Implications for Landlords on the latest 2014 rental trends

From a landlord's perspective, rents haven't really had much of a dramatic impact on business since 2007. The two longest running indices for the private rental sector are:-

Office of National Statistics Private Rental Index, for English regions, 2005
Belvoir Lettings Index which runs from March, 2008

Both of these indices show that from a landlord's perspective, rents are not rising in line with inflation.

On average, according to ONS, private rents have increased by 5%
According to Belvoir, the average rent for England in 2008 was £700 and are now £731, increasing by 4.4%

Landlords and rental income
Normally this would cause landlords an issue. If your turnover isn't keeping up with inflation, it's normally tough to make ends meet. However, landlords have two aims. Firstly to make money from capital growth – so they don't worry so much about making ends meet as long as prices are rising.

For those that do make their money from rental income, the lack of rental growth over the last 10 years would have normally been a major issue. Firstly, rents need to keep up, from an investment perspective, with inflation.

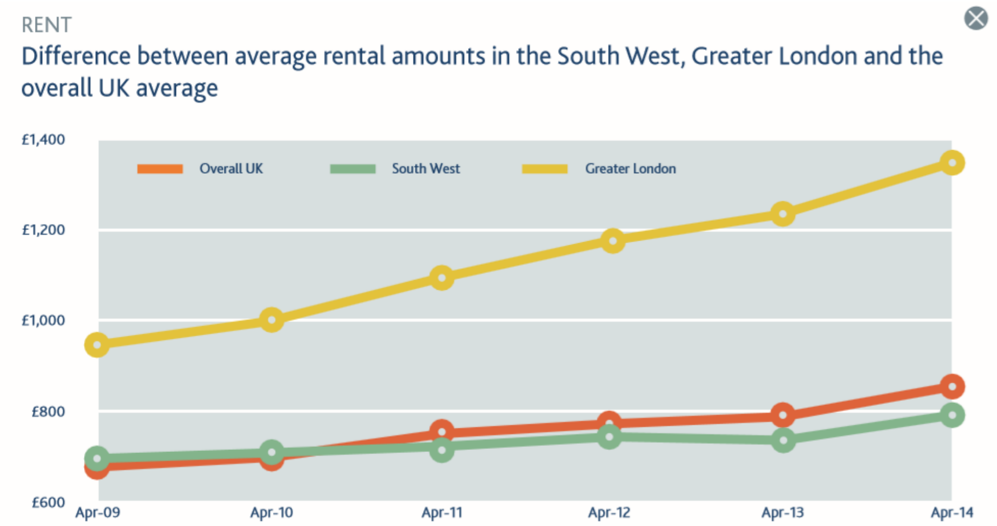
With inflation being, on average, 3.4% per year since 2005, rents needed to rise by 31% to keep up. From 2008, they are 3.1% and needed to rise by 16%.

Clearly with rises of just 5% over the same period, rents are not 'spiralling out of control' as some organisations and political parties are suggesting.

In fact quite the opposite!

On average, rents are extremely good value, over time. So where is the information coming from that suggests rents are at 'record highs'? The issue comes when you look at rents in the short term and many of the new indices started tracking rents during a market low – in 2009/2010.

For example, Homelet was started in April 2009. Since that time, rather than picking up a market which has 'rents at their highest' or 'record levels', this is correct for their own index, but not accurate over time:-

