

# Buy-to-let index

**Under embargo until 00:01 Friday 20th January**

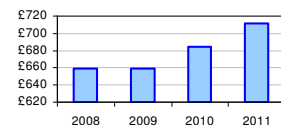
## RENTS SEE SECOND SUCCESSIVE MONTHLY FALL

- Rents fall for second consecutive month, with a monthly decrease of 0.8% to £711 per month
- Despite a monthly decline, average rents have increased 4% annually
- Total annual returns for landlords increased to 3.7% as rental property prices stabilise
- Impact of Christmas spending drives up rental arrears, with 10.7% of all rent late or unpaid in December

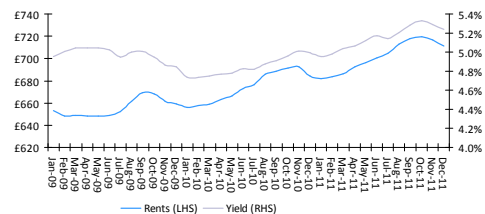
Rents fell for a second successive month in December, according to the latest Buy-to-Let Index from LSL Property Services plc, which owns the UK's largest lettings agent network, including national chains Your Move and Reeds Rains.

In December, the average rent in England and Wales fell by 0.8% to £711 per month. Despite the monthly fall, annual rental inflation increased to 4% from 3.5% in November, as tenant demand in December surpassed that of a year ago.

**Average rent in December**



On a monthly basis, rents fell in seven regions, with the biggest declines in the South East and North East, where they fell by 1.9% and 1.4% respectively. Rents in London fell for the first time since December 2010, with rents falling by 0.9%, compared to a drop of 2.3% a year ago.



In the last 12 months rents have risen in all but two regions. The fastest rising rents on an annual basis were in London where rents rose by 5.6%. The next biggest increases were in the East and South East of England, with rents rising 5% in both regions. Rents fell in the North East and South West by 1.3% and 1.2% respectively.

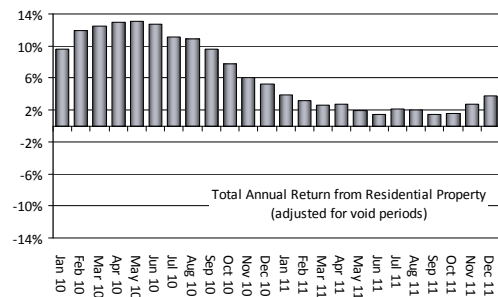
Despite the average rent in England and Wales falling by 0.8% December, the seasonal decrease was less than the 1.2% monthly fall recorded December 2010.

**David Brown, commercial director of LSL Property Services comments:** *"The seasonal relief continued for tenants as rents dipped again in December, but the drop-off was much smaller than a year ago. The rental*

market was sheltered from the full impact of the seasonal lull by the strength of underlying tenant demand as many prospective renters took the opportunity to move in the run-up to Christmas at a time when the market is traditionally less competitive.

*“With the mortgage market facing challenges from the eurozone crisis and the sluggish wider economy, credit conditions are unlikely to ease significantly in the coming year. As a result, the number of first-time buyers able to secure finance isn’t about to rocket up, and demand for the limited supply of rental accommodation will continue to rise. It won’t be long before rents will resume their upward march.”*

The average yield dipped slightly to 5.2% as rents fell away slightly in December. However as rental property prices recovered in the last two months of the year, total annual returns climbed in December. The average total annual return per property in December was 3.7%, compared to 2.7% in November. In cash terms, this was an average of £6,107 – equivalent to £7,611 in rent with a capital loss of £1,504.



If property prices maintain the same trend as the last three months, an investor could expect to make a total annual return of 4.8% over the next 12 months – equivalent to £7,841 per property.<sup>1</sup>

**David Brown continues:** *“Rental income has underpinned landlords’ returns in the last year, but the stabilisation of property prices in the past quarter has helped bolster annual returns. In the long-term, capital gains will contribute heavily to an investor’s profit. However in the current market, as house prices face pressure from the wider economic environment it is annually increasing rents that are attracting investors – providing a hedge against inflation. With house prices still well below their historic peak and historically low mortgage rates, there is a golden window of opportunity that many investors are beginning to exploit.”*

### Tenant Arrears Deteriorate

Tenant finances deteriorated in December, with 10.7% of all rent late or unpaid at the end of the month, compared to 9.3% in November. Nevertheless, the seasonal increase was much lower than December 2010, when rental arrears rose to 11.7%. In December, unpaid rent totalled £300m, a 12% increase from the £263m unpaid or late in November.

**Brown concludes:** *“The festive season tends to crank up the pressure on tenants’ finances, with spending over the holiday season often exacerbating existing financial difficulties. Despite this, overall rental arrears in*

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

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December were at a lower level than a year ago. While there are indications that a small minority of tenants are facing increasing arrears, the overall tenant population has coped reasonably well with the impact of higher rents and soaring inflation. The influx of financially sound, frustrated buyers has helped prevent higher general arrears so far, but as the labour market weakens and wage growth remains lethargic, we expect a steady rise in arrears as the year progresses.”

|                             | Rents<br>December | 1 month<br>change | Annual<br>Change | Yields<br>December<br>2011 | Yields<br>December<br>2010 |
|-----------------------------|-------------------|-------------------|------------------|----------------------------|----------------------------|
| London                      | £1,023            | -0.9%             | 5.6%             | 5.1%                       | 4.9%                       |
| East of England             | £737              | -0.9%             | 5.0%             | 4.8%                       | 4.6%                       |
| South West                  | £629              | -0.4%             | -1.2%            | 3.8%                       | 3.9%                       |
| Yorkshire and The<br>Humber | £539              | 0.1%              | 3.9%             | 6.5%                       | 6.2%                       |
| North West                  | £570              | -0.7%             | 3.7%             | 6.9%                       | 6.4%                       |
| Wales                       | £559              | -1.2%             | 4.2%             | 4.4%                       | 4.2%                       |
| South East                  | £727              | -1.9%             | 5.0%             | 4.9%                       | 4.7%                       |
| North East                  | £507              | -1.4%             | -1.3%            | 4.9%                       | 4.7%                       |
| West Midlands               | £562              | 1.0%              | 2.3%             | 5.8%                       | 5.6%                       |
| East Midlands               | £547              | 0.8%              | 3.8%             | 6.1%                       | 5.7%                       |
| <b>England &amp; Wales</b>  | <b>£711</b>       | <b>-0.8%</b>      | <b>4.0%</b>      | <b>5.2%</b>                | <b>5.0%</b>                |

#### 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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