



BUY-TO-LET LONDON SEASONAL REVIEW



SUMMER 2016

—
Inside

London rental in detail
Mortgage trends
Returns
Arrears & voids

—
Press & Editor queries
editor@ludlowthompson.com





BUY-TO-LET LONDON SEASONAL REVIEW



Summary from
Stephen Ludlow, Chairman

★ **Brexit provokes 'wait & see' climate in London - but BTL purchasers and residential investors still find themselves in a healthy position**

Late every summer, bright and ambitious young people are attracted to London from across the UK and beyond to start or progress their careers or embark on further education and training. Will it be any different this year, after the Brexit referendum? I judge not. Despite the result of the EU referendum, there is likely to be a large influx of new entrants who will be seeking accommodation – combined, of course with the buzz that comes from living in one of the world's greatest cities.

Ultimately, the underlying factors that drive London's private rental sector remain in place. London's buy-to-let market is unique in the UK in terms of its role in boosting domestic labour mobility. This ensures confidence is kept high for its long-term future, however the Brexit negotiations pan out. Without predicting future labour mobility policy, if, as widely suggested, a points-based system is introduced it will favour London over the rest of the UK. High quality international employees and students should continue to fulfil any criteria needed.

Of course, in the immediate aftermath there was bound to be a pause in the market whilst investors, vendors and tenants alike gather their thoughts and this is reflected in a reduction in rents, particularly felt in the prime central London property market, such as the West End.

Potential first time buyers, underpinned by the bank of mum and dad, and other owner occupiers may be taking a 'wait and see' attitude to the property market but this alone offers opportunities for investors. By postponing purchases these potential homeowners stay in the rental market, bolstering BTL demand. It also can mean that there is less competition for BTL investors when they want to make new purchases.

INVESTMENT RETURNS

MEDIUM TERM

0.93%

10-YEAR
GILT YIELDS

4.6%

LONDON
BUY-TO-LET
YIELDS

10%

OUR
INVESTORS
ANNUAL TOTAL
RETURNS
SINCE 2000



KEEPING LONDON AN ATTRACTIVE GLOBAL FINANCIAL CENTRE POST-BREXIT

HIGHLY COMPETITIVE
CORPORATE TAX RATES

21%
—
UK
LONDON

28.8%
—
GERMANY
FRANKFURT

37.8%
—
FRANCE
PARIS

The premium stamp duty charges and mortgage interest rate relief changes are the other notable changes in the BTL market. The former is being factored into the offers being made by investors and the latter being addressed through advanced tax planning across the four year phasing period by methods such as landlords incorporating their existing portfolios and new acquisitions.

Otherwise the fundamentals in London remain the same with a shortage of supply, steady demand and low interest rates. All of these factors have combined to provide our seasoned BTL investors with annual total returns of 10% per annum since 2000, which are competitive when compared to those derived from other asset classes.

There are mixed expectations about the effect of Brexit, whatever its final shape, on London's important financial sector. Some commentators are spotlighting the renewed efforts being made by other European financial centres to attract financial business away from London, but this has been going on for a long time now, without great effect.

This time it might be different, of course, but the grass is not that green in Paris, with its inflexible labour policies or in Frankfurt, where the population of its financial centre is less than half that of Croydon, indicating that it has too small an infrastructure to support a financial sector of London's scale.

London will still have lots of advantages, including unrivalled experience, a huge pool of talented employees and a legal and commercial support network second to none. Combined with a Chancellor determined to keep corporate tax rates highly competitive, (the rate has fallen to 21% in the UK, compared to a European average of 25.3%: and far lower than the 28.8% in Germany and 37.8% in France) the City's prospects still look quite rosy enough to sustain the capital's property markets.

* According to research by UHY International, a leading international accounting and consultancy network.

