



BUY-TO-LET LONDON SEASONAL REVIEW



SPRING REVIEW

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LONDON'S LETTING AGENT

BUY-TO-LET LONDON SEASONAL REVIEW

★ The case for buy-to-let investment remains strong, despite cooling rents, as supply and demand imbalances look set to remain

What is the outlook for the buy-to-let market? And which areas are likely to deliver the best returns? For investors, recent post-Brexit uncertainty and the surprise of a snap General Election, has made these perennial questions more pertinent than ever. To me, the picture – on drilling down – appears largely positive. Let's consider the evidence.

Looking back at recent market performance in a year of unprecedented political events, by and large the UK lettings market has held up well. Inner and outer London generated among the best total returns at around 7% p.a. last year – as shown in MSCI's Annual Residential Property Index – but prime investments in central London fell into negative territory. Whilst the capital still provides some of the best investment opportunities, this goes to show that investors still need to consider location carefully. They may find areas in zone 2 within easy commuter reach and with a supply of high yielding buy-to-let properties more suitable for long term rental returns rather than Prime central London assets. Long term, total returns for residential investment property have outperformed other asset classes including equities and bonds. Additionally, buy-to-let property still provides resilience over the long-term compared to the volatility of other assets. Indeed, recent data from MSCI shows that over a 16 year period, * the tolerance of residential investment property bettered not only the other categories of property but also equities and bonds.

*Source: MSCI Annual Residential Property Index



Summary from
Stephen Ludlow, Chairman

LONDON COMPLETION FORECAST 2017-21

NET NEW HOMES
ANNUAL AVERAGE
COMPLETIONS

OCCUPIER DEMAND

NET HOUSING
COMPLETIONS

15,000

10,000

5,000

LOWER MAINSTREAM
UNDER £450 PER SQ FOOT

MID MAINSTREAM
£450-£700 PER SQ FOOT

UPPER MAINSTREAM
£700-£1,000 PER SQ FOOT

LOWER PRIME
£1,000-£1,500 PER SQ FOOT



LONDON'S UNPRECEDENTED POPULATION GROWTH

8,400,000
2013

9,000,000
2020

As ever, the shift between supply and demand will hold the key to the strength of the BTL market. It's true that conditions are cooling somewhat, with rents slipping as inflationary pressures impact on tenants living costs. A short-term oversupply of stock from homeowners renting-out instead of selling and a number of new build buy-to-let vacancies hitting the market are also factors currently in play.

Longer-term, however, supply appears set to struggle to keep pace with demand, particularly at the more affordable end of the market. The Financial Times^{**} propagated a compelling argument that, while new builds are at their highest level in London since the 1930s^{***}, this may still not be enough. Moreover, it questions whether these new homes are at the right price point for demand. The figures predict that less than a third of the homes required in the cheapest price bracket will be built over the next five years. The risk: an undersupply of more affordable properties in the capital.

The likely upshot? That tenants will remain in the rental market for longer. Buyer affordability may not just be a problem in the current market, but in the future too, unless supply accelerates. Generation Rent are likely to be looking to stay in good quality rented accommodation that they can consider home, at a suitable market rent, for some time to come. This is reflected in the recent Housing White Paper, which promotes a "fairer deal for tenants", with longer-term leases at its heart. This should be win-win for landlords and tenants as longer lets provide security for occupiers yet higher net returns for Landlords. However, with buy-to-let increasingly a consumer industry, in order to attain long-term tenant loyalty, landlords will need to invest in professional management that delivers a high level of "customer" experience.

