

the rent check

Issue 3: Spring 2014 – covering England & Wales

PRS Barometer



is the average rental growth. 94% have seen rents stay the same or increase



have seen rents fall over 12 months. The average fall was 5.6%



anticipate rental portfolio growth over the next 6 months



of landlords achieve at least their rental asking price



of landlord's rental income is left after management and maintenance†



is the average tenancy length

Regional Snapshot

Average 2 bed flat pcm

	Q4-Q1 2014	annual change
London (zones 1-2)	£1,520	£5
London (zones 3-6)	£1,095	£30
South East	£740	£45
South West	£665	£30
East England	£610	-£55
East Midlands	£560	£40
West Midlands	£555	£10
Wales	£550	-£35
North West	£540	-£20
North East	£520	£40
Yorkshire & Humber	£520	-£10

Regional Snapshot

Average 3 bed house pcm

	Q4-Q1 2014	annual change
London (zones 1-2)	£2,080	£265
London (zones 3-6)	£1,500	£65
South East	£940	£5
South West	£825	-£5
East England	£710	-£10
West Midlands	£670	£40
East Midlands	£640	£25
North West	£620	-£45
Wales	£605	-£15
Yorkshire & Humber	£575	£25
North East	£575	£75

Rounded to the nearest £5 pcm

- Almost 8 in 10 landlords consider their property as their pension.
- 25% of landlords intend to purchase property in 2014.
- The average level of arrears per tenant has dropped by 22% over the last 3 years.

The Rent Check surveyed 2,203 landlords across England and Wales over the six months to March 2014.

† Excluding mortgage payments.

introducing the **rent** check

The Rent Check is a collaboration of expertise from BDRC Continental – the UK's largest independent market research consultancy – and Allsop LLP – one of the leading property consultancy firms and advisors on the residential property market.

The Rent Check is a unique measure of the rents being agreed by landlords for private rented sector tenancies across England and Wales. This research tracks the experience of a large sample (2,203 in the six months to March 2014) of members of the National Landlord Association (NLA), providing a statistically robust overview of the rental market.

This data provides insight previously overlooked by rental indices tracking 'average' prices for all properties

marketed and reflects actual rents agreed; which, as the Rent Check finds, are different to the asking rent initially advertised for 26% of all lettings.

The Rent Check is supplemented by the 'Tenant Panel' in order for us to gain the perspective of the tenants. This provides us with an inclusive outlook of the private rental sector that other indices do not cover.

These surveys will continue to track movements and evolutions in the private rented market each six months, analysing movement in agreed prices, regional variations and providing unique landlord and renter insight.

The Rent Check is a survey forming part of the BDRC owned 'Landlords Panel' which will provide supplementary analysis on future rental trends, tenant profile and landlord confidence in future survey releases.



the integrity of the **rent** check

The data included in the Rent Check has been analysed and scrutinised by BDRC Continental's research analysts and draws on their experience in the consumer research arena. BDRC Continental has a seven year history of conducting research with residential landlords and have carried out focused research on the buy-to-let market and private rental sector on behalf of a wide range of clients and interested parties.

the methodology of the **rent** check

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BDRC Continental's Landlords Panel is the only regular, commercially available study of the UK's private rental and buy-to-let sectors. Established in 2006 and run in partnership with the National Landlords Association, the subscription based study provides important insight into the market dynamics of this multibillion pound industry. Each quarter more than 1,000 online landlords across the UK are interviewed about the key aspects of their

letting activity, as well as general economic indicators including optimism and market outlook. Results are independently analysed and published by BDRC Continental.

The Tenants Panel will be carried out quarterly, with around 2,000 private tenants participating in the survey each wave. For sake of clarity, the tenants are randomly selected from commercial lists within which participants self-select by declaring that they are private tenants. They are not connected to NLA members, although we do not rule out that some may coincidentally rent from them.



Generation Landlord

Recent media commentary sees housing becoming an increasingly contested battleground for the upcoming May 2015 General Election. While it is still early days for political parties to nail their policies for their respective manifestos to the mast, housing generally – and rented property in particular – has found itself in the spotlight. Housing is, as ever, an emotive topic for voters and politicians alike - being a high cost item in all household budgets - and the debate over the cost of renting is arguably as relevant today as rising house prices.