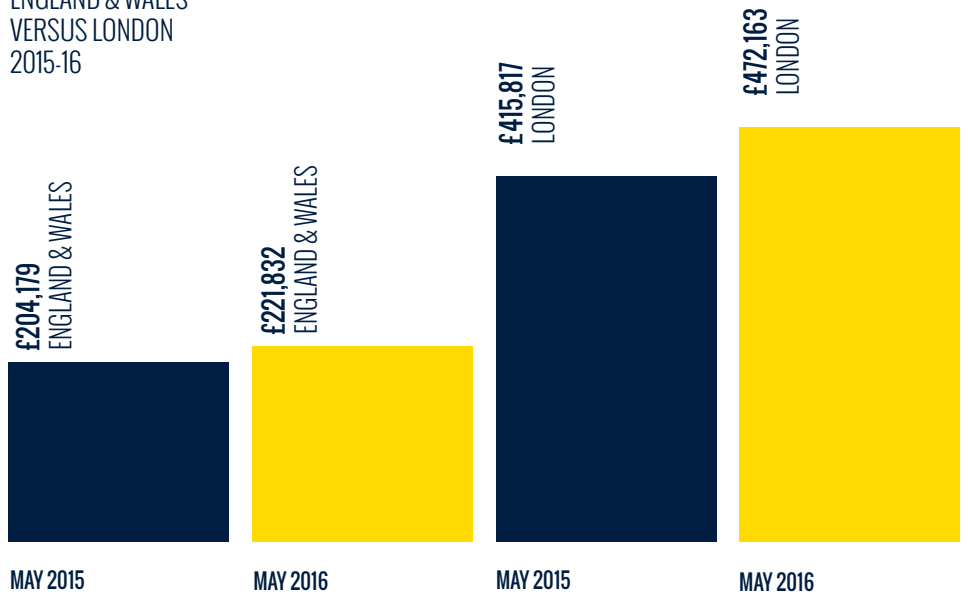
Rents for London Q2 2016

- For high yielding buy-to-let investment areas monthly rents were **£1,799 in Q2 2016**, compared to **£1,782 in Q1 2016**.
- For **prime London, rents** were **£2,990** and for **super prime areas** they were **£5,241**.
- On a London-wide basis, **average rents** were **£2,204 down 2%** from **Q1 2016** when they were **£2,252**.



AVERAGE HOUSE PRICES

ENGLAND & WALES
VERSUS LONDON
2015-16



★ Key Trends

As in previous years, it is forecast that applicant levels will show a seasonal upturn over the previous quarter as there is an annual influx of young professionals and students which will peak towards the end of the August, as these new arrivals look to be in place for early September starts at new jobs or on new courses at one of London's many world-leading universities. The stamp duty premium applied from April to BTL properties is now being factored into offers when investors are considering a purchase and long term investors are planning ahead to address the changes to mortgage interest rate relief which is to be phased in over a four year period from April 2017. Indeed, it is claimed that 30% of buy-to-let borrowing in the first half of 2016 was undertaken through limited companies - up from just 18% in the first half of 2015**.

Despite the impact of Brexit negotiations and the UK's eventual withdrawal from the EU, London will remain the city that attracts workers and students from the rest of the UK and the world. In both the private and public sectors, London is a truly global city where people are still keen to relocate to in order to work, study or train. The attractiveness of London will not change as a result of Brexit.

Since the Brexit referendum, there has understandably been a 'wait & see' approach across the market with a pause owner-occupiers and investors alike prompting a slight decline in average rents. Across London, rents were down 2% on Q1 2016 as some in the market held off major decisions whilst the result of the Brexit referendum was up in the air, and clearly since the result was announced. However, as this is a unique set of circumstances, the market reaction was understandable but as the fundamentals that made London residential property such an attractive investment initially remain in place, optimism is on its way - nurturing a recovery in the coming months.

