



# BUY-TO-LET LONDON SEASONAL REVIEW



## WINTER REVIEW

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Arrears & voids

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Summary from  
Stephen Ludlow, Chairman

# BUY-TO-LET LONDON SEASONAL REVIEW

## ★ A “London-leaning” Brexit is looking increasingly likely, and this should help to reinforce high demand for high quality rental property in the capital

With 2018 now firmly upon us, how upbeat are the indicators for the buy-to-let market? In a year in which high demand shows no signs of easing, and as Brexit negotiations continue to be played out, though looking encouragingly “London-leaning”, it looks set to be a largely positive 12 months.

We kick off with figures that show that ludlowthompson’s letting applicant numbers are up significantly on the same time last year – we saw some 5,300 letting applicants in January, compared to 4,300 last January. That demonstrates the continued strength of demand from tenants for high quality rental properties.

In my view, this reflects the underlying strength of London’s economy and its perennial appeal both to home-grown professionals and students and those from further afield around the UK and beyond. As far as the thousands of EU nationals living and working in the UK – and those considering moving here – are concerned, the outlook, though still somewhat uncertain, is looking brighter. The agreement reached at the tail-end of 2017 between the UK and EU to widen Brexit negotiations on what’s commonly known as the “second phase” of the deal gives some comfort to EU citizens in the UK. It seems likely that any trade deal will dovetail with an overarching agreement between the UK and EU on citizens’ rights.

For example, fears that foreign doctors and nurses would desert the NHS as Brexit approaches have been eased by figures showing little change in the number of EU-born staff since 2016 which are holding firm at 5.6% of all NHS staff.\*

With the economic output per Londoner double that of the national average across the UK, and with an estimated 90,000 jobs per annum being created in the capital,\*\* supporting London’s economy and its position as one of the world’s leading financial center is vital. In order to encourage this the Bank of England has cast itself as a “model of reasonableness” in allowing EU banks to continue operating in the UK by defining their lightly regulated branches in the UK as “authorised” rather than being changed into “subsidiaries”, which are costlier to operate since their capital has to be ring fenced.\*\*\*

Source \* House of Commons library, The Times 09/02/18 \*\* Source GLA Economics \*\*\* Source Nils Pratley, The Guardian 20/12/17

LUDLOWTHOMPSON  
LETTING  
APPLICATIONS

4,300

JAN 2017

5,300

JAN 2018



## LONDON'S POPULATION GROWTH

1986-2036

### Source

Office of National Statistics to 2001  
GLA estimates 2002 to 2036

6,750,000

1987

8,750,000

2016

10,000,000

2035

All of this has, in my opinion, a positive impact on the London buy-to-let market. Over the long term, rental growth relies on population and wage growth as well as demand outstripping the supply of new build homes, a feature that is prevalent at the more affordable end of the market, and so the fundamentals for long term returns remain in place. This is especially notable at a time when infrastructure funds investing in firms such as Carillion are under scrutiny and both UK and global stocks have faced one of the worst trading periods since the financial crisis. \*\*\*\*

Let's then remind ourselves of the data from MSCI which shows that over a 16 year period the tolerance of residential investment property bettered not only other real estate categories, but also equities and bonds. \*\*\*\*\*

In recognition of an extension of the time that "Generation Rent" is likely to remain on the letting market, establishing long-term tenancies will be key in order to give security for tenants and drive higher net yields for Landlords. That is why it's encouraging to see that supporting long term tenancies is now a central plank of Government policy, as outlined in its recent White Paper on housing and further reaffirmed in the last Budget. At Iudlowthompson, we're already leading the way - our average tenancy is now an impressive 26 months.

Economic and employment benefits aside, let's not forget that London continues to evolve and re-invent itself to offer an exciting lifestyle for its inhabitants. Its thriving cultural and social scene is being boosted by significant improvements in transport infrastructure, making it easier to live, work and play in the capital. From the expanding network of cycle superhighways to the roll-out of the Night Tube and a new and growing Overground night service connecting east London, Londoners can take more advantage than ever of all that their city has to offer. In addition, they can do so in the knowledge that fares on bus, tube, tram and DLR and "Boris bikes" are frozen until 2020 all of which is benefitting buy-to-let investors across a wider range of neighbourhoods.

