



Rental Market RISK REPORT

Research by Tenant Referencing and Insurance Agency, Landlord Secure
September 2017

Research conducted with 1,000 rental tenants and 1,000 landlords in the UK

Introduction

The UK is in the midst of a housing supply crisis and, as demand continues to vastly outstrip supply, millions are being priced out of the homebuying market.

As a result, many more people have turned to renting properties and “generation rent” has become the buzzword for those who are unable to get on to the housing ladder.



The number of households in the private rented sector has more than doubled since 2001, according to research by PwC, rising from **2.3m** to **5.4m** just a few years ago. It is widely expected that this trend will continue and by 2025 the number of people renting their home could reach **7.2m**.

But while many of the headlines fall on those who are struggling to buy a home and are being forced into renting, landlords who are dealing with more applications and tenants than ever before are often overlooked.

Those who own rental properties have been facing their own challenges in the last decade with rising numbers of tenants, increasing cases of tenants falling into arrears due to the aftermath of the 2008 financial crash and rising cost of living, and a government attempting to disincentivise “buy-to-let” purchases as it struggles to build enough new houses.

Current financial checks on applicants for a rented property are failing to give landlords the information they need to make informed decisions and provide homes to those who can and do pay rent on time.

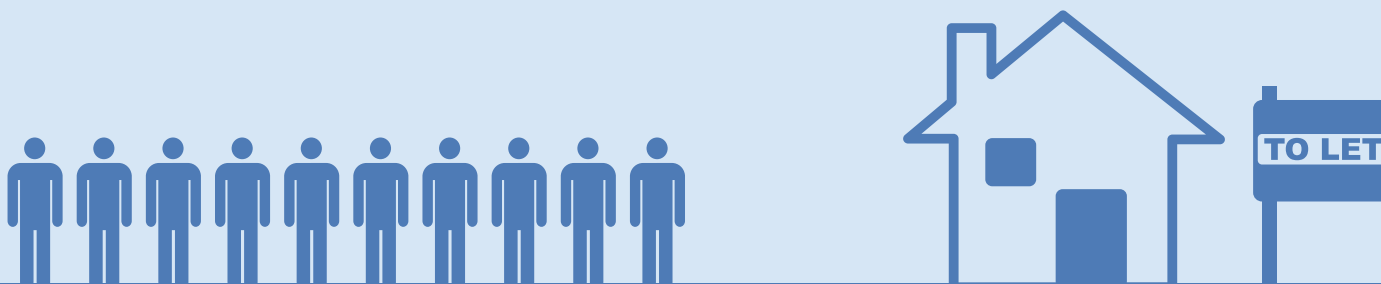
Instead, applicants who can't afford to pay rents are being signed up to unaffordable tenancy agreements on the back of poor financial checks, or the simple promise of providing a guarantor who can cover the rent if they fall behind.

As a result, these tenants find themselves falling into arrears and landlords face the costly and time consuming prospect of chasing rent or taking legal action against consistent late payers and those withholding money.

In this report we will take a closer look at the financial factors that are taken into consideration when applying for a rented property and if current checks are actually providing the information they should do.

We will investigate attitudes to the financial history of tenants and how much weight is put behind their financial past, credit history and wages, and whether people think current checks are robust enough to help landlords when deciding on an applicant's ability to pay their rent.

Throughout this report we will also provide expert advice to both landlords, tenants and policymakers on how the market can be improved and what steps can be taken to assist landlords in choosing the best tenants, but also how the private rented sector can be improved to boost the future prospects of those tenants who consistently pay their rent on time.



Foreward

The UK's housing crisis has caused a vast increase in the number of people looking to move into the private rented sector and this has put increased pressure on landlords who are trying to choose the right tenants for their properties.



This is a major decision for a landlord who relies on the regular payment of rent for their own living. Being left with a tenant who consistently fails to pay rent, either on time or in some cases at all, can be extremely stressful for landlords, as well as time consuming and costly when it comes to chasing rent.

Of course, not all tenants who fail to pay do so because they willingly withhold rent. In many cases some have just found themselves in financial trouble and can't afford the rent they agreed with the landlord initially.

With that in mind, much more needs to be done to help landlords make the right decision when it comes to picking a tenant who will be able to pay rent, and has consistently done so at previous properties.

However, current financial checks are reliant on publicly available information and often do not show if an applicant has existing debts – like a loan or credit card – whether they have been in financial trouble recently and what their credit rating is.

In efforts to improve the financial information received from an applicant, the Residential Landlords Association has called for rent payment history to be included as part of credit checks to gauge if a tenant has a history of paying on time or not.

This could also be used to help renters build up a better credit score, similar to those paying off a mortgage.

As the UK's private rented sector continues to grow, landlords will only be faced with more applicants for their properties. But so much uncertainty in the market, affected by stagnating wages, political uncertainty and a shaky economy, landlords need all the help they can get when checking the financial stability of an applicant.

At Landlord Secure our extensive credit check system gives landlords a better picture of their applicant's financial history while our latest product, **LateRent**, provides a platform for landlords to report tenants who pay rent late to credit agencies. These kinds of products will make it easier for landlords to avoid difficult tenants and allow tenants who consistently pay rent on time to improve their credit score and chances of being accepted for other financial products later on.