** According to figures from buy-to-let broker Mortgages for Business.

★ House Prices

In **England and Wales**, the respective figures were **£221,832 in May 2016, up 8.6%** from May 2015 (£204,179). **Average London house prices were £472,163 in May 2016, up 13.6%** year on year from £415,817 in May 2015.

★ Voids

In **Q2 2016**, void periods for ludlowthompson managed properties **decreased to an average 5 days**, down from 6 in Q1 2016.

★ Capital Growth

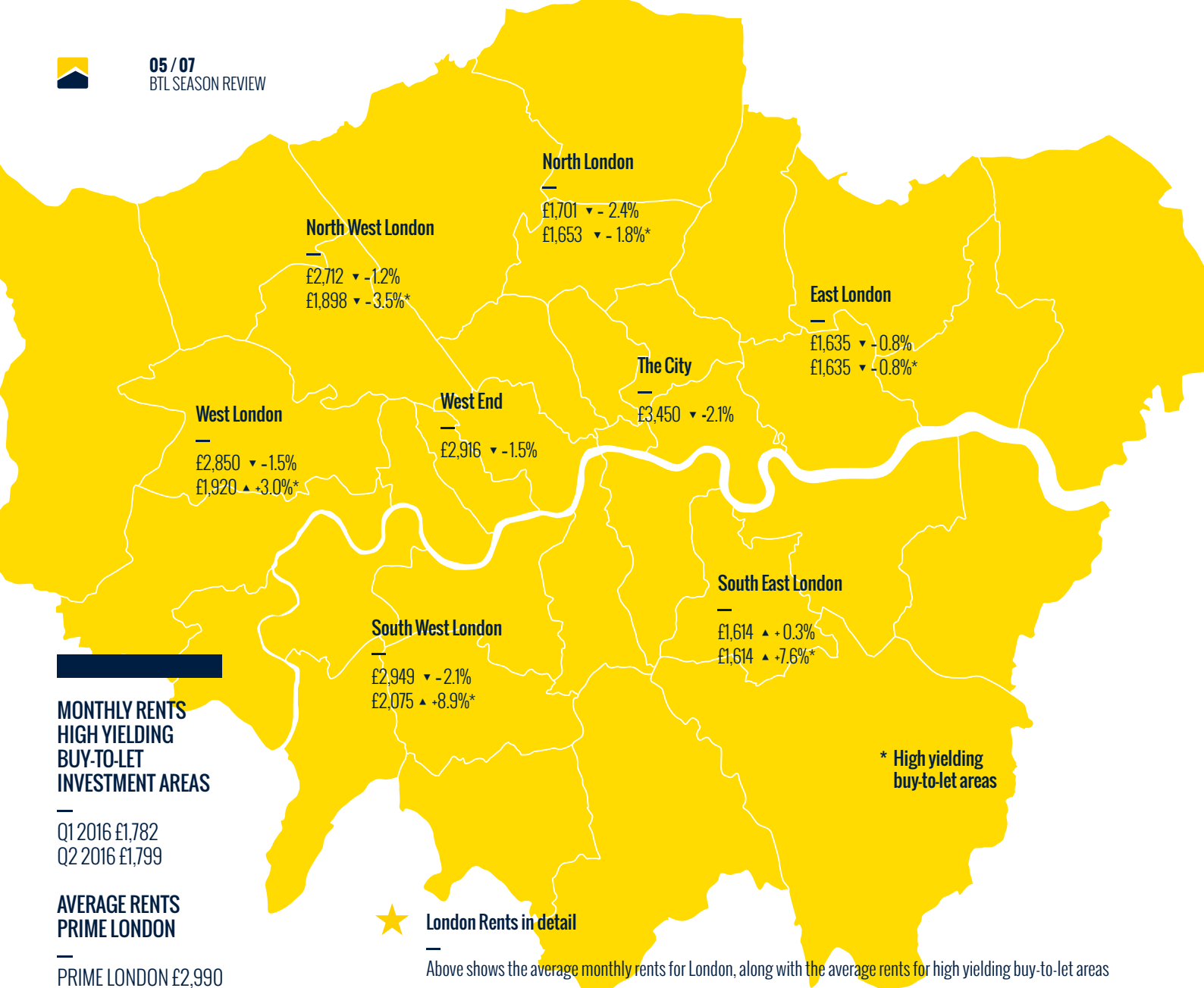
The annual rate of capital growth in London was **13.6% in May 2016**.

