



An Investor should

Plan to be a Buy to Let Landlord over the medium to long-term as it is an investment that produces a variable combination of rental yield and capital appreciation.

Make an objective business decision when purchasing a property based on research of the needs and requirements of the local market, not based on personal taste.

Be aware that the rental market is fast moving with fluctuating supply and demand. This can influence achievable rental levels and occupancy rates.

Take informed advice from both professional Letting Agents and specialised financial advisers from the beginning.

A Lender should

Conduct a thorough analysis of affordability and not lend more than you can afford to repay.

Undertake a professional assessment of the security and the reasonableness of the forecast rental income.

Provide clear information on Buy to Let products and services and on your obligations as a borrower.

Explain what to do if you get into difficulties with mortgage payments.

A Letting Agent should

Demonstrate a comprehensive understanding of the legalities, regulations and obligations that apply to Landlords, Tenants and Agents.

Provide realistic and up to date guidance on supply and demand based on a detailed local knowledge of the market.

Hold Professional Indemnity Insurance, separate Client Accounts, be a member of a compulsory Client Money Bonding scheme and employ trained, qualified staff.

Have access to a complaints process over the service standards of letting agents and procedures for resolving disputes over deposits between Landlords and Tenants.

For the detailed results of all ARLA surveys visit www.arla.co.uk



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The ARLA Review & Index of Returns on Residential Investment

in association with the ARLA panel of Buy to Let mortgage lenders

FOURTH QUARTER 2004

The ARLA Panel of Mortgage Lenders



The ARLA Panel of Mortgage Lenders



Fourth Quarter 2004

The average capital asset values of both rented houses and rented flats have fallen substantially over the last three months with values outside Prime Central London showing falls of 7% and 11% for houses (Rest of the South East and Rest of the UK respectively) and 5% and 8% for flats (Rest of the South East and Rest of the UK respectively). In contrast, Prime Central London properties increased in value by 0.2% for houses and 0.3% for flats. It should be noted, however, that the falls in values outside Prime Central London seen this time simply reverse the rises seen three months ago.

The average weighted rental return on a rented house is unchanged at 5.0% compared with September whilst the average rental return on a rented flat has risen from 5.2% to 5.3% but, again, this merely reverses the change seen three months ago. However, within this fairly static picture, there has been a significant improvement in the average rental returns available in the Rest of the South East for all types of property.

The average void period is unchanged compared with the third quarter of 2004 at 29 days per year. The average number of purely investment properties which are managed by ARLA members' offices is up from 83 to 86 properties compared with three months ago. Nearly a quarter (23%) of all ARLA offices report more tenants than properties available for them, but this is less than the 32% reported three months ago. However, this follows a big increase three months ago and the current quarter's figure is the second highest since the question was first asked nearly three years ago.

The average number of new tenancies signed up in the fourth quarter of 2004 was 35, up from 33 in the third quarter, continuing the rising trend experienced since the first quarter. ARLA members' offices find they are now showing an average of 5.9 prospective tenants round a property before it is let, a figure which is down from 6.1 three months ago.

The average proportion of ARLA members' offices' portfolios which are made up of investment property, at 50%, is unchanged compared with the third quarter of the year. ARLA members believe that, whilst most residential landlords are marking time with regard to their net investment in residential property, they also believe that, overall, there is currently a small disinvestment in residential property being undertaken by residential landlords.

N.B. All these figures are averages and there will be significant local differences as well as significant differences between individual firms in the same area.

The ARLA Review and Index of Returns on Buy to Let Investment is compiled from the results of the quarterly survey of ARLA member letting agents and of investor landlords who subscribe to the ARLA Buy to Let website. This is the largest survey of its kind and is undertaken with the support of the ARLA Panel of Buy to Let Mortgage Lenders.

The data, which covers yields, rents, void periods, types of rental property, regional differences etc is drawn from 486 letting offices run by ARLA member firms and 309 investor landlords.