We hope this report will provide more valuable information for landlords and policymakers and give a better insight into the state of the UK's rental market and the issues facing landlords today.

*Steve Burrows,
Managing Director of Landlord Secure*

Perception of tenancy checks coming up short against reality

The majority of people (59%) are under the false impression that landlords and letting agents are carrying out robust financial checks against tenants, despite most relying on publicly available information rather than in-depth credit checks.

Despite the perception that potential tenants are put under stringent checks of their current and previous financial situation, the reality is that most are only subject to checks against information that is readily available, like if they have been subject to a county court judgement or been declared bankrupt.

According to our research however, as well as not being required to undergo a credit check or assessment of their current debt levels and financial security, only **22%** of tenants were asked to provide proof of funds in the account linked to their rent.

Just **35%** were asked to confirm that they had a valid bank account and just more than half (**52%**) were asked to provide proof of ID.

Considering that having a steady income stream is essential for any tenant when taking on a long-term rent agreement, too many landlords and letting agents are failing to carry out sufficient checks and ensure people can actually afford the commitment they are taking on.

In fact, just **29%** said they were asked to confirm they were in employment, **25%** were asked to provide details of their salary and only **25%** were asked to provide references from previous landlords.

18%

of landlords would expect a potential tenant to be earning at least £20k per annum before considering their application.

26%

of landlords would expect a potential tenant to be earning at least £15k per annum before considering their application.

“Most people seem to be under the impression that applicants for a rental property are subject to extensive checks on both their financial history and history of paying rent at previous properties. However, the reality is far different and landlords are only actually receiving a very small snapshot of an applicant’s financial situation.

“Most checks are done against information that is available publicly like any CCJ’s or bankruptcy declarations, which won’t reveal an applicant’s current financial position. What’s more, it is clear that many people are

not being asked to provide even the basic information on their financial history, or proof that they can afford rent.

“More needs to be done to ensure that applicants are undergoing tougher checks to establish if they can and will pay rent on time. This is not just beneficial to landlords, but to tenants who could build up a better credit rating and list of recommendations for future properties or financial products.”

*Steve Burrows,
Managing Director of Landlord Secure.*

59%

of people think current financial checks are sufficient for private rented property.

Just
22%

of applicants were asked to provide proof of sufficient funds when applying for a rented property in the last year.



What do landlords expect to know about applicants?

Despite the fact that many people think current checks on applicants for rented property are sufficient, which we have established is not the case, 61% of landlords say they would expect to be informed about an applicant's credit history before signing a tenancy agreement.



This is surprising given the responses in the previous section, but shows that the information landlords expect to be given is not being provided.

Having access to the credit scores of applicants would be an important deciding factor for landlords when deciding who to sign an agreement with, as **42%** say they would be likely to favour an applicant with a better credit score if they were renting a property.

Again, however, the perception of what is expected to be checked, against what actually happens is failing to meet expectations.

40% of landlords surveyed said they would trust a letting agent to provide a thorough reference check, and **38%** would trust an agent to carry out a thorough credit check before putting an applicant forward, even though this often does not happen in reality.

Further highlighting the expectation gap on credit checks of an applicant, **40%** of landlords would expect to be told if an applicant had a red flag against their credit score before agreeing to a lease agreement.

A further **34%** would even expect an applicant's guarantor to undergo the same level of extra checks and would want to be informed of the guarantor's credit score as well.

An applicant's poor credit history would be enough for **46%** of landlords to reject an application, while **48%** would instantly reject an applicant who had been subject to a county court judgement in the past.

Would you turn down a potential tenant if they had any of the following?

- **County court judgement – 48%**
- **A poor credit history – 46%**
- **Insolvencies – 42%**
- **Existing debts like credit cards or loans – 30%**
- **They were in receipt of housing benefits – 19%**
- **They were in receipt of universal credit – 16%**

42%

of landlords would favour a tenant with a better credit score when considering an application.

“Finding out whether a tenant can afford to take on a rental agreement for a property is a basic part of being a landlord or letting agent and the majority obviously want as much background information on an applicant before making a decision, even though it is not happening at present.

“An applicant’s credit history is clearly important to many landlords when it comes to whether they would sign a lease agreement on a property and many would refuse an applicant if they had a poor history of dealing with credit and bills. But this information is not readily available to landlords.

“Landlords are clearly aware of the kind of information they want to have before making a decision on an application but the industry has to do a better job providing it. Whether this comes from landlords themselves or from letting or credit agencies, financial checks must become more rigorous than they currently are.”

Steve Burrows, Managing Director of Landlord Secure.

61%

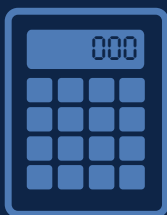
of landlords think applicants for rented properties should supply a current credit score with their application.

48%

of landlords would refuse a potential tenant’s application if they had been subject to a county court judgement.

Average earners priced out of the rental market

While many people are being priced out of the housing market due to inflated prices and out of reach deposits, there is also a risk that a number of people are now being priced out of the rental sector due to the expectations on wages.