With average annual growth recorded by the Rent Check at only 4.2% and average tenancy length of 2.5 years, the Private Rented Sector (PRS) is providing a stable and longer term housing option for millions of people. We have no evidence to suggest when taking a national view that changes in legislation are warranted – although we do appreciate that there are small pockets of England and Wales (primarily in London and higher value South East locations) where rental growth has stormed ahead. At a regional level, even in London, the Rent Check demonstrates steady growth, and indeed some modest falls in headline rents regionally.

Changes to Pension Investments

New Government intervention in pension planning also gives retirees increased decision making over their personal pension funds. As the 50 pluses assess their pension pots they are faced with a new conundrum – when to withdraw and when to insure (via an annuity)? Whilst choice may be welcome to some, for the less investment savvy the realisation that you can cut and slice your pension in new ways and in consequence pay less tax is a daunting prospect and could be very confusing. Choice will necessitate reasoned professional advice and pensioners of the future will increasingly be looking to review and consider their options in order to maximise the value of their pension pots.

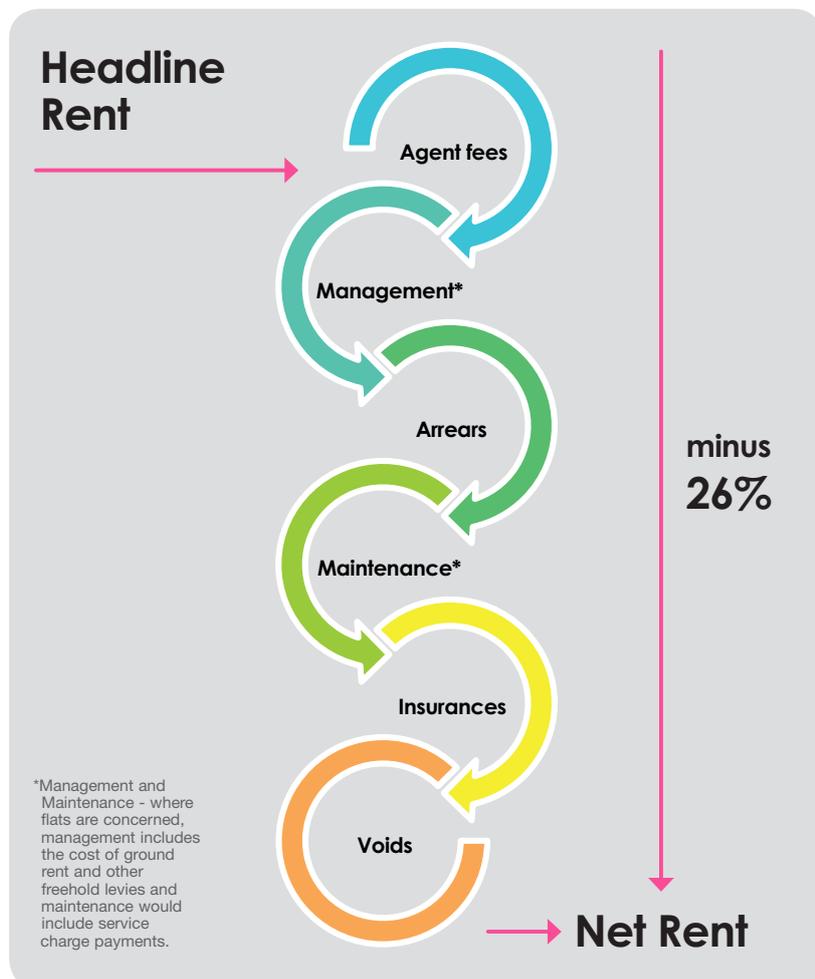
With 78% of landlords stating that their primary motivation for investing in property is to build their future pension fund, property is already one of the most popular investments for the UK pension planners. As the relaxation in Buy to Let Mortgage criteria feed through, house prices generally on the up, and rental demand not abating, investing in property to rent is likely to be a popular outlet for released pension cash.

From Headline Rent to take home pay

So what do landlords make from a property bought purely as an investment, and is it a road to riches? In this edition of the Rent Check, we explore the headline rents landlords are agreeing, their experiences and what they're left with once all costs are paid.

In our survey of 2,203 landlords over the six months to March 2014, the average rent agreed per property was £506 across England and Wales outside of London, equating to £6,072 per annum. The Rent Check found that, excluding mortgage payments, on average, landlords lose 26% of the headline rent to expenses incurred in running and managing their properties, taking the rest as income after paying any mortgage commitments. For the average property outside of London, this means that the cash after costs is £4,493.

