

# Buy-to-let index

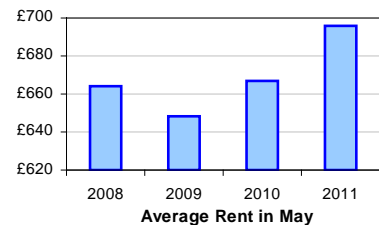
**UNDER EMBARGO FOR 00.01 FRIDAY 17<sup>TH</sup> JUNE 2011**

## LANDLORDS DELIGHT AND TENANT DESPAIR AS RENTS REACH NEW RECORD HIGHS

- Rents rise by 0.5% to £696 in May, with annual rent inflation at 4.4%
- Total annual returns remain steady at 2.9% as rent rises are balanced by a slight decline in property prices, but investor could expect a total annual return of 5.7% in next 12 months
- London landlords see total annual returns of nearly five times the national average as demand soars
- Tenant arrears are high with 11.5% of all UK rent late or unpaid in May

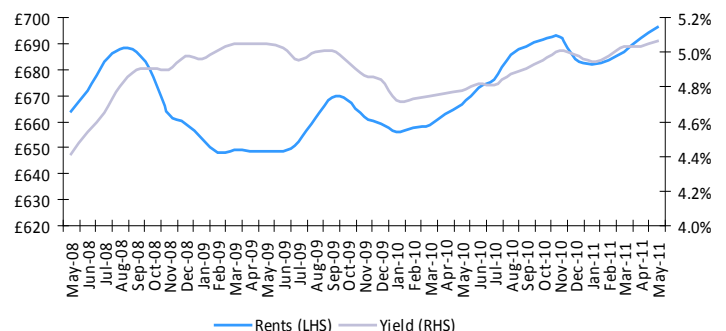
Rents reached a new record high in May after four successive months of rises, according to the latest Buy-to-Let Index from LSL Property Services plc, which owns the UK's largest lettings agent network, including national chains Your Move and Reeds Rains.

In May, the average rent in England and Wales rose by 0.5% to £696 per month, surpassing the previous high of £692 in April. The growth means that the average rent is now £30 per month higher than May 2010 – an annual inflation of 4.4%. The average yield remained at a record high of 5.1% in May.



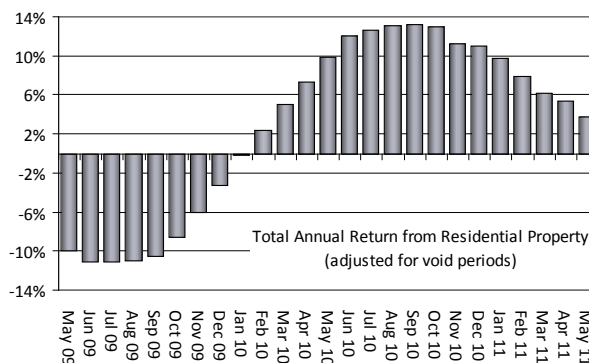
The figures mask huge differences in regional fortunes. In the past 12 months, rents have risen in all but two regions in England and Wales. Rents have risen the fastest in London, where they increased 7.8% in the past year. The next biggest rises were in the North East, and the East Midlands where rents increased by 6.4% and 6.2% respectively. In the last year, average rents have only fallen in the South West, where they declined by 0.4%, and the East of England, where they have fallen by 1.2%.

Over the last month, rents increased the fastest in the East of England and the North East, rising by 1.4% and 1.1% respectively. Rents only declined in three regions – the West Midlands, where they fell by 0.7%, the South West and Wales, where rents fell by 0.6% and 0.2% respectively.



**David Brown, commercial director of LSL Property Services, comments:** *“Tenant demand has been especially bubbly in recent months. Soaring inflation has taken its toll on would-be buyers’ deposit funds. The rocketing cost of living, combined with ongoing difficulty first time buyers are experiencing in obtaining a mortgage is increasing the number reliant on rental accommodation. With the fierce competition for homes, rental gazumping is becoming more commonplace and properties are being let beyond asking price, putting further upwards pressure on the market. For tenants, unable to buy, renting is becoming less affordable as demand booms. Rents are increasing at twice the rate of wages.”*

The total annual return on a rental property now stands at 2.9% with high yields offset against a slight annual decline in rental property prices. The total annual return is the equivalent of £4,891 - £7,414 in rent, with a capital loss of £2,523. If property values continue on their current trend, a property investor could expect to make a total annual return of 5.7% over the next year – equivalent to £9,404 per property.



In London, where property prices have performed strongly compared to the rest of the UK, annual returns are nearly five times the national average. The average London landlord has seen a total annual return of 9.5% - £22,339 per property. Property investors in the South East saw the next highest annual returns of £4,798 (2.6%) while the landlords in the East of England saw total annual returns of 4,690 (2.5%).

**David Brown continues:** *“The values of rented properties are slightly lower than a year ago, and this is reining in the total returns. However, with rental income continuing to escalate, landlords are still looking at a healthy return on their investment – especially on long-term investments. It is rental income that pays the mortgage each month, and must be the key foundation to underpin any sensible investment plan.”*

Tenant arrears decreased in May, with 11.5% of all UK rent unpaid or late by the end of the month. Although this is a slight decrease from the 11.8% in the previous month, it remains well above the 10.6% average of 2010. Unpaid rent totalled £277m across the UK in May, a decrease of 2.5% from the £284m unpaid in April.

**Brown concludes:** *“Arrears fell away slightly after an abnormal April, which was distorted by the additional bank holiday at the end of the month. Nevertheless, their elevated level in a more ‘normal’ month should provide a note of caution for landlords. Tenant finances are coming under increasing strain from rampant inflation and soaring rents. The labour market has remained surprisingly robust, but public sector job losses will begin to have a deeper impact on many tenants’ finances as the year progresses. It is critical that landlords*

For further information please contact:

Dan Pike/Mark Baker, The Wriglesworth Consultancy - 020 7427 1400

Monica Daniel, LSL Property Services - 01392 355 090

Part of the LSL Property Services PLC Group

*notice and react quickly to any potential payment problems to prevent tenant arrears spiralling out of control”.*

	Rents May	1 month change	Annual Change	Yields May 2011	Yields May 2010
London	£996	0.8%	7.8%	4.8%	4.7%
East of England	£719	1.4%	-1.2%	4.7%	4.7%
South West	£625	-0.6%	-0.4%	3.8%	3.7%
Yorkshire and The Humber	£527	1.0%	4.4%	6.4%	5.9%
North West	£565	1.0%	4.4%	6.8%	6.2%
Wales	£538	-0.2%	1.8%	4.2%	4.0%
South East	£707	0.2%	5.3%	4.7%	4.4%
North East	£513	1.1%	6.4%	4.9%	4.3%
West Midlands	£544	-0.7%	0.8%	5.7%	5.5%
East Midlands	£543	0.8%	6.2%	5.9%	5.5%
<b>England &amp; Wales</b>	<b>£696</b>	<b>0.5%</b>	<b>4.4%</b>	<b>5.1%</b>	<b>4.8%</b>

## 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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