

Buy-to-let index

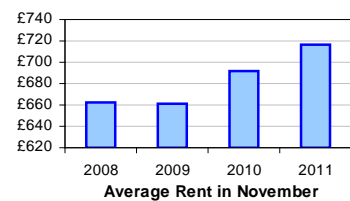
Under embargo until 00:01 Friday 16th December

RENTS DIP IN RUN UP TO CHRISTMAS

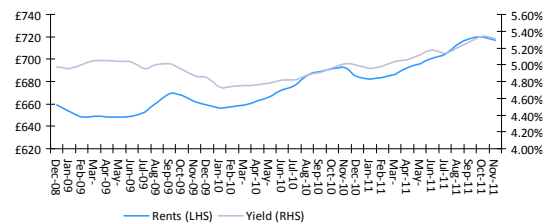
- Seasonal price drop means rents fall for first time in 10 months, with a monthly decrease of 0.4% to £717 per month
- Despite a monthly decline, average rents have increased 3.5% annually
- Total annual returns for landlords increased to 2.2%, with growing rental income balanced by capital losses
- Tenants' finances improve in November, with 9.3% of all rent late or unpaid

Rents dipped for the first time in ten months, 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 November, the average rent in England and Wales fell by 0.4% to £717 per month, a drop from £720 pcm in October. This is the first month on month fall since January this year. Annual rental inflation also slowed to 3.5%, a decline from 4.1% in October. Despite the seasonal decline, the average property rent is £25 per month higher than in November 2010.



On a monthly basis, rents fell in six regions, with the biggest declines in the East Midlands, where they fell 2.2%, and the South East, where they fell by 2.1%. The largest rises were Yorkshire & the Humber and Wales, where rents increased by 1.2% in both regions.

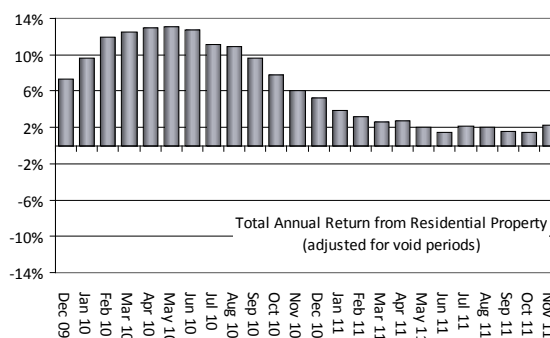


However, in the last 12 months rents have risen in all regions. The fastest rising rents on an annual basis were in London and the South East, where rents rose by 4.2%. The smallest rises were in the North East and the South West. London's rents rose compared to October, increasing by 0.3% to £1,033 pcm, despite the annual rate of increase slowing. Nevertheless, for tenants, this represents a rise of £41 per month compared to November 2010.

David Newnes, director of LSL Property Services, owners of Your Move and Reeds Rains, comments: *“Following their relentless march upward throughout the year, rent rises have taken a pause for breath. Landlords are looking to avoid having properties vacant over the Christmas period, and can be less aggressive with pricing as tenant activity slows in the run up to the New Year. But across the country, the limited supply of rental accommodation means there will still be strong upward pressure on rents in the early part of 2012.*”

“The government missed a golden opportunity in the Autumn Statement to give the private rented sector a fillip, and encourage the investment needed for the long-term supply of rental homes to match demand. Extending the stamp duty holiday to buy-to-let investments would have removed a financial obstacle in the path of new investors, easing the strain on the current limited stock of properties. However, with the failure to even extend the holiday for first-time buyers, despite the new mortgage indemnity scheme, demand for rental accommodation from frustrated buyers will continue to increase as we progress through 2012, and rents resume their upwards trajectory.”

The average yield remained steady at 5.3%. Total annual returns climbed in November as the annual decline in property prices slowed, and rental incomes increased. The average total annual return per property in November was 2.2%, compared to 1.4% in October. In cash terms, this was an average of £3,726 – equivalent to £7,700 in rent with a capital loss of £3,974. If property prices maintain the same trend as the last three months, an investor could expect to make a total annual loss of 0.7% over the next 12 months – equivalent to £1,144 per property.¹



David Newnes continues: *“Total annual returns might be reined in by falling house prices in the past three months, but it is currently yields rather than capital gains that are attracting investors to the sector. It is rental income that pays a landlord’s mortgage, and while capital gains are important over the long run, the strength of demand and rents underpin sensible investment decisions. With property prices weakening, and rental income strengthening, long-term investors are exploiting cheap interest rates to pick-up bargain properties that will provide a strong yield.”*

Tenant finances improved in November, with 9.3% of all rent late or unpaid at the end of the month, compared to 10.1% by the end of October. In November, unpaid rent totalled £263m, an 8% fall from the £287m unpaid in the previous month.

¹ Assuming house prices change at the average rate of the last three months and they achieve the average yield of 5.3%.

Newnes concludes: *“Tenant arrears have defied the gloomier backdrop of a deteriorating labour market and the rising cost of living. Despite the increasing cost of renting, many tenants have got their finances in order in the run-up to Christmas, in the expectation of an expensive festive period. We’re still also seeing the impact of a changed tenant mix, which is helping keep arrears below historic levels. A large proportion of current renters would be credit-worthy buyers were they able to provide a big enough deposit to satisfy tight mortgage lending criteria. These tenants are typically financially sound, and less likely to experience payment issues.*

“Despite this, we anticipate that tenant arrears cases will edge up in the coming year. With the ongoing challenges the UK economy faces, and the threat of the eurozone crisis, even more tenants will see their pay and jobs affected over the medium term.”

	Rents November	1 month change	Annual Change	Yields November 2011	Yields November 2010
London	£1,033	0.3%	4.2%	5.2%	5.0%
East of England	£744	-0.4%	3.7%	4.8%	4.6%
South West	£632	-1.2%	0.8%	3.9%	3.8%
Yorkshire and The Humber	£538	1.2%	3.6%	6.5%	6.1%
North West	£574	-0.6%	4.0%	7.1%	6.4%
Wales	£566	1.2%	2.8%	4.6%	4.3%
South East	£741	-2.1%	4.2%	5.0%	4.7%
North East	£514	-0.5%	0.3%	5.0%	4.7%
West Midlands	£557	1.0%	3.5%	5.9%	5.5%
East Midlands	£542	-2.2%	3.8%	6.0%	5.7%
England & Wales	£717	-0.4%	3.5%	5.3%	5.0%

METHODOLOGY:

The buy-to-let index is based on analysis of over 18,000 properties across England and Wales 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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