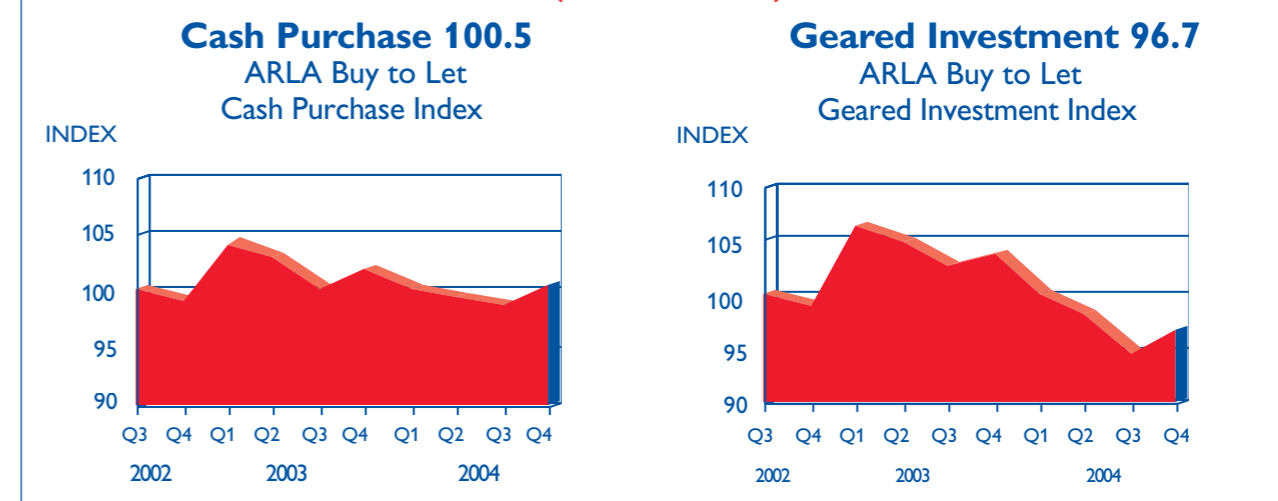
The Review and Index takes account of capital appreciation so as to provide the data for total returns on Buy to Let Investment both for cash purchases and purchases with a mortgage (geared investment). The Index, which was set up in September 2002, is designed to provide a comparison with other types of investment over a period.

ARLA appreciates the high level of response to these surveys from both member firms and individual investors. The research is carried out on behalf of ARLA by Owen Carey Jones, who is responsible for conducting independent research for a number of mortgage lenders and for their representative bodies.

For the detailed results of all ARLA surveys visit www.arla.co.uk

The ARLA Index

(Q3.2002 - 100.0)



Annual Rates of Return on Buy to Let Investment

The tables below show the annual figures used in calculating the Rate of Return on Buy to Let Investment over a five year period. This result is shown in the last column of each table.

Throughout this Review, Rates of Return include both Rental Yield and Capital Appreciation.

Annual Rates of Return on Buy to Let Investment (Cash Purchase)

Region	Gross Annual Rental Yield (%)	Average Void Period (days per year)	Net Annual Rental Yield (%)	Capital Appreciation (% per year)	Rate of Return on Inv. (over 5 years)
Prime Central London	4.79	34	4.34	8.70	10.95
Rest of London	6.05	32	5.51	8.70	11.74
Rest of South East	5.15	27	4.77	8.70	11.24
South West	5.10	25	4.76	8.70	11.24
Midlands	4.85	25	4.52	8.70	11.08
North West	5.95	26	5.53	8.70	11.75
North East	5.50	28	5.08	8.70	11.45
Scotland/Wales/NI	5.35	33	4.87	8.70	11.31
All Regions	5.15	29	4.74	8.70	11.23

Annual Rates of Return on Buy to Let Investment (Geared Investment)

