



# Buy-to-Let Index – England & Wales

Under embargo until 00:01 Friday 20<sup>th</sup> November 2015

October 2015

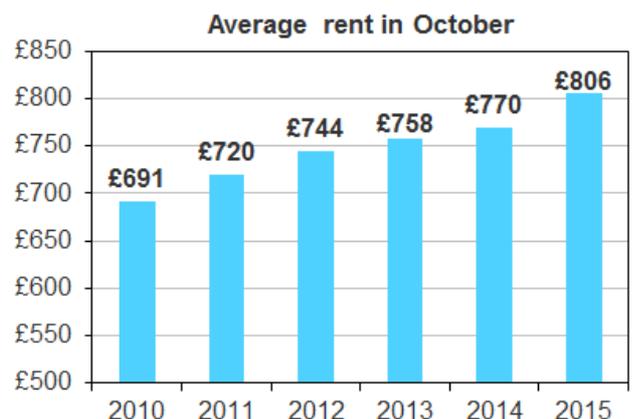
## Rental reprieve in October – but property prices boost landlord returns

- October sees rents dip on a monthly basis, now averaging £806 per month across England & Wales
- However the cost of renting a home has risen considerably in the last year – with annual rent rises at 4.7%
- Yorkshire & Humber and the East Midlands both defy a wider slowdown to see rents hit fresh local records
- Tenant finances improve in October, with arrears representing 7.9% of rent due, down from 8.6%
- Landlords see total annual returns rise to 11.6%, as purchase prices accelerate – but yields drop to 5.0%

Rents across England and Wales have fallen between September and October, according to the latest Buy-to-Let Index from LSL Property Services plc, with data provided by [Your Move](#) and [Reeds Rains](#).

Average rents now stand at £806 per month. This follows a month-on-month fall of 1.2% – down from September’s all-time record high of £816.

Despite this, rents are considerably higher than a year ago. In the twelve months since October 2014, average rents have risen by 4.7%. After negative CPI inflation of -0.1%, this represents real-terms annual rent rises of 4.8%.



**Adrian Gill, Executive Director of Estate Agency for LSL, comments:** “The very peak of the lettings season has now passed – which means better deals are possible for tenants looking to rent later in the autumn.

“However, there has been no huge change in the fundamentals pushing rents higher than in previous years. Whether or not the sharpest mismatch between supply and demand lasts into October, the fact remains that the private rented

sector is growing rapidly, driven by demand – and new properties coming onto the rental market are letting like hot cakes.”

“Many tenants are earning more, and while buying a home is still an unrealistic stretch for millions, renting a home is luckily still within reach. The private rented sector is much more closely connected to what people earn than the property purchase market, which has the financial insulation of mortgage payments and interest rates. By contrast, rents are more fundamentally limited by monthly budgets – and now that ceiling is being lifted, average rents are likely to continue to rise rapidly on an annual basis.

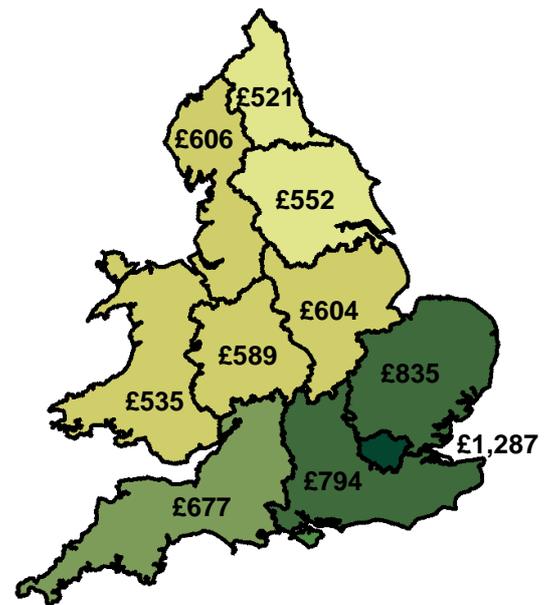
“In the absence of enormous numbers of new homes, this could see an increasing share of incomes spent on rent. Deep thought and decisive action is needed from all levels of government and industry, if the current incentive for investment is to overcome all the planning and financial obstacles littering the path to supplying enough options for tenants.”

