



Buy-to-Let Index - England & Wales

Data provided by the Your Move and Reeds Rains estate agency networks

August 2015

Rents retreat in August

- Rents drop on a monthly basis, down 0.1% since July to stand at average of £803 per month in August
- Annual pace of rental growth tempers to 5.5% over the last twelve months, down from 6.8% in July
- While London and the South East slow, rents across the Midlands and East of England hit all-time highs
- Despite slower rent increases, tenant finances worsen – as the proportion of rent in arrears rises to 9.9%
- Landlords see gross yields steady at 5.1% while total annual returns stand at 9.3% including capital growth

Rents across England and Wales have fallen on a monthly basis for the first time since March, despite fresh records in three regions, according to the latest Buy-to-Let Index from the LSL Property Services Group.

Average rents fell by 0.1% on a monthly basis, down from £804 in July to stand at an average of £803 in August.

On an annual basis rents are now 5.5% higher than in August 2014, representing a slowdown since July when annual rent rises stood at an all-time record of 6.8%,

Adrian Gill, Executive Director of Estate Agency for LSL, comments: "August has witnessed a break in a series of blistering rent

rises. Yet this mild correction comes on the back of a whole year of acceleration. Rents are rising rapidly on an annual basis, underpinned by an improving economic picture for many potential tenants – and the peak lettings season is only just about to start this autumn."



“There is also no major change to the fundamentals of supply and demand. This means that in the longer-term, faster rent rises may become a semi-permanent feature of the British property market. Alongside purchase prices, rents will continue to rise rapidly until something happens to address a drastic shortage of homes in the UK.”

Regional rents: East of England takes the lead

Despite a slower picture across the board, three individual regions of England and Wales saw rents hit fresh records in August. In the West Midlands average rents of £586 per month represent the highest levels on record, while rents in the East Midlands have set their own record at £596.

As the third region to see record rents, the East of England has also overtaken London to see the fastest annual growth of 11.5% – ahead of 10.2% annual increases in the capital. This takes average rents in the East of England to £843 per month. Meanwhile, while relegated to second place in terms of annual rent rises, London’s tenants still pay by far the most in absolute terms, with average rents of £1,278 in August.

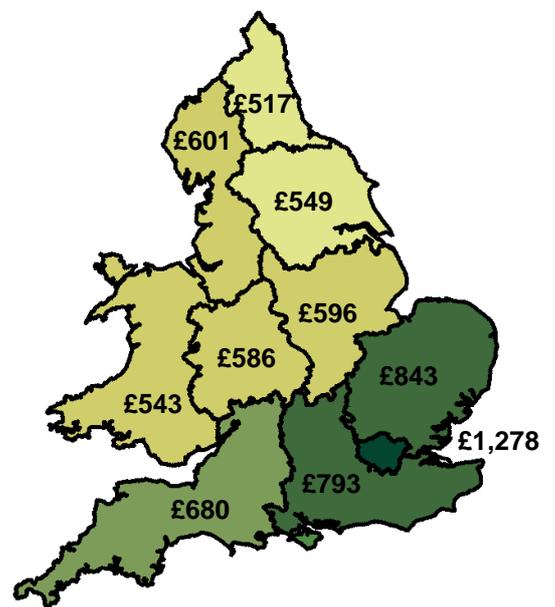
Annual rent rises in the West and East Midlands were also particularly strong, standing at 4.6% and 5.9% respectively. Meanwhile at the other end of the spectrum, Welsh rents are 3.1% lower than a year ago and the only region to see an annual fall. This comes as Wales has also seen the most negative trend on a monthly basis, with rents in the principality dropping 4.0% since July.

In total five out of ten regions have seen rents fall on a monthly basis. After Wales this is led by the South East, with rents 1.4% lower than in July, and the North East with a 1.1% monthly decrease. In London rents have seen a rapid reversal with a 0.3% fall following a 3.3% increase over the previous month.

Leading the field on a monthly basis, South Western rents rose 3.2% between July and August, while the East Midlands saw 2.1% monthly rental growth.

