

Buy-to-let index

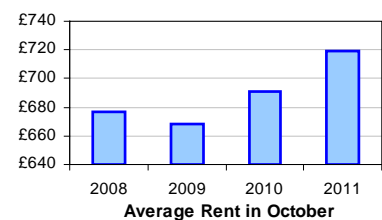
Under embargo until 00:01 Friday 18th November

SIGNS OF RELIEF FOR TENANTS AS RENT RISES SLOW

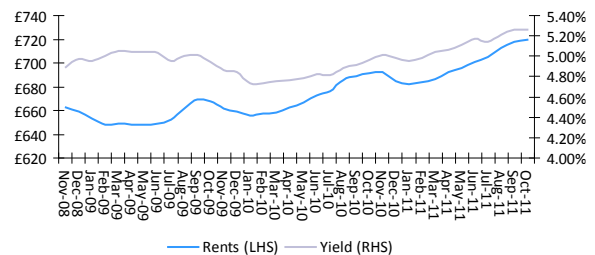
- Rents hit new high of £720 per month, but rate of increase falls to slowest since February
- Rents in October climb by 0.2% compared to September, the ninth consecutive monthly increase
- Total annual returns for landlords rise to 2.9% as property prices stabilise
- Tenants' finances take turn for the worse as 10.1% of rent late or unpaid in October

Rent rises slowed to their lowest rate in eight 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 October, the average rent in England and Wales rose by 0.2% to £720 per month, the lowest monthly increase since February. Annual rental inflation also slowed to 4.1%, a decline from 4.3% in September. Despite the slower pace of increase, rents have now risen for nine consecutive months, and stand at a new record high. The average yield remained steady at 5.3%.



On a monthly basis, rents increased the fastest in the South East and the East of England, where they rose by 1.5% and 0.8% respectively compared to September. Rents fell in three regions on a monthly basis, dropping by 1.4% in the North East and the South West, and by 0.8% in Wales.



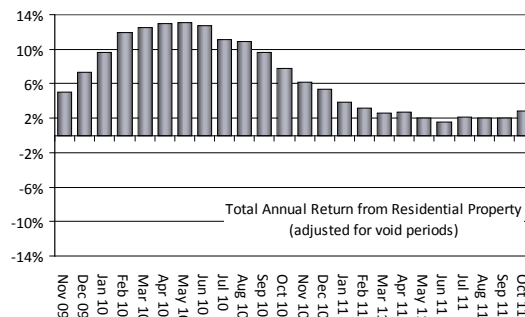
Over the course of the last year, London's rents have risen faster than any other region. However, the monthly rate of increase slowed in London, with rents increasing to £1,030 a month, just a 0.1% rise compared to September. As a result, London's annual increase also slowed in October, falling to 5.7% from 5.8% the previous month. The next biggest annual increases were in the West Midlands and the South East where rents rose 4.6% and 4.4% respectively.

David Newnes, director of LSL Property Services, comments: “Rents are still heading northwards, but tenants may take comfort from the fact they did not climb at such a blistering pace in October. The recent increases are likely to continue to level out in run up to Christmas – traditionally a slower time for the market. Nevertheless, despite the slower rate of increase, the cost of renting is still rising annually at nearly twice the speed of the average salary and many tenants will need to dedicate a growing portion of their disposable income to the cost of accommodation over the next year.

“Although buy-to-let lending has picked up steam, which has helped expand the supply of rental properties, it is still a long way boosting supply enough to ease competition amongst prospective tenants. With no sustained meaningful increase in lending in light of the ongoing Eurozone crisis, we are unlikely to see a sustained drop in the number of frustrated buyers in the coming year, and underlying demand for limited accommodation will continue to push up rents in the long-term.”

The total annual returns climbed in October as the annual decline in property prices slowed, and rental incomes increased. The average total annual return per property in October was 2.9%, compared to 2% in September. In cash terms, this was an average of £4,800 – equivalent to £7,689 in rent with a capital loss of £2,889. If property prices maintain the same trend as the last three months, an investor could expect to make a total annual return of 4.5% over the next 12 months – equivalent to £7,434 per property.¹

David Newnes continues: “Rents may be rising steadily for many tenants at present, but growing rental income is attracting investors to the sector. Property prices are below their historic peaks, yields are strong, and it is a great time for many landlords to enter the market or grow their portfolios. With lending to first-timers constrained, tenant demand is set to remain intense, and it is only a stronger influx of investors in the future that will help alleviate the strain on the private rented sector, and eventually stabilise the cost of renting.”



Tenant finances took a turn for the worse in October, with 10.1% of all rent late or unpaid at the end of the month, compared to 8.6% by the end of September. However, despite the increase, the level remains below the previous 12 month’s average of 10.3%. In October, unpaid rent totalled £287m, an increase from the £243m unpaid in the previous month.

Newnes concludes: “Although rental arrears remain below the average for the year, they represent a concern for many landlords. The labour market is starting to feel the strain of public sector job losses, and the economy

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

is far from healthy. Against this backdrop, as rents rise over the medium-term, a growing number of tenants will see their finances come under mounting pressure – and we expect tenant arrears cases to climb over the next twelve months.”

| | Rents October | 1 month change | Annual Change | Yields October 2011 | Yields October 2010 |
|-----------------------------|------------------|-------------------|------------------|---------------------------|---------------------------|
| London | £1,030 | 0.1% | 5.7% | 5.0% | 4.9% |
| East of England | £747 | 0.8% | 0.8% | 4.9% | 4.7% |
| South West | £639 | -1.4% | 3.7% | 3.9% | 3.7% |
| Yorkshire and The Humber | £532 | 0.4% | 2.5% | 6.4% | 6.1% |
| North West | £578 | 0.1% | 4.1% | 6.8% | 6.4% |
| Wales | £559 | -0.8% | 2.7% | 4.4% | 4.1% |
| South East | £757 | 1.5% | 4.4% | 5.1% | 4.8% |
| North East | £516 | -1.4% | 1.3% | 5.0% | 4.6% |
| West Midlands | £551 | 0.2% | 4.6% | 5.8% | 5.3% |
| East Midlands | £554 | 0.5% | 3.6% | 6.2% | 5.7% |
| England & Wales | £720 | 0.2% | 4.1% | 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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