### Regional rents: Eastern records, cooler in the west

Four out of ten regions in England & Wales have seen local rents defy the more general monthly slowdown. In the lead, the East of England has seen rents rise by 0.7% between September and October. Following this, rents are up 0.4% on a monthly basis in the North East, up 0.3% in the neighbouring Yorkshire & Humber region, and rents in the East Midlands have seen 0.1% month-on-month growth.

On the back of these rises, rents in the East Midlands are now at the highest level on record, at £604 per month, while Yorkshire & Humber has also witnessed a new all-time record, with rents reaching £552.

By contrast, rents in the South East lead the generally downwards monthly trend, dropping by 2.5% between September and October. This is followed by the South West with a 2.1% monthly dip and by London where rents are 1.1% lower than in September.



Monthly rents in October: By region

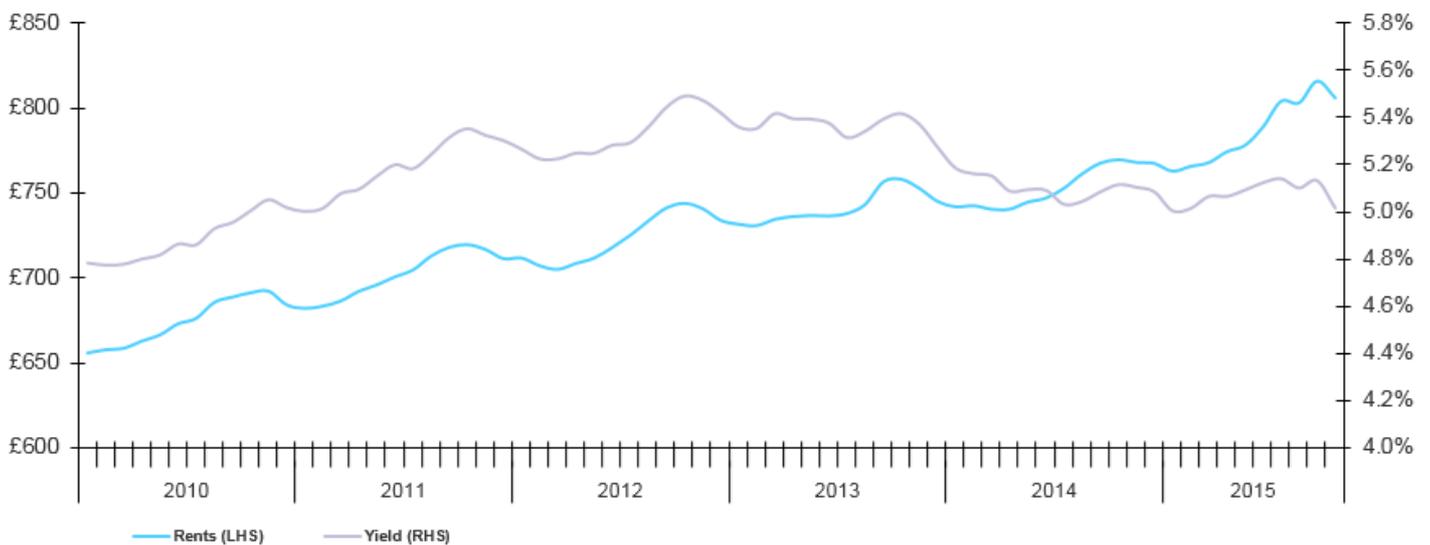
On an annual basis, London still leads the field with rents now 10.7% higher than in October last year, followed by annual rises of 8.9% in the East of England and 5.7% in the East Midlands. At the other end of the spectrum, recent falls take Welsh rents to levels 6.7% lower than a year ago.

**Adrian Gill continues:** “Rents are beginning to cool off for the year in the large and important rental markets of London, the South East, West Midlands and the North West. But an interesting split has developed this month. All along the eastern edge of the country, there has been a sustained upwards trend in rents – representing a particular strength in these local markets, lasting beyond the seasonal peaks seen in the generally more populated western and south-eastern regions.