Adrian Gill explains: *“Every piece of evidence is pointing to a rapid take-off in the East of England. Rents and indeed purchase prices have been especially strong here for some time. And now the East is taking the lead from London in terms of annual rent rises, this underscores the scale of that momentum.”*

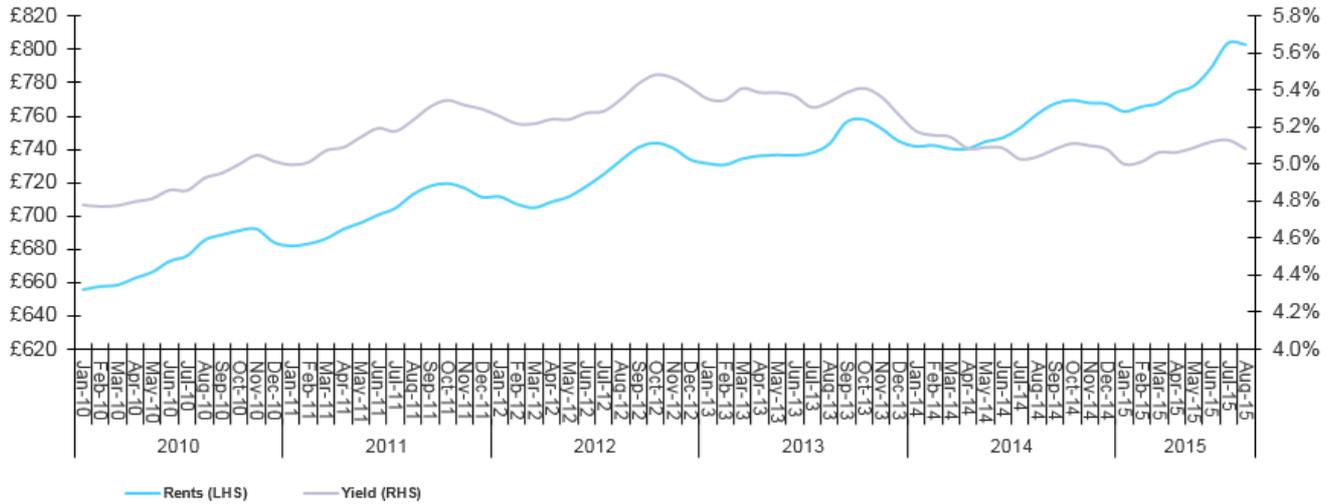
“Meanwhile, while both East and West Midlands appear to be sharing in this surge of demand, the North West and Wales seem to be shifting into a slightly lower gear.”



Monthly rents in August: By region

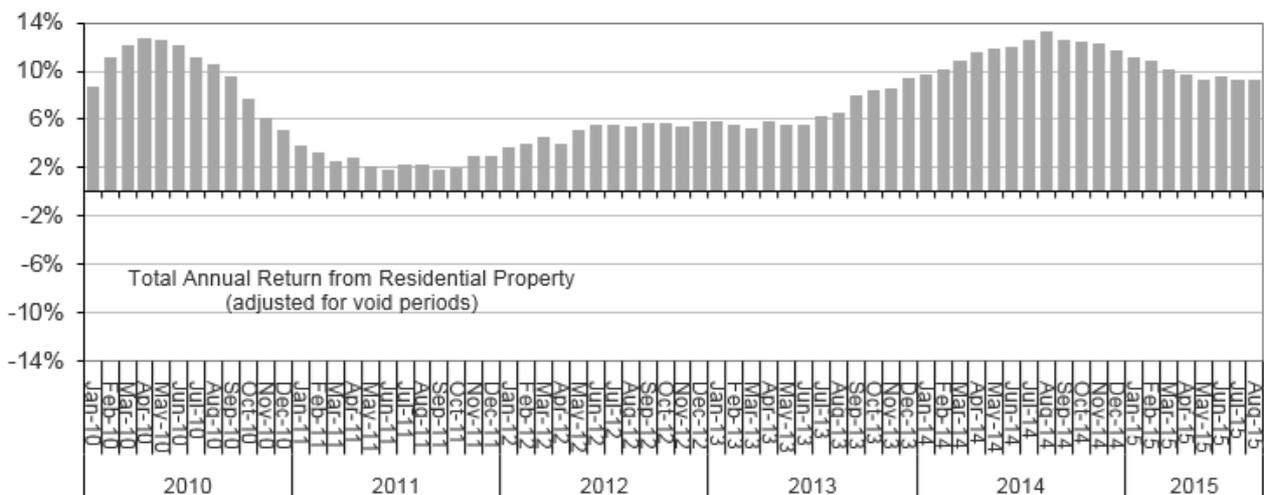
Gross yields and annual returns steady

The gross yield on a typical rental property in England and Wales (before taking into account factors such as void periods) stands at 5.1% in August 2015. This is steady compared to 5.1% in July and up marginally from 5.0% in August 2014.