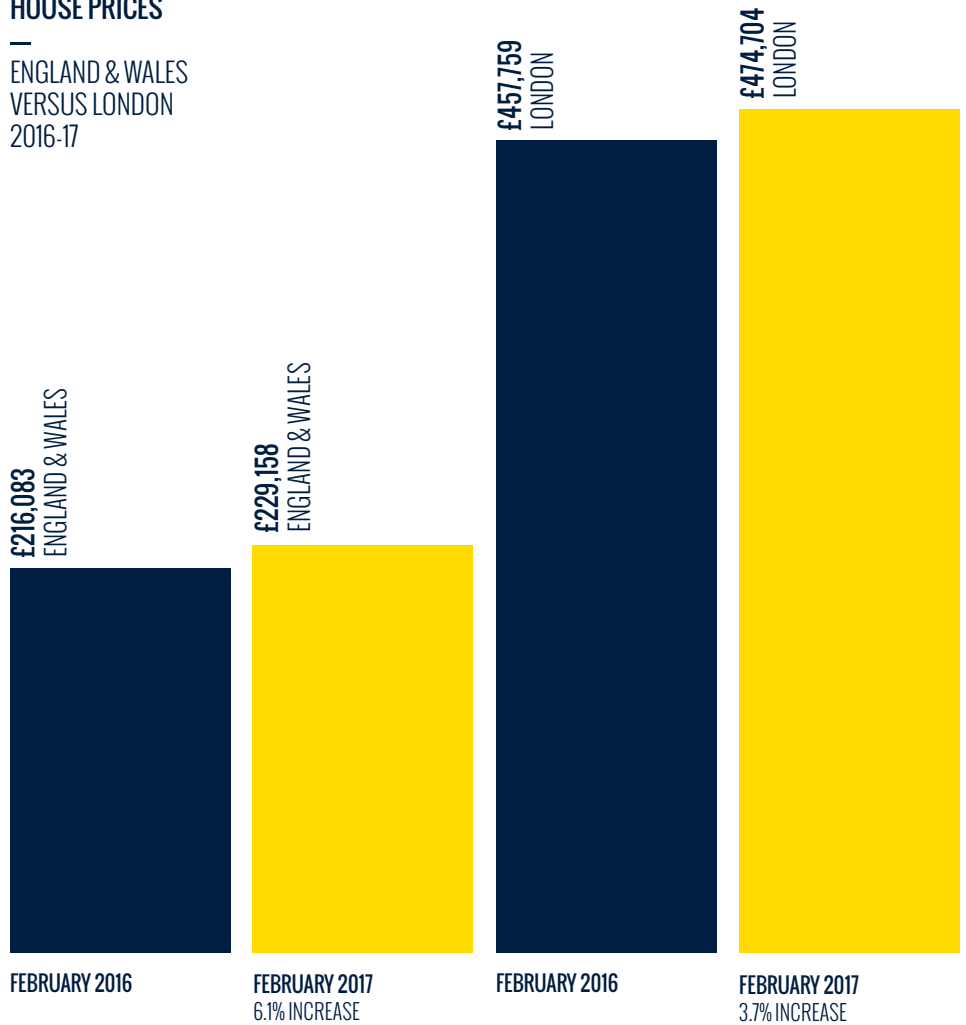
My final point: as Article 50 has now been triggered and Brexit negotiations will begin later in the year, a reciprocal deal on residency of EU nationals is surely in all sides' interests. Given the Prime Minister's stated ambition that the "brightest and best" will retain access to London's employment market and world class universities, this category of renters should be able to continue to make London their home.

Looking forward to the upcoming General Election, it is difficult to argue against a Tory majority but it is critical that the Government don't use a large mandate to further 'tax take' from residential investment property whilst ignoring its impact on Labour mobility and economic growth. So, based on past performance and likely future trends, I'd argue that the investment case for London buy-to-let remains firmly in place.



AVERAGE HOUSE PRICES

—
ENGLAND & WALES
VERSUS LONDON
2016-17



TENANT PROFILE

THE TOP FIVE EUROPEAN COUNTRIES WE RECEIVE RENTAL ENQUIRIES FROM

—
FRANCE 16%
ITALY 13%
SPAIN 12%
GERMANY 12%
IRELAND 11%

★ Key Trends for Q2 2017

As the New Year begins, we have seen a slight dip in London-wide rents which is partially a seasonal trend but also a result of inflationary effects on real wages and excess supply. This data only serves to further support our advice that landlords should look to secure a long-term tenancy with their tenants. Long-term agreements provide Landlords with higher net returns and a hedge against any further potential falls in rents, especially if inflation continues to impact on supply chains and subsequently the cost of living.