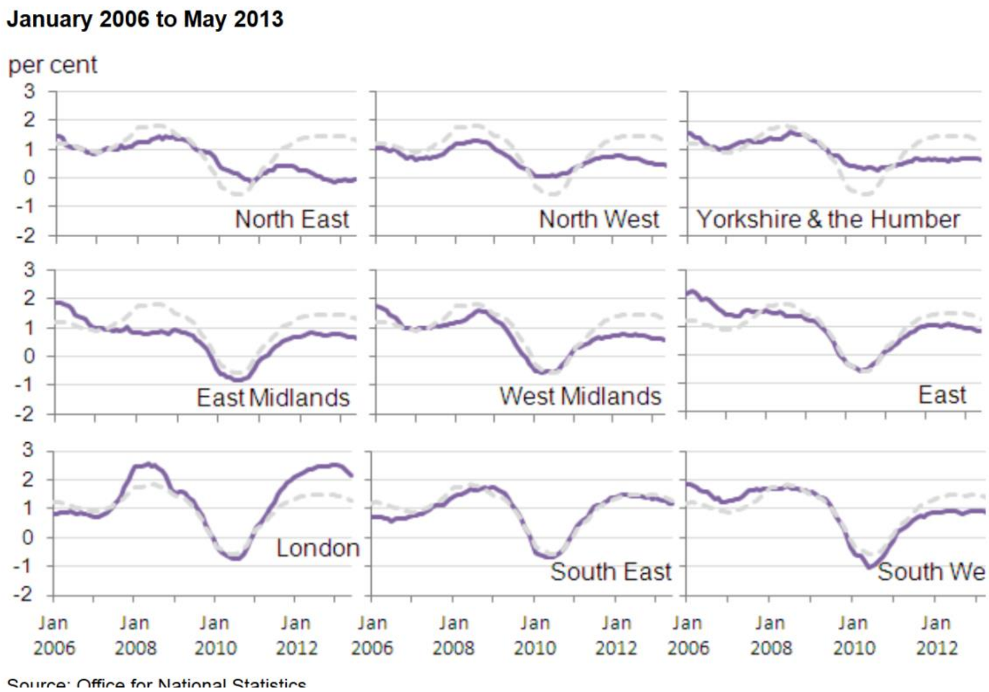


Source: Homelet

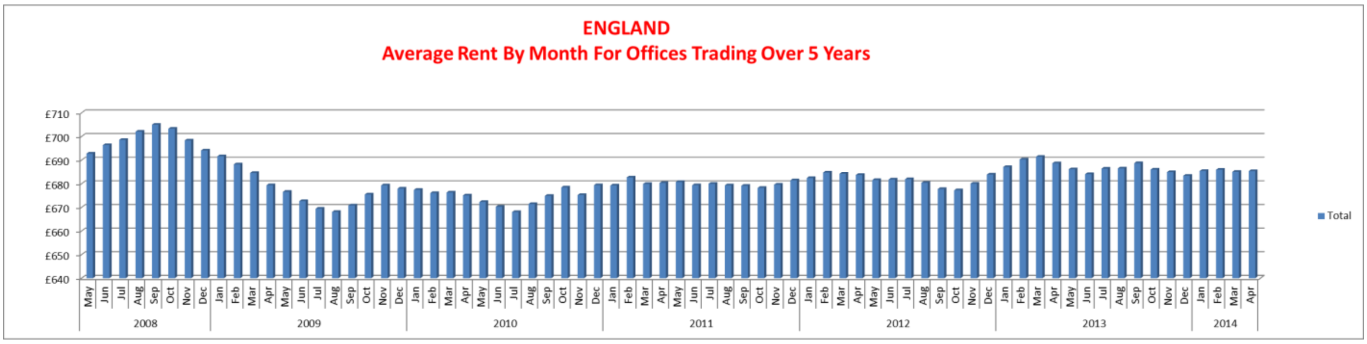
 Dated: 29.05.2014

Implications for Landlords on the latest 2014 rental trends – cont'd

When you look at the ONS and Belvoir data, it's clear that rents fell quite substantially in 2009:-



From Belvoir's perspective the picture is very similar where prices rose during 2008, then from October time started to fall. In cases such as Nottingham, rents fell by up to 20%.



In conclusion, any indices which started tracking rents from 2009/2010 would have recorded rents when they were at an 'all time low'. So the idea that rents are rising mostly translates in reality to rents 'recovering' which is of course a very different trend – and policy makers in particular need to beware of the numbers they are given to persuade them to set policies in the coming year.

