

INSIDE: LONDON RENT IN DETAIL | MORTGAGE TRENDS | RETURNS | ARREARS & VOIDS

Why is investment in London buy-to-let thriving?

Our first quarterly Buy-to-let Review goes a long way in answering this question. With yields of 7.0% in London areas suitable for buy-to-let investment, it's little wonder that investors are flocking to buy-to-let. London is unique in offering consistently high rent and low voids, making it a particularly attractive target for buy-to-let.

Summary from
Stephen Ludlow
Chairman



London has experienced something of a population boom over the last fifteen years, without seeing anything like enough house building to support the growth. The number of Londoners grew by 800,000 in the ten years to 2008. The growing population hasn't been provided with enough new homes. The mismatch between the high demand for homes and the shortage of supply puts a floor under rents.

The major stumbling blocks to a successful buy-to-let investment – tenant payment arrears and empty periods between lets ("voids") – can be managed in London because of high demand. Landlords can screen tenant applicants to reduce the likelihood of arrears and manage their portfolio cleverly to avoid voids. This newsletter has the stats to back this up.

The resilience of London's house prices to stagnation elsewhere in the UK may increase the barrier of entry to investors but also means that London investors are more likely to benefit from capital growth.

Residential property also consistently beats other asset classes. Data from respected research company IPD shows that over a ten year period, inflation adjusted returns from residential property were 6.1% compared to 3.7% for gilts, 3.5% for commercial property and 1.5% for equities.

Mortgage availability is no longer the stumbling block it briefly was after the credit crunch, as our information on some of latest buy-to-let mortgage trends demonstrates.

"The resilience of London's house prices to stagnation elsewhere in UK may increase the barrier of entry to investors but also means that London investors are more likely to benefit from capital growth."

Key trends

London rents and house prices continued to significantly outperform the rest of the UK economy.

The City and the West End produce very high rents, but prices are so high that only a small handful of properties exist that match a traditional high yielding buy-to-let investment.

South East London was the area with highest number of investment grade properties to invest in.

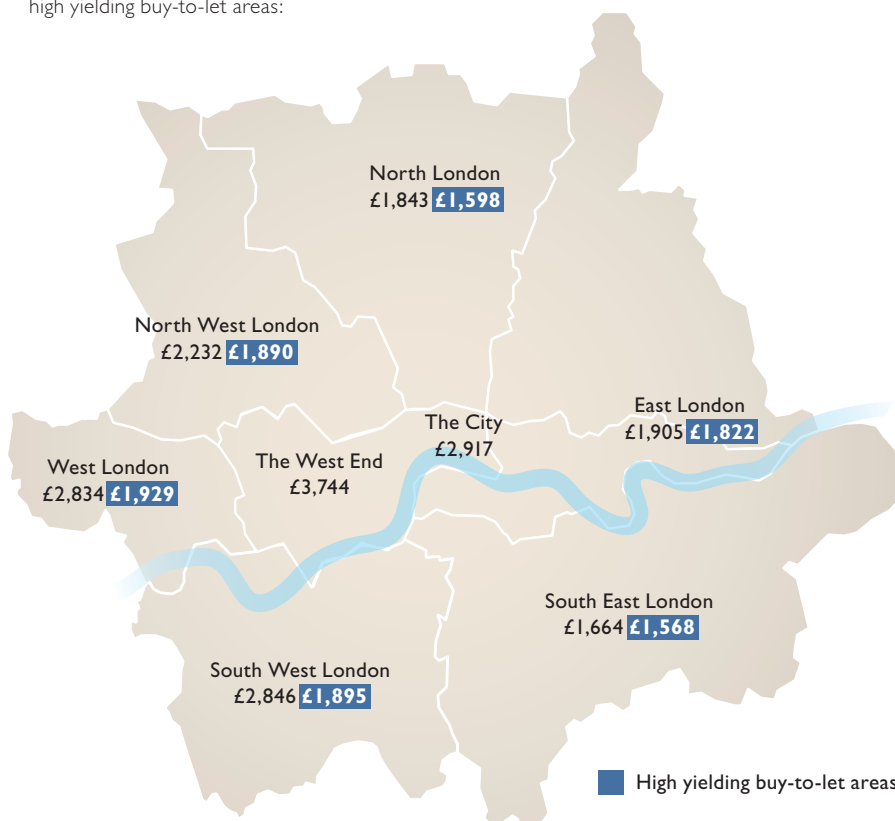
London buy-to-let was recently boosted by the annual summer influx of students, graduates and job seekers. Strong seasonal rental demand in the late summer fed through to a high proportion of properties let with parental guarantors, standing at 56% of all properties let by ludlowthompson in August.

