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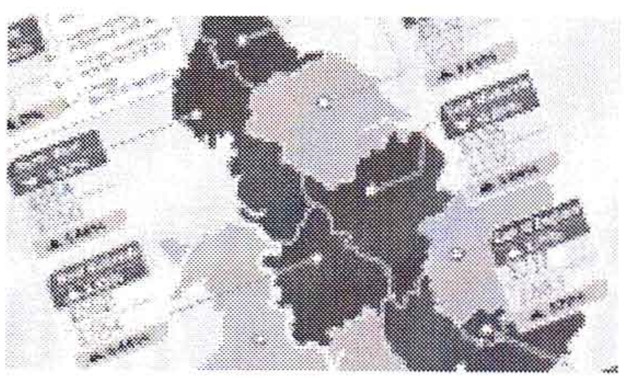
Rising rents start to slow

By Tanya Powley

Property investors will continue to see their income supported by strong rental demand – but analysts say the rapid rises seen over the past three years have started to slow.

In February, the monthly average rent in England and Wales fell by 0.6 per cent, month on month, to £707, according to the latest LSL Buy-to-Let Index.



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Nearly all regions experienced a dip and, in the East Midlands, rents were down by as much as 2.2 per cent between January and February. Only the South West, Wales and the North East recorded a monthly rise.

These findings follow last week's lettings survey from the Royal Institute of Chartered Surveyors, which showed that the pace of rental growth slowed further in the three months to January.

Over that period, the percentage of surveyors reporting a rise in rents was 13 points higher than those reporting a fall – sharply down from 24 percentage points in October and 40 percentage points a year earlier.

"I think we're starting to see rents reach their peak in some regions," says David Whittaker of Mortgages for Business, a buy-to-let mortgage broker. "The strong surge in rents was unsustainable and I think what we'll start to see is significant regional differentiation in the performance of rents."

According to experts, the recent dip in rents is partly due to a rush to purchase property before the stamp duty "holiday" ends next week, for homes worth up to £250,000.

"The end of the stamp duty holiday has taken some of the pressure off rents during the past few months, as many tenants have been motivated to take the plunge before the taxman pockets a chunk of their deposit," explains David Newnes of LSL.

Mortgage finance has also become more readily available to first-time buyers – and the launch of the government-backed NewBuy mortgage scheme this week is expected to help borrowers with the smallest deposits get on to the housing ladder.

Even the pace of rental growth in prime central London property has slowed of late,

reflecting weaker conditions in the financial services sector.

Figures from Knight Frank show that average rents eased by 0.2 per cent in February, taking the fall over the past three months to 0.4 per cent.

According to Jane Ingram, head of lettings at Savills, the performance of the financial sector particularly hit rental growth in the prime north London markets of Hampstead and Islington, where rental values are down by 5.6 per cent over the year.

However, mortgage brokers do not expect a decline in the pace of rental growth to deter property investors.

"In terms of London, especially prime central London, demand for buy-to-let properties is only increasing," says Adrian Anderson of Anderson Harris, the high-end mortgage broker. "This is down to the expected increase in capital growth for prime properties over the next few years and also the attractive rental yields compared to other investments."

In the mainstream market, rental growth rates are likely to vary significantly across regions and property types.

"Rental demand will continue to be strong in, for example, university towns where high yields can be obtained with multiple occupancies," explains Nigel Bedford of Largemortgageloans.com.

He notes that lenders are continuing to offer competitive buy-to-let mortgage rates, which is helping to make property an attractive long-term investment.

On Wednesday, Woolwich cut its lifetime tracker rate to 3.89 per cent – Bank of England base rate plus 3.39 percentage points – with a £1,999 fee. Landlords who want more security over their monthly payments have the option of fixing their loan for five years with Accord at 4.64 per cent, with a £1,995 fee.

Newnes expects buyers will enjoy a sustainable income stream for some time. "Ultimately, only a concerted programme of housebuilding will be sufficient to redress the imbalance between demand and supply."