Buy-to-Let Index – England & Wales

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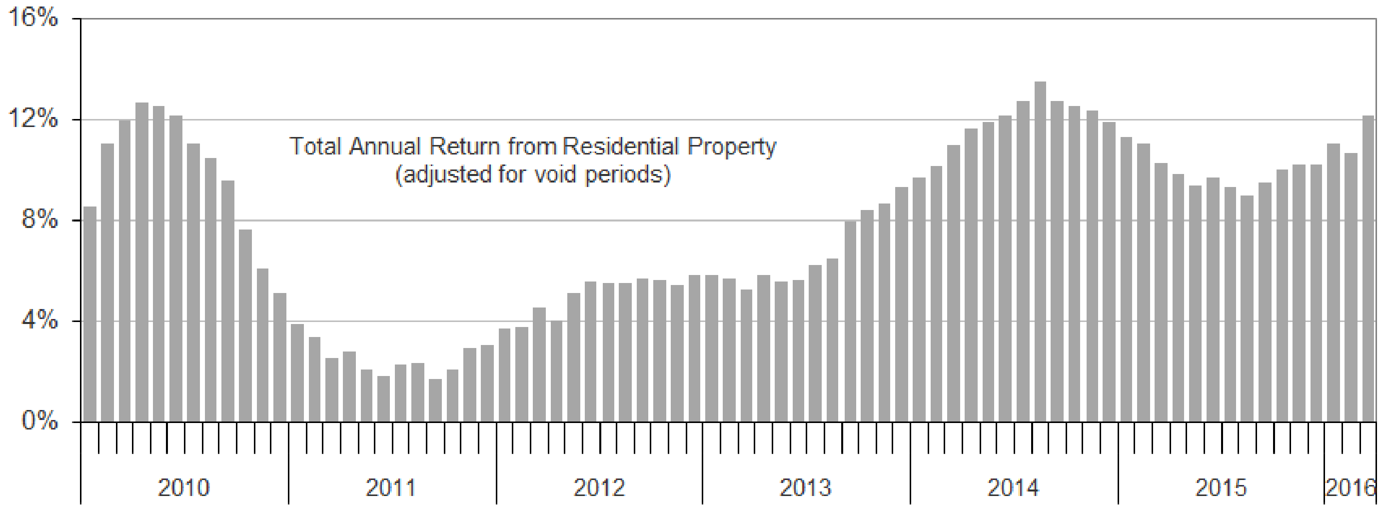
March 2016

Landlords on the ladder feel financial boost of buy-to-let tax dash

- **Flurry of buy-to-let property interest in March pushes total annual returns to 12.2% for existing landlords**
- **Across England & Wales rent rises average 3.0% over the last year, to now stand at £791 per month**
- **Midlands powerhouse pushes record rents, reaching £597 in West Midlands and £613 in East Midlands**
- **Minority of tenants still feeling financial squeeze, with 9.1% of rent in arrears, up from 8.8% last month**

