



**STRICTLY UNDER EMBARGO UNTIL 00:01 FRIDAY 20<sup>TH</sup> JUNE 2014**

## RENT RISES ACCELERATE IN MAY

- Average residential rent across England & Wales increases by 0.6% between April and May
- Despite monthly change, 1.1% annual rise is below inflation for twelfth successive month
- London rents now rising at only 1% per year, after heavy investment by landlords in the capital
- Landlords see a four-year high for total returns, up to 12.2% driven by house price rises

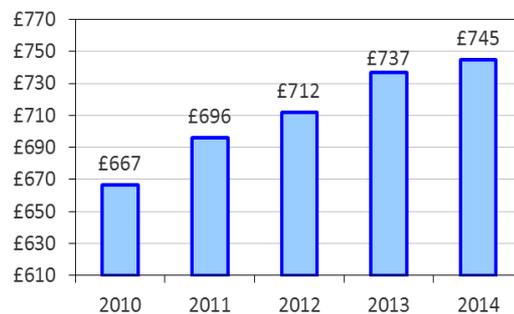
Rents have risen by 0.6% in May, accelerating from zero monthly change in April, according to the latest Buy-to-Let Index from LSL Property Services plc, which owns the UK's largest lettings agent network, including national chains Your Move and Reeds Rains.

Despite this, annual increases remain gradual. The average residential rent across England and Wales is now only 1.1% higher than in May 2013. This compares to inflation of 1.5% over the same period, as measured by the consumer prices index (CPI).

Rents have now been rising more slowly than inflation for the twelfth successive month in a row, since annual rent rises first dropped beneath the rate of CPI inflation in June 2013.

In absolute terms, the average rent in England and Wales has risen by £8 in the last twelve months, currently standing at £745 per month, compared to £737 in May 2013.

Average rent in May



**David Brown, commercial director of LSL Property Services, comments:** "Private renting is becoming cheaper in real terms. May's latest sub-inflation rent rises will help over nine million tenants. To put





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*that in context, this is more than a hundred times as many households as have benefitted from Help to Buy in its initial stages so far.*

*“These trends put the recent politicisation of the rental market in stark contrast to reality. Rents are not a single pound higher than they were in December – yet over the same six months some politicians have portrayed the industry as facing some sort of crisis.*

*“A squeeze on living standards may well be the biggest challenge of our age. But rents are not the cause. In fact the greatest risk to today’s below-inflation rent rises is that political posturing could deter some landlords from the market. Rather than conjuring up a storm, politicians should be working constructively to ensure there are even more homes available to let.”*

## **Rents by region**

Rents in seven out of ten regions are higher than a year ago. The fastest annual increase is in the South West, where the average monthly rent is now 3.9% higher than in May 2013. This is followed by a 3.8% annual increase in the East Midlands and annual rent rises of 2.3% in the North West.

By contrast, both London and the South East have seen annual rent rises below the overall average. In the South East annual rent rises now stand at just 1.2%, while rents in the capital are now only 1.0% higher than in May 2013.

This puts London sixth in terms of rent rises by region, and represents a significant slowdown since early 2013 when rent rises in the UK capital peaked at 7.9% per year.





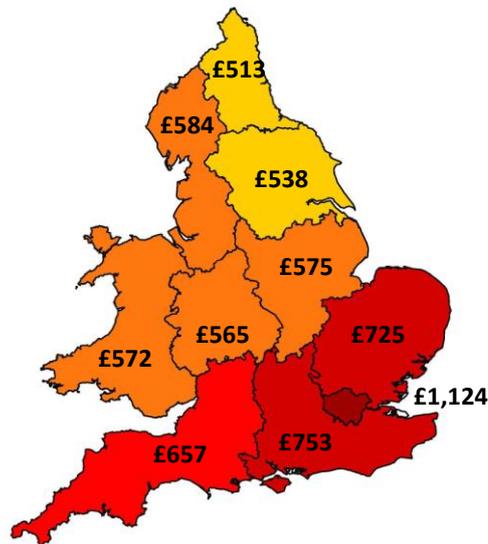
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In three regions rents have dropped over the last twelve months. This was led by the North East with a 3.6% fall, followed by an annual fall of 2.3% for rents in the East of England, while rents are now 0.4% lower than a year ago in the West Midlands.

On a monthly basis eight out of ten regions have seen rents rise since April. The fastest month-on-month increases are in the West and East Midlands, with rents in these regions respectively 1.2% and 1.0% higher than in the previous month.

Only two regions have seen lower rents than last month. In the South West average rents were 0.6% lower in May than in April, while the North East experienced a 0.5% monthly fall.



Monthly rents in May: By region

**David Brown continues:** "London is a dramatic example of how a prospering housing market can feed through to tenants. In absolute terms, the capital is naturally more expensive to live in than elsewhere, but the pace of change is now going in the right direction. In the last year London's annual rent rises have dropped from highs of almost 8% a year to only 1%.

"Elsewhere, six other regions have seen the same trend, with annual rent rises lower than a year ago. Thanks to landlords rents are now rising across England and Wales at a third the pace of a year ago."





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## Yields and Returns

In May gross yields on a typical rental property have steadied at 5.1%, the same as was seen in April. Since property values have risen, this is slightly lower than at this point last year. In May 2013 the average gross yield on a rental property in England and Wales stood at 5.4%.



However, taking into account price growth alongside void periods between tenants, total annual returns on the average rental property have reached a four year high. Total annual returns of 12.2% in the twelve months to May are up from 5.3% in the twelve months to May 2013, and are now at the highest level since June 2010, when total annual returns previously peaked at 12.4%.

