

Buy-to-let index

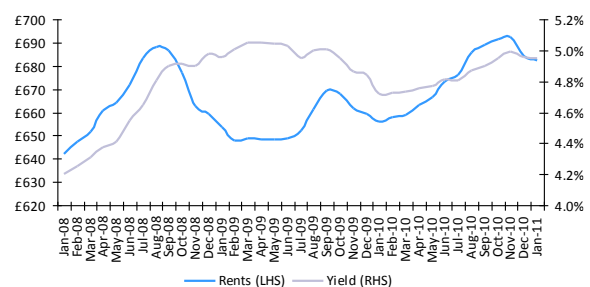
STRICTLY UNDER EMBARGO UNTIL 00.01 FRIDAY 18th FEBRUARY 2011

RENTS FALL AS PROPERTY INVESTORS SURGE INTO SECTOR

- Despite the slight decrease in rents, they are still 4% higher than a year ago – and are showing signs of renewed growth in several areas of the country
- Rents marginally fall by 0.3% compared to December to £682 per month as increasing investment pushes up supply
- Tenant arrears fall back, but remain high with 11% of all UK rent in arrears
- Total annual returns decline again as annual house price growth declines

Rents fell slightly in January, as a growing number of investors piled into the UK's buy-to-let market pushing up supply, 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.

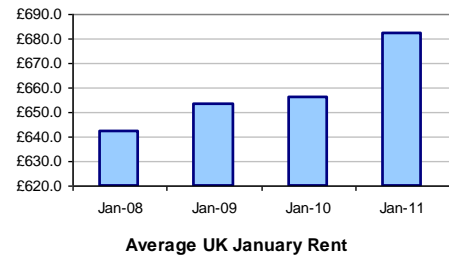
In January, the average rent in England and Wales dropped by 0.3% to £682 per month. This is the second successive month rents have fallen. The average yield fell slightly to 4.9% in January, as rents declined at a faster pace than rental property values.



David Brown, commercial director of LSL Property Services plc comments: *“The recent loosening in the buy-to-let mortgage market has boosted the supply of rental homes on the market, a crucial factor in the temporary drop in rents. In the last quarter of 2010, the number of buy-to-let loans leapt by 7% according to CML. With more products coming onto the market, there are signs that this trend is continuing into 2011, allowing a growing number of professional landlords to get onto the market – or broaden their portfolios - and take advantage of near record rental income and strong tenant demand. International investors, too, have played their part, looking to place their cash in UK bricks and mortar while yields look attractive and properties are affordable.”*

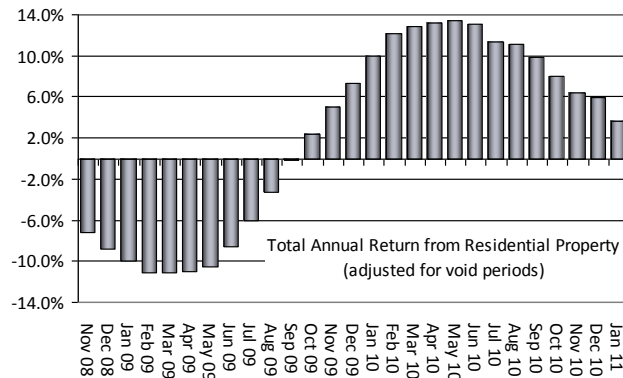
Despite the slight decrease in rents, they are still 4% higher than a year ago – and are showing signs of renewed growth in several areas of the country. Rents in the East and West Midlands increased by 0.9% and 0.8% respectively, 0.8% in Yorkshire and the Humber, and 0.2% in London. However, the overall drop was driven by larger falls in the East of England (-2.5%), Wales (-2.1%), the North West (-1%), alongside decreases of 0.4% in the South West and South East.

Brown says: *“Although rents have fallen, the strength of the rental market cushioned the additional impact of winter. Fewer tenants tend to move in December and January – and many landlords drop rents to avoid experiencing vacant properties. Despite the seasonal downturn, and the increase in supply, there remains healthy demand for property and rents are still £26pcm higher than last January.”*



Following steady falls in property prices over the past three months, the total annual return on a property has dropped to 3.7% – the lowest return since October 2009. This is now the equivalent to £6,120 - £7,295 in rent, with a capital loss of £1,117,95. However, following recent declines in property values, over the next 12 months, a property investor could expect to make a total annual loss of £61 per new rental propertyⁱ - the £8,186 in rent could be cancelled out by a capital loss of £8,247 if recent house price falls continue at the same rate for the rest of 2011.

David Brown continues: *“Falling house prices have suppressed annual returns in many parts of the country, but many investors have leapt at the chance to pick-up bargains while yields are high. Recent capital losses should serve as a strong reminder that property investment is a long-term venture, not a get rich quick scheme – and successful investment is based on the fundamentals of rent, yields and tenant demand.”*



Tenant finances were in slightly better shape than in December, but high arrears remains a concern for landlords. 11% of all UK rent was unpaid or late by the end of January, a drop from 11.7% in the previous month. Unpaid rent totalled £258m across the UK in January, down from £276m in December.

Brown concludes: *“Tenant arrears look to have improved following the impact of Christmas spending, but they remain high. Their failure to return to a much lower level points to an underlying issue with tenant finances.”*

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Rents remain near record highs, and many household budgets have become squeezed by inflation and the toll taken by public sector cuts. In a market where properties aren't jumping up in value, rental income is even more crucial to investors' returns – and pays the mortgage bill each month. It's vital that landlords act swiftly to head-off any potential tenant issues at the pass before they become a recurring nightmare."

	Rents Jan 2011	1 month change	Annual Change	Yields Jan 2011	Yields Jan 2010
London	£971	0.2%	7.1%	4.9%	4.6%
East of England	£684	-2.5%	-0.7%	4.4%	4.4%
South West	£634	-0.4%	-0.1%	3.9%	3.8%
Yorkshire and The Humber	£523	0.8%	4.5%	6.2%	5.9%
North West	£544	-1.0%	-0.4%	6.3%	6.3%
Wales	£525	-2.1%	0.9%	4.1%	3.9%
South East	£690	-0.4%	5.7%	4.6%	4.3%
North East	£516	0.5%	6.2%	4.7%	4.3%
West Midlands	£553	0.6%	4.9%	5.6%	5.3%
East Midlands	£531	0.9%	4.1%	5.7%	5.4%
England & Wales	£682	-0.3%	4.0%	4.9%	4.7%

ⁱ Assuming house prices change at the average rate of the last three months and they achieve the average yield of 4.9%.

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