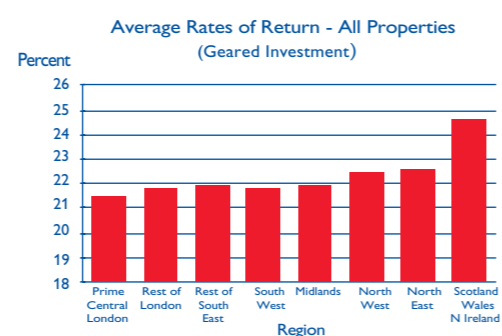
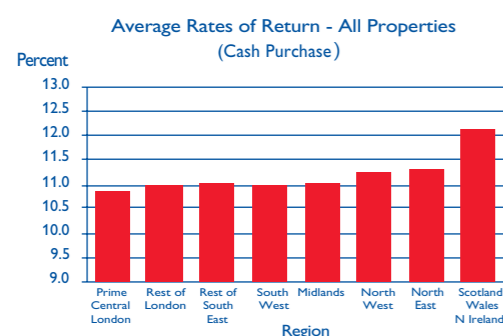
Region	Gross Annual Rental Yield (%)	Average Void Period (days per year)	Net Annual Rental Yield (%)	Capital Appreciation (% per year)	Rate of Return on Inv. (over 5 years)
Prime Central London	-0.31	34	-1.98	8.70	21.72
Rest of London	4.35	32	2.37	8.70	23.74
Rest of South East	1.02	27	-0.40	8.70	22.47
South West	0.83	25	-0.44	8.70	22.45
Midlands	-0.09	25	-1.31	8.70	22.04
North West	3.98	26	2.42	8.70	23.76
North East	2.31	28	0.76	8.70	23.01
Scotland/Wales/NI	1.76	33	-0.04	8.70	22.64
All Regions	1.02	29	-0.50	8.70	22.43

Effect on Annual Rates of Return of Different Rates of House Price Inflation

The following tables show variations in the average net annual compound rates of return over five years for each region, based upon variations in the anticipated average rate of house price inflation. The average rate of house price inflation is based on the average annual rate of house price inflation over the last twenty years.

Annual Rates of Return for Different Rates of HPI (Cash Purchase)

Region	Average -2%	Average -1%	Average for last 20 years (8.70%)	Average +1%	Average +2%
Prime Central London	9.09	9.97	10.85	11.73	12.62
Rest of London	9.23	10.10	10.98	11.86	12.75
Rest of South East	9.28	10.15	11.03	11.91	12.79
South West	9.23	10.10	10.98	11.86	12.75
Midlands	9.29	10.16	11.04	11.92	12.80
North West	9.49	10.36	11.23	12.10	12.98
North East	9.55	10.42	11.28	12.16	13.03
Scotland/Wales/Ni	10.44	11.28	12.12	12.96	13.82
All Regions	9.29	10.16	11.03	11.91	12.80



Annual Rates of Return for Different Rates of HPI (Geared Investment)

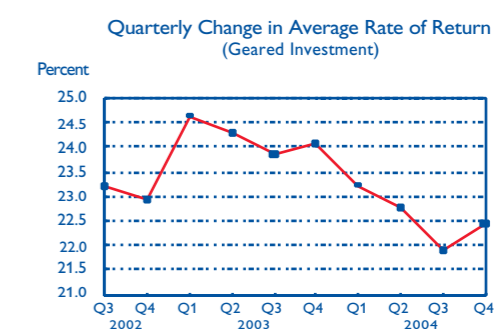
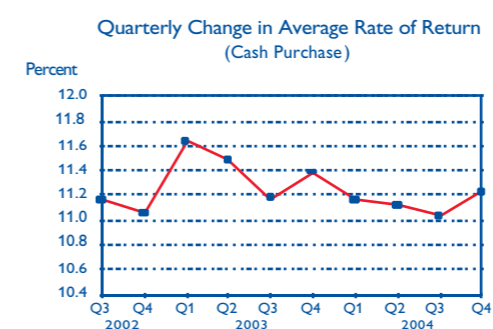
Region	Average -2%	Average -1%	Average for last 20 years (8.70%)	Average +1%	Average +2%
Prime Central London	16.61	19.08	21.45	23.72	25.91
Rest of London	17.02	19.46	21.79	24.04	26.21
South East	17.17	19.59	21.92	24.16	26.32
South West	17.02	19.45	21.79	24.04	26.21
Midlands	17.19	19.62	21.94	24.18	26.34
North West	17.76	20.14	22.42	24.63	26.76
North East	17.93	20.30	22.57	24.77	26.89
Scotland/Wales/Ni	20.36	22.55	24.67	26.73	28.73
All Regions	17.17	19.60	21.92	24.16	26.33

