

Buy-to-let index

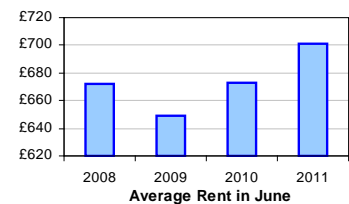
UNDER EMBARGO UNTIL 00:01 15 JULY 2011

RECORD RENTS SMASH £700 BARRIER AS TENANT ARREARS FALL

- Rents rise by 0.7% to £701 pcm in June, with annual rent inflation at 4.1%
- London landlords see average rents reach record high of £1,006 per month
- Total annual returns drop to 1.3% but an investor could expect a total annual return of 2.3% in next 12 months
- Tenant arrears drop by 18% as total amount of rent late or unpaid falls from 11.5% to 9.3%

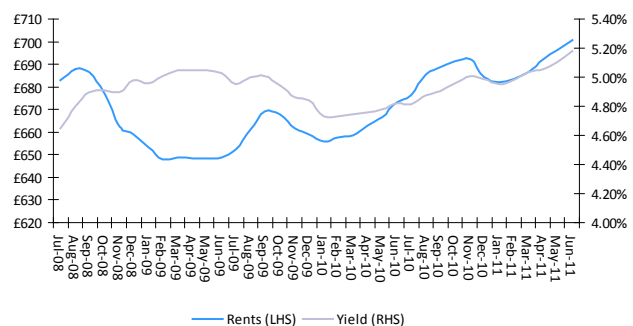
Rents hit another record high in June, surging beyond the £700 per month barrier for the first time, according to the latest Buy-to-Let Index from LSL Property Services plc, which owns the UK's largest lettings agent network, including national chains Your Move and Reeds Rains.

In June, the average rent in England and Wales rose by 0.7% to £701 per month, surpassing the previous high of £696 in May. With an annual inflation of 4.1%, the average rent is now £28 per month higher than June 2010. As a result of dipping house prices and increasing rents, the average yield reached 5.2% in June, up from 5.1% in May.



Over the course of the last year, London's rents have climbed faster than any other region of England and Wales. In June, rents broke through the £1,000 per month barrier for the first time, reaching a new high of £1,006 per month – an annual increase of 6.9%. The next biggest rises were in the North East, and the West Midlands where rents increased by 5.1% and 4.6% respectively. In the last year, average rents have only fallen in the East of England, where they fell by 0.3%, compared to an annual fall of 1.2% in May.

On a monthly basis, rents increased the fastest in the West Midlands and the East of England, rising by 2% and 1.6% respectively compared to May. Rents declined in three regions – the East Midlands, where they fell by 0.5%, the South East and Yorkshire & The Humber, where rents fell by 0.2% and 0.1% respectively.



David Newnes, estate agency managing director of LSL Property Services, owners of Your Move and Reeds Rains comments: *“Tenant demand continues to reach ever higher peaks – and there simply isn’t enough rental property coming onto the market to match it. In areas like London where competition for rental property is most intense, it’s not unheard of for rental properties to be let within a day of coming on to the market. We’ve had five successive months of rent rises, but there is no sign of a let-up anytime soon. Despite several new deals on the market, securing a big enough mortgage remains a tall order for the average buyer. The climbing cost of living and renting is impacting how much renters can save for their deposit, and demand will remain high in short-term.*

“In the long-term, there is an even smaller chance of a significant slowdown. Just 102,570 new homes were completed last year – at a time when the UK’s population increased by nearly half a million. This trend shows no signs of slowing. Excess demand will be driven into the private rental sector driving rents up further. Landlords thinking long-term will do well.”

The total annual return on a rental property was 1.3% in June with high yields offset against an annual decline in rental property prices. The total annual return is the equivalent of £2,203 - £7,486 in rent, with a capital loss of £5,283. If property values continue on their current trend, a property investor could expect to make a total annual return of 2.3% over the next 12 months – equivalent to £3,776 per property.¹

David Newnes continues: *“Home values have been dropping in recent months, and this has taken its toll on annual returns. But record high yields paint a prettier picture for prospective landlords, and matter much more in the short-term as it is rent that pays the mortgage. As property prices bottom out and rental income soars, property investment is proving to be an increasingly lucrative long-term investment. In the last 12 months alone, the average yield achieved per property has jumped from 4.8% to 5.2%. The foundations are there for profitable investment, but lenders must do more to improve buy-to-let mortgage lending to bring needed investment to the sector, widening the supply of rental accommodation.”*

Tenant arrears decreased for a second consecutive month, with 9.3% of all UK rent unpaid or late by the end of June – down from the 11.5% of rent unpaid or late in May. Unpaid rent totalled £257m across the UK in June, down 18% from the £315m unpaid in the previous month².

Newnes concludes: *“Tenant finances took a turn for the better in June. We tend to see an improvement at this time of the year – and witnessed a 5% drop this time last year. But the improvement has been exaggerated by a change in behaviour from many landlords. With rents rising so quickly, many landlords are being less forbearing with tenants showing signs of payment difficulties, and are looking to replace them in expectation of*

¹ Assuming house prices change at the average rate of the last three months and they achieve the average yield of 5.2%.

² The total amount of rent in arrears has been revised since the last edition to incorporate new Government data from the English Housing Survey on the size of the private rental sector.

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higher rental income. Despite this, we expect arrears to rise in the coming months. We've yet to see the full effects of public sector job losses, and as inflation remains high, many tenants' finances will face mounting pressure over the medium-term."

	Rents June	1 month change	Annual Change	Yields June 2011	Yields June 2010
London	£1,006	1.0%	6.9%	5.0%	4.8%
East of England	£730	1.6%	-0.3%	4.8%	4.7%
South West	£629	0.7%	0.4%	3.9%	3.7%
Yorkshire and The Humber	£526	-0.1%	4.3%	6.4%	5.9%
North West	£569	0.7%	3.7%	6.9%	6.3%
Wales	£540	0.3%	1.9%	4.4%	3.9%
South East	£705	-0.2%	3.8%	4.8%	4.5%
North East	£514	0.1%	5.1%	5.0%	4.4%
West Midlands	£555	2.0%	4.6%	5.8%	5.4%
East Midlands	£540	-0.5%	4.5%	5.9%	5.5%
England & Wales	£701	0.7%	4.1%	5.2%	4.8%

METHODOLOGY:

The buy-to-let index is based on analysis of over 18,000 properties across the UK each month. Rental values refer to the actual values achieved for each property when let during the month. 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.

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