

UK SPECIAL REPORT

Arrears after 12 months of COVID-19

Are tenants clearing
their debt?

Data for the
English regions,
Scotland, Wales &
Northern Ireland

How are agencies
coping with less
commission?



Contents

Pandemic patterns	3
A note on our data	3
Executive summary	4
How many tenants are in arrears and how much do they owe?	6
Tenants: Evictions	8
Landlords: The supply of rental properties	10
Letting agencies: The impact on letting agencies	14
Case study: How Harris & Co modernised their lettings business with PayProp	16
Regional data	18
Adapt and overcome	25

Introduction

Pandemic patterns

It has been over a year since COVID-19 hit the UK. Throughout the pandemic, we have been studying tenant arrears to give a picture of how tenants, landlords and agents are coping with the pandemic and the restrictions placed on the UK as a result.

For our latest issue, we've looked at the past five quarters of arrears data from across the UK to identify patterns and consider the future of the market. Using a revised methodology, we've combined our arrears data with information from a variety of other sources to paint a clearer, richer picture of what has happened over the past year – both across the UK and in the various regions and countries.

Our analysis presents mixed results: the good news is there are fewer tenants in arrears than at the height of the pandemic, but the amount owed by those in arrears is significant – and increasing. What impact will this have on landlords and agents? Will a swift economic recovery allow tenants to pay off their debts? Or will the end of furlough see a bigger spike in arrears as businesses consider jobs that have been kept on life support throughout the pandemic surplus to requirement?

Read on to find out. ■



Neil Cobbold
Chief Sales Officer
PayProp

[LinkedIn](#)
neil.cobbold@payprop.co.uk

A note on our data

Throughout the pandemic, PayProp has been publishing quarterly arrears statistics to help give the market vital information on how tenants are coping with their payment obligations.

For our anniversary publication, we have reviewed how we generate our arrears data and considered additional sources, including official data from the [Office for National Statistics](#), to deliver a richer, clearer analysis of the UK rental market.

Additionally, we've applied this new methodology to our previous arrears data, for a comparable set of statistics for the last five quarters. With more data at our disposal, this gives us a much more detailed and accurate picture of what is going on across the rental market.

PAYPROP SPECIAL REPORT | ARREARS AFTER 365 DAYS OF COVID-19 | MAY 2021

Introduction

Executive summary

£728 million

By the end of Q1 2021, UK tenants owed an estimated £728 million in rent arrears.

This debt is shouldered by 11.4% of tenants.

27,807

Currently in England, approximately 27,807 households are under threat of eviction in four weeks, as they owe more than six months' rent.

10%

While the increase in house prices may tempt some landlords to sell, we again don't expect to see a mass reduction in the supply of rental properties as the latest English Housing Survey suggests only 10% are looking to sell.

Similarly, demand for short-term lets may currently be high due to restrictions on foreign holidays, but this demand will only be in certain areas and may not last.

Property sales

Sales commission will have helped agencies with both sales and lettings departments.

1,370

However, over 1,370 businesses that manage real estate on a fee or contract basis may have closed since March 2020.

13.4%

Since a high in Q2 2020 of 13.4%, the percentage of tenants in arrears has decreased every quarter.

The reverse has happened to the amount of debt, increasing every quarter since Q1 2020 – although the rate at which this is happening has now slowed nationally.

1.4 million

If eviction restrictions are relaxed and arrears remain as they are, over 610,000 households in arrears could be evicted, resulting in over 1.4 million people losing their homes.

Recovering these debts and protecting tenure, where possible, will depend on a careful balance between economic growth and government support.

Letting agencies are missing commission, but the reduction in the percentage of tenants in arrears shows it is possible to recover this commission when tenants pay their arrears.

Regional data

Regional data shows tenants in Northern Ireland owe the least, while London tenants owe the most.

The areas with the lowest percentage of tenants in arrears is the South East and South West, while the highest percentage of tenants in arrears is in the North East.

Automation

Automation of arrears management can help agencies recoup arrears without increasing administrative costs.

11.4%

We don't expect the 11.4% of tenants in arrears to cause a large number of buy-to-let repossession, as the majority of rental properties are not mortgaged.



Arrears data

How many tenants are in arrears and how much do they owe?

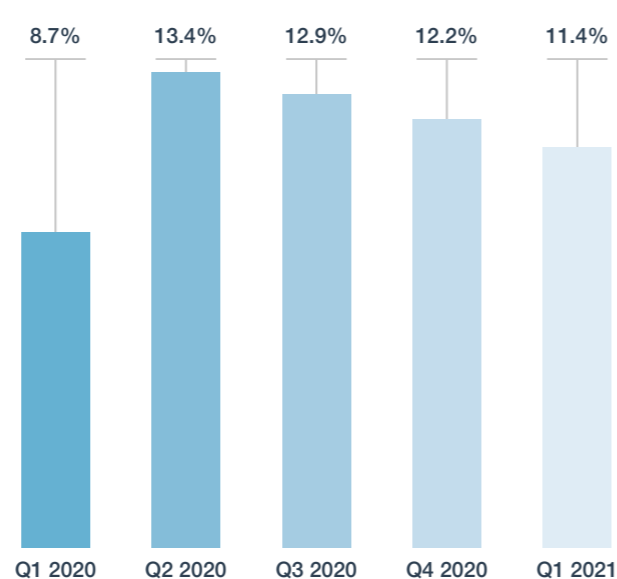
In March 2020, the UK went into lockdown in response to the global COVID-19 pandemic. A year on, the impact of the pandemic and subsequent lockdowns is there for all to see in the rental market. Between Q1 2020 and Q2 2020 alone, the initial lockdown before government support became available resulted in a 53.7% increase in the number of tenants in arrears.