Additionally, there is a good supply of fixed-rate buy-to-let mortgages in the current market. Landlords would do well to consider securing one now as they can provide another useful hedge against any interest rate rises that could happen in the future as inflation begins to creep into the economy. Indeed, inflation was 2.3% in March – above the 2% target set by the Bank of England – and the highest level for more than 2 years.

★ House Prices

In **England and Wales**, the respective figures were **£229,158 in February 2017, up 6.1%** from February 2016 (£216,083). **Average London house prices were £474,704 in February 2017, up 3.7%** year on year from February 2016 (£457,759).

★ Voids

In **Q1 2017**, void periods for Ludlowthompson managed properties **increased to an average 4 days**, down from 5 days in Q4 2016.

★ Capital Growth

The annual rate of capital growth in London was **3.7% in February 2017**.

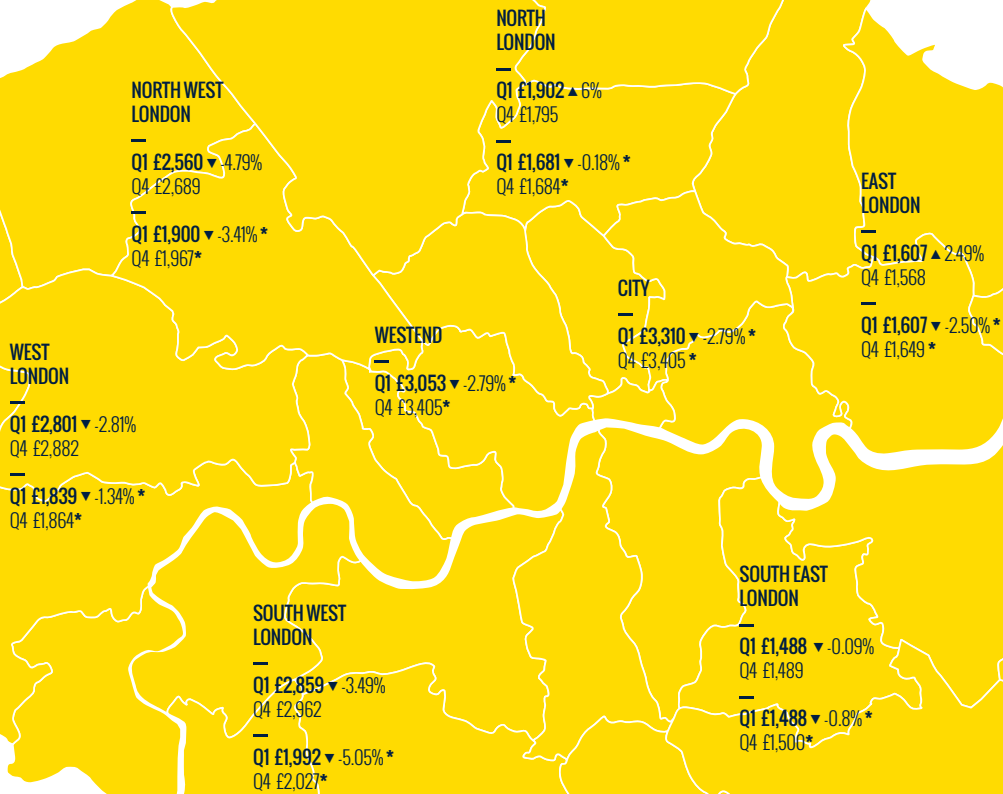
Source Land Registry



LONDON'S AVERAGE MONTHLY RENTS

Q4 2016 - Q1 2017

* High Yielding BTL Areas



MONTHLY RENTS HIGH YIELDING BUY-TO-LET INVESTMENT AREAS

Q1 2017 £1,821
Q4 2016 £1,795

AVERAGE RENTS PRIME LONDON

PRIME LONDON 2,736
SUPER PRIME £4,481

AVERAGE RENTS LONDON-WIDE

DOWN 1%
Q1 2017 £2,252
Q4 2016 £2,171

These Q1 reflect a slight boost in demand for high-yielding property as some young professionals start new jobs which began in January, but overall rents have 'cooled'.