Quarterly Changes in Average Annual Rates of Return

The tables below show how the net annual compound rates of return over five years from this quarter have changed compared to the projection for the third quarter of the year. These figures are based on the average rate of house price inflation over the last 20 years which is currently 8.70% per year.

Quarterly Change in Average Annual Rate of Return (Cash Purchase)

Region	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Change Q4/Q3
Prime Central London	10.82	10.90	10.85	10.95	+0.10
Rest of London	11.12	11.06	10.98	11.74	+0.76
Rest of South East	11.13	11.14	11.03	11.24	+0.21
South West	11.08	11.05	10.98	11.24	+0.26
Midlands	11.51	11.00	11.04	11.08	+0.04
North West	12.01	11.39	11.23	11.75	+0.52
North East	11.69	11.66	11.28	11.45	+0.17
Scotland/Wales/Ni	11.57	11.42	12.12	11.31	-0.81
All Regions	11.17	11.12	11.03	11.23	+0.20



Quarterly Change in Average Annual Rate of Return (Geared Investment)

Region	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Change Q4/Q3
Prime Central London	22.32	22.22	21.45	21.72	+0.27
Rest of London	23.07	22.62	21.79	23.74	+1.95
Rest of South East	23.09	22.81	21.92	22.47	+0.55
South West	22.97	22.58	21.79	22.45	+0.66
Midlands	24.06	22.46	21.94	22.04	+0.10
North West	25.26	23.46	22.42	23.76	+1.34
North East	24.49	24.13	22.57	23.01	+0.44
Scotland/Wales/Ni	24.21	23.52	24.67	22.64	-2.03
All Regions	23.21	22.77	21.92	22.43	+0.51

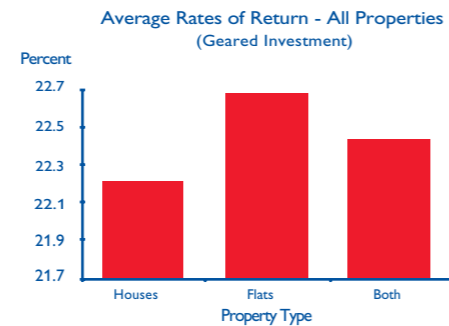
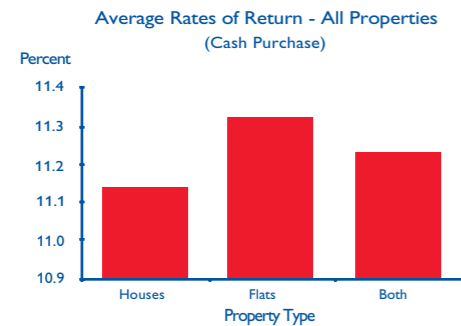
From these figures it is clear that, overall, average rates of return, which declined for most of 2003 and 2004, turned upwards at the end of this year. Whilst some of this increase is due to the use of the new 20 year annual capital appreciation figure (which has risen from 8.55% to 8.70%), for most regions, and for the country as a whole, average annual rates of return would have been higher than for the third quarter even without this change.

Differences in Annual Rates of Return for Houses and Flats

There is not a huge difference in rates of return between houses and flats, although flats do command a slightly higher return than houses and this applies across the whole country with the exception of the North East of England and Scotland, Wales & Northern Ireland.