But despite ongoing challenges throughout 2020, the second quarter represented the peak number of tenants in arrears. The large initial increase may have been due to uncertainty around COVID-19 restrictions, how long they were going to last and the impact they would have on income over time. To ensure they had enough money to cover living expenses, tenants appeared to withhold rent initially, paying it back over time as lockdowns were lifted and/or government support became available.

This supposition is borne out by a reduction in the number of tenants in arrears every quarter after Q2 2020. While this was encouraging to witness, other data suggests that those managing to get themselves out of debt owed the smallest amounts. But if the trend continues, national governments and local authorities will avoid a massive spike in arrears-based evictions once COVID-19 related 'evictions bans' come to an end.

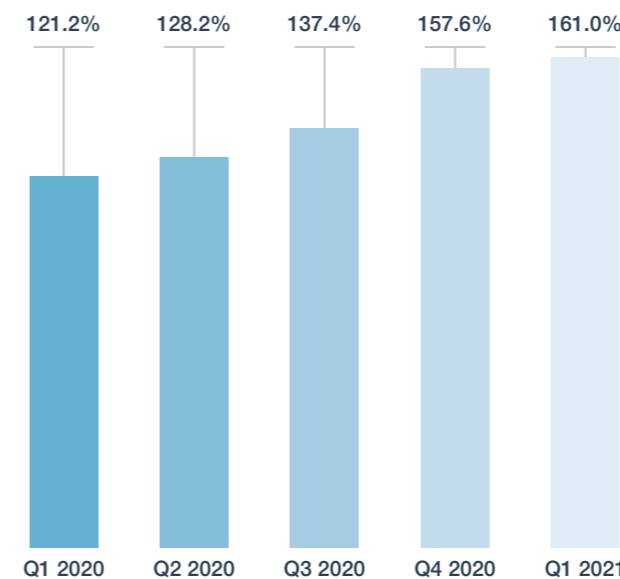


One year since the start of the pandemic, UK tenants owe an estimated £728 million in rent.



Average % tenants in arrears
Measured quarterly

Source: PayProp



Average arrears %
Measured quarterly

Source: PayProp

While the number of tenants in arrears has been trending downwards since the initial spike in Q2 2020, the amount they owe, both as a percentage of total rent and in real terms, has continued to climb. One year since the start of the pandemic, UK tenants owe an estimated £728 million in rent.

There is, however, a silver lining. The rate at which this debt is increasing has slowed, from a high of 14.28% between Q3 2020 and Q4 2020 to a low of 2.56% between Q4 2020 and Q1 2021. This would have come as a relief to landlords relying on rent for income or a pension, as well as the letting agencies that use rent commission to pay their bills.

The fact that the £728 million debt burden is owed by an ever smaller group of tenants will perhaps spur policymakers to look at more targeted help for this group of tenants. ■

Tenants

Evictions

There is a popular misnomer that agents, landlords and tenants currently operate under an ‘evictions ban’ that prevents tenants from being turned out of their rental properties.

In fact, the [Coronavirus Act 2020](#) in England has merely delayed any evictions that may have taken place under normal circumstances, requiring landlords to provide six months’ notice to tenants in most circumstances, including for most tenants in arrears, before they start evictions proceedings.

However, contrary to the situation in Wales, Scotland and Northern Ireland, English tenants can be evicted in four weeks if they have accrued more than six months of rent arrears. As tenants across the UK, including those in England, have been under some form of COVID-19 restriction since March 2020, some may have either been unable or unwilling to pay the rent for six or more of the past 12 months, racking up enough debt to be eligible for eviction with a one-month notice.

How many English tenants are under threat of eviction now?

According to our calculations, over 27,000 households have accrued enough debt since Q1 2020 to be eligible for eviction with a one-month notice due to excessive rent arrears. At an average occupancy rate of 2.3 people per rented property, that puts over 63,000 people across England at risk of being evicted, despite an ‘evictions ban’.

English households that owe an average of six months’ rent or more

East Midlands	2,778
East of England	3,465
London	6,716
North East	2,051
North West	3,736
South East	2,102
South West	1,711
West Midlands	1,894
Yorkshire and the Humber	3,354
England	27,807

Source: PayProp & Ministry of Housing, Communities & Local Government

According to data from the [Ministry of Justice](#), 93 rental property repossessions have thus far taken place across England in Q4 2020. While the reason for repossession is not given, and the numbers are significantly down on pre-pandemic levels, some may have been due to excessive arrears. We expect this number to have increased by the time the Q1 2021 data is published, as landlords attempt to gain repossession of properties from tenants who have been unable or unwilling to pay rent during the pandemic.

However, eviction should be the last resort of landlords and agents. Often, mediation – aimed at arriving at an affordable payment plan – can be a much better option, so we do not expect all households under threat of eviction to be evicted.

Evictions after COVID-19

Currently, most evictions in England, Wales, Scotland and Northern Ireland are subject to some form of restriction, including extended eviction notice periods or enforcement bans. The court system is also backlogged, meaning landlords face even more delays if they are forced to evict a household.

But what will happen once these restrictions expire? If landlords choose to evict every household currently in arrears, our data suggests the UK could see over 610,000 evictions, resulting in over 1.4 million people losing their homes.

This is an absolute worst-case scenario, one we are confident will not happen. Since the percentage of tenants in arrears peaked in Q2 2020, this number has been steadily dropping, a trend we hope will continue. We also expect some tenants in arrears to have come to an arrangement with their landlords to repay their arrears over time. As long as they keep up their repayments, the threat of eviction will be staved off accordingly. In addition, evictions cannot all take place at once, due to strained court capacity.