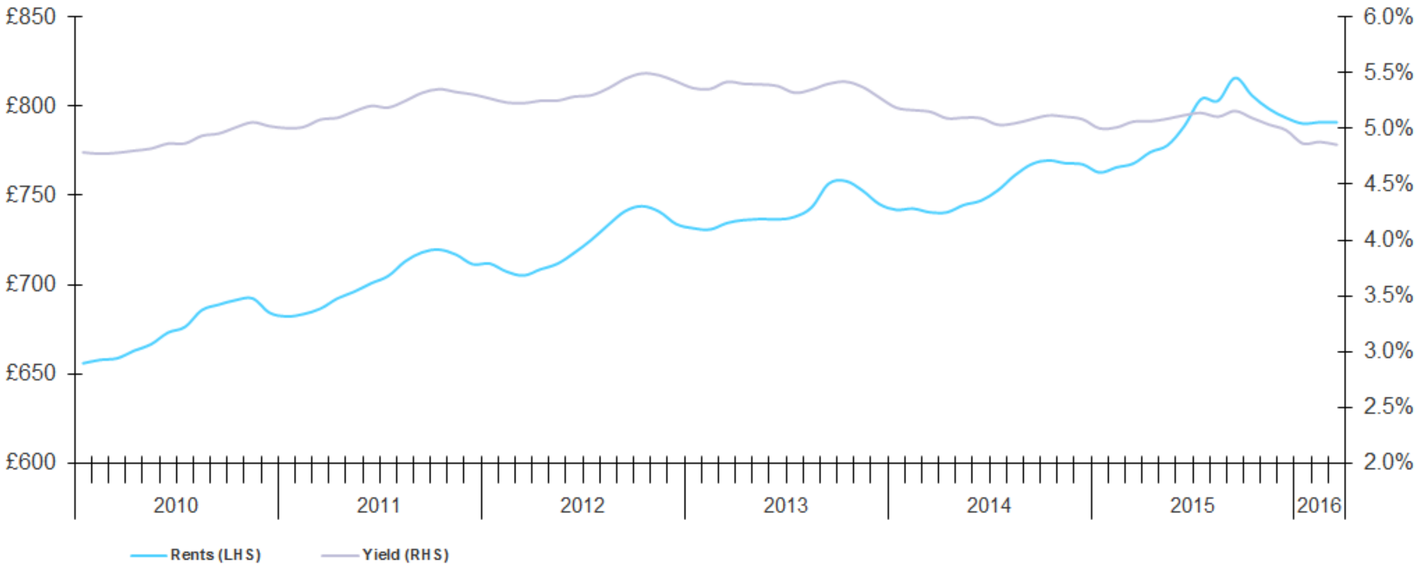
Existing landlords have already felt an unexpected financial bonus from the Government's stamp duty hike aimed at new buy-to-let purchases, according to the latest Buy-to-Let Index from Your Move and Reeds Rains.

Taking into account both rental income and capital growth, but before property-specific costs such as maintenance, the average existing landlord in England and Wales has seen total returns rise to 12.2% over the twelve months to March.



This is a clear jump from 10.7% seen a month before, over the twelve months to February, and is also the fastest annual rate of return for existing landlords seen since November 2014, when the same measure last reached 12.3%.
In absolute terms this means that the average landlord in England and Wales has seen a return of £22,135 over the last twelve months, before any deductions such as property maintenance and mortgage payments. Of this, the average capital gain contributed £13,494 while rental income made up £8,641 over the twelve months to March.

While a recent surge in capital values has boosted total returns for existing landlords, the same trend has suppressed rental yields for those aspiring to become landlords, or looking to grow their property portfolio. As rents rise alongside property prices, rental yields are proving relatively resistant to rising purchase prices. However the gross yield on a typical rental property in England and Wales (before taking into account factors such as void periods) is now 4.9% as of March 2016, compared to 5.1% in March 2015.

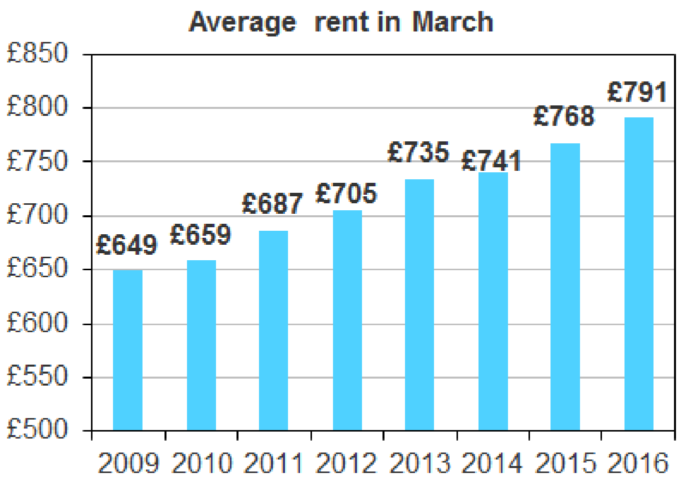


Adrian Gill, Executive Director of Estate Agency, LSL Property Services plc comments: *"New tax changes intended to benefit owner-occupiers are now making it more expensive to become a landlord, at least for the time being. Ultimately this will only punish tenants and aspiring first-time buyers – driving out buy-to-let landlords will reduce supply leading to lower choice and higher rents for those that can least afford them.*

"In particular, this month's new stamp duty surplus has driven an extra wedge between those aspiring landlords planning to invest in additional homes to let, and those existing landlords who have already built up their portfolios. That difference will not last for long. But by making it more expensive to invest in property, it will hamper the healthy growth of the private rented sector. Over the longer-term there will still be a sharpening shortage of homes available, and rents will rise in line with any extra costs – so being a landlord will remain a profitable investment, though tenants will just see unnecessarily higher rents in order to price-in the extra bill for the taxman.