In absolute terms this means the average landlord in England and Wales has seen a return of £20,133 in the last twelve months, with rental income of £8,107 and capital gain of £12,026.

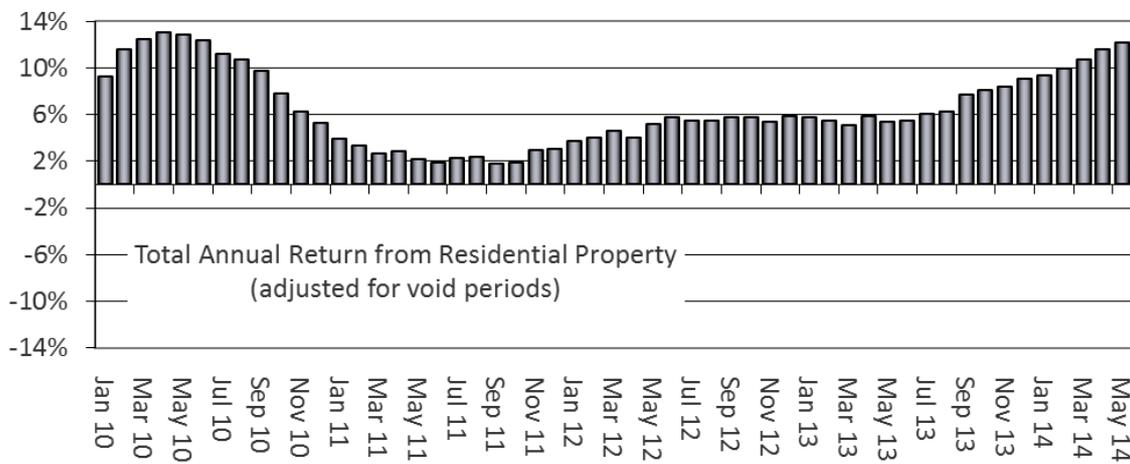
If rental property prices continue to rise at the same pace as over the last three months, the average buy-to-let investor in England and Wales could expect to make a total annual return of 13.4% over the next 12 months, equivalent to £23,718 per property.<sup>1</sup>

<sup>1</sup> Assuming house prices change at the average rate of the last three months and they achieve the average yield of 5.1%.





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**David Brown comments:** *“Rents are steady, with yields in line with historic averages. Coupled with faster turnarounds between tenancies and tenants who are less likely to fall into arrears, these steady incentives are proving their worth. Stability has returned to the rental market.”*

*“In this context, clumsy regulation is the greatest risk on the horizon. Ill thought-through proposals from politicians would disrupt recent progress. If tenant fees are banned this could both make it harder to secure a tenancy, and feed into higher rents, as we have already seen in Scotland. Meanwhile, enforced caps on rent rises could create a double-market – effectively making those already in a tenancy better off at the expense of those still looking for a home.”*

*“Yet despite these more outlandish ideas, landlords are still investing for the future in considerable numbers – indicating they ultimately trust the political system to keep regulations constructive, and the fundamental capacity of the rental market to provide stable returns.”*





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## Tenant Finances

Tenants' finances improved further in May. The total amount of late rent across England and Wales now stands at £240 million as of May 2014, down from £276 million in May 2013. Tenant arrears now represent just 7.0% of all rent compared to 8.2% a year ago. Measured both by the proportion and absolute amount of late rent, May 2014 is also the best month of May on record for tenant finances.

Tenant finances are also healthier compared to the previous month. The proportion of late rent is down from 7.4% in April to the current level of 7.0% in May. In absolute terms this represents tenants paying off £11 million in late rent within the space of one month.

**David Brown concludes:** *"Economic progress is still not yet feeding through into considerable wage rises, and this is the root cause to the current cost of living challenge. But tenants have adapted to difficult times – and with remarkable progress in the risk of unemployment, many people in the most difficult of circumstances have begun to feel the warmth of the light at the end of the tunnel."*

*"Most landlords own only one or two properties, and do not have the capital to take unnecessary risks. Their investment – in many cases their pension – will sink or swim along with their tenants' prospects. Landlords spend time choosing a suitable property, the right location and the right finance. But tenants who are less likely to fall into arrears help reduce risk further – and that is ushering more homes onto the rental market."*

- ENDS -

NB REGIONAL BREAKDOWN OVERLEAF





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## REGIONAL BREAKDOWN

	Rents May	1 month change	Annual Change	Yields May 2014	Yields May 2013
London	£1,124	0.7%	1.0%	4.4%	5.1%
East of England	£725	0.7%	-2.3%	4.3%	4.8%
South West	£657	-0.6%	3.9%	3.8%	3.8%
Yorkshire and The Humber	£538	0.7%	0.3%	6.4%	6.7%
North West	£584	0.4%	2.5%	7.0%	7.0%
Wales	£572	0.5%	1.8%	4.4%	4.5%
South East	£753	0.7%	1.2%	4.6%	4.9%
North East	£513	-0.5%	-3.6%	5.0%	5.3%
West Midlands	£565	1.2%	-0.4%	5.6%	6.0%
East Midlands	£575	1.0%	3.8%	6.0%	6.1%
<b>England &amp; Wales</b>	<b>£745</b>	<b>0.6%</b>	<b>1.1%</b>	<b>5.1%</b>	<b>5.4%</b>

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### METHODOLOGY:

The index is based on analysis of approximately 20,000 properties across England and Wales. Rental values refer to the actual values achieved for each property when let. Yield figures are unadjusted, and do not take account of void periods or arrears. Annual returns are based on annual rental property price inflation and void-adjusted yield at the point of purchase. These figures are subject to revision as more data becomes available.





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