

The ARLA Index of Returns on Buy to Let

Third Quarter 2003

The Index

Based on these figures, the ARLA Index of Buy to Let Returns has changed as follows (*which uses the results from the third quarter of 2002 as base 100*):

Cash Purchase Index

Q.3 2003 93.2

Q.2 2003 96.7

Q.1 2003 98.2

Q.4 2002 99.0

Q.3 2002 100.0

Geared Investment Index

Q.3 2003 94.5

Q.2 2003 97.3

Q.1 2003 99.4

Q.4 2002 98.5

Q.3 2002 100.0

Rates of Return

CASH PURCHASE

8.97% (Q2.2003 - 9.30%)

The Net Annual Compound Rate of Return as projected by ARLA over a five year period for a Cash Purchase (i.e without mortgaging/gearing).

GEARED INVESTMENT

18.11% (Q2.2003 - 18.65%)

The Net Annual Compound Rate of Return as projected by ARLA over a five year period on a Geared Investment in residential rented property, with a deposit of 25% of the value, plus acquisition costs.

Regional Indices

The following tables show the average net annual compound rate of return for each region based upon the assumptions detailed below subject to variations in the anticipated average rate of house price inflation as shown.

Annual Returns on a Cash Purchase

Region	Average Rate of House Price Inflation				
	6.00%	7.00%	8.00%	9.00%	10.00%
Prime Central London	8.59	9.47	10.35	11.23	12.12
Rest of London	8.99	9.85	10.72	11.59	12.47
Rest of South East	8.93	9.80	10.67	11.54	12.42
South West	8.54	9.41	10.29	11.18	12.07
Midlands	9.17	10.03	10.89	11.76	12.63
North West	10.21	11.04	11.87	12.70	13.55
North East	9.67	10.51	11.36	12.21	13.07
Scotland/Wales/NI	9.63	10.47	11.32	12.18	13.03
All Regions	8.97	9.83	10.70	11.58	12.45

Annual Returns on a Geared Investment

Region	Average Rate of House Price Inflation				
	6.00%	7.00%	8.00%	9.00%	10.00%
Prime Central London	17.05	19.44	21.73	23.94	26.08
Rest of London	18.15	20.46	22.68	24.82	26.90
South East	18.00	20.32	22.55	24.70	26.79
South West	16.90	19.30	21.60	23.82	25.97
Midlands	18.65	20.91	23.10	25.22	27.27
North West	21.39	23.46	25.48	27.45	29.37
North East	19.97	22.15	24.25	26.29	28.28
Scotland/Wales/NI	19.88	22.06	24.17	26.22	28.21
All Regions	18.11	20.41	22.64	24.78	26.87

Changes in Indices

The tables below show how the net annual compound rates of return for this quarter have changed compared to the second quarter 2003 survey. These figures are based on an average rate of house price inflation of 6% per year.

Annual Returns on a Cash Purchase

Region	Q4/02	Q1/03	Q2/03	Q3/03	Change
Prime Central London	8.95	8.86	9.02	8.59	-0.43
Rest of London	9.22	9.14	9.17	8.99	-0.18
Rest of South East	9.47	9.32	9.20	8.93	-0.27
South West	9.42	9.31	9.36	8.54	-0.82
Midlands	9.92	10.24	9.72	9.17	-0.55
North West	10.83	10.63	10.12	10.21	+0.09
North East	10.36	9.86	9.48	9.67	+0.19
Scotland/Wales/NI	10.26	10.24	9.63	9.63	0.00
All Regions	9.52	9.45	9.30	8.97	-0.33

Annual Returns on a Geared Investment

Region	Q4/02	Q1/03	Q2/03	Q3/03	Change
Prime Central London	17.32	17.45	17.87	17.05	-0.82
Rest of London	18.06	18.22	18.30	18.15	-0.15
Rest of South East	18.76	18.70	18.37	18.00	-0.37
South West	18.62	18.68	18.80	16.90	-1.90
Midlands	19.98	21.15	19.78	18.65	-1.13
North West	22.34	22.14	20.83	21.39	+0.56
North East	21.14	20.15	19.13	19.97	+0.84
Scotland/Wales/NI	20.87	21.14	19.54	19.88	+0.34
All Regions	18.89	19.06	18.65	18.11	-0.54

From these figures it is clear that average rates of return have declined south of the country and in the Midlands whilst the north has seen an increase in its average rate of return.