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 Q1 2017**, up from **4.3% in Q4 2016** and up from **4.5% in Q1 2016**.



Net Yields

Net yields in Q1 2017 were 3.4%. 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. This includes all costs, such as:

- 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 **8.3%, down from 17.4% in Q4 2016**, and down from **10.1% in Q1 2016**. The net total return for London's high yielding buy-to-let areas was **8%, down from 16.5% in Q4 2016**, and down from **9.11% in Q1 2016**. LSL has average total return figures across England and Wales of **4.1% in February 2017**. This figure highlights the strong performance of London for residential investment.

Source LSL buy-to-let index.



Arrears

Core arrears for ludlowthompson managed properties were **1.36% in Q1 2017**, up from **1.31% in Q4 2016**, and down from **1.45% in Q1 2016**. LSL arrears were 8.1% of all rent across England and Wales in February 2017.



TOP 10 BTL OPS

OPPORTUNITIES FOR INVESTORS

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



One bedroom modern development in Bow

£275,000, renting for £1,250pcm and with a 5.4% yield

Available for sale via the Bow office, call 020 8150 3325



Two-bedroom period conversion apartment in Stockwell

£625,000, renting at £1,950pcm and with a 3.56% yield

Available for sale via the Kennington/Oval office, call 020 7820 4141



One-bedroom conversion apartment in Hoxton

£365,000, renting at £1,500pcm and with a 4.9% yield

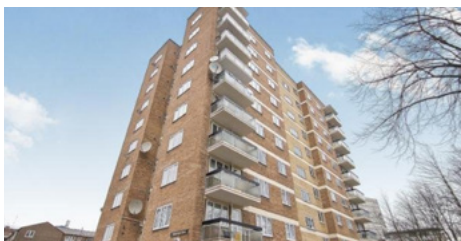
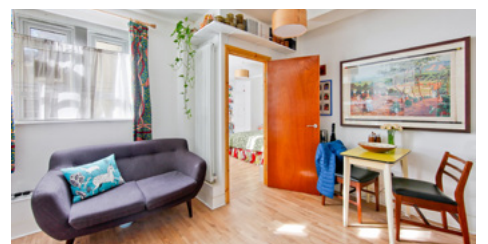
Available for sale via the Finsbury Park office, call 020 7704 5777



One-bed purpose-built apartment in Peckham Rye

£300,000, renting at £1100pcm and with a 4.4% yield

Available for sale via the Dulwich office, call 020 8299 8777



Ex-local high rise 9th floor apartment in Islington

£310,000, renting at £1400pcm and with a 5.5% yield (cash buyers only)

Available for sale via the Finsbury Park office, call 020 7704 5777





CURRENT BTL MORTGAGE OFFERS

70% LTV

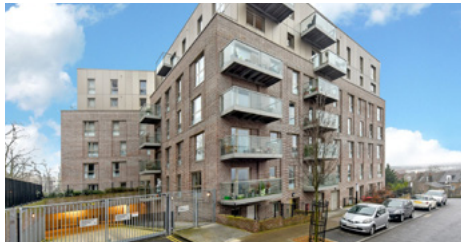
2.44% 3 YEAR FIXED
£1,995 LENDERS FEE

70% LTV

2.78% 5 YEAR FIXED
£995 LENDERS FEE

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



Two-bedroom new build in Harringay

£515,000, renting at £1,850pcm and with a 4.3% yield

Available for sale via the Finsbury Park office, call 020 7704 5777



Period end-of-terrace maisonette in Tooting Graveney

£450,000, renting at £1,450, and with a 3.8% gross yield

Available for sale via the Wandsworth/Tooting office, call 020 8682 1234



Three-bedroom terraced house in Stoke Newington

£660,000, renting at £2,200pcm, and with a 4% yield

Available for sale via the Finsbury Park office, call 020 7704 5777



One-bedroom contemporary new build in Tooting

£425,000, renting at £1,350pcm and with a 3.8% yield

Available for sale via the Wandsworth/Tooting office, call 020 8682 1234



Period Property in Oval

£475,000, renting at £1,400pcm and with a 3.5% yield

Available for sale via the Kennington/Oval office, call 020 7820 4141





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