"In the short-term, there has also been a scramble to buy property before the deadline. As a result, a flurry of interest from property investors has boosted values, and delivered a bonus for existing landlords through faster capital growth. In

search of political points, the Chancellor would do better to help tenants rather than punish landlords – but the most ironic part of the new tax regime is the additional bonus to the wealth of current landlords."



Rental inflation runs to 3%

Average rents across England & Wales now stand at £791 per month as of March 2016, 3.0% higher than the same point last year – or an extra £23 per month for the average tenant.

This comes despite a relatively subdued March on a monthly basis, with the level of average rents the same as was seen in February.

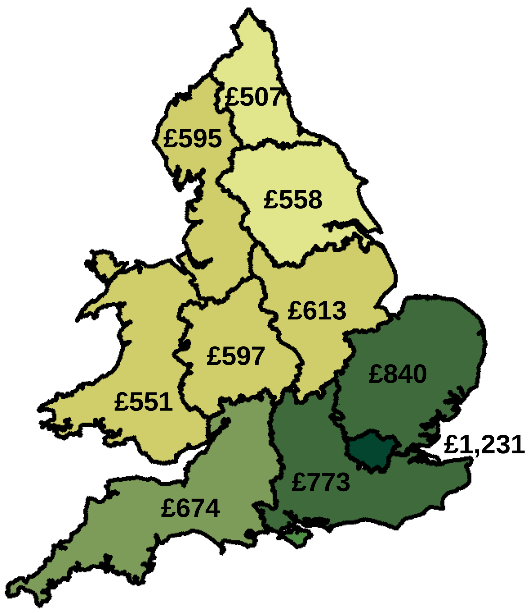
Month-on-month rent growth has dipped marginally from 0.1% between January and February 2016 to a flat 0.0% between February and March 2016.

Midlands engine drives rents to local records

Leading the whole of England & Wales, rents in the East Midlands now stand 8.5% higher than in March last year, at an all-time record high of £613 per month. This is followed closely by the West Midlands with 6.7% annual rent rises, taking the average rent in the West Midlands region to a separate all-time record of £597 per month.

London is in third place in terms of annual rent rises, up 4.6% from the same point last year. However at £1,231 the capital's average monthly rent remains below the all-time record of £1,301 set six months ago in September 2015.

At the other end of the spectrum Wales and the North East are host to annual rent falls, both dropping by 2.2% since March last year. This takes rents in Wales to £551 per month and rents in the North East to £507 per month in March 2016.



Monthly rents in March: By region

On a monthly basis the East Midlands matches the South East with a 0.7% month-on-month rise in rents, followed by the East of England where rents have risen by 0.6% between February and March.

Adrian Gill continues: *"As the spring market warms up, recent weeks may have been the last of the best deals for those signing a new tenancy. Into April, market rents will start to build a gradual but inevitable path, ultimately reaching the very peak of the market in the autumn. Early spring is just the calm before the storm.*