The question landlords need to ask themselves is this: will they have a better chance of recovering some or all of the arrears if they work with their letting agent and tenant to negotiate a payment plan? Or would it be better to stem any future losses by evicting a tenant in arrears and attempting to recover the money through the courts?

There is clearly no one-size-fits-all solution for the rent arrears problem and the course the landlord chooses to take may well depend on the circumstances they find themselves in. They will need to consider the financial cost, including if the property is mortgaged and the rental income from the property makes up a substantial part of the landlord’s regular income. They may also consider the tenant and their payment behaviour before the pandemic and the number of years they have lived in the property. In any case, we will not see the full impact of each landlord’s decision for some time to come. ■

63,000

people across England at risk of being evicted, despite an ‘evictions ban’.

Over 27,000 households have accrued enough debt since Q1 2020 to be eligible for eviction with a one-month notice due to excessive rent arrears.

EVICITION NOTICE



Landlords

The supply of rental properties

How will arrears built up over the past five quarters affect the supply of rental properties?

Will we see repossessions?

The biggest concern among landlords burdened with buy-to-let mortgages and tenants in arrears may be the threat of having the property repossessed by the mortgage lender. However, according to [Hamptons International](#), “by the end of 2020, there were just under two million outstanding buy-to-let mortgages (both in personal and company names) in Great Britain and around five million privately rented homes. This means only around 40% of current buy-to-let properties have a mortgage.”

How many of those landlords with mortgages have had their property repossessed thus far? The latest data from [UK Finance](#), which represents over 250 banks and finance firms, reveals that only 550 properties were repossessed over the last three quarters of 2020 – less than the number in Q1 2020 alone (650), before the pandemic hit. UK Finance puts this down to lenders offering payment holidays of up to six months to landlords who couldn't keep up repayments during the pandemic, as well as the industry moratorium on involuntary possessions.

While UK Finance predicts an increase in buy-to-let repossessions as the moratorium has expired and mortgage payment holidays end, this will reportedly be driven by possessions which will have been in progress before the pandemic. What happens after that will depend on more than the position of tenants and landlords alone.

Throughout the pandemic, the government has supported jobs through the Coronavirus Job Retention Scheme (furlough). According to stats from [HM Revenue & Customs](#), the scheme was supporting a provisionally estimated 4.7 million jobs as at 28 February 2021, with

the government paying employees 80% of their salary (up to a maximum of £2,500 per month). The data also reveals that over 41% of employers across the country had staff furloughed.

Having supported so many jobs, the government will need to wean employers off the job support scheme, something it plans to do gradually starting in [July 2021](#), when it will require employers to contribute to furloughed employees' salaries. The scheme is currently due to end in October 2021.

We trust the government to continue with the flexibility it has shown throughout the pandemic by delaying the end of furlough if the economy has not sufficiently recovered for the jobs supported by the furlough scheme to be viable. As a result, we don't predict a big increase of unemployed tenants who would be unable to cover the rent until they find a new job.



What about landlords without mortgages?

With only 40% of landlords currently mortgaged, the other 60% own their rental properties outright, and are therefore not at risk of repossession due to an unpaid mortgage. As seen below, the circumstances of this group suggest they should be under less financial pressure.

Results from the latest [English Private Landlord Survey](#) provide a clear view of the average landlord and what they do with income generated by their property. The first thing to note is that 59% are over 55, and 33% are retired. Secondly, landlords received on average 42% of their total gross income from their rental properties.

According to the latest [Wealth and Assets Survey](#) from 2019, only 6% of households headed by a retired person face 'problem debts'¹. As a result, this group is less likely to be in debt than other landlords, and therefore less likely to need rental income to cover debts. Given the government advice for those over a certain age to 'shield', retired landlords may also have had less opportunity to spend money over the past year, reducing the burden on their income. We therefore expect that, while there may have been a drop in the 42% of income from their rental properties, it is unlikely to put them into financial difficulty.

We also don't expect retired landlords or those nearing retirement to sell their properties after spending their lives building up a property portfolio to supplement their income in their 50s and through to retirement. In keeping with this, 44% of all landlords surveyed said they invested in property “to contribute to their pension”.

There is however another significant group of landlords that will overlap with those above – the 17% of landlords who own five or more properties. This group makes up more than 48% of tenancies. This may be concerning to policymakers opposed to a small group of landlords owning almost half of all tenancies across England. On the other hand, at a time when 11.43% of tenants in England are in arrears, a larger portfolio will make it easier for most landlords to absorb the costs of those arrears.

¹The Office for National Statistics define a household being in problem debt if the head of the household has liquidity problems, solvency problems or both liquidity and solvency problems.

The supply of rental properties – cont. ▶

Better investments?

[The English Private Landlord Survey](#) reveals that “46% of landlords became a landlord because they preferred property to other investments”. According to the UK [Land Registry](#), average property prices have now reached their highest price ever recorded. While some landlords may be tempted to take the capital gains and cash out of the market in search of other investments, we don't think this will hit the supply of rental properties.

Additionally, landlords in certain locations may look to cash in on the ongoing trend for domestic holidays. With COVID-19 restrictions on most foreign holidays still in place, VisitEngland's latest [COVID-19 Consumer Sentiment Tracker](#) shows that 19% of those surveyed intend to take more short breaks in the UK than normal, and 16% intend to take more long breaks (4+ nights) in the UK than normal. Could the extra demand see landlords with vacant properties, or properties with tenants in arrears, switch to the short-term rental sector?

Demand for short-term lets is certainly there, with the top accommodation choice on VisitEngland's latest [COVID-19 Consumer Sentiment Tracker](#) being 'Commercial rental (e.g. rented holiday cottage)', selected by 40% of those surveyed for spring holidays and 43% of those surveyed for summer holidays. However, being able to fulfil this demand with properties currently on the long-term rental market will depend on if they are vacant, as most tenants are continuing to pay the rent.