Differences in Annual Rates of Return for Houses and Flats (Cash Purchase)

Region	Average annual rate of return (%)		
	Houses	Flats	Average
Prime Central London	10.83	11.08	10.95
Rest of London	11.62	11.88	11.74
Rest of South East	11.16	11.31	11.24
South West	11.08	11.34	11.24
Midlands	10.91	11.21	11.08
North West	11.64	11.86	11.75
North East	11.50	11.36	11.45
Scotland/Wales/NI	11.39	11.21	11.31
All Regions	11.14	11.32	11.23



Differences in Annual Rates of Return for Houses and Flats (Geared Investment)

Region	Average annual rate of return (%)		
	Houses	Flats	Average
Prime Central London	21.40	22.05	21.72
Rest of London	23.42	24.07	23.74
Rest of South East	22.26	22.64	22.47
South West	22.06	22.73	22.45
Midlands	21.59	22.39	22.04
North West	23.47	24.04	23.76
North East	23.13	22.78	23.01
Scotland/Wales/NI	22.83	22.38	22.64
All Regions	22.20	22.66	22.43

Fourth Quarter Calculation Examples

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	275,544	
Acquisition costs	5,511	2% of purchase price
Total investment cost	281,055	
Source of Funds		
Deposit 100% price plus costs	281,055	
Mortgage 0% purchase price	0	
Rental Yield		
Gross annual rent - year 1	14,191	5.15% of purchase price
Assumed rate of rent inflation		2% p.a.
Rent lost in voids	1,129p.a.	29 days per year
Net income after voids - year 1	13,061p.a.	
Mortgage interest	0p.a.	
Net income after voids and interest	13,061p.a.	
AFTER 5 YEARS		
Value of property after 5 years	418,157	8.70% per year growth on original value
Selling costs	8,363	2% of sale price
Value of investment	409,794	Value after 5 years less sale costs
Capital growth after 5 years		45.8%
Net income yield after 5 years	68,650	

Annual Compound Rate of Return **11.23% per year**

Geared Investment Example

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

Description	Amount (£)	Notes
Investment Purchase		
Property purchase price	275,544	
Acquisition costs	5,511	2% of purchase price
Total investment cost	281,055	
Source of Funds		
Deposit 25% price plus costs	74,397	
Mortgage 75% purchase price	206,658	
Rental Yield		
Gross annual rent - year 1	14,191	5.15% of purchase price
Assumed rate of rent inflation		2% p.a.
Rent lost in voids	1,129p.a.	29 days per year
Net income after voids - year 1	13,061p.a.	
Mortgage interest	13,433p.a.	
Net income after voids and interest	-372p.a.	
AFTER 5 YEARS		
Value of property after 5 years	418,157	8.70% per year growth on original value
Selling costs	8,363	2% of sale price
Value of investment	203,135	Value after 5 years less sale costs
Capital growth after 5 years		173%
Net income yield after 5 years	1,486	

Annual Compound Rate of Return **22.43% per year**

Assumptions & Sources of Data

- The average rate of return on a **Cash Purchase** is the return based on the purchase price of the property plus initial acquisition costs.
- 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.
- Initial property acquisition costs are assumed to be 2% of the property purchase price.
- Average gross rental return as a percentage of the property value is taken from the latest survey of ARLA members.
- The average number of weeks during which a property is not let (the void period) is taken from the latest survey of ARLA members.
- These figures do not include agents' fees and charges nor any estimation of the costs of minor repairs and maintenance.
- The average mortgage is assumed to be on an interest only basis and to be equal to 75% of the property purchase price.
- The average mortgage interest rate is assumed to be Bank of England Base Rate + 1.75%, currently 4.75% + 1.75% = 6.50%.
- The average annual rate of house price inflation is based on the average for the last 20 years which is 8.70% for 2004/5 and was 8.55% for 2003/4.
- The average annual rate of rent inflation is assumed to be 2%.
- Average selling costs are assumed to be 2% of the value of the property at the end of the period.
- The average Net Return on Investment is based on the outcome after 5 years, before tax.
- Average rented residential property prices are taken from the latest survey of ARLA members.
- The figures shown for All Regions are unweighted overall average figures.