*“These important differences emphasise the individual nature of all local rental markets, which can be substantially different from one road to another, let alone in different cities and regions. Landlords and tenants alike should bear in mind how much local knowledge can matter when making serious financial and life decisions.”*

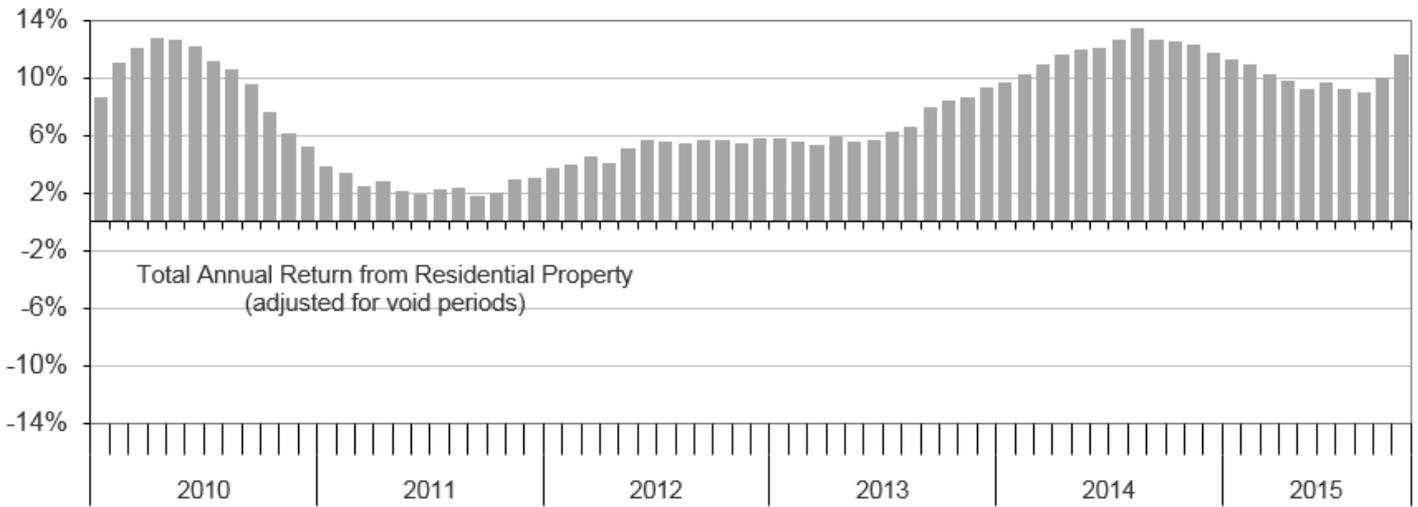
## Purchase prices hit yields, but boost total returns

The gross yield on a typical rental property in England and Wales (before taking into account factors such as void periods) has dropped to 5.0% in October, down from 5.1% in September 2015. This is also higher than the 5.1% gross yield seen a year ago in October 2014.



As property purchase prices have accelerated, landlords have seen their finances boosted by the value of their properties. Taking into account both rental income and such capital growth, the average landlord in England and Wales has seen total returns of 11.6% over the twelve months ending October 2015 – up from 10.0% in September 2015.

In absolute terms this means that the average landlord in England and Wales has seen a return of £20,933, before any deductions such as property maintenance and mortgage payments. Of this, the average capital gain contributed £12,272 while rental income made up £8,661 over the twelve months to September.



Despite lower gross yields, which would normally imply that rents will need to rise more rapidly to catch up with property prices, and a generally accepted lack of supply in the face of tenant demand, landlords are nevertheless pessimistic regarding future rent rises, expecting average rent rises of just 1.4% over the next year, according to the [latest Landlord Survey](#) from Your Move and Reeds Rains.