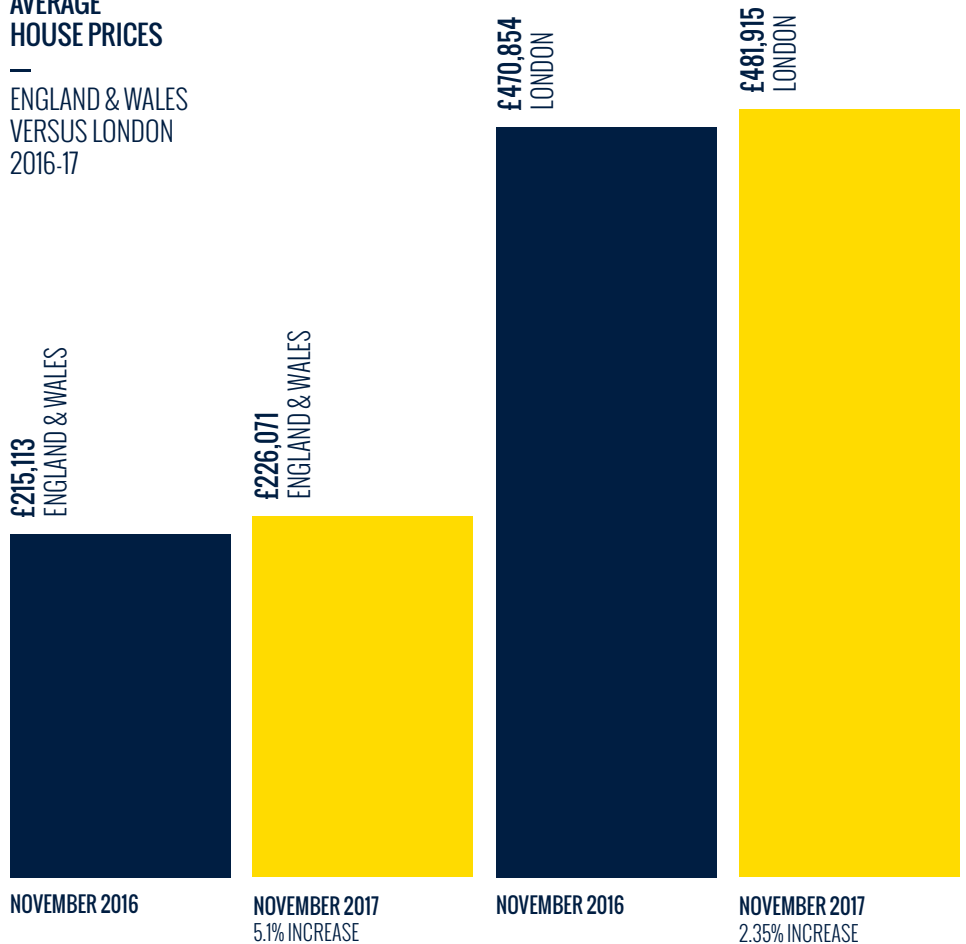
All this goes to show why in entering 2018 London's buy to let appeal endures.

Source \*\*\*\*Week commencing 05/02/18 - 9/02/18 \*\*\*\*\* Source: MSCI Annual Residential Property Index



## AVERAGE HOUSE PRICES

—  
ENGLAND & WALES  
VERSUS LONDON  
2016-17



## TENANT PROFILE

### THE TOP FIVE EUROPEAN COUNTRIES WE RECEIVE RENTAL ENQUIRIES FROM

—  
FRANCE 19%  
ITALY 15%  
SPAIN 14%  
IRELAND 13%  
GERMANY 12%

## ★ Key Trends for 2018

Following the Monetary Policy Committee (MPC) meeting in 2018, James Moore commented that “the cry of the hawk could be heard over the cooing of dove” when the Bank of England’s governor Mark Carney unveiled his MPC’s inflation report and interest rate decision.\* Ultimately, it signals that inflationary pressure will lead to ‘earlier’ interest rate hikes for the UK than expected. Therefore, we advise that buy-to-let investors should review their mortgage arrangements by securing those still available for three and five year fixed-rate mortgages. (For those individuals interested in talking about getting a new mortgage, please contact Chris Lockley at Jigsaw Mortgages by [clicking here](#)).

Additionally, recent real time (PAYE) tax data suggests that wage growth is tipping inflation at 3.1%. Healthy wage growth has traditionally always been a good sign for rents.\*\*

Despite tax changes to mortgage interest relief, buy-to-let will continue to appeal to: lowly geared “total return” Landlords looking for a combination of income and capital growth; those investors who are drawing down tax free capital lump sums from their pension funds; incorporated entities; and, increasingly, the “bank of mum and dad” who are jointly investing in property with their children and letting out a second room to derive income.

