



SCOTLAND Buy-to-let index



27TH AUGUST 2014

SCOTTISH RENT RISES ACCELERATE SINCE TENANT FEES BAN Average tenant now pays £312 a year more in rent

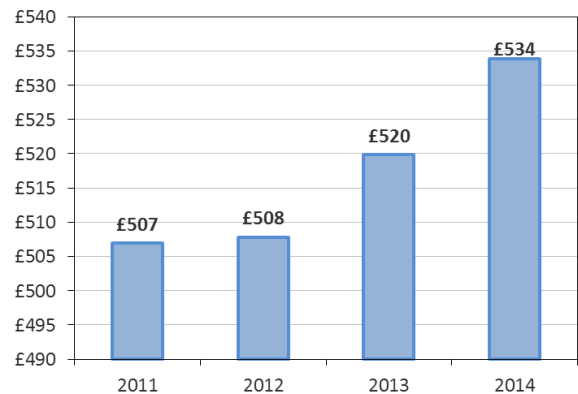
- Annual rent rises accelerate to average 2.3% since ban on tenancy fees, after years of stability
- Average Scottish rent stands at £534 per month in July 2014
- Tenant finances healthier than south of the border, with 15% less rent in arrears in Scotland
- Landlord total returns three times as high as a year ago, climbing to 9.9% a year (or £14,994)

The ban on tenant fees accelerated rent rises, according to the first Scotland Buy-to-Let Index from Your Move, one of Scotland’s largest lettings agents network, and part of LSL Property Services.

Before it became illegal to charge tenant fees in Scotland in November 2012, average monthly rents had been stable around £508 for a period of almost two years, showing an average annual change of 0.0%. However in the 21 months since the ban on tenancy fees came into force, the annual increase in Scottish rents averages at 2.3% - much faster than the current rate witnessed in England and Wales.

The average residential rent across Scotland is now 2.7% higher than in July 2013, currently standing at £534 per month. This means that tenants in Scotland are currently paying an extra £26 a month in rent on average than before the legislation was introduced, amounting to £312 across a year. This is substantially more than the typical up-front costs tenants used to pay when setting up their tenancy.

Average rent in July





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At an average of £534 a month, this is the highest level of rent in Scotland on record – but is still 29% lower than the average monthly rent across England and Wales, which is £753 in July 2014.

Gordon Fowles, regional managing director of Your Move, an estate agency chain that is part of LSL, comments: *“Tenancy fees were outlawed in Scotland with the well-meaning intention of protecting thousands of households reliant on rental accommodation. But we can see that in reality tenants are starkly out of pocket. They are paying much more over a 12 month tenancy than they would have expected to pay for a single set-up fee, adding to the daily cost of living challenge. Before this policy was implemented rents had been flat, relaxing the burden on household budgets and giving tenants some breathing space to climb back on their feet after the dark days of the recession. Banning fees has heightened the financial strain on tenants, as greater costs are now incurred elsewhere through rents increasing at a faster pace.”*

“After the consequences we’ve seen of previous government intervention, the biggest threat to the private rented sector is further unwarranted regulation. As we move into the final furlong before the referendum, all sides need to be careful not to scare landlords off the playing field as private renting is now a key integral solution to fulfilling Scotland’s housing needs. If private Landlords sell up and leave the rental market due to more well-meaning, but clumsy, regulation this could force a housing shortage for renters.”

Rents by region

In four out of five regions in Scotland, rents are higher than a year ago. The fastest annual increase is in the South, where the average monthly rent is now 4.8% (or £23) higher than in July 2013. This is followed by a 3.6% annual rise in Edinburgh and the Lothians, and annual rent uplift of 3.0% in Glasgow and Clyde. In both of these areas, rents reached the highest level on record in July.