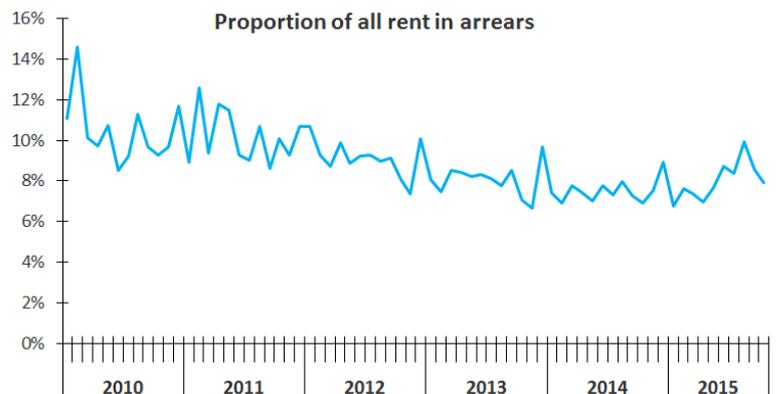
**Adrian Gill continues:** *“Rising property prices suppress rental yields, and over the longer-term this also implies that rents will need to rise even quicker to keep up with the property purchase market. But in the meantime, growing property values are acting as a bonus for landlords, who may be able to access cheaper finance or invest in new properties as a result.*

*“Beyond these fundamentals, however, perception counts too. There is a dangerous balancing act in play, between politicians keen to score easy points by attacking the relatively small population of British landlords, and the need for constructive policies and rhetoric that can welcome further investment in supplying homes for all the millions of expected future tenants. This year’s tax changes targeted at the buy-to-let industry have had a measurable effect on landlords’ morale, so it will be important for the Government to weigh up raising revenue in the short-term, and winning short-term political battles, with the wider war against a lack of housing.”*

## Tenants repair their finances

Tenant arrears have improved for the second month in a row, now representing 7.9% of all rent due, as of October. This compares to 8.6% of all rent late in September and 9.9% of rent late in August 2015.

However late rent is still more likely than a year ago, with the latest figure of 7.9% comparing to just 6.9% of all rent in arrears in October 2014.



**Adrian Gill concludes:** *“Since the recession, there has been a consistent downwards trend in levels of late rent.*

*“But now after some unseasonable summer setbacks, the clarity of that trend may be coming to an end.*

*“As average earnings rise, rents are picking up in response – but that doesn’t mean that every tenant can afford the higher level. The number of properties available across the whole UK rental market still isn’t sufficient, which is ultimately leading to a form of rationing, and to serious problems for those who are yet to feel the warmth of a brighter economic situation.*

*“Just to pay the rent, the average tenant needs to find an extra £36 every month than they did a year ago. That equates to a reasonably-priced meal out for two, or a good proportion of the weekly shop for many households. So while consumer price inflation is negative and the price of certain goods is falling, for plenty of tenants that might be a slightly moot point.*

*“Only time will tell if tenant arrears have plateaued, if they will resume long-term improvements, or if arrears could in fact begin to worsen more consistently. Communication between landlords and tenants is key, but in the long-run, supplying more homes will be the only way to keep up with a rising population across all tenures of housing.”*

**- ENDS -**

## REGIONAL BREAKDOWN

	Rents October 2015	One Month change	12 Month Change	Yields October 2015	Yields October 2014
London	£1,287	-1.1%	10.7%	4.3%	4.3%
East of England	£835	0.7%	8.9%	4.4%	4.4%
South West	£677	-2.1%	3.3%	3.6%	3.7%
Yorkshire & The Humber	£552	0.3%	1.5%	6.3%	6.5%
North West	£606	-0.1%	-0.3%	6.9%	7.3%
Wales	£535	-0.3%	-6.7%	4.1%	4.5%
South East	£794	-2.5%	-2.7%	4.2%	4.7%
North East	£521	0.4%	0.3%	5.1%	5.2%
West Midlands	£589	-0.6%	4.5%	5.6%	5.6%
East Midlands	£604	0.1%	5.7%	5.9%	5.8%
<b>England &amp; Wales</b>	<b>£806</b>	<b>-1.2%</b>	<b>4.7%</b>	<b>5.0%</b>	<b>5.1%</b>

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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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