\*Source: James Moore, The Independent 09/02/18 \*\*Source: Pantheon Macroeconomics, The Daily Telegraph 04/02/18

## ★ House Prices

In **England and Wales**, the respective figures were **£226,071 in November 2017, up 5.1%** from November 2016 (£215,113). **Average London house prices were £481,915 in November 2017, up 2.35%** year on year from November 2016 (£470,854).

## ★ Voids

In **Q4**, the number of relets outstanding **an average decreased to 10 days**, from 10.5 days an average in Q3 2017.

## ★ Capital Growth

The annual rate of capital growth in London was **2.35% in November 2017**.

Source: Land Registry





## LONDON'S AVERAGE MONTHLY RENTS

Q4 2017

## MONTHLY RENTS HIGH YIELDING BUY-TO-LET INVESTMENT AREAS

Q4 2017 £1,716  
Q3 2017 £1,825

## AVERAGE RENTS PRIME LONDON

PRIME LONDON £2,776  
SUPER PRIME £5,131

## AVERAGE RENTS LONDON-WIDE

UP 0.51%  
Q4 2017 £2,148  
Q3 2017 £2,137

These numbers reflect the traditional 'cooling' period for rents in the winter months. The slight dip in rental demand reflects newly starting employees and students settling into their properties that they moved into during the late summer peak.



### 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 **4.3% in Q4 2017**, down from **4.5% in Q3 2017** and up from **4.1% in Q4 2016**.



### Net Yields

**Net yields in Q4 2017 were 3.3%.** 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

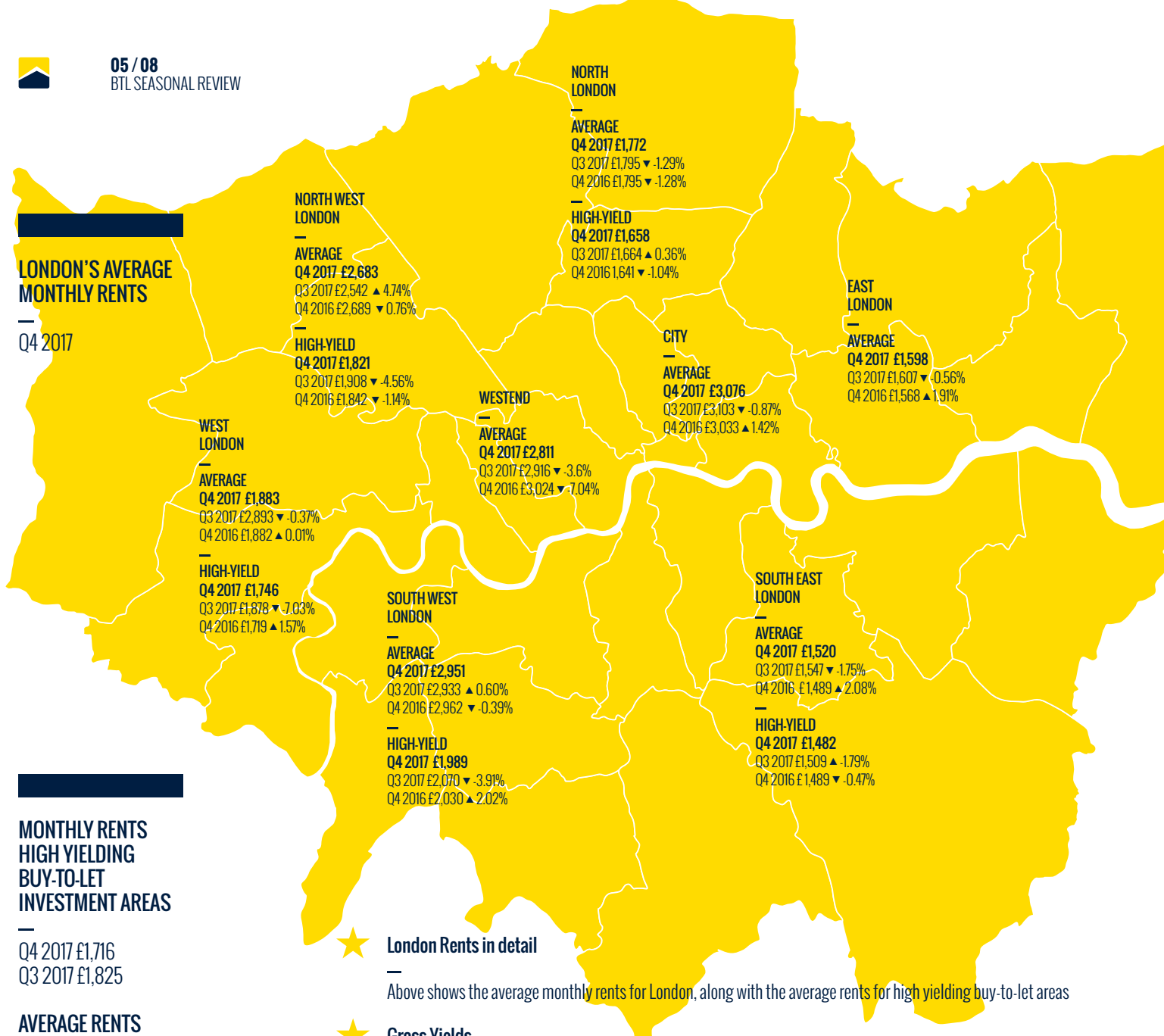
Gross total return for high yielding London buy-to-let investment areas was **6.65%, up from 5.5% in Q3 2017**, and down from **11.1% in Q4 2016**. The net total return for London's high yielding buy-to-let areas was **5.65%, up from 4.5% in Q3 2017**, and down from **11.4% in Q4 2016**. LSL has average total return figures across England and Wales of **4.4% in August 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 **1.62% in Q4 2017**, up from **1.04% in Q3 2017**, and up from **1.31% in Q4 2016**. LSL arrears were 8.8% of all rent across England and Wales in November 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](http://www.ludlowthompson.com/buytolet)