Source Land Registry

TENANT PROFILE

THE TOP FIVE EUROPEAN COUNTRIES WE RECEIVE RENTAL ENQUIRIES FROM

FRANCE 20%
ITALY 18%
SPAIN 17%
IRELAND 15%
GERMANY 13%



MONTHLY RENTS HIGH YIELDING BUY-TO-LET INVESTMENT AREAS

Q1 2016 £1,782
Q2 2016 £1,799

AVERAGE RENTS PRIME LONDON

PRIME LONDON £2,990
SUPER PRIME £5,241

AVERAGE RENTS LONDON-WIDE

DOWN 2%
Q1 2016 £2,252
Q2 2016 £2,204

* High yielding buy-to-let areas

★ **London Rents in detail**

Above shows the average monthly rents for London, along with the average rents for high yielding buy-to-let areas

★ **Gross Yields**

For higher yielding London buy-to-let investment areas, the average yield was **4.6% in Q2 2016**, up from **3.8% in Q1 2016**, and down from **5.5% in Q2 2015**.

★ **Net Yields**

Net yields in Q2 2016 were 3.6%. Our calculations show 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:

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

★ **Total Return Figure**

Gross total return for high yielding London buy-to-let investment areas was **18.2%, up from 17.3% in Q1 2016**, and up from **14.2% in Q2 2015**. The net total return for London's high yielding buy-to-let areas was **17.2%, up from 16.4% in Q1 2016**, and up from **12.9% in Q2 2015**. LSL has average total return figures across England and Wales of **10.2% in May 2016**. This figure highlights the strong performance of London for residential investment.

Source LSL buy-to-let press release

★ **Arrears**

Core arrears for ludlowthompson managed properties were **0.96% in Q2 2016**, down from **1.45% in Q1 2016** and down from 1.56% in Q2 2015. LSL arrears were 9.3% of all rent across England and Wales in May 2016.

BUY-TO-LET OPPORTUNITIES

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

For more information on buy-to-let opportunities or for a one to one meeting with the ludlowthompson team, please email contactus@ludlowthompson.com

For mortgage advice please contact your local ludlowthompson office to arrange a meeting with Chris Lockley at Jigsaw Mortgages



★ One bedroom apartment in Tower Hill

A stunning one bedroom apartment on the second floor of a beautifully finished period conversion. Finished to a high specification throughout, including grey oak flooring, it has a large reception room, a spacious south facing double bedroom, and a spacious kitchen - **£450,000, renting for £1,500 a month** and with a **4% gross yield**. Located near excellent transport links into the City and Canary Wharf via Aldgate, Liverpool Street, or Tower Hill Tube stations.

Available for sale via the City/Docklands office, call 020 7480 0170



★ One bedroom purpose built apartment in Finsbury Park

This modern one bedroom apartment is within a well-kept modern development and comprises a large reception room and separate kitchen. It has a large double bedroom, stylish family bathroom, and a private balcony. Located in a new development, moments from local amenities - **£400,000, renting for £1,500 per month** and a **4.5% gross yield**.

Available for sale via the Finsbury Park office, call 020 7704 5788



★ One bedroom apartment in Holloway Road

Located on the top floor of a Victorian mid terraced house, this period apartment is in excellent condition. It has a bright and airy reception room, separate kitchen, large double bedroom, and family bathroom. A short walk from the shops of amenities of the Holloway Road - **£350,000, renting for £1,400 a month** and with a **4.8% gross yield**. Within easy walking distance to Highbury and Islington Tube and Overground station.

