



Buy-to-let index



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September 2014

Rents hit fresh record despite sharp slowdown in annual rises

- New all-time record high of £768 per month for average residential rents across England & Wales
- Comes despite slower rent rises of just 1.5% in year to September, down from 2.4% in year to August
- Tenant finances improve with only 7.2% of all rent in arrears, falling from 8.5% in September last year
- House price rises take landlords' gross returns to record 13.4% before mortgage or maintenance costs

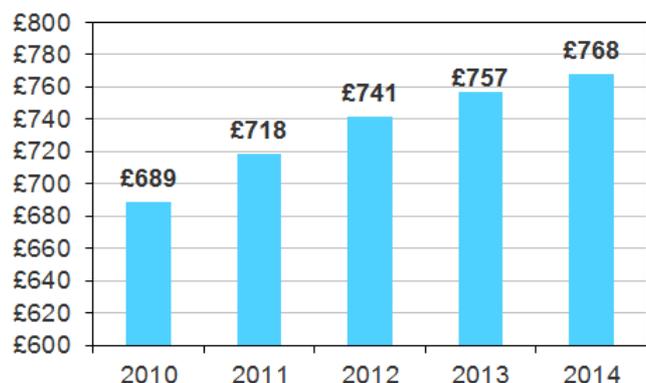
Rents have edged to a new all-time record, at a slowing annual rate of just 1.5%, according to the latest Buy-to-Let Index from LSL, utilising data from the UK's largest lettings agent networks, Your Move and Reeds Rains.

Residential rents across England and Wales now average £768 per month, or £10 higher than in September 2013.

On a monthly basis September's average rents are 0.8% higher than in August, representing a rise of £7 in absolute terms since the previous month.

Annual growth has slowed dramatically since August, when rents were 2.4% higher than a year before – rising just 1.5% over the twelve months ending September 2014.

Average rent in September



David Newnes, director of estate agents Reeds Rains and Your Move, comments: "Historically rent rises have broadly tracked inflation. And as the wider cost of living grows ever more slowly, so too has the cost of renting a home."



Buy-to-Let Index

“That said, autumn is always a busy period for the lettings industry, and this has been no exception. Looking ahead, it is likely that rents in most parts of the UK will have now reached their seasonal peak – so as the market cools along with the autumn weather there may be opportunities for some tenants to pick up a favourable deal.

“Landlords predict slower rent rises to continue for at least a year. The latest LSL Landlord Survey shows expected rent rises of just 1.8% over the next twelve months, below the target rate of inflation.

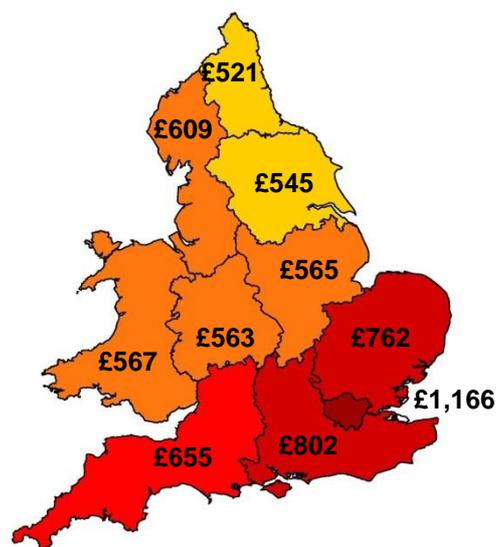
“Another critical development in the rental market is the resurgence of demand in regions outside of London and the South East. Regions with a new charge of economic growth, like the North West or East of England, have now led annual rental growth on an equal basis with the capital for most of this year. London’s rents were rising by 8% at the start of 2013 – but are now climbing at around a quarter of that pace.”

Rents by region

Rents in five out of ten regions of England & Wales are higher than a year ago. The East of England has seen the fastest annual increase, of 3.1%, followed by the South West at 2.3% and London with a 2.2% rise in rents since September 2013.

Meanwhile, rents in the West Midlands are now 2.4% lower than a year ago, followed by an annual fall of 2.3% in the North East and rents in Wales dropping 1.1% compared to September last year.

However on a monthly basis none of the ten regions has seen rents fall. Between August and September the average rent in the South East rose by 1.8%, while the North West has seen a monthly increase of 1.4% and in the North East rents are now 1.2% higher than in August.



Monthly rents in September: By region

By contrast, Yorkshire and the Humber has seen no change in rents since August, while the slowest monthly rent rises were seen in the East Midlands, up just 0.4% compared to the previous month. London and the West Midlands have seen only slightly faster monthly rises, with rents up 0.5% since August in both these regions.