46%

of landlords became a landlord because they preferred property to other investments.

Will supply remain stable?

We do not expect to see an immediate impact on the supply of rental properties. Mortgaged properties were subject to a possession moratorium until the end of April 2021, and while UK Finance expects to see an increase in repossessions, this is from a historically low rate over the past year and driven by repossessions in progress before the pandemic.

In the longer term, much will depend on the state of the economy and how many of the jobs supported by the furlough scheme – due to end in October 2021 – are viable. We expect the government to continue to provide support if necessary, to prevent furloughed tenants ending up in arrears when the scheme ends. As a result, we expect the majority of the 40% of landlords with mortgages to continue to cover their repayments, and only some properties to be repossessed.

What about those landlords looking to sell to take advantage of high property prices? While some may be tempted by the demand generated by the reduction in stamp duty, this is unlikely to be sustained as stamp duty returns to normal in October 2021. In addition, if sentiments in the English Private Landlord Survey remain as before, only 10% of landlords may reduce their portfolio.

While there is an immediate demand for short-term rental properties as the population considers staycations in 2021, the opportunity for landlords to take advantage of this depends largely on the location of the property. The South West is the most popular destination, but large cities, which contain the bulk of rental properties, are the least popular destination type in spring and the second least popular destination type in summer. This limits the opportunities for most landlords to take advantage of increased demand.

Furthermore, 94% of those surveyed by VisitEngland expect things to 'return [to] close to normal' by 2022 onwards', meaning any excessive demand for staycations may be short lived. However, demand from overseas holidaymakers may replace it.

In conclusion, if the economy grows, furloughed employees return to work, sales demand drops, and foreign holidays return to 'normal' levels, we expect only a small reduction in the number of rental properties over the next years, mainly in mortgaged properties housing tenants with arrears. ■

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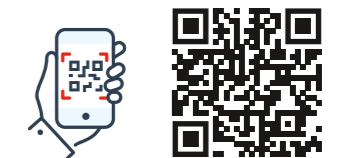
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Letting agencies

Impact on letting agencies

So far, we have examined the impact of tenant arrears on tenants and landlords, but letting agents, who are key to this market, have been hit hard too. We estimate they are missing commission payments of over £72 million.² This will undoubtedly have had an impact on the profitability of lettings departments and agencies, but bear in mind, firstly, that the missing commission can be recovered when tenants pay off their debts, and secondly, that many agencies that rent properties also sell them, allowing one side of the business to support the other.

Debt recovery may seem a daunting task for agencies when the total cumulative debt is such a high figure, but the reduction in the number of tenants in arrears since Q2 2020 proves that agencies have been able to recover missing rent and commission.

Traditional methods of chasing debt can be inefficient. Firstly, the exact amount needs to be calculated along with any late fees. Secondly, 'friendly reminders' need to be drafted for the tenant's attention, and thirdly, these reminders need to be sent with the correct arrears amounts. This process needs to be repeated for an average of 11% of every agency's portfolio.

There are of course easier methods of arrears chasing, or at least streamlining the process so it has negligible impact on resources. Some PropTech systems automatically tally the correct arrears amount from the agency's client account, making it easy for the agent to see how much is owed. Technology can also automate the reminder process, ensuring your reminders are compliant and sent via e-mail or by text message, which has been proven to result in more tenants paying.

While PropTech cost a monthly fee, the amount of admin time saved from chasing 11% of tenancies may easily cover any costs for the platform, even before commission is earned back when arrears are settled.

While PropTech cost a monthly fee, the amount of admin time saved from chasing 11% of tenancies may easily cover any costs for the platform.



Sales commission will also have helped estate agencies with combined sales and lettings departments to stay afloat. According to the latest figures from [HM Revenue & Customs](#), there were 132,200 fewer property sales in 2020 than in 2019. This may have been caused by the first lockdown, when limited property moves were permitted but moving home, visiting properties for sale and visiting estate agencies were [prohibited \(until 13 May 2020\)](#). According to HMRC, this resulted in a 57% drop in sales in April and a 50% drop in May across the UK, when compared with April and May in 2019.

Despite an 11.2% annual decrease in the number of sales in 2020 compared to 2019, the sales component of combined estate agencies may in fact have made more money, as property prices [increased by 8%](#) from January 2020 to January 2021 – the fastest rate since 2016 – effectively netting agents more commission on fewer properties.

Even with a bumper year for sales, the Office for National Statistics' [Business Insights and Conditions Survey](#) reveals that 8% of surveyed real estate businesses have

permanently ceased trading by April 2021 – the second-highest closure rate of any industry, behind transportation and storage at 10.3%. The survey also reveals that another 8% of real estate businesses have temporarily closed.

If we assume the 8% permanent closure rate is the same across sales, lettings and combined sales and lettings agencies, we calculate that more than 1,370 businesses managing real estate on a fee or contract basis (out of [17,230 lettings businesses](#) registered for VAT and/or PAYE) will have closed permanently since March 2020.

Nevertheless, we predict agents may be better placed to cope with arrears in 2021 given the clear pattern of a decreasing percentage of tenants in arrears, which will make it easier for agencies to focus on the smaller group of tenants carrying more serious arrears.

Combined agencies will need to navigate the stamp duty changes in 2021 that may see sales slow down. It is therefore key to put in place a strategy to tackle rent arrears while sales are still brisk, to recover their commission. ■

² Assuming an average 10% commission on rental payments

Case study



How Harris & Co modernised their lettings business with PayProp

Fleetwood
Lancashire

300+
Properties managed

July 2019
Joined PayProp

An interview with



James Harris
Managing Director

Harris & Co in Fleetwood, Lancashire, has been in the property letting business for 25 years. It's a family-run agency with over 300 clients. One of the significant changes they have made in recent times was to engage PayProp to provide an integrated system to automate their client account and rental payment process.

