



Buy-to-let index



17th January 2014

RENT RISES SLOW BY HALF OVER COURSE OF 2013

- Rents rise 1.5% annually, down from 3.2% rise twelve months ago
- After a 1% monthly fall, average rent in England and Wales now stands at £745 per month
- Landlords make average annual return of over £14,000 as house price rises accelerate
- Tenant finances suffer over festive period, as proportion of all late rent rises to 9.7%

Annual rent rises have halved over the course of 2013, 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.

Average rents across England and Wales have risen 1.5% in the past year, to stand at £745 per month in December.

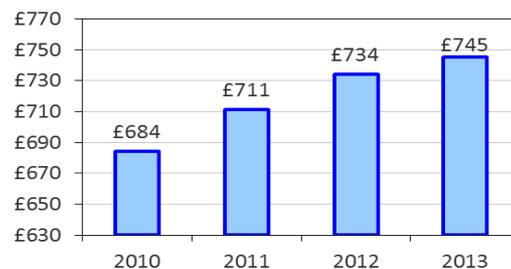
However, this annual rise is half that of a year ago. By comparison, rents increased by 3.2% in the year to December 2012.

On a monthly basis, rents have seen a seasonal drop. The average rent across England and Wales fell by 1.0% (or approximately £8) between November and December.

Annual rent rises in year to December



Average rent in December





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Despite a winter slowdown, December witnessed annual growth in lettings activity. The number of new tenancies agreed across England and Wales increased by 7.7% compared to December 2012. However, on a monthly basis there were 12.7% fewer new lettings than in November.

David Newnes, director of LSL Property Services, owners of estate agents Reeds Rains and Your Move, comments: *“Very gradually, the clouds are clearing for tenants. Households have suffered from the most painful recession in living memory, but it’s clear we’re now coming out the other side.*

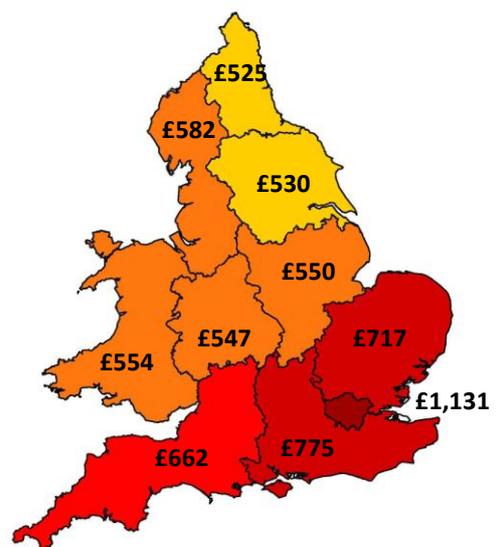
“By investing heavily in the supply of more homes to rent landlords have played a pivotal role. Now it remains for the rest of the economy to lift real earnings, and by so doing, lift even more households out of trouble. But prospects look good. Early indications show wage expectations are starting to look up – and general inflation is under control again. If this can take hold, more prosperous tenants will make for a more prosperous private rented sector in 2014.”

Rents by region

Seven out of ten regions saw rents fall on a monthly basis between November and December, in line with a monthly fall across England and Wales as a whole.

The sharpest monthly drop was found in the South East, with rents down 2.0% since November. This was followed by a fall of 1.9% in both London and Wales.

However, the North East and West Midlands experienced



Monthly rents in December: By region





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rent rises on a monthly basis – up by 1.5% and 1.4% respectively. Rents in the South West also rose slightly on a monthly basis, up by 0.7% between November and December.

On an annual basis, London saw the steepest rent rises, up 4.0% from December 2012 (or £44 in absolute terms). This was followed by a 3.2% annual increase in the South West, and a 2.5% rise in the South East.

However, some regions experienced annual falls. Rents in the East of England fell the most, down by 4.4% (or £33) over the last year. This was followed by a 2.7% annual drop in the West Midlands, and with rents in Yorkshire and the Humber 2.1% lower than in December 2012. Meanwhile, with zero annual change, rents in Wales have returned to the same level as twelve months ago.

David Newnes, director of LSL Property Services, owners of estate agents Reeds Rains and Your Move, comments: *“The difficulties and frustrations of buying a home are far from uniform across Britain – or even from one town to the next. And the complexities of each local rental market reflect that. However, slower but sustainable annual rent rises are the order of the day in most areas. Local knowledge will be valuable, but improved affordability is good news for tenants and landlords alike.”*