**Two-bedroom conversion apartment in Walthamstow**  
£300,000, renting for £1,400 per month with a 5.6% Gross Yield

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



**Five-bedroom townhouse in Hackney**  
£900,000, renting for £4000 pcm, with a 5.3% yield

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



**One-bedroom period apartment in Oval**  
£350,000, renting at £1200 pcm, with a yield of 4.1%

Available for sale via the Oval office, call 020 7820 4100



**Five-bedroom Period house near Brixton**  
£1,000,000, renting at £3,600 per month and with a 4.3% yield

Available for sale via the Oval office, call 020 7820 4100



**Two-bedroom, two-bathroom new build apartment in Hoxton**  
£600,000, renting at £2,100 per month at a 4.2% yield

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





## CURRENT BTL MORTGAGE OFFERS

### 3-YEAR FIXED

1.69%

VIRGIN MONEY

£1995 ARRANGEMENT FEE

CASHBACK INCENTIVE OF

£500 ON COMPLETION

LTV 60%

### 5 YEAR FIXED

2.14%

PLATFORM HOME LOANS

£1999 ARRANGEMENT FEE

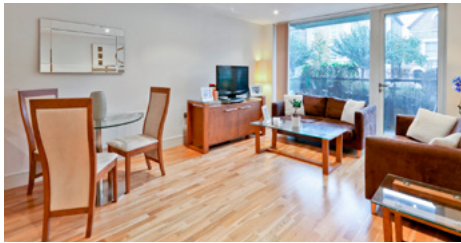
CASHBACK INCENTIVE OF

£500 ON COMPLETION

LTV 60%

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

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



### Two-bedroom apartment in Highbury

£585,000, renting at £2,000 per month, at a 4.1% yield

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



### Modern studio apartment in Whitechapel

£230,000, renting at £1,000 per month and at a 5% yield

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



### Five-bedroom 1930's terrace in Tooting

£650,000, renting at £2750 per calendar month and with a 5.08% gross yield

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



### Three double bedroom low-rise ex-local authority apartment in Tooting

£450,000, renting at £1900 per month, at a 5.1% gross yield

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



### One-bedroom flat within a period conversion in Tower Hamlets

£300,000, renting at £1,300 per month and with a yield of 5.2%

Available for sale via the City/Docklands office, call 020 7480 0120



### Disclaimer

Investments can go up as well as down. This publication is not advice and nor can it take account of your own particular circumstances. Financial advice must always be sought from a professional financial adviser. Your home may be repossessed if you do not keep up repayments on your mortgage. The Financial Services Authority does not regulate some forms of mortgage.

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

### WANDSWORTH/TOOTING/ WIMBLEDON

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.

See Area Office location maps at:  
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