According to Managing Director James Harris, it has completely transformed the way they operate.

PayProp has changed my life – no exaggeration. I'd gone through different agents, loads of different packages, whatever there was. I knew I wanted software for the accounting side and obviously for the front-of-house side, but couldn't see anything else out there even close to rivalling PayProp's system.

"At first the price made me hesitate; it looked expensive," says James. But he knew a solution of PayProp's calibre was vital to the agency's operations – and soon found there was huge financial value in it for his business.

Worth every penny and more

"I couldn't cope with doing all the accounts. I needed something automated to do it all for us. Otherwise, I would have had to hire two more people to do what one person was doing. And when the PayProp rep put in their return-on-investment formula, I realised how much we could save."

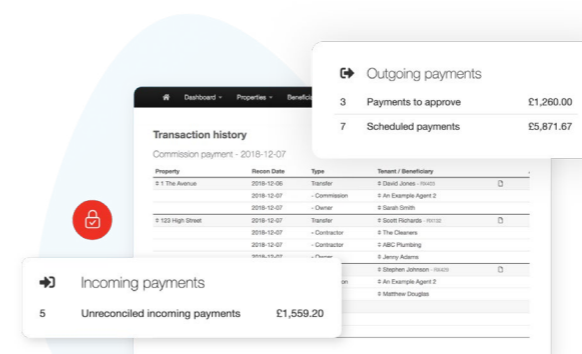
And save they did! The costs are lower than hiring an accountant to do financial analyses and compile reports. In addition, it has freed up manpower, which many letting agencies redeploy elsewhere to support business growth. Moreover, automation in and of itself allows agencies to manage much larger portfolios efficiently.

"As a result," says James, "I've been able to do so much more business over the last 18 months."

"I've had time to go out without worrying about chasing or reducing arrears. It's all automated – no more paper statements or the like. No more spreadsheets and bank statements."

Harris & Co's previous system wasn't really transparent, so tenants couldn't see what they owed and landlords couldn't see if there were any arrears.

PayProp has simplified the rent collection and payments management considerably. What took two full weeks to settle up accounts now takes a few minutes.



Now, with PayProp, company employees can deal with arrears before they become a problem via live payment status views. The platform also sends proactive reminders via e-mail and text message to prompt tenants to pay their rent.

Harris & Co also wanted something to integrate with the bank; to avoid having to log on every time they needed to make a payment. The PayProp system works seamlessly for them in this regard and enables them to see incoming rent payments in real time.

Says James, "My first day paying landlords was like, 'Oh, is this going to work?'. I was at home. I remember setting up the approval. I received an e-mail at five o'clock saying what had come in. Then I got the text at ten o'clock, saying, 'This is your commission'. Wow – that's really changed things! As for fighting fraud – you can restrict access. If someone changes something, I get an automatic text saying the bank details have changed on this or that person, which is brilliant. It means I don't have to be at the office all the time. Bank integration and the simultaneous audit log are among the things that really stand out for me."

"It was really telling when I spoke to other agents about what we can do with PayProp, like take Direct Debits; our competition simply can't do that."

PayProp really makes a small company look like a multi-million-pound business – the automated statements, the app, rent chasing, text. It's got everything, it really does.

Client account clarity

Another consideration with choosing PayProp was poor service at the bank.

"Our old bank decided to start changing how they operate and they wanted a client account for every single landlord. Imagine having a client account for every landlord, as well as an Excel document for every single one! I couldn't have coped with that," said James. "That was another perfect reason to sign up to PayProp, as I would much rather pay for an integrated, but still compliant, client account that is going to improve and grow with my business, than pay the bank for multiple client accounts."

James also makes extensive use of the portfolio graph on the PayProp dashboard. It enables him to see cumulative rent payments and commission totals over the previous 12 months, at a glance.

Customer service

Customer service has always been very important to James. He says, "PayProp helps us with our customer service excellence. We don't treat anybody as the little guy. All of our clients are equally important."

Something that seems to cause a fair bit of anxiety for letting agents is the processing of their Schedule 21. With PayProp, says James, you put up a ticket to PayProp and it will be on your desk within a few days.

It's also an easy system to use. Harris & Co hired two young apprentices recently and, without any training other than what's done in the office, they manage it with ease. For James, this is one of the biggest selling points.

I love the product so much; I can't recommend it enough!

Regional data

In this report, we tackle the size of the arrears burden and the decreasing number of tenants shouldering it. While this pattern is clear at a national level, it plays out differently across the English regions, Scotland, Wales and Northern Ireland.

North East



Throughout the last five quarters, the North East has had the highest percentage of tenants in arrears. At its high point at the end of Q2 2020, over a quarter of tenants (25.2%) were in this position. However, the region has followed the national pattern, with the number of tenants in arrears peaking in Q2 2020 followed by a decline over the next three quarters. The percentage of monthly rent owed also tracks what we are seeing nationally, with the average increasing from 134% in Q1 2020 to a high of 177% by the end of Q1 2021 – the equivalent of seven weeks' rent.

At the end of Q1 2021, 1% of tenants in the North East had managed to accrue arrears of six months or more, making it the region in England with the most excessive arrears. Accordingly, over 2,000 North East households are at risk of eviction due to arrears, with a one-month notice period.

While the percentage of tenants in arrears at the end of Q1 2021 is the worst in the UK, this group actually owes the least of all the English regions (although it is increasing), due to low average rents in the North East.