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

Investor Profiles

Surveys of investor landlords are carried out through the ARLA Buy to Let website which has over 8,000 newsletter subscribers. The survey for Quarter Four was carried out between mid-November and mid-December.

For reasons of space, this printed issue of the survey results does not contain all the results but they are available on the Buy to Let section of the ARLA website, www.arla.co.uk

The results of the Fourth Quarter again show clearly that investor landlords are investing in residential property to let for the long term. The average life expectancy of a property investment reported by respondents in the fourth quarter has fallen marginally to 17 years, from 18 years in the previous quarter.

One in twenty (5.5%) said they became landlords for the rental income, although 47.8% look for a combined yield from the rental income and capital appreciation. 44.6% said they are investing in Buy to Let as a nest egg for the long term future.

Should house prices fall, the vast majority of respondents, (89%) said they would not sell their investment properties and only 3% were definite that they would sell with a further 8% being unsure.

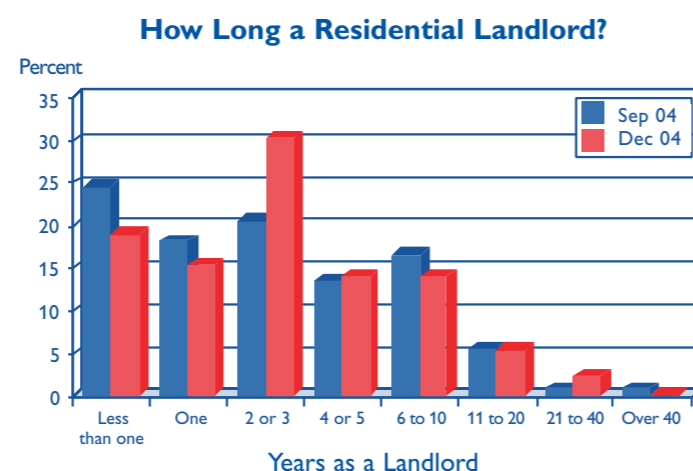
For how many years have you been a residential landlord?

Almost two out of ten respondents (19%) had been residential landlords for less than a year with another 15% having been landlords for only one year.

Only a small minority of less than one in ten respondents (8%) had been residential landlords for more than 10 years.

Years as a Landlord	Percent of Respondents (%)		
	Jun 04	Sep 04	Dec 04
Less than one	28.1	24.4	19.0
One	13.2	18.1	15.3
2 or 3	22.8	20.5	30.2
4 or 5	12.7	13.4	13.9
6 to 10	13.6	16.5	13.9
11 to 20	8.8	5.5	5.4
21 to 40	0.9	0.8	2.4
Over 40	-	0.8	-
Base:			
All answering	(228)	(127)	(295)

Simple analysis of these figures indicates that the average time for which respondents had been residential landlords was 4.3 years a figure which is up a little from the average of 4.2 years in the last survey.

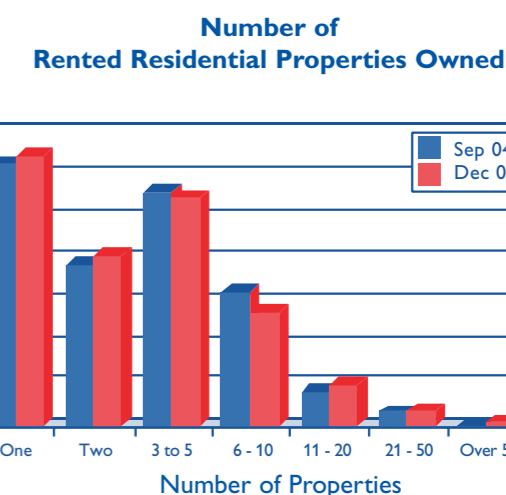


How many rented residential properties do you currently have in your portfolio?