According to this research, nearly one in five landlords (**19%**) would expect any potential applicant to have a wage in excess of **£30k** per annum, with nearly one in ten expecting any applicants to be earning between **£50k** and **£100k** a year.

This is a worrying stat considering the average wage in the UK is **£26,500** and that many people will be earning less than this when applying for a rental property.

It seems that those wanting to rent out a property are extremely risk averse when it comes to potential tenants and could have unrealistic expectations on the earning potential of those in the market.

There could however be a misconception that a person's income is directly linked to their ability to get credit, with **47%** thinking that those on higher earnings will automatically garner a better credit score than those earning less, which is not always the case.

Many others though would be much more lenient to those on lower wages with more than a quarter (**26%**) expecting applicants to be earning at least **£15k** per annum, while **18%** would accept an application from someone earning minimum wage.

However, an applicant's long term financial health is a significant factor in the rental market and **28%** of people would expect an applicant to have been in a "strong" financial position for at last six months prior to their application – regardless of what their annual salary is.

Again, others would be much more cautious when it comes to an applicant's financial history and **21%** would expect any applicant to have had sound finances for at least a year before signing a rental agreement with them.

34%

would expect a landlord to be given access to a guarantor's financial and credit history, as well as the applicant's.

Another **21%** would expect to see stable finances from an applicant for at least three months prior to the start of their tenancy.

There is a small portion of people (**9%**) who would consider an applicant with just one month of strong finances and nearly the same proportion would want to see financial stability for at least a year.

Much more stringent are the **14%** of those surveyed who said they wouldn't expect an applicant to have ever gone through tough financial times and would consider not signing an agreement with them unless they could show an impeccable financial history.

"The UK's housing crisis has meant more people are turning to renting to find a home, but it is a worry if people on average earnings are being priced out of this market as well. It is unrealistic to think that all applicants will have high wages, and those on lower wages should not be instantly dismissed. Choosing an appropriate tenant should be based more on their current financial stability – which is not always linked to earning potential – coupled with their financial history and references from previous landlords.

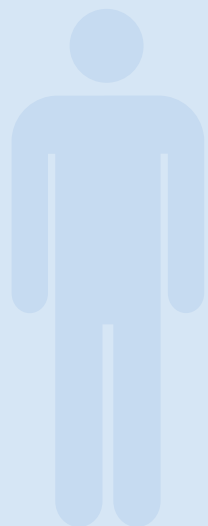
"It is not always the case that someone earning more will have a better credit history as this is not linked to earnings, rather a person's ability to deal with credit based products. The industry should be putting more focus on establishing credit worthiness and an applicant's long-term ability to deal with on-going financial commitments."

*Steve Burrows,
Managing Director of Landlord Secure.*



28%

of landlords would expect an applicant for a rental property to have been in a strong financial position for at least six months prior to submitting their application.



Conclusion

It is clear from this report that there is a disconnect between the information landlords think they should be provided with, and what they actually see.



Landlords obviously expect to be given a full financial picture of an applicant, from their earning potential to financial and credit history and trust their agent to do this. In reality though, this falls far short of what they are actually provided with, or what they check themselves, so they are not able to make an informed decision about an applicant's ability to pay rent, or their history in previous properties.

The industry needs to do more to provide better information so these decisions can be made properly and that will ultimately benefit tenants as well as landlords, as those with strong financial histories and a legacy of paying bills on time will be put at the top of the list for new properties.

This is also important given the kind of information landlords would use when making a decision. Many say they would put great weight behind an applicant's credit history and financial situation so should be given access to this to benefit their businesses.

There is some way to go before the perception of the market meets the reality. What is slightly more concerning, is the expectations on earning potential from those who would consider renting a property.



Many seem to harbour the unrealistic expectation that a tenant would be earning above the average wage, and would consider rejecting an applicant if they weren't. It is of course essential that an applicant can demonstrate that they are responsible with their finances, are robust and proficient at dealing with their credit and debt levels and are able to consistently pay on time. This though is not always linked to higher wages so annual wage should not be the only factor when determining an application.

More needs to be done by both landlords and letting agencies to ensure any decisions are being made using a full financial picture of a tenant to ensure agreements are beneficial to both sides and allows landlords to avoid conflicts with non-paying tenants, while allowing tenants to live somewhere without the risk of arrears.

Contact Us

Landlord Secure
The Exchange,
5 Bank Street,
Bury BL9 0DN

Tel:
0161 413 3452

Fax:
0161 239 7005

Email:
info@landlordsecure.co.uk

Landlord Secure Ltd is Registered in England & Wales
under Company Number: 08068004. Registered Office:
The Exchange, 5 Bank Street, Bury, BL9 0DN.



Our Products:

- Tenant Referencing Credit Checks
- Rent Guarantee
- Landlord's Building Insurance
- Tenant's Contents
- Tenant's Liability
- Tenant Tracing Service
- FREE Property Claims Service
- Professional Indemnity Insurance
- Boiler Breakdown & Emergency Assistance



Find out more at:
www.landlordsecure.co.uk