North East	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	20.76%	25.19%	23.17%	22.56%	21.28%
No. of households in arrears	41,114	49,872	45,875	44,674	42,126
% of tenants in 6 months of arrears or more	0.29%	0.37%	0.51%	0.95%	1.04%
No. of households in 6 months of arrears or more	580	730	1,005	1,884	2,051
% owed over average rent	134.24%	139.11%	141.14%	159.18%	177.44%
Amount owed in rent	£25,077,757	£26,050,996	£27,515,735	£31,234,287	£34,912,302

Source: PayProp & Ministry of Housing, Communities & Local Government

North West



This region has the second-highest percentage of tenants in arrears across England. At 15.6% by Q1 2021, this figure has come down from a high of 17.56% in Q3 2020. It is, however, some way off the heights of the North East, and has fallen at an average of over 5% across the previous two quarters.

While tenants in the North West may on average owe 159.66% of their monthly rent at the end of Q1 2021, this figure is 1.38% lower than the national average. The North West region does however have the second-highest number of tenants at risk of eviction due to excessive arrears, with approximately 3,736 households at risk.

North West	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	13.61%	17.09%	17.56%	16.65%	15.60%
No. of households in arrears	77,993	97,898	100,631	95,428	89,381
% of tenants in 6 months of arrears or more	0.31%	0.31%	0.44%	0.64%	0.65%
No. of households in 6 months of arrears or more	1,768	1,786	2,522	3,681	3,736
% owed over average rent	143.94%	141.35%	141.68%	156.16%	159.66%
Amount owed in rent	£69,286,726	£68,805,494	£68,760,030	£77,974,747	£80,696,150

Source: PayProp & Ministry of Housing, Communities & Local Government

Yorkshire and the Humber



Tenants across Yorkshire and the Humber also followed the national pattern, with the region's largest share of tenants in arrears accruing in Q2 2020 and slowly declining over the next three quarters. The region boasted a lower percentage of tenants in arrears than the national average (10.6% vs. 11.4%) by the end of Q1 2021.

While the number of tenants in arrears is low, those in debt are adding to it more than 58% faster than the national average, adding 6% to their total debt between Q4 2020 and Q1 2021 – something agencies and landlords will no doubt want to tackle.

Yorkshire and the Humber	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	8.01%	12.40%	12.05%	11.33%	10.60%
No. of households in arrears	38,450	59,543	57,845	54,366	50,884
% of tenants in 6 months of arrears or more	0.32%	0.36%	0.47%	0.66%	0.70%
No. of households in 6 months of arrears or more	1,533	1,749	2,278	3,144	3,354
% owed over average rent	122.22%	134.52%	143.45%	162.79%	170.63%
Amount owed in rent	£35,427,867	£38,873,147	£41,033,409	£47,310,802	£50,200,710

Source: PayProp & Ministry of Housing, Communities & Local Government



East Midlands

The vast majority of tenants across the East Midlands have managed to keep arrears under control, with only 8.9% owing rent by the end of Q1 2021 – only marginally higher than the regions with the lowest percentage, the South East and South West. This is significantly below the national average of 11.4%. However, tenants in arrears owe the highest percentage of average monthly rent of any region in England, at 211.75%. The East Midlands is in fact the only English region where the average tenant in arrears owes more than two months' rent.

East Midlands	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	6.61%	10.11%	10.08%	9.83%	8.95%
No. of households in arrears	26,062	39,826	39,716	38,713	35,249
% of tenants in 6 months of arrears or more	0.19%	0.39%	0.48%	0.73%	0.71%
No. of households in 6 months of arrears or more	757	1,522	1,882	2,865	2,778
% owed over average rent	141.65%	143.21%	160.62%	197.52%	211.75%
Amount owed in rent	£31,697,367	£32,452,369	£34,625,555	£41,519,675	£44,110,846

Source: PayProp & Ministry of Housing, Communities & Local Government



West Midlands

In the West Midlands, only a small percentage of tenants are at risk of being evicted due to excessive arrears, as only 0.4% of tenants owe more than six months' rent – the joint second-lowest in the UK. As a result, only 1,894 households across the region are under threat of eviction while the 'eviction ban' is in place.

There is good news for landlords too, as tenants in arrears owe a lower percentage of their monthly rent at the end of Q1 2021 (153.11% compared to the national average of 161.11%).

West Midlands	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	8.67%	13.00%	13.15%	12.02%	11.20%
No. of households in arrears	36,767	55,134	55,766	50,964	47,479
% of tenants in 6 months of arrears or more	0.11%	0.19%	0.25%	0.53%	0.45%
No. of households in 6 months of arrears or more	480	802	1,067	2,252	1,894
% owed over average rent	117.73%	136.91%	132.69%	159.99%	153.11%
Amount owed in rent	£39,097,150	£44,347,292	£39,273,728	£45,717,066	£44,990,856

Source: PayProp & Ministry of Housing, Communities & Local Government



East of England

Tenants in the East of England owe the second-highest amount of arrears at £82 million. Along with that, the region also has the third-highest number of households under threat of eviction due to arrears (3,465). The good news is that only 10.37% of tenants are in arrears, almost 1% lower than the national average. However, they do owe the second-highest amount of rent arrears in England at 195.20% of average monthly rent.

Encouragingly, tenants here managed to cut the amount of rent they owed by 3% between Q4 2020 and Q1 2021 – more than any other English region and more than the UK average, which saw an increase of 2.56% between the same quarters.