A third of all respondents (32.3%) had only one property in their portfolios. A further one in five (20.3%) have two properties in their portfolios. A significant minority of around one in fifteen (7%) had more than ten properties.

Number of Properties	Percent of Respondents (%)		
	Jun 04	Sep 04	Dec 04
One	33.8	31.2	32.3
Two	20.2	19.2	20.3
3 to 5	26.8	28.0	27.1
6 to 10	13.2	16.0	13.4
11 to 20	4.8	4.0	4.8
21 to 50	1.3	1.6	1.7
Over 50	-	-	0.3
Base:			
All answering	(228)	(125)	(291)

Analysis of these results shows that the average size of respondents' portfolios was 4.5 properties a figure which is up from the average of 4.3 properties three months ago.



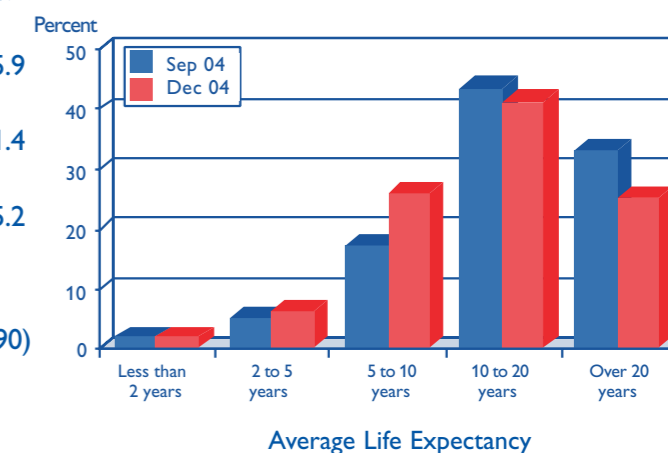
From original acquisition time, what do you expect to be the average life expectancy of your property investment, before you liquidate your property assets?

Clearly the vast majority of residential landlords are in the business for the long term with two thirds (67%) saying that the average life expectancy of their property investments is more than 10 years. In fact very few (7.6%) see their investment as being for 5 years or less and only a tiny 1.7% see it as being very short term (less than 2 years).

Average Life Expectancy	Percent of Respondents (%)		
	Jun 04	Sep 04	Dec 04
Less than 2 years	1.3	1.6	1.7
2 to 5 years	6.2	4.8	5.9
5 to 10 years	25.6	16.9	25.9
10 to 20 years	45.4	43.5	41.4
Over 20 years	21.6	33.1	25.2
Base:			
All answering	(227)	(124)	(290)

Simple analysis shows that the average life expectancy of these property investments is 17 years, down a little from 18 years in the last survey three months ago.

Average Life Expectancy of Property Investment before Liquidating Property Assets



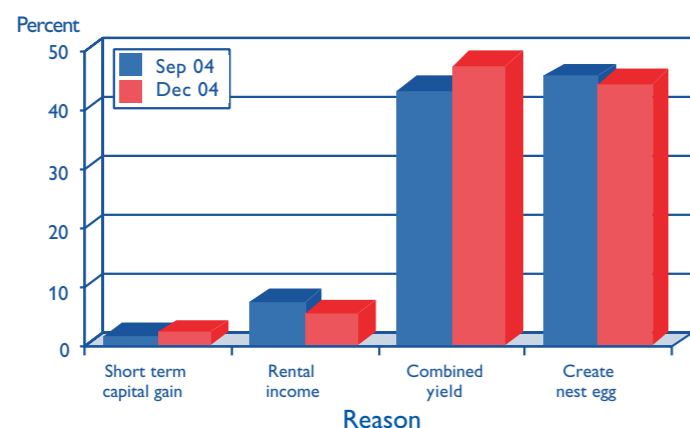
Why did you first decide to invest in residential property?

Most residential landlords are split fairly evenly between those who became residential landlords in order to achieve a combined yield from rental income and capital appreciation (48%) and those who did so in order to create a nest egg for their long term future (45%).