The diagram below demonstrates the costs encountered and the journey from headline gross rent to net rent to the landlord. ▶



Generation Landlord

(Continued)

▶ The percentage leakage in costs varies, of course, by region, with those regions commanding higher rents such as Central and Outer London seeing only averages of 24% and 27% lost in costs, compared with regions with much lower rents such as Wales and North East, where leakage in costs is over 30% of rents agreed. Controlling and reducing this leakage is possible via good management practices and long term planning, keeping maintenance, arrears and void levels to a minimum, which if neglected can seriously impact on return.

Successful small-scale landlords, without the benefits of economies of scale, are therefore those who take a long term approach to property management. On-going cyclical maintenance avoids expensive refurbishments, keeps tenant

at least the next three months (up from 61% a year ago). On an annual basis, the Rent Check has seen rents increase in seven of the eleven regions surveyed, with the average growth in rent recorded on a 2 bed flat being 5.2%, and 6.0% for a 3 bed house (excluding central London zones 1-2). This indicates a premium above inflation and continued growth despite an increase in sales transactions and government assistance to purchasers via Help to Buy. This said, house prices have increased by an average of 9.2% in the UK over the same period (nationwide). Housing will inevitably continue to face inflationary pressure because of the continued imbalance between demand and supply.

Our research indicates that income security is also improving. The Landlords

A marathon not a sprint

Whilst the income fundamentals of investing in residential property are shown to be improving, the scale, entry and exit costs of property investment mean that it is not for the fainthearted. In addition to the comparatively high equity commitment required in terms of cash to deposit, property incurs some fairly hefty transaction costs. Purchase costs include stamp duty and legal fees and exit costs involve agency fees, legal fees and Capital Gains Tax. Trading properties frequently will undermine the returns the property has delivered, which unlike more liquid investments such as equities and bonds, means the property investor must commit to holding their assets to draw the true benefits. Property is not the 'get rich quick' scheme perhaps it has often portrayed to be, with 16% of landlords just breaking even or making a loss. For those with one property, this is as high as 27%.

“The Rent Check clearly demonstrates that in the vast majority of regions in England Wales, we are not seeing rapidly escalating rents. Landlords prioritise retaining good tenants and avoiding costly void periods over and above pushing for higher rents”

Paul Winstanley, Allsop LLP.

demand and rents high and preserves and bolsters price rises – all of benefit when it comes to selling the property. Proactivity and a long term view has a positive impact on investment returns, even if in the short term the level of income received is reduced slightly in consequence. Experienced investors appreciate the arbitrage between raising rents and retaining good tenants, and it is vital that decisions are taken in the context of the market.

The prospects for investing in residential property

As we have suggested, the outlook for residential property investment remains very strong, with housing given headline billing by the government and opposition parties ahead of next year's General Election. The 'risk' considerations for landlords appear to be improving, with 67% having confidence in their lettings business for

Panel recorded a downward trend in void levels over the past three years, from a high of 41% of landlords experiencing voids during the previous three months down to the current 31%. The regional picture reflects the demand pattern across the country, with the lowest void levels recorded in the East and South East of England. Experience of arrears is also improving; the average owed per tenant is £522 less than the same point two years ago.

It is our experience that demand for properties to rent remains high and although there is evidence that an increasing proportion of renters, due to a relaxation in mortgage criteria, are able to buy their own home, renting as an option remains popular in offering flexibility to people unable or unwilling to commit to purchase. Falling unemployment and rising wages are perhaps filtering through to a reduction in arrears.

“The third edition of Rent Check continues to dispel myths around the dynamics of the PRS. Property as a pension takes on a whole new dynamic given the recent relaxation of maturity options, and it will be interesting to see how this plays out between established, experienced landlords and first-time investors looking to leverage bricks and mortar in later life.”

Mark Long, BDRC.

Property is well suited to long term pension investment. It offers a regular monthly income, prospects for growth and where managers are employed, a relatively 'hands-off' opportunity. We can see it being a popular choice for pensioners taking a long term approach to benefit from both rental and capital appreciation, but it is vital that they seek professional advice at the outset and recognise that gross rent is only ever the starting point to a successful investment.



the **rent** check

To subscribe to the **rent** check please email: rentcheck@allsop.co.uk

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