Assumptions & Sources of Data

1. The average rate of return on a Cash Purchase is the return based on the purchase price of the property plus initial acquisition costs.
2. The average rate of return on a Geared Investment is the return based on the cash outlay in terms of cash deposit for the purchase (i.e. purchase price less mortgage loan) plus initial acquisition costs.
3. Initial property acquisition costs are assumed to be 2% of the property purchase price.
4. Average gross rental return as a percentage of the property value is taken from the latest survey of ARLA members.
5. The average number of weeks during which a property is not let (the void period) is taken from the latest survey of ARLA members.
6. These figures do not include agents' fees and charges nor any estimation of the costs of minor repairs and maintenance.
7. The average mortgage is assumed to be on an interest only basis and to be equal to 75% of the property purchase price.
8. The average mortgage interest rate is assumed to be Bank of England Base Rate + 1.75%, currently $3.50\% + 1.75\% = 5.25\%$.
9. The average annual rate of house price inflation is assumed to be 6%.
10. The average annual rate of rent inflation is assumed to be 2%.
11. Average selling costs are assumed to be 2% of the value of the property at the end of the period.
12. The average Net Return on Investment is based on the outcome after 5 years, before tax.

N.B. The five year projection period has been selected to reflect the likely minimum lifetime for a Buy to Let investment

Cash Purchase Example

(As used in projecting the Annual Compound Rate of a Cash Purchase for a five year period without a mortgage)

Description	Amount (£)	Notes
Investment Purchase		
Property purchase price	125,382	
Acquisition costs	2,508	2% of purchase price
Total investment cost	127,890	
Source of Funds		
Deposit 100% price plus costs	127,890	
Mortgage 0% purchase price	0	
Rental Yield		
Gross annual rent - year 1	6,645	5.3% of purchase price
Assumed rate of rent inflation		2% p.a.
Rent lost in voids	540 p.a.	4.2 weeks per year
Net income after voids - year 1	6,105 p.a.	
Mortgage interest	0 p.a.	
Net income after voids and interest	6,105 p.a.	
AFTER 5 YEARS		
Value of property after 5 years	167,789	6.0% per year growth on original value
Selling costs	3,356	2% of sale price
Value of investment	164,434	Value after 5 years less sale costs
Capital growth after 5 years		28.6%
Net income yield after 5 years	32,087	
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Annual Compound Rate of Return	8.97% p.a.	
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Geared Investment Example

(As used in projecting the Annual Compound Rate of Return on a Geared Investment for a five year period assuming a 75% mortgage)

Description	Amount (£)	Notes
Investment Purchase		
Property purchase price	125,382	
Acquisition costs	2,508	2% of purchase price
Total investment cost	127,890	
Source of Funds		
Deposit 25% price plus costs	33,853	
Mortgage 75% purchase price	94,037	
Rental Yield		
Gross annual rent - year 1	6,645	5.3% of purchase price
Assumed rate of rent inflation		2% p.a.
Rent lost in voids	540 p.a.	4.2 weeks per year
Net income after voids - year 1	6,105 p.a.	
Mortgage interest	4,937 p.a.	
Net income after voids and interest	1,168 p.a.	
AFTER 5 YEARS		
Value of property after 5 years	167,789	6.0% per year growth on original value
Selling costs	3,356	2% of sale price
Value of investment	70,397	Value after 5 years less sale costs
Capital growth after 5 years		108%
Net income yield after 5 years	7,403	
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Annual Compound Rate of Return	18.11% p.a.	
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