Yields and Returns

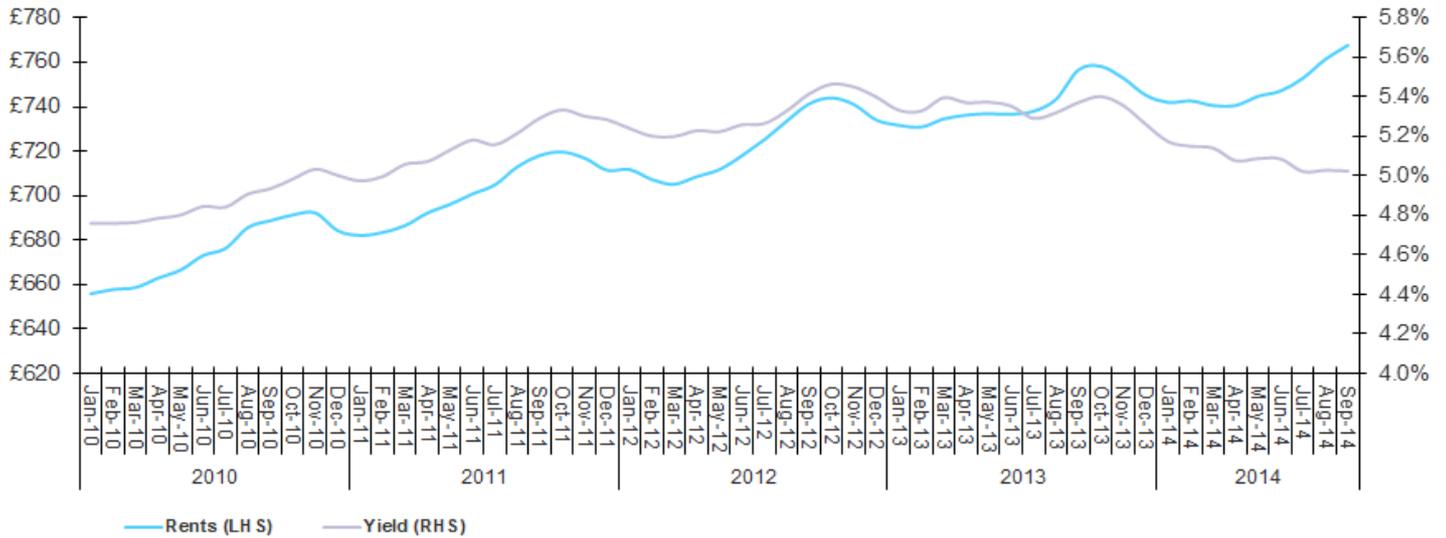
Gross yields on the typical rental property in England and Wales stand at 5.0% in September, the same as in August 2014, but representing a fall of 0.4 percentage points from one year ago, down from 5.4% in September 2013.

Taking into account price growth and void periods between tenants (but before costs such as mortgage repayments or maintenance) total annual returns on an average rental property stand at 13.4% over the twelve months to September.

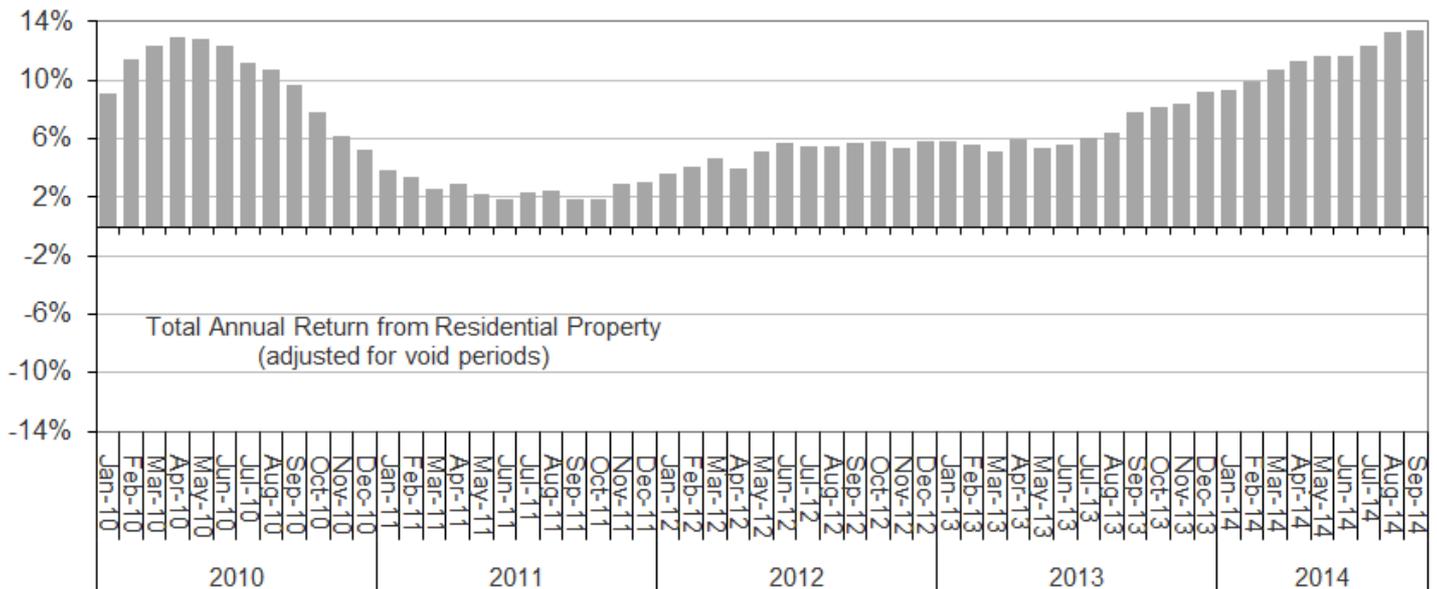
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This is up from 7.9% in the year to September 2013, and slightly higher than the previous month, when returns in the year ending August 2014 were 13.3%.