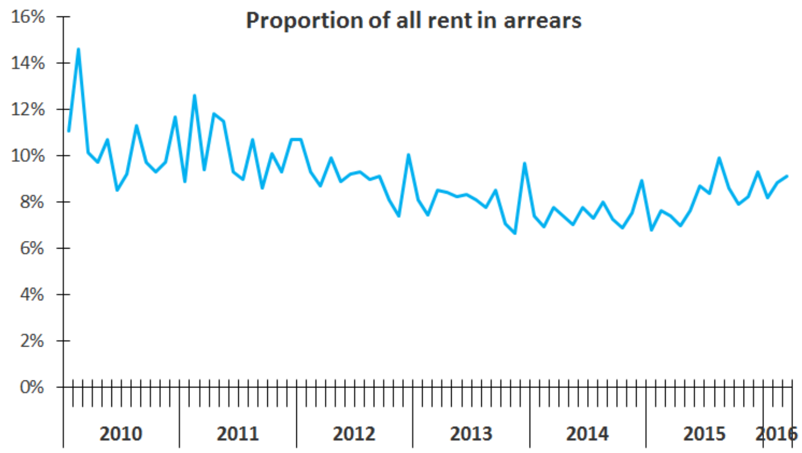
"Early 2016 records for the Midlands demonstrate the direction of travel this year. Demand for homes in the private rented sector is driven by the flow of jobs and the flux of a generally more mobile workforce looking for a place to live. This reflects the strengths of private renting – the opportunity for young independent adults to strike out on their own, or for families to move across the country and earn the best possible livelihood.

"But this regionality is also the core challenge for the private rented sector. In the towns and cities with the biggest renting populations it is a constant struggle for supply from landlords to match demand from tenants. With a surge in jobs and local economic activity, rents rise. Keeping pace will not be easy, and will depend on the freedom to invest as a landlord."

Minority of tenants still feeling financial pressure

Paying the rent on time has become slightly more of a challenge for tenants in March. Across England & Wales the overall level of rental arrears now stands at 9.1% of all rent due in the private rented sector, compared to 8.8% in February 2016.

Tenant finances have also felt a setback compared to the same point last year. The latest arrears rate of 9.1% compares with 7.4% rent arrears in March 2015.



Despite this, and on a longer-term basis, levels of late rent remain more encouraging. March still compares very favourably to the all-time high of 14.6% of all rent payable in arrears – set in February 2010.

Adrian Gill concludes: *"Landlords need tenants with sound finances, and tenants need a property they can afford. While there is always room for healthy negotiation on rents, both landlords and tenants need each other to reach a deal. So some of the language of confrontation between landlords and tenants is not healthy or constructive.*

"For private renting to remain an affordable option and a high-quality home for millions, the answer is more supply and more choice. That means lifting the barriers to investment in property, rather than adding fresh penalties for landlords aspiring for their own financial security.

"Good landlords also understand that their interests and the interests of their tenants are aligned – a tenancy should be a mutually beneficial deal. That takes expertise in managing a property and it takes commitment. The growth of private renting has changed society in terms of the number of people who are tenants, but it has also raised questions for those who now find themselves as landlords, either purposefully or in some cases through a relatively unplanned course of events. Managing properties well must include regular communication with tenants, to address concerns, arrange maintenance, and to avoid the possibility of rent arrears."

- ENDS -

REGIONAL BREAKDOWN

	Rents March 2016	One Month change	12 Month Change	Yields March 2016	Yields March 2015
London	£1,231	-0.5%	4.6%	4.0%	4.3%
East of England	£840	0.6%	4.2%	4.3%	4.5%
South West	£674	0.3%	1.2%	3.5%	3.7%
Yorkshire & The Humber	£558	-0.1%	2.1%	6.3%	6.5%
North West	£595	0.0%	0.2%	6.7%	7.2%
Wales	£551	-1.2%	-2.2%	4.1%	4.4%
South East	£773	0.7%	0.6%	4.0%	4.4%
North East	£507	-0.2%	-2.2%	5.0%	5.1%
West Midlands	£597	0.1%	6.7%	5.6%	5.6%
East Midlands	£613	0.7%	8.5%	5.8%	5.7%
England & Wales	**£791**	**0.0%**	**3.0%**	**4.9%**	**5.1%**

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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.

This Buy-to-Let Index has been prepared by Instinctif Partners for Your Move and Reeds Rains. It has been compiled using information extracted from the management information of both Your Move and Reeds Rains lettings networks.

Whilst care is taken in the compilation of the Buy-to-Let Index, no representation or assurances are made as to its accuracy or completeness. Your Move and Reeds Rains reserve the right to vary the methodology and to edit or discontinue the Buy-to-Let Index in whole or in part at any time.