

## Changes in Indices

The tables below show how the net annual compound rates of return for this quarter have changed compared to the first 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	Q3/02	Q4/02	Q1/03	Q2/03	Change
Prime Central London	8.88	8.95	8.86	9.02	+0.16
Rest of London	9.57	9.22	9.14	9.17	+0.03
Rest of South East	9.57	9.47	9.32	9.20	-0.12
South West	9.50	9.42	9.31	9.36	+0.05
Midlands	9.68	9.92	10.24	9.72	-0.52
North West	10.51	10.83	10.63	10.12	-0.51
North East	10.37	10.36	9.86	9.48	-0.38
Scotland/Wales/NI	10.55	10.26	10.24	9.63	-0.61
<b>All Regions</b>	<b>9.62</b>	<b>9.52</b>	<b>9.45</b>	<b>9.30</b>	<b>-0.15</b>

### Annual Returns on a Geared Investment

Region	Q3/02	Q4/02	Q1/03	Q2/03	Change
Prime Central London	17.11	17.32	17.45	17.87	+0.42
Rest of London	19.03	18.06	18.22	18.30	+0.08
South East	19.03	18.76	18.70	18.37	-0.33
South West	18.85	18.62	18.68	18.80	+0.12
Midlands	19.34	19.98	21.15	19.78	-1.37
North West	21.51	22.34	22.14	20.83	-1.31
North East	21.16	21.14	20.15	19.13	-1.02
Scotland/Wales/NI	21.62	20.87	21.14	19.54	-1.60
<b>All Regions</b>	<b>19.17</b>	<b>18.89</b>	<b>19.06</b>	<b>18.65</b>	<b>-0.41</b>

From these figures it is clear that average rates of return have declined across the board in the north of the country and, to a lesser extent in South East (excluding London) whilst Prime Central London was the only region to post a significant increase in its average rate of return.

Average rates of return for the South West and for London, other than Prime Central London, were little changed compared with three months ago.

## 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	9.02	9.88	10.74	11.62	12.49
Rest of London	9.17	10.03	10.89	11.76	12.63
Rest of South East	9.20	10.06	10.92	11.78	12.65
South West	9.36	10.21	11.06	11.93	12.79
Midlands	9.72	10.56	11.40	12.26	13.11
North West	10.12	10.95	11.78	12.62	13.47
North East	9.48	10.33	11.18	12.04	12.90
Scotland/Wales/NI	9.63	10.47	11.32	12.17	13.03
<b>All Regions</b>	<b>9.30</b>	<b>10.15</b>	<b>11.01</b>	<b>11.88</b>	<b>12.74</b>

### 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	17.87	20.19	22.43	24.59	26.69
Rest of London	18.30	20.59	22.80	24.94	27.01
Rest of South East	18.37	20.66	22.87	25.00	27.07
South West	18.80	21.06	23.24	25.34	27.39
Midlands	19.78	21.96	24.08	26.13	28.13
North West	20.83	22.95	25.00	26.99	28.94
North East	19.13	21.37	23.52	25.61	27.64
Scotland/Wales/NI	19.54	21.74	23.87	25.94	27.95
<b>All Regions</b>	<b>18.65</b>	<b>20.92</b>	<b>23.11</b>	<b>25.22</b>	<b>27.28</b>

The ARLA Index of Returns on Buy to Let

**The Index**

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

Cash Purchase Index		Geared Investment Index	
Q.3 2002	100.0	Q.3 2002	100.0
▼		▼	
Q.4 2002	99.0	Q.4 2002	98.5
▼		▲	
Q.1 2003	98.2	Q.1 2003	99.4
▼		▼	
<b>Quarter 2 2003</b>	<b>96.7</b>	<b>Quarter 2 2003</b>	<b>97.3</b>

**Rates of Return**

▼ **CASH PURCHASE 9.30%** (Quarter 1 2003 - 9.45%)