Why are landlords still doing well if rents aren't rising much?

In theory, landlords should be in a huge pickle income wise. For example, VAT went up by 2.5%, but this hasn't been recovered by most landlords. What has kept landlords afloat during this period of time is that many will own the properties 100% with cash while most, according to ARLA, own properties 50:50 cash:mortgage.

Implications for Landlords on the latest 2014 rental trends – cont'd

Typically, the biggest cost for most landlords is the mortgage, followed by maintenance costs. So what has kept landlords afloat while rents haven't risen is their highest cost base, ie the mortgage is at an all-time low with cracking rates secured before the credit crunch just above base or even new rates at around 2-3%.

Landlords and capital growth

From a property price perspective, buying properties back in 2005 shows a massive increase – on average. However, from postcode to postcode prices will vary dramatically, much more so than rents, so the returns for landlords will vary from disastrous to delightful!

Working with Terry Lucking from Belvoir Lettings, we tracked property prices and rents over time to give a picture of real returns that landlords were making – as opposed to those advertised by businesses benefitting from buy to let investments!

In Peterborough, the average price of a two bed terrace would be £114,000 with rents at £525, giving a yield of just over 5% in 2005 (including 3 week void). Since then, rents would be around £575 and the property worth about the same. So capital growth wise, no change, but yields for a landlord who bought back in 2005 would now be 5.7%.

In comparison, a flat in Cambridge would have been bought for £128,000 in 2005, renting at £695, giving a yield of 6% in 2005. Since then, rents would be around £825 and the property worth £150,000, so capital growth of £22,000 over 9 years and a yield of 7.3%.

So from a landlord perspective, for those who bought back in 2005, some have seen capital growth rises and some a rise in yield, but the picture isn't 'staggering'. The most returns people have made are for those landlords who bought in the right areas such as Hackney, were property prices have risen substantially and rents have kept pace with inflation.

Overall returns since 2010

From 2010, LSL have been running a useful index which tracks current buy to let returns. Their latest index in April 2014 shows *"In absolute terms the average landlord in England and Wales has seen a return of £16,887 in the last twelve months, with rental income of £8,057 and capital gain of £8,830."*

And the future looks pretty rosy to according to LSL who explain *"If rental property prices continue to rise [in value] 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 7.8% over the next 12 months, equivalent to £13,600 per property."*

However, these returns vary substantially from one landlord to another, depending on when they bought the property and the level of gearing, (ie the ratio of mortgage to cash).

Not all landlords are 'getting rich quick' off the back of property and tenants!

Despite the good news around property at the moment, the picture is not as rosy as it seems - depending on when a landlord invested.

For those who invested in the likes of London, then capital growth is pretty good, while income returns aren't that great – around 4.5%, so tough to secure a decent income unless borrowers put down 50% equity. Returns on income in the South West are as low as 3.8%, and East of England, the South East and Wales are pretty similar.

Although good income returns can be secured from the likes of the North East - around 7% - with Yorkshire and Humber and East Midlands around 6%, in these areas, anyone who invested since 2005 will find 'natural' capital growth virtually non-existent. Indeed, they may find their property is actually worth less than they bought it for.

Implications for Landlords on the latest 2014 rental trends – cont'd

For example, where I am near - Nottingham city centre - a one or two bed flat since 2000 would have been bought for around £114,000. They are now worth just £60,000. A bargain if buying today, giving a 10% yield, but anyone who bought at the height of the market will have to hold on for years before they get their money back. And before that happens, they are likely then to have to pay out more money on major works as the flats are nearly 10 years old.

