospects appear to have transformed since this point last year, with a pervading confidence taking hold. But households are still heavily indebted, and wages are only starting to very dimly reflect a brighter economic picture. After a year of dramatic changes, the closing stages of 2013 have been no less intense for anyone struggling with the monthly rent. For many people the festive period has provided a particularly difficult ending to a long and challenging year."*

"Household budgets will remain under intense pressure in 2014 – the situation for many tenants is not easy by any means. But even with the strains of Christmas and New Year, severe rental arrears are in a much better state than they were just six months ago. That could point towards fewer people facing eviction in months to come."

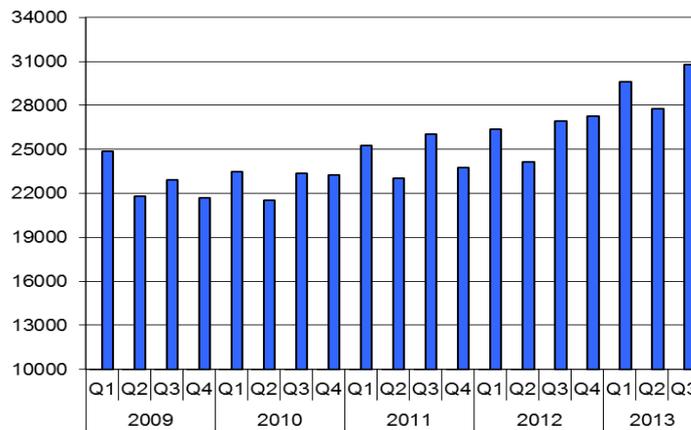
Annual improvements in severe tenant arrears are yet to feed into eviction rates. According to the most recent data, the number of tenants facing eviction through court order rose in the third quarter of 2013, with a total of 30,807 tenants facing eviction notices. This represents a quarterly increase of 11%, up from 27,784 in Q2 2013.³

²Based on LSL's August Buy-to-Let Index

³Not seasonally adjusted

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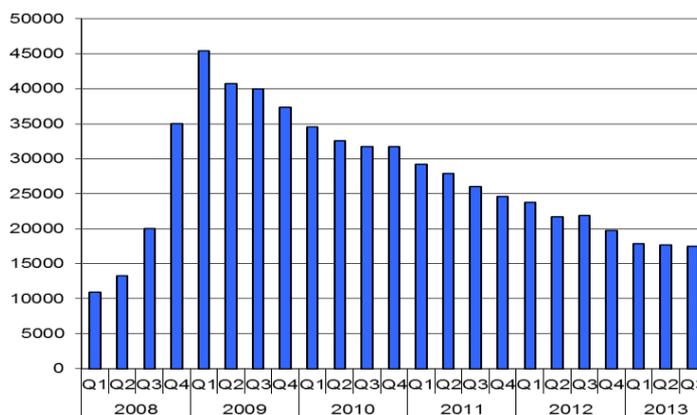
Graph 2: Landlord possession claims leading to a court order



Source: Ministry of Justice

Landlords have continued to benefit from overall improvements in the financial position of tenants, with landlords’ own mortgage arrears falling for the fourth quarter in a row, continuing a long-term improvement. By the end of Q3 the number of buy-to-let mortgages over three months in arrears stood at 17,500, down 1.1% since the first quarter. This brings the number of buy-to-let mortgages more than three months in arrears to the lowest level since 2008, after falling by 20.1% over the course of 2013.

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



Source: CML

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Paul Jardine continues: *“Since the peak of the recession in 2009, landlords have been paying down mortgage arrears at a steady pace. Now that progress is gradually returning the market to normal, with levels of buy-to-let mortgage arrears back at 2008 levels. But further progress will require continued caution. Tenants are still gradually paying back late rent – but are doing so against a financial background that is still getting tougher for most households.*”

“Compared to 2007 and before, there is still a long way to go. And there will be obstacles along the way. Certainly on a more individual scale there are likely to be setbacks. So landlords need to keep communicating with their tenants. No two tenancies are the same, and when difficulties do arise, having the best information to hand is vital to finding the best course of action for everyone involved.”

David Brown, commercial director of LSL Property Services, commented: *“Red hot returns from many buy-to-let investments are offering landlords a burning incentive to invest further. Even as rents rise, the trend of the last five years indicates most tenants can increasingly afford to live in the private rented sector. Wages will probably start to pick up in 2014, allowing overall tenant arrears – of all levels – to keep falling.*”

“However, today’s biggest risk for the private rented sector is a small minority of tenants who are in a very different financial boat – still struggling with several months’ of late rent. For these households, any signs of economic growth have been confined to the pages of the newspaper, and are yet to make wallets any fatter. This small proportion of private tenants is shrinking, but remains a serious concern for some landlords.”

“Ultimately, to keep supplying housing at a price that’s more affordable for everyone, we’ll need more homes to go round. That will require a revolution in the supply of new homes – with tens of thousands custom-built to rent each year. In the meantime, landlords need to know their tenants, and maintain an attention to detail when it comes to managing their properties.”

--ENDS--

NOTES TO EDITORS

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

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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>

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.

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