Available for sale via the Finsbury Park office, call 020 7704 5788



ACTON

172 High Street, London W3 9NN
T 020 8752 9988

E actonlet@ludlowthompson.com

Coverage includes

Acton, South Acton, East Acton, Ealing, West Acton, North Acton, Gunnersbury, South Ealing, Chiswick, Ravenscourt Park, Ealing Common, West Ealing, Shepherds Bush, White City, Hammersmith.

BOW

634-636 Mile End Road, Bow, London E3 4PH

T. 020 8150 3325

E. bowlet@ludlowthompson.com

Coverage includes

Bow, Bromley By-Bow, Victoria Park, Docklands, Bethnal Green, Haggerston, Dalston, Hackney, Stratford, Manor Park, East Ham, and Forest Gate.

CANADA WATER

Unit 2 Montreal House, Surrey Quays Road, London SE16 7AQ
T 020 7101 0235

E canadawaterlet@ludlowthompson.com

Coverage includes

Bermondsey, Canada Water, Canary Wharf, Limehouse, Rotherhithe, Surrey Quays, Wapping.

CITY/DOCKLANDS

3-5 Dock Street, London E1 8JN
T 020 7480 0120

E docklet@ludlowthompson.com

Coverage includes

Tower Hill, City of London, Wapping, Isle of Dogs, Bow, Bethnal Green, Aldgate, Stepney, Brick Lane, Mile End.

DULWICH

81-83 Lordship Lane, London SE22 8EP
T 020 8299 8777

E dulwichlet@ludlowthompson.com

Coverage includes

Dulwich, Herne Hill, Forest Hill, Brockley, Peckham, Sydenham, Crystal Palace, West Norwood, New Cross, Nunhead, Tulse Hill.

FINSBURY PARK

6 Blackstock Road, London N4 2DL
T. 020 7704 5777

E. finsburylet@ludlowthompson.com

Coverage includes

Finsbury Park, Stoke Newington, Islington, Highbury, Crouch End, Tufnell Park, Holloway, Hampstead, Camden Town, Highgate, Hornsey, Muswell Hill, Tottenham

KENNINGTON/OVAL

10-12 Clapham Road, London SW9 0JG
T 020 7820 4141

E ovallet@ludlowthompson.com

Coverage includes:

Kennington/Oval, Stockwell, Clapham, Battersea, Brixton, Camberwell, London Bridge, Pimlico, Waterloo, Walworth.

KILBURN/WEST HAMPSTEAD

381 Kilburn High Road, London NW6 7QE
T 020 7604 5100

E kilburnlet@ludlowthompson.com

Coverage includes

Kilburn, Queens Park, Brondesbury, Maida Vale, St John's Wood, Marylebone, Cricklewood, Hendon/Harlesdon, Kensal Green, Kensal Rise, Bayswater, Notting Hill.

LEWISHAM

258 Lewisham High Street, London SE13 6JX

T 020 8613 9696

E lewishamlet@ludlowthompson.com

Coverage includes

Lewisham, Greenwich, Blackheath, New Cross, Hither Green, Lee, Deptford, Kidbrooke, Eltham, Ladywell, St. John's, Catford, Woolwich, Thamesmead, Plumstead.

WANDSWORTH/TOOTING

62 Tooting High Street, London SW17 0RN

T 020 8682 1234

E tootlet@ludlowthompson.com

Coverage includes

Wandsworth, Balham, Tooting Broadway, Tooting Bec, Colliers Wood, Streatham, Earlsfield.

WIMBLEDON

43-45 Wimbledon Hill Rd, London SW19 7NA

T 020 8405 5432

E wimblet@ludlowthompson.com

Coverage includes

Wimbledon Village/Town, Southfields, South Wimbledon, Raynes Park, Merton Park, Earlsfield, Putney, Fulham, West Kensington, Chelsea.

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