As purchase price growth stabilised in August, total annual returns incorporating both capital accumulation and rental yields, have also stabilised. On average, landlords in England and Wales have seen returns of 9.3% over the twelve months ending August 2015 – down from 13.4% in August 2014 but the same as 9.3% seen in the previous month of July.

This means that the average landlord in England and Wales has seen a return of £16,856 in absolute terms, before deductions such as maintenance and mortgage payments. Of this, the average capital gain contributed £8,323 while rental income made up £8,533 over the twelve months to August



Adrian Gill continues: *“When purchase values cool, rental yields tend to assist in a soft landing for total returns, and this has been the case over the last six months or so. However, the picture in the purchase market is now an optimistic one, and may boost landlords’ prospects further this year. With mortgage rates still likely to remain low for some time, the outlook for the property market as a whole is positive – and the opportunities for landlords to get involved are excellent.”*

Rent arrears show continued setback

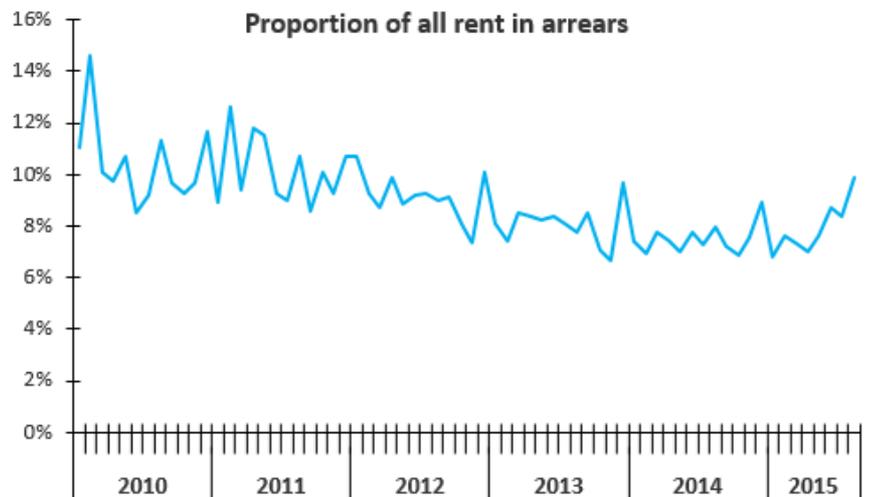
Tenant arrears made up 9.9% of all rent payable in August 2015, up from 8.4% in July 2015 and 8.0% in August 2014. This compares to the all-time record for rent in arrears set in February 2010, at 14.6% of all rent due.

Adrian Gill concludes: *“Rents are being bid up by the vast majority of tenants, many of whom are seeing their incomes rise substantially for the first time in many years.*

“However, not every household shares the same bank account. Compared to rapidly growing demand there is a real shortage of available properties to let across the country. This means that inevitably, rising rents will not be good news for everyone.

“The long-term trend in rental arrears is still positive, and we will be releasing new, separate figures on the most serious arrears very soon. However, there is a need for action. This involves more investment from landlords in properties to let – and action from the government to allow the building of more new homes of all tenures.”

- ENDS -



REGIONAL BREAKDOWN

	Rents August 2015	1 month change	Annual Change	Yields August 2015	Yields August 2014
London	£1,278	-0.3%	10.2%	4.4%	4.2%
East of England	£843	0.6%	11.5%	4.5%	4.4%
South West	£680	3.2%	4.5%	3.7%	3.7%
Yorkshire & The Humber	£549	-0.4%	0.8%	6.3%	6.4%
North West	£601	0.1%	0.1%	7.0%	7.1%
Wales	£543	-4.0%	-3.1%	4.1%	4.4%
South East	£793	-1.4%	0.6%	4.3%	4.6%
North East	£517	-1.1%	0.5%	5.0%	5.0%
West Midlands	£586	0.5%	4.6%	5.6%	5.6%
East Midlands	£596	2.1%	5.9%	5.8%	5.8%
England & Wales	£803	-0.1%	5.5%	5.1%	5.0%

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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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