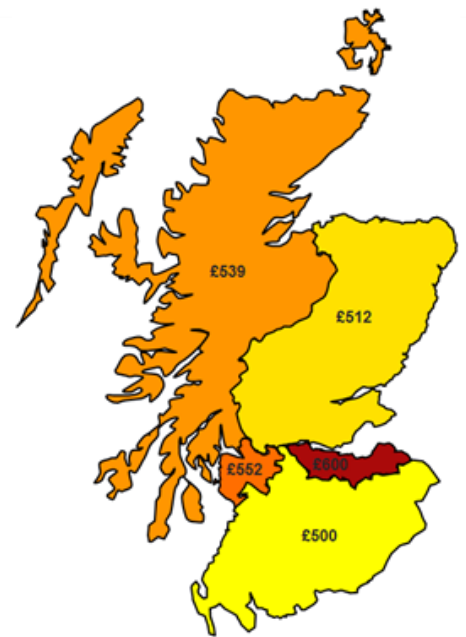


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In the East, there has been no annual change in average rents, remaining at £512, the same average rent as in July 2013.

On a monthly basis, three out of five regions have seen rents rise in July. The fastest month-on-month increase is in Glasgow and Clyde, with rents 1.3% higher than in June. In both the East, and Edinburgh and the Lothians, rents are up 0.3% over the past month.

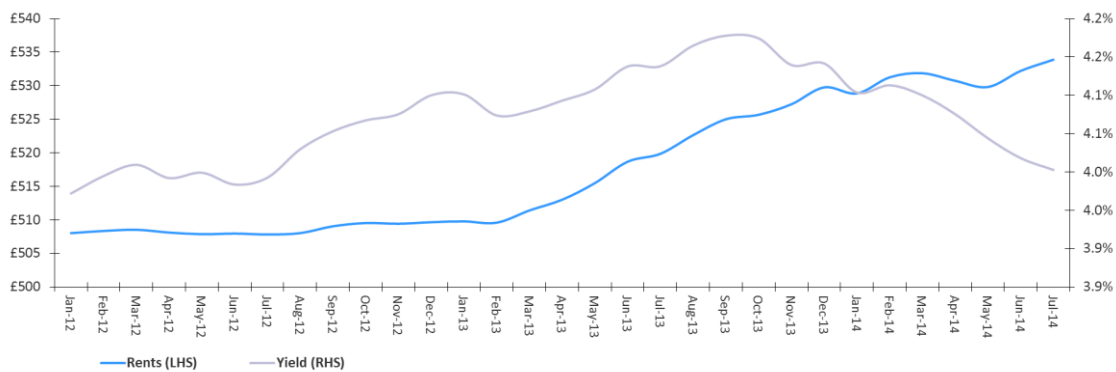
Two regions have seen rents fall on a monthly basis. The South experienced the biggest monthly drop in average rents in July, down 0.4%, while in the Highlands and Islands rents were 0.2% lower than in June.



Monthly rents in July: By region

Yields and Returns

As of July the gross yield on a typical rental property in Scotland stands at 4.0%. This represents a fall of 0.1 percentage points since July 2013 when the gross yield on a rental property averaged 4.1%. However, yields remain steady on a monthly basis, at 4.0% over the past three months.