Rents for London Q3

- For high yielding buy-to-let investment areas, average rents were £1,784 in Q3, according to ludlowthompson
- For prime London, rents were £2,705 and for super prime areas they were £4,394
- On a London-wide basis, average rents were £2,187
- LSL's average rents for England & Wales in August were £734, up 4.0% year-on-year. Source: LSL buy-to-let August press release

London rents in detail

Here are the Q3 average monthly rents for London, side-by-side with the average rents for high yielding buy-to-let areas:



Capital growth

The annual rate of capital growth in London was 5.0% in June 2012.

Source: Land Registry

House prices

Average London house prices were £364,059 in August 2012, up 1.1% from July and up 5.0% year-on-year. For England and Wales the respective figures were £163,376, +0.0% and +0.7%.

Source: Land registry

Yields

For high yielding London buy-to-let investment areas, the average yield was 7.0% in Q3.

This is higher than other reports, including, average yields of 6.2% in Q3, down from 6.5% in Q2, according to Paragon's quarterly PRS trends report.

Costs & net return

ludlowthompson calculates that total running costs for a buy-to-let investment have been running at an average of 22% of rental income for the last three years.

This means that property with a gross yield of 6.3% would provide a net yield of 4.9%.

This includes all costs, such as:

- Repair and maintenance**
- Letting fees**
- Service charges**
- Other one off cost payments**

Arrears

ludlowthompson arrears stood at 3.5% in August 2012, down from 4.5% in June. Arrears stood at 5.1% in August 2011.

LSL has arrears figures of 9.0% for August 2012.

ludlowthompson arrears =

3.5% Aug 2012 v 5.1% Aug 2011

LSL arrears = 9.0% Aug 2012

ludlowthompson voids =

5 days Aug 2012 v 2 days June/July

Average voids Q3 =

2.8 weeks v 2.7 weeks in Q2

Voids

ludlowthompson void periods stood at an average of 5 days in August 2012, compared to 2 in June and July.

Average void periods in Q3 were 2.8 weeks, up slightly from 2.7 weeks in Q2, according to Paragon's quarterly PRS trends report.

Total return figure

Gross total return for high yielding London buy-to-let investment areas was 12.0%, as London house price growth pushed up the assets' underlying value.

The net total return for London's high yielding buy-to-let areas was 10.5%.

LSL has average total return figures of 5.0% in August, the same as August 2011 (Total annual return, adjusted for void periods). Source: LSL buy-to-let press release

Tenant Profile

The top five European countries for rental enquiries at ludlowthompson were:

	FRANCE	16%
	IRELAND	12%
	ITALY	11%
	GERMANY	11%
	SPAIN	10%

BTL Mortgage trends

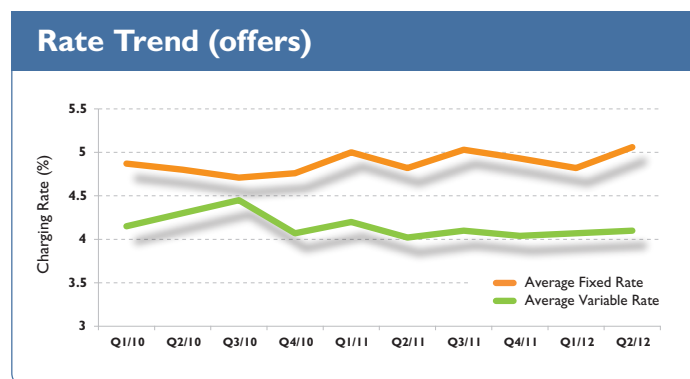
New buy-to-let lending in Q2 totalled £3.9billion (33,200 loans), up 5% on Q1 2012 and up 18% year-on-year. At the end of Q2, 1.6% of buy-to-let mortgages were in arrears of more than three months, lower than owner occupiers (2.1%). The repo rate was 0.12%, it has been effectively flat for six quarters in a row.