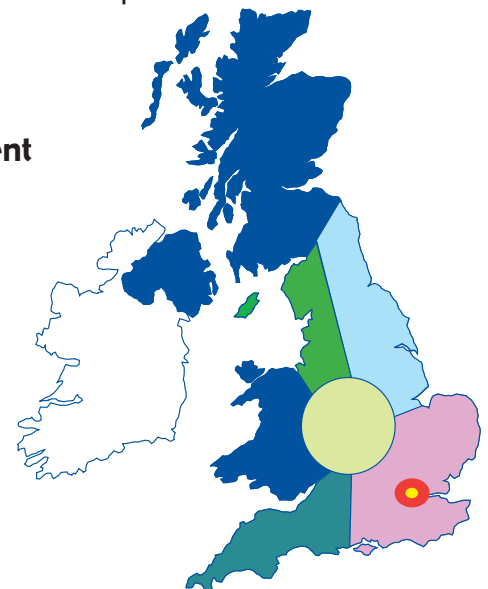
The Net Annual Compound Rate of Return as projected by ARLA over a five year period for a Cash Purchase (i.e without mortgaging/gearing).

▼ **GEARED INVESTMENT 18.65%** (Quarter 1 2003 - 19.06%)

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 - Changes Over Last Quarter**

Key for regions	Cash Purchase		Geared Investment
■ Prime Central London	+0.16 ▲	▲	+0.42
■ Rest of London	+0.03 ▲	▲	+0.08
■ Rest of South East	-0.12 ▼	▼	-0.33
■ South West	+0.05 ▲	▲	+0.12
■ Midlands	-0.52 ▼	▼	-1.37
■ North West	-0.51 ▼	▼	-1.31
■ North East	-0.38 ▼	▼	-1.02
■ Scotland/Wales/NI	-0.61 ▼	▼	-1.60



The ARLA Panel of Lenders



## 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	119,938	
Acquisition costs	2,399	2% of purchase price
Total investment cost	122,337	

#### Source of Funds

Deposit 100% price plus costs	122,337
Mortgage 0% purchase price	0

#### Rental Yield

Gross annual rent - year 1	6906	5.8% of purchase price
Assumed rate of rent inflation		2% p.a.
Rent lost in voids	561 p.a.	4.2 weeks per year
Net income after voids - year 1	6,346 p.a.	
Mortgage interest	0 p.a.	
Net income after voids and interest	6,346 p.a.	



#### AFTER 5 YEARS

Value of property after 5 years	160,504	6.0% per year growth on original value
Selling costs	3,210	2% of sale price
Value of investment	157,294	Value after 5 years less sale costs
Capital growth after 5 years		28.6%
Net income yield after 5 years	33,557	

#### Annual Compound Rate of Return

**9.30% per year**



Birmingham  
Midshires

**GMAC Residential Funding**  
A General Motors company

## 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
<b>Investment Purchase</b>		
Property purchase price	119,938	
Acquisition costs	2,399	2% of purchase price
Total investment cost	122,337	
<b>Source of Funds</b>		
Deposit 25% price plus costs	32,383	
Mortgage 75% purchase price	89,954	
<b>Rental Yield</b>		
Gross annual rent - year 1	6,906	5.8% of purchase price
Assumed rate of rent inflation		2% p.a.
Rent lost in voids	561 p.a.	4.2 weeks per year
Net income after voids - year 1	6,346 p.a.	
Mortgage interest	4,947 p.a.	
Net income after voids and interest	1,398 p.a.	
<b>AFTER 5 YEARS</b>		
Value of property after 5 years	160,504	6.0% per year growth on original value
Selling costs	3,210	2% of sale price
Value of investment	67,341	Value after 5 years less sale costs
Capital growth after 5 years		108%
Net income yield after 5 years	8,820	

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**Annual Compound Rate of Return** **18.65% per year**




## 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 3.75% + 1.75% = 5.50%.
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***

### Caution

Buy to Let investors should take proper advice from letting agents and their financial advisors before making any investment decisions. The ARLA Index of Returns on Buy to Let can only serve as a guide to what is happening in the Buy to Let sector.