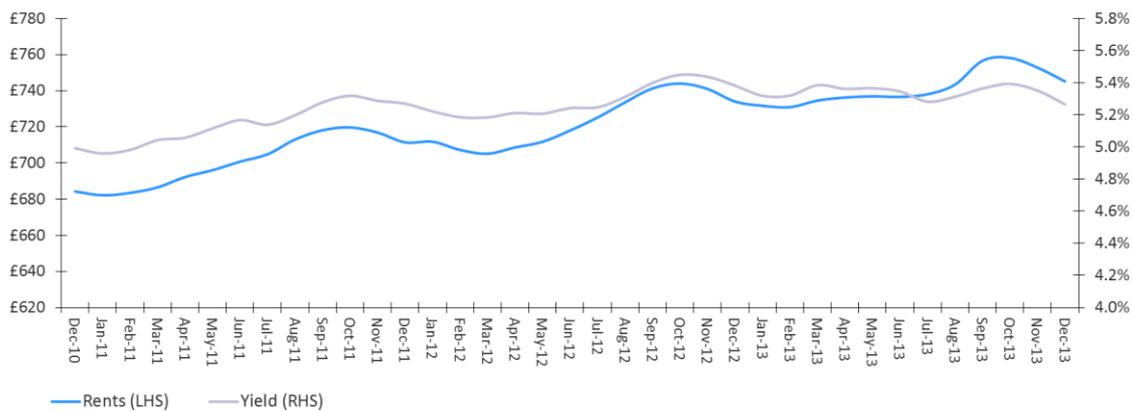
Yields and Returns

Gross yields on a typical rental property remained steady at 5.3% in December, consistent with the past three months. However, taking into account capital accumulation and void periods between tenants, total annual returns on an average rental property rose to 8.8% in December. This compares to 8.3% in November – with the increase due to accelerating house price rises. In absolute terms this represents an average return of £14,372, with rental income of £8,189 and capital gain of £6,183.

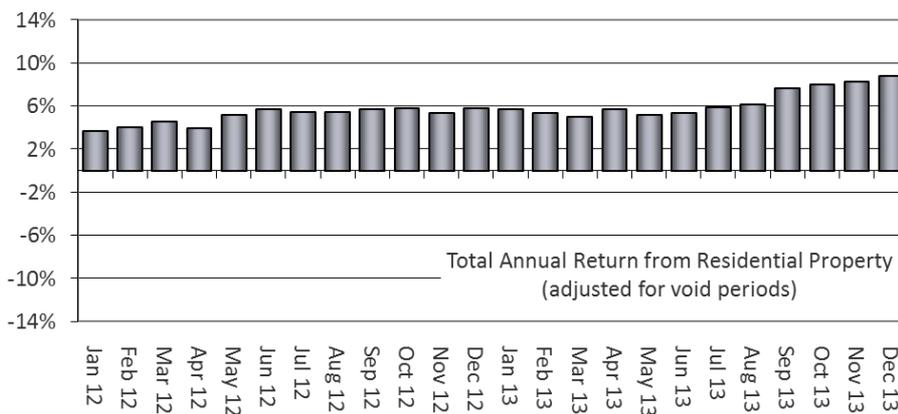




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If rental property prices continue to rise at the same pace as over the last three months, the average buy-to-let investor in England and Wales could expect to make a total annual return of 6.6% over the next 12 months, equivalent to £11,234 per property.¹



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





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David Newnes comments: *“Steadier rent rises, and the usual seasonal dip over the winter shouldn’t put off anyone considering a buy-to-let investment. Returns have picked up considerably over the last six months, underpinned by solid rental yields and boosted by rejuvenated chances of capital appreciation. Rents will keep rising on an annual basis for the foreseeable future, while buy-to-let mortgages are still becoming more available and at more affordable rates. Supply of housing is still seriously restricted in the UK, so much-needed investment looks set to be handsomely rewarded as demand is driven further by an economic pick-up in 2014.”*

Tenant Finances

Tenant finances suffered a setback in December, with the total amount of late rent across England and Wales reaching £330 million, up £102 million since November 2013. As a proportion, such tenant arrears now represent 9.7% of all rent, up from 6.6% in November, but still lower on a yearly basis than the 10.1% seen in December 2012.

David Newnes concludes: *“While general inflation is back under control, and rents are rising even more slowly than this, household budgets have still been stretched and squeezed from every direction.*

“The culprit is wages, which haven’t kept pace with the rising cost of living for years, and the underlying cause is the biggest economic storm for nearly a century. Landlords have invested heavily in new homes to rent, which has helped keep rent rises below inflation. But this can’t be relied on forever. A lack of house building could be the next serious crunch on the horizon, and this fundamental restriction on places to live needs even more attention.”

- ENDS -





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REGIONAL BREAKDOWN

	Rents December	1 month change	Annual Change	Yields December 2013	Yields December 2012
London	£1,131	-1.9%	4.0%	4.8%	5.1%
East of England	£717	-0.6%	-4.4%	4.5%	4.9%
South West	£662	0.7%	3.2%	3.9%	3.9%
Yorkshire and The Humber	£530	-0.3%	-2.1%	6.5%	6.8%
North West	£582	-0.5%	0.7%	7.1%	7.2%
Wales	£554	-1.9%	0.0%	4.3%	4.5%
South East	£775	-2.0%	2.5%	4.9%	5.0%
North East	£525	1.5%	1.3%	5.3%	5.2%
West Midlands	£550	1.4%	-2.7%	5.6%	6.0%
East Midlands	£547	-0.6%	1.2%	5.9%	6.0%
England & Wales	£745	-1.0%	1.5%	5.3%	5.4%

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METHODOLOGY:

The index is based on analysis of approximately 20,000 properties across England and Wales. Rental values refer to the actual values achieved for each property when let. 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. These figures are subject to revision as more data becomes available.





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