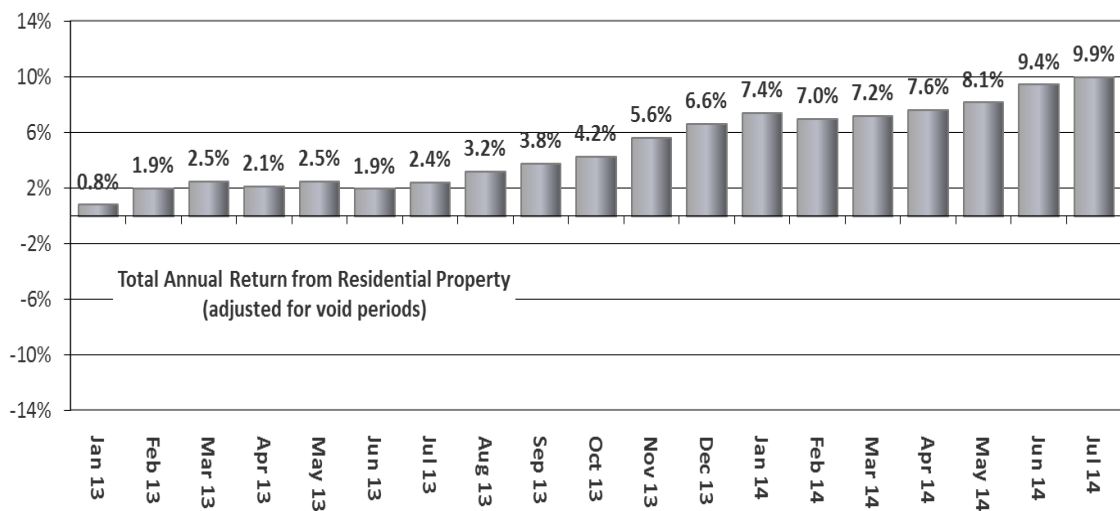
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Taking into account price growth alongside void periods between tenants, the total annual return on an average rental property stands at 9.9% in the twelve months to July. This is three times the return buy-to-let investors could expect last year, up from 2.4% per annum in July 2013. This also represents a rise on a monthly basis from 9.4% in the twelve months to June 2014.

In absolute terms this means the average landlord in Scotland has seen a return, before any mortgage payments or other deductions, of £14,994 in the last twelve months.

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 Scotland could expect to make a total annual return of 13.8% over the next year, equivalent to £22,027 per property.¹



¹ Assuming house prices change at the average rate of the last three months and they achieve the average yield of 4.0%.





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Gordon Fowlis comments: *“Stronger and more sustainable house price growth is bolstering the value of buy-to-let properties and the capital gains enjoyed by landlords in the long-term. But property values need to be combined with a healthy rental income, and we’re seeing an encouraging steadiness in gross yields, which will be attractive for future property investors.*”

Tenant Finances

Taking a long term view, tenant finances in Scotland have been getting healthier, and the proportion of late rent has dropped by a fifth in the past 18 months, from 7.9% at the start of 2013 down to 6.2% in July 2014.

However the health of tenant finances dipped slightly in July. The proportion of late rent has risen from 6.1% in June to the current level of 6.2% in July. On an annual basis, there has been no change in tenant arrears from July last year, when 6.2% of rent was paid in arrears. But this level is 15% lower than the proportion of late rate across England and Wales, which currently stands at 7.3%.

Gordon Fowlis concludes: *“When it comes to affording household bills, wages are the key sticking point. So as the employment rate in Scotland overtakes that of the rest of the UK, the country is also moving ahead with improved tenant finances. The level of late rent is healthier than south of the border, as the Scottish economy matches pre-recession performance and sets a record for getting people into work.*”

“But the next step for the health of the labour market, and tenant finances, is for earnings to pick up. It is vital that whatever the outcome of the Independence referendum, the economic recovery stays on course and wage growth is bolstered, so that thousands more households can feel the benefit in their back pockets.”



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REGIONAL BREAKDOWN

	Rents July	1 month change	Annual Change	Yields July 2014	Yields July 2013
East	£512	0.3%	0.0%	3.6%	3.8%
Edinburgh & Lothians	£600	0.3%	3.6%	3.4%	3.5%
Glasgow & Clyde	£552	1.3%	3.0%	5.0%	5.0%
Highlands & Islands	£539	-0.2%	2.7%	4.2%	4.4%
South	£500	-0.4%	4.8%	4.3%	4.4%
Scotland	£534	0.3%	2.7%	4.0%	4.1%

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METHODOLOGY:

The index is based on analysis of approximately 3,000 properties across Scotland. Rental values refer to the actual values achieved for each property when let. Gross 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 twelve months prior to the reference month. These figures are subject to revision as more data becomes available.

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