East of England	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	8.09%	13.85%	12.11%	11.02%	10.37%
No. of households in arrears	38,081	65,214	57,053	51,913	48,847
% of tenants in 6 months of arrears or more	0.13%	0.26%	0.51%	0.89%	0.74%
No. of households in 6 months of arrears or more	635	1,214	2,389	4,183	3,465
% owed over average rent	131.48%	137.03%	158.14%	200.70%	195.20%
Amount owed in rent	£54,364,579	£57,015,824	£67,144,079	£85,319,110	£82,714,156

Source: PayProp & Ministry of Housing, Communities & Local Government



London

London has a higher number of tenants than anywhere else in the UK, so it will be no surprise that tenants there owe the most at over £277 million. This is approximately 38% of total rent arrears across the UK which is mainly caused by the high rents demanded in London.

The region matches the national average of tenants that have accrued on average more than six months of rent arrears at 0.6%. Because of the number of tenancies, more households in London are therefore under threat of eviction because of excessive arrears than anywhere else in the country. An estimated 6,716 households are at risk – making up 44.3% of all tenants currently at risk across England.

London	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	7.37%	14.44%	13.67%	13.01%	11.10%
No. of households in arrears	76,481	149,881	141,910	135,074	115,237
% of tenants in 6 months of arrears or more	0.22%	0.28%	0.36%	0.70%	0.65%
No. of households in 6 months of arrears or more	2,334	2,949	3,729	7,215	6,716
% owed over average rent	120.95%	114.14%	130.48%	151.42%	163.23%
Amount owed in rent	£213,947,097	£199,822,158	£230,475,553	£261,332,647	£277,342,738

Source: PayProp & Ministry of Housing, Communities & Local Government



South East

The smallest percentage of tenants in arrears can be found in the South East, with only 8.5% of tenants owing rent. The region also has the lowest percentage of tenants at risk of eviction from owing six months of arrears or 0.3% – half the national average of 0.6%.

Tenants across the South East moreover owe the lowest percentage of the monthly rent out of all English regions at 142.25%. Due to high rent prices, however, tenants there owe more than £75 million in arrears, over 10% of the UK total.

South East	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	6.33%	11.40%	10.39%	9.15%	8.54%
No. of households in arrears	42,181	75,940	69,228	60,911	56,859
% of tenants in 6 months of arrears or more	0.13%	0.17%	0.17%	0.32%	0.32%
No. of households in 6 months of arrears or more	837	1,147	1,143	2,135	2,102
% owed over average rent	107.78%	113.92%	126.00%	138.30%	142.25%
Amount owed in rent	£51,981,255	£57,453,982	£67,018,949	£73,564,032	£75,123,527

Source: PayProp & Ministry of Housing, Communities & Local Government



South West

The South West has the joint-smallest percentage of tenants in arrears at 8.5% vs. a national average of 11.4%. Accordingly, the number of tenants at risk of eviction in the region is the lowest number in England at 1,711.

Tenants in the South West also owe the second-lowest percentage of their monthly rent in England at 146.03%.

South West	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	6.70%	11.38%	10.21%	9.41%	8.53%
No. of households in arrears	32,203	54,727	49,121	45,284	41,006
% of tenants in 6 months of arrears or more	0.35%	0.16%	0.20%	0.35%	0.36%
No. of households in 6 months of arrears or more	1,703	772	949	1,685	1,711
% owed over average rent	152.75%	127.26%	127.22%	135.66%	146.03%
Amount owed in rent	£47,705,419	£37,470,119	£36,860,085	£39,845,925	£42,108,048

Source: PayProp & Ministry of Housing, Communities & Local Government



Northern Ireland

According to our figures, tenants in arrears in Northern Ireland owe the least – both in the total amount of arrears (£11 million) and as a percentage of monthly rent (134.41%). Our data also shows that only 363 tenants in Northern Ireland have accrued more than six months of arrears, which represents 0.26% of tenancies across the country.

Between Q4 2020 and Q1 2021, the percentage of tenants in arrears fell by 12.52% while the amount of rent owed dropped by 3.23% – the biggest reduction in both figures across the UK.

Northern Ireland	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	13.33%	16.24%	14.00%	14.52%	12.70%
No. of households in arrears	18,395	22,412	19,319	20,036	17,528
% of tenants in 6 months of arrears or more	0.08%	0.12%	0.26%	0.37%	0.26%
No. of households in 6 months of arrears or more	117	162	359	512	363
% owed over average rent	126.41%	140.17%	164.21%	148.44%	134.41%
Amount owed in rent	£10,727,361	£11,777,804	£13,274,068	£11,953,410	£11,567,135

Source: PayProp & Office for National Statistics



Wales

Tenants in Wales owe 4.85% of total UK arrears, which maps well against the country's population – Wales makes up 4.72% of the UK's population. However, tenants there owe a higher percentage of rent in arrears than other tenants in the UK at 236.69% – well over double their average monthly rent.

Unfortunately for Welsh agents and landlords, Wales also has the highest percentage of tenants who owe six months or more of their rent, at 1.2%. Fortunately for Welsh tenants, the four-week eviction for excessive arrears only applies in England.

Wales	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	11.25%	16.35%	16.90%	16.00%	15.37%
No. of households in arrears	19,803	28,777	29,752	28,168	27,059
% of tenants in 6 months of arrears or more	0.51%	0.70%	0.84%	1.17%	1.17%
No. of households in 6 months of arrears or more	897	1,224	1,486	2,063	2,066
% owed over average rent	171.17%	185.86%	217.58%	237.14%	236.69%
Amount owed in rent	£23,969,764	£26,176,467	£31,405,492	£35,098,519	£35,330,993

Source: PayProp & Office for National Statistics



Scotland

Tenants in Scotland come out well in our arrears analysis. Despite making up 8% of the UK population, Scotland is only responsible for 5% of total UK tenant arrears, with tenants there owing over £36 million in unpaid rent.

