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**THE SUNDAY TIMES**

# Investors beat rising prices with buy-to-let

A specialist lender reports a 20% leap in first-time landlords as savers hunt more attractive returns

Anna Mikhailova Published: 21 April 2013



Average annual returns in the buy-to-let market rose to 6.3% in March (Getty)

INVESTORS have been piling into property to benefit from inflation-busting yields and record rents.

Paragon, the buy-to-let specialist lender, has estimated just over 29,000 landlords entered the buy-to-let market for the first time last year, 19% more than in 2011 and 80% more than in 2010. The figures, compiled for The Sunday Times, are based on a survey of brokers and data from the Council of Mortgage Lenders, the trade body. Landlords account for more than one in 10 new mortgages.

Rents continued to climb last month and hit record levels in London, fuelled by demand from young workers unable to get on the property ladder. The average rent in the capital was £1,106 in March, up 7.9% on a year ago, compared with £735 for England and Wales, up 4.2% over 12 months, according to LSL Property Services, which owns Your Move, the estate agents. It said gross yields were 5.1% in the capital and 5.3% in England and Wales.

Buy-to-let is looking increasingly attractive to cash-rich investors, as opportunities to find returns that beat inflation dwindle. The average rate on a tax-free cash Isa is 1.82%, down from 2.65% a year ago, according to Moneyfacts, the data firm. Retail prices index inflation was 3.3% in March.

Jonathan Harris of Anderson Harris, the broker, said: "Plenty of investors are moving into property because other assets, such as cash or government bonds, are producing such poor returns."

House prices grew 1.9% in February compared with the previous year, while prices in London were up 5.9%, according to figures from the Office for National Statistics, boosting total returns on buy-to-lets.

The total annual return, including rent and capital growth, on a buy-to-let property rose to 6.3% in March, compared with 4.5% in the previous year, according to LSL.

However, investors need to be careful and take into account that buy-to-let can be a lot of work. LSL said 8.5% of all rent was in arrears last month. John Heron, of Paragon's mortgage division, said: "It is important that prospective landlords understand that investing in buy-to-let property is a long-term investment — they need to ensure they have done their homework before becoming a landlord."

## Where are the best yields?

Rents will rise 18% across the country over the next five years and 26% in London, said Savills, the estate agent.

David Newnes, director of LSL, said: "With only modest improvements in the UK's housing supply, rents will keep being forced upwards."

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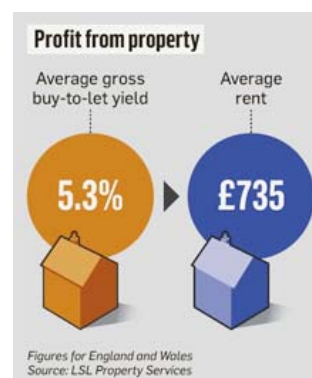
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A report by HSBC bank released last week showed that gross rental yields are now highest in Southampton, where they have reached 7.82% on average. Homes cost £138,311 on average in the city and monthly rents are £901.

Blackpool came second with 7.81% yields, followed by Kingston upon Hull at 7.77%, Manchester at 7.6%, Nottingham at 7.55% and Coventry at 7.13%.

Mark Harris of broker SPF Private Clients, said: "Different investors want different things — some are after yield and others are after capital growth. It is rare to find both. Always buy in areas you know and understand."

Knowing what sort of property to buy is important. A report by Countrywide, the lettings agent, last week showed that one or two-bedroom investments provide the highest returns — despite larger properties being able to command much higher rents. Average yields for one-bed properties are 6.8% compared with 5.6% for four-beds.



## Can I get a mortgage?

There were 136,900 buy-to-let mortgages approved in total last year, according to the CML — up from 121,500 in 2011 and 92,200 in 2010. Landlord mortgage rates have been steadily falling in recent months.

Principality building society has a competitive two-year tracker deal at 2.24 points over Bank rate, so 2.74%, for those with a 40% deposit. It has a high 2.5% arrangement fee.

Ian Gray of largemortgageloans.com, the broker, sounded a note of caution: "Borrowers should not assume that rates will remain low for the life of their investment. Rents don't automatically rise in line with increases in mortgage rates."