September's total gross returns of 13.4% also represent a new all-time record, ahead of both August 2014 and the previous peak seen in April 2010, when total returns reached 12.9%.



In absolute terms this means the average landlord in England and Wales has seen a return, before deductions such as mortgage payments and maintenance, of £22,706 in the last twelve months. This is made up of rental income of £8,379 and an average capital gain of £14,327.



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Looking ahead, 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 22.1% over the next year, equivalent to £40,489 per property.¹

David Newnes comments: *“Landlords have many costs to consider, which always makes the reality of profits rather different from gross headline figures. But a record for gross returns is encouraging news for landlords’ finances and the prospects for further investment in new homes to let.*

“Favourable conditions for landlords have all come at the same time – low interest rates, steady growth in purchase prices, and a solid underpinning from rental yields. Caution is always a vital consideration as landlords look to let new homes. But now the prospect of interest rate rises could be even further off, landlords will be able to continue growing their portfolios just as easily for some time. That will be good news for tenants too.”

Tenant Finances

Tenant finances recovered rapidly in September, with just 7.2% of all rent in arrears, down from 8.0% in August and 8.5% a year ago in September 2013.

In absolute terms this represents a drop of £24 million since August and £38 million compared to September 2013, to leave a total of £256 million in late rent as of September.

David Newnes concludes: *“Tenants are benefitting from dramatically recovering employment prospects, and from a healthy and growing rental market. Homes to rent and new job vacancies are two closely intertwined aspects of economic flexibility – renting can allow people to move to take up employment, while a resurgence of vacancies is enabling many existing tenants to get their finances in order. The proportion of late rent has now more than halved since its peak at almost 15% at the start of 2010.*

“As a country we have witnessed an exceptional squeeze in real incomes over half a decade. The pressure on many families – and the industry that houses so many of them – has been no less extraordinary. Much of that pressure is still on, thanks to anaemic wage growth.

“But landlords and tenants have been remarkably resilient, and the worst of the economic pinch now appears to be receding into history. Maintaining good communication between landlords and tenants, while urgently growing the supply of all housing, will be vital aspects of relegating the most challenging impacts of the financial crisis to the past.”

- ENDS -

NB REGIONAL BREAKDOWN OVERLEAF

¹ Assuming house prices change at the average rate of the last three months and they achieve the average yield of 5.0%.

Buy-to-Let Index

REGIONAL BREAKDOWN

	Rents September	1 month change	Annual Change	Yields September 2014	Yields September 2013
London	£1,166	0.5%	2.2%	4.2%	5.0%
East of England	£762	0.8%	3.1%	4.3%	4.7%
South West	£655	0.6%	2.3%	3.7%	3.9%
Yorkshire and The Humber	£545	0.0%	-0.3%	6.4%	6.7%
North West	£609	1.4%	2.0%	7.2%	7.4%
Wales	£567	1.1%	-1.1%	4.3%	4.6%
South East	£802	1.8%	1.9%	4.6%	5.0%
North East	£521	1.2%	-2.3%	5.0%	5.3%
West Midlands	£563	0.5%	-2.4%	5.6%	6.0%
East Midlands	£565	0.4%	0.0%	5.8%	6.2%
England & Wales	£768	0.8%	1.5%	5.0%	5.4%

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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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