Others though that have bought in good areas where capital growth is growing beyond the heights of 2007 are likely to be doing well with the upturn, but the threat to them is mortgage rates rising back to their pre-credit crunch norm of 5-7% and also tenants not paying their rent, making it tough to make mortgage payments.
For free help on buying to let sign up to **Property Checklists**:-

- **Buy to Let Quick Guide**
- **Pros and cons of letting your property**
- **Buy to Let Insurance**
- **Inventory checklist**
- **Landlords' electrical safety checklist**
- **Buy to let storage**
- **Why join a Landlord Association**
- **How to rent your property through an online agent**
- **How to ensure your rental property is safe for tenants**
- **Steps to analysing a buy to let property checklist**
- **Financing a buy to let checklist**
- **Choosing a letting agent checklist**
- **Renting by the room checklist**
- **Buy to let tax checklist**

Implications for Tenants on the latest 2014 rental trends

For tenants, rental trends are pretty good just now. While house prices are pretty divorced from income levels, wages aren't - and landlords know it.

For many, tenants who have been renting from a landlord for some years, rents don't appear to have moved at all. The only area, according to Belvoir, that has seen real rental growth is really London, and even though rents are up, they aren't up as much as inflation nor have the private rents increased at the rate social rents have, which are inflation linked.

And, according to The Office of National Statistics, rents over the last 10 years have barely increased by 1% per year – making life for tenants pretty good in the rental market.

Some worry that the money they spend on rental income is 'dead money', but this is only if:-

1. The rent is more than the interest paid to lenders via a mortgage
2. Property prices are going up

And for many renters, prices 'north of the border' haven't seen much price growth since 2006 and with rents pretty stable, anyone paying around 5% of their rental property's value, would pay out as much 'dead money' to the lender as they would to the landlord.

See the example below:-

Property value:	£150,000
Deposit @5%:	£ 7,500
Buying costs:	£ 3,000
Refurbishment:	£ 2,000

Mortgage @95% £ 890 repayment, of which £625 would be interest to the lender @ 5% interest rate.

So if you rent a £150,000 property for £625 per month or less, then you are spending as much 'dead money' with your landlord as you are with your lender. Only property prices going up over time would make it better to buy than rent.

And on top of this, you would have to pay the building insurance and cover the maintenance costs on the property as well as find £12,500 (or half that if buying with someone else). To recoup the money you have invested in the property, prices would need to rise by around 8% in the first year, or just under 4% for the first two years of ownership.

For more property calculations, visit **Kate's Property Calculation Page**.

If you are renting now or looking at renting in the future, sign up to **Property Checklists** for FREE to download our checklists:-

- **How to rent a property checklist**
- **How to avoid rogue landlords checklist**
- **Checklist to work out if buying is cheaper than renting for you!**
- **Storing your belongings checklist**
- **Hiring a van checklist**
- **Checklist to work out if buying is cheaper than renting for you!**

What to do next?
For more help, from Kate and her team, join **Property Checklists** for free.

- Buying your first home
- Trading up
- Buy to Let
- Renting a Property
- Selling a Property

For Industry Professionals
If you are you a property professional or journalist who needs up to date, accurate, facts and figures about residential property, subscribe to our **Property Information Portal**.

For Media Professionals
If you need Kate to appear on TV, radio or for general comment, please contact directly:-

Kate Faulkner, Property Market Analyst and Commentator
Websites: **Kate Faulkner** **Property Checklists**
Email: **kate@designsonproperty.co.uk**
Telephone: **0845 838 1763 or 07974 750562**

About Kate Faulkner
Kate is MD of Propertychecklists.co.uk and carries out over 50 speaking engagements every year, highlighting property market issues to the industry and consumers. She has written six property books including four for Which?, is a featured property expert on the 4Homes website, regularly presents market issues for BBC Radio Nottingham and has a column in the Nottingham Evening Post and is writes weekly for the Telegraph's Property Club.

She has appeared on BBC Breakfast News, Daybreak, 'Your Money', Radio 4's You and Yours, Radio 5 Live, ITV/ITN News and The Big Questions.

For more information contact Kate Faulkner directly on **07974 750562** or **kate@designsonproperty.co.uk**