

Buy-to-let index

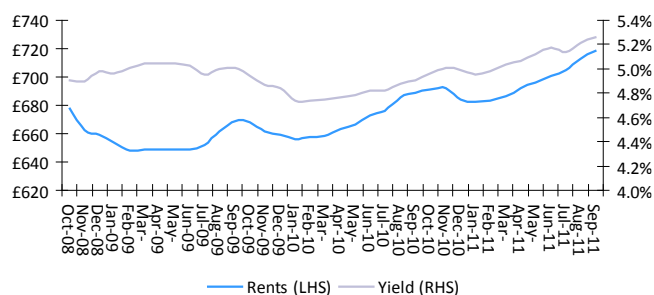
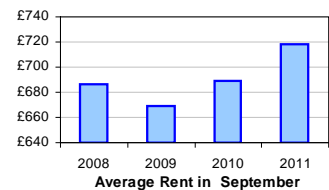
Under embargo until 00:01 Friday 21st October

TENANTS GAIN NO RELIEF AS RENTS RISE IN ALL REGIONS

- Rents rise in all regions for first time on record
- Monthly rents hit new high of £718 per month, reaching record highs in six regions
- Yields rise to 5.3% while total annual returns for landlords drop to 1.8% as property prices drop annually
- Tenants' finances recover after summer spending as arrears drop to lowest level in over a year

Rents recorded monthly rises in all regions for the first time on record in September, 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 September, the average rent in England and Wales rose by 0.7% to £718 per month, surpassing the previous record high of £713 in August. With annual rental inflation at 4.3%, the average rent is £29 pcm higher than September 2010. The average yield in September rose from 5.2% to 5.3%.



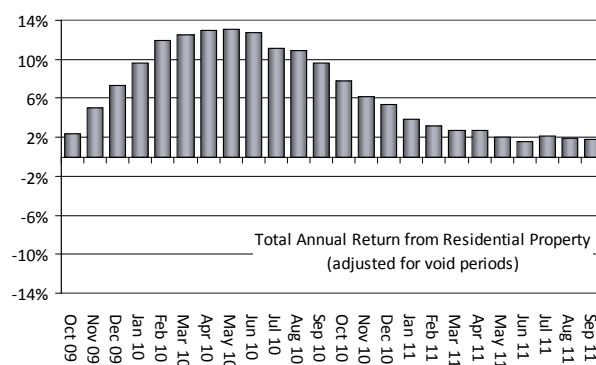
On a monthly basis, rents rose in all regions of England and Wales for the first time on record. As a result, rents hit record highs in six regions – London, the South East, Yorkshire and the Humber, the East of England, Wales and the East Midlands.

Rents increased the fastest in the South East and the East Midlands, where they rose by 1.8% and 1.1% respectively compared to August, while the smallest increases were in the West Midlands and the North East, where rents rose by 0.2% and 0.3%. However, over the course of the last year, London's rents have risen at a faster rate than any other region, increasing by 5.8%. The next biggest annual increases were in the South West and the West Midlands, where rents rose 5.4% and 5.1% respectively.

David Newnes, estate agency managing director of LSL Property Services, owners of Your Move and Reeds Rains comments: "It's not just a regional phenomenon, localised to London and the South East – rents are rising

across the board. In areas of the highest demand, such as the capital, competition is driving up rents at a faster rate elsewhere – but no region has been immune to the growing demand for rental homes from frustrated buyers. In many cases, buying a home is now cheaper on a monthly basis – provided renters can get past the stumbling block of the substantial deposit requirements. For the majority, saving a £25,000 deposit is a Herculean task as inflation and rents climb – and most would-be buyers are biting the bullet and prolonging their stay in increasingly costly rental accommodation. As things stand, we won't see competition amongst prospective tenants diminish without a substantial expansion in the supply of rental properties available on the market.”

The total annual returns on a rental property dropped back in September after property prices fell annually. The average total annual return in September was 1.8%, the equivalent of £3,005 – £7,661 in rent, with a capital loss of £4,666. However, property price changes in the last quarter have held up better than in the previous twelve months, and if they maintain the same trend as the last three months, a property investor could expect to make a total annual return of 8% over the next 12 months – equivalent to £13,070 per property.¹



David Newnes continues: “Rising rents may prove to be a headache for tenants, but they are improving the outlook for investors – which may in turn encourage further investment in the private rented sector. Despite capital losses after house prices fell annually, growing rental incomes means returns are still in the black. Yields have risen to their highest level since the housing downturn, outstripping many alternative investments. With house prices yet to resume their upwards climb, there are opportunities for prospective investors to secure profitable bargains.”

Tenant arrears improved markedly, following August’s seasonal increase, dropping to their lowest level since April 2010. Just 8.6% of all UK rent was unpaid or late by the end of September – down from the 10.7% of rent unpaid or late in August. Unpaid rent totalled £243m across the UK in September, down from the £300m unpaid in the previous month.

Newnes concludes: “Shelter’s recent research shows rising rents are placing renting households under mounting financial pressure. But this has yet to manifest itself in rising tenant arrears, which have remained markedly low in 2011 – and even dropped last month as summer holidaymakers got their finances back in order following vacations. But over the longer term, landlords have become less forbearing, looking to replace

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

tenants with payment issues quickly in the hope of higher rental income. A changing tenant mix has also helped keep a lid on the volume of payment problems in the last year. More affluent renters who would normally have been buyers are remaining in rental accommodation, and these have been less severely affected by rent rises.

“Nevertheless, monthly rental costs are taking their toll on a minority of renters, who have no option but to cut back other areas of monthly expenditure to compensate, and it is crucial that landlords remain vigilant to resolve any payment issues early. Unemployment is rising, and as more tenants’ employment situations change and rents rise, a growing number of households will come under greater and greater strain.”

	Rents September	1 month change	Annual Change	Yields September 2011	Yields September 2010
London	£1,029	0.4%	5.8%	5.1%	4.9%
East of England	£741	0.5%	0.4%	4.8%	4.7%
South West	£648	0.5%	5.4%	4.0%	3.7%
Yorkshire and The Humber	£530	0.8%	0.6%	6.4%	6.0%
North West	£577	0.6%	4.4%	7.0%	6.4%
Wales	£564	0.9%	3.9%	4.5%	4.1%
South East	£746	1.8%	4.1%	5.0%	4.7%
North East	£524	0.3%	3.8%	5.1%	4.5%
West Midlands	£550	0.2%	5.1%	5.8%	5.3%
East Midlands	£551	1.1%	4.0%	6.1%	5.7%
England & Wales	£718	0.7%	4.3%	5.3%	4.9%

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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