A little over one in twenty respondents (5.5%) said they became landlords in order to obtain a stream of rental income and a mere one in fifty (2.1%) said they did so in order to make a short term capital gain over a period of less than 5 years.

Reason	Percent of Respondents (%)	
	Sep 04	Dec 04
Short term capital gain (less than 5 years)	1.6	2.1
Rental income	7.4	5.5
Combined yield from rental income & capital appreciation	43.4	47.8
Create nest egg for long term future	45.8	44.6
Base:All answering	(122)	(289)

Reasons For Investing in Residential Property



If house prices were to fall, would you sell your residential property investments?

Almost nine out of ten respondents to this question (89%) said they would not sell their residential property investments if house prices were to fall with only 3% saying they would and about one in twelve (8%) being unsure whether they would or not.

Response	Percent of Respondents (%)		
	Jun 04	Sep 04	Dec 04
Yes	2.7	-	2.9
No	86.8	97.5	89.1
Don't know	10.5	2.5	8.0
Base:All answering	(220)	(122)	(274)

Compared with three months ago, respondents were, on average a little less sure about keeping their residential property investments if house prices were to fall.

Approximately what proportions of all your tenants fall into each of the categories shown?

More than three quarters of respondents' tenants (76%) fall into the category of being employed people with all other categories comprising a much smaller proportion of tenants.

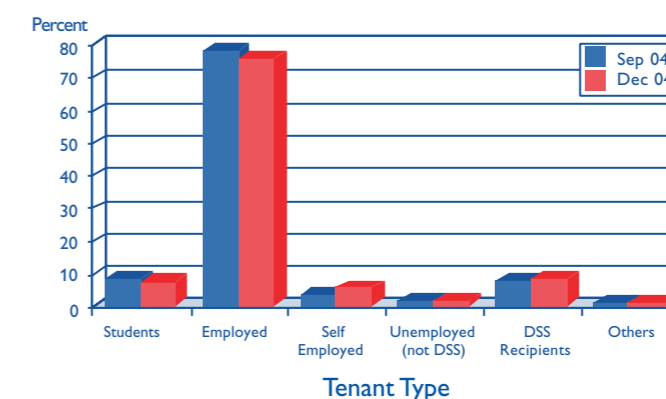
Nevertheless, a significant proportion of tenants, in both cases, is made up of those receiving DSS support (9%) and students (8%). Only 6% of tenants are self employed people whilst hardly any (1.6%) are unemployed and not receiving DSS support.

Percent of Respondents Saying Proportion of Their Tenants Who Are of Each Type (%)

Proportion	Students	Employed	Self Employed	Unemployed (not DSS)	DSS Recipients	Others
None	82.2	13.6	85.1	96.2	79.3	95.4
Up to 10%	5.2	2.3	5.8	1.9	5.5	2.3
11% to 25%	2.9	4.2	2.6	0.3	2.9	1.0
26% to 50%	4.9	13.9	2.6	0.6	7.4	0.6
51% to 75%	1.0	8.1	1.0	0.3	2.3	0.3
76% to 90%	1.3	6.5	1.0	0.3	0.6	0.3
Over 90%	1.0	12.0	0.6	0.3	-	-
All	1.6	39.5	1.3	-	1.9	-
Average	7.7	75.7	5.7	1.3	8.5	1.1

Base:All respondents (309)

Average Proportion of Respondents' Tenants Falling Into Each Category



Do you expect/anticipate that you will acquire further Buy to Let investment properties during the next 12 months?

Getting on for six out of ten respondents (57%) said that they expected to acquire further Buy to Let investment properties during the next 12 months with less than half as many (23%) saying they did not. A further two out of ten landlords (20%) were unsure whether they would acquire further properties in the next year or not.

Response	Percent of Respondents (%)		
	Jun 04	Sep 04	Dec 04
Yes	58.7	58.9	57.0
No	21.3	25.0	23.4
Don't know	20.0	16.1	19.6
Base:All answering	(220)	(122)	(291)