Source: CML Q2 press release (9 Aug 2012)

Buy-to-let mortgage trends from ludlowthompson Mortgages:

	Q2 2012	Q2 2012	Change during Q2 2012
Applications			
Average loan size:	£158,435	£158,696	-£261
Average rental yield:	6.60%	6.29%	+0.31%
Offers			
Average chosen fixed rate:	5.06%	4.82%	+0.25%
Average chosen variable rate:	4.10%	4.07%	+0.03%
Average loan to value (LTV):	67.30%	66.31%	+0.99%

LT mortgages rate trends:



Featured Mortgage from ludlowthompson Mortgages

Accord buy-to-let mortgage with interest rate of **3.25%**

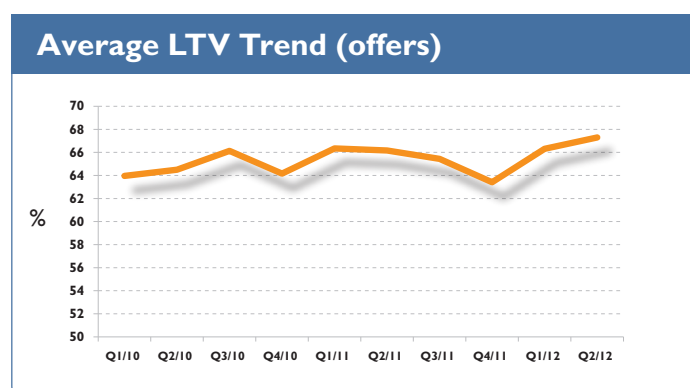
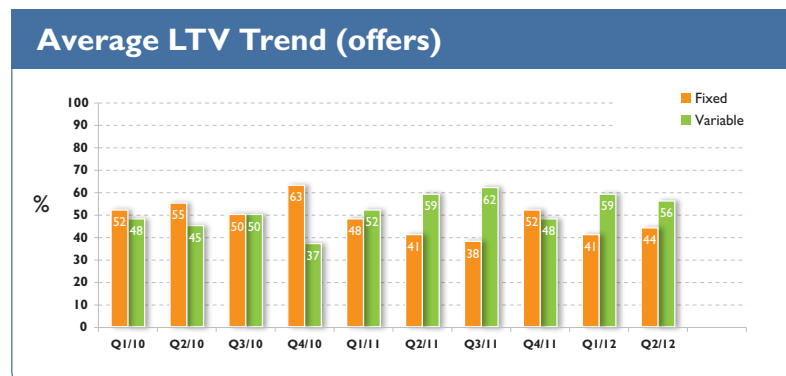
LTV of up to **65%**

Initial rate of **3.25%** (BBR +2.75%) to 30 September 2014, reverting to Lender's SVR (currently 5.99%)

Booking fee of **£195**, with a 2% completion fee that can be added to the loan

£500 cashback on completion

Source: www.ludlowthompsonmortgages.com for instant quotes online, compare & adjust, no broker fee, specialist buy-to-let mortgage team.



Source: ludlowthompson Mortgages quarterly report



BTL opportunities from ludlowthompson

See the gross yield and rental for hundreds of properties For Sale across London at www.ludlowthompson.com/buytolet

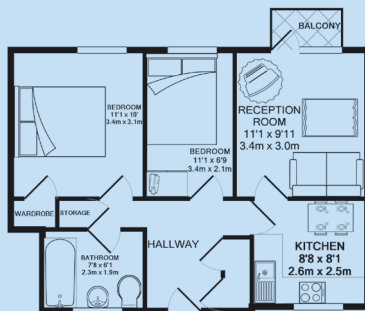
Visit
ludlowthompsonmortgages.com
for exclusive buy-to-let loans
with rates from 2.75% and up
to 85% LTV

Feature property

Top floor, 2 bedroom flat in an ex local authority building in Stoke Newington –
£179,995, renting for **£330 per week** and
with a gross yield of **9.5%**.

Located in an up and coming area. Excellent decorative order; long lease, lift access.
Good transport links, close to Stamford Hill's overland train station and Seven Sisters tube, on the Victoria line. Chain free.

Available For Sale via the Finsbury Park Office,
Tel: 020 7704 5788



TOTAL APPROX. FLOOR AREA 504 SQ.FT. (46.8 SQ.M.)

Whilst every attempt has been made to ensure the accuracy of the floor plan contained here, measurements of doors, windows, rooms and any other items are approximate and no responsibility is taken for any error, omission, or mis-statement. This plan is for illustrative purposes only and should be used as such by any prospective purchaser. The services, systems and appliances shown have not been tested and no guarantee as to their operability or efficiency can be given.
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