The country also had the lowest percentage of tenants in arrears in Q1 2020, and a year later still has a lower-than-average figure at 10.1%. Tenants in Scotland are further well below the UK average in arrears as a percentage of monthly rent. At 139.78%, this is the second-lowest figure in the UK.

One area which agents in Scotland need to keep on top of is the amount of arrears owed, as that continues to increase – albeit at a slower rate between Q4 2020 and Q1 2021 than between previous quarters.

Scotland	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
% tenants in arrears	4.86%	9.25%	9.68%	9.20%	10.06%
No. of households in arrears	19,096	36,360	38,047	36,145	39,538
% of tenants in 6 months of arrears or more	0.03%	0.06%	0.17%	0.36%	0.45%
No. of households in 6 months of arrears or more	128	220	680	1,428	1,776
% owed over average rent	88.58%	111.97%	118.83%	132.84%	139.78%
Amount owed in rent	£25,668,315	£29,691,451	£32,327,474	£35,382,668	£36,979,782

Source: PayProp & Scottish Government Housing and Social Justice Directorate

Conclusion

Adapt and overcome

Tenants, landlords and agencies across the UK have had to adapt to life during COVID-19 in 2020. The initial panic and confusion of March 2020 gradually subsided as support programmes were put in place by the UK and devolved governments. This helped to prop up businesses that had been hit hard by the various lockdowns and restrictions used to manage the spread of the coronavirus.

We can credit a combination of this wide-ranging support and many businesses adapting to the ‘new normal’ with enabling the majority of tenants to meet their financial obligations. Rent has continued to be paid in full by some, while others have managed to pay back a portion of arrears. However, approximately 11.4% of tenants across the UK still find themselves in arrears a year from the start of the pandemic (though it is important to see this against the decrease of the percentage of tenants in arrears every quarter since Q2 2020).

While the estimated £728 million owed by tenants seems a lot, we don’t expect it to have much impact on the supply of rental properties due to repossession, as only 40% are mortgaged. Moreover, landlords using properties to provide an income for retirement seem committed to the investment. This figure could theoretically trigger a

rush in arrears-based evictions when the current ‘eviction bans’ end, but instead we expect landlords and agents to prefer mediation and payment plans to evictions. Either way, it is worth noting that over 27,000 households in England are already at risk, as they owe on average more than six months’ rent.

Estate agencies have also struggled, with an estimated 8% shutting permanently. A bumper year for sales and house prices will have helped some combined sales and lettings agencies balance their books in 2020, but the looming changes in stamp duty may reduce demand for sales. It is therefore key that agencies use this time to tackle tenant arrears.

How all of this plays out over 2021 will depend on the strength of the economy to sustain the jobs that are currently furloughed. If the economy recovers and tenants can go back to work, earn a full salary and service any arrears they have built up during the pandemic, we expect to see a gradual reduction in both the percentage of tenants in arrears and the amount they owe. Given the flexibility the government has shown over 2020, we don’t expect their support programmes to end before the economy is able to support those jobs.

Throughout 2021, we will continue to track tenant arrears and bring you the latest analysis as the country recovers from COVID-19. ■

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PayProp Special Report

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For all business and media enquiries, please contact:

Neil Cobbold
Chief Sales Officer
E-mail: neil.cobbold@payprop.co.uk
Phone: 020 3740 7614

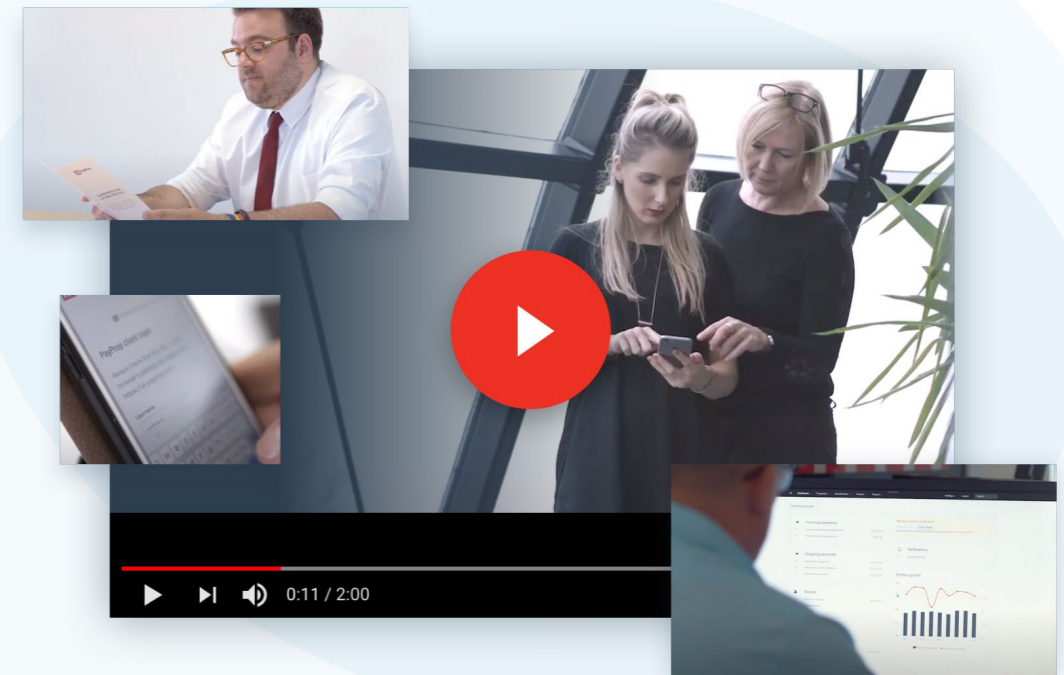
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