



## welcome to the ARIM Winter 2010 edition of Residential Insight

The coalition government between the Conservatives and Liberal Democrats 8 months on sees them through the honeymoon period and now engaged firmly in the unenviable task of tackling the national debt.

Against a backdrop of increasing unemployment for many, prohibitive costs for university education, a decline in birth rates (2009 figures show the first in many years) and an increasing housing crisis, coupled with the gap between prime and all other markets widening, it's difficult to see where home-grown investment might come from in the medium term.

Prospects for young people and the entrepreneurial spirit they can bring to the economy are not good. The immediate picture is not exactly rosy either with unemployment expected to increase to a 17 year high in 2011 (CIPD project this at 2.7m), an increase in vat to 20%, the cost of fuels and commodities on the rise and public sector cuts expected to bring austerity home to much of the UK.

*Read more about our analysis of the political and economic situation on page 2*

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# political and economic overview

## With such a political and economic backcloth, how then is the UK residential investment market faring?

The Nationwide reported an increase in the number of savers. For the UK saver, particularly those reliant on the interest from savings for income, there is not a lot to be thankful for. Savers continue to suffer from low interest rates and wealthy savers are set to lose more as a result of the massive reduction in the pensions' tax relief threshold from £225k to £50k. The inflationary effect of price rises has all but eroded entirely any income to supplement the basic pension for our increasingly elderly population.

Whilst much of Europe (Greece, Spain, Portugal and Ireland to name a few), are experiencing far worse downturns in their

economies, with a still less palatable medium term future, the UK will struggle to count itself lucky for the coming 12 months and beyond. Civil unrest has returned, notably the student demonstrations against tuition fees.

The flickering light on the horizon is perhaps the continued appetite by overseas investors for London and all things built within it. The robust and established UK based investors are actively purchasing once again, but also with a preference for the Capital. The ripple effect of the London market on the rest of the UK is fundamental to supporting growth, albeit at a modest pace.

### Housing Market

At the time of writing, the leading HPI index released 30/12/10 reports the average house price to be £164,773, down 0.6% on the value for October 2010 and indicating annualised growth of 2.2%. The Land Registry only reports on completed deals, so there can be a time lag to the market (up to 6 months), as these measures only include completed transactions, not current deals. The highest of the regional increases being London, at 6.8%, a continued reduction in growth, but still a strong performance in the national context. The average value in the capital stands at £341,009. In the 3 months since the last published figures, we see the following picture emerging:

- Land Registry (England and Wales only) index of 264.2 and annual pricing growth of 2.2%
- Halifax annual pricing shrinkage of 0.7%
- Nationwide annual pricing shrinkage of 0.3%

As this analysis is being written, both the leading mortgage lenders report a first annualised drop in house prices, although still a long way off the deepest point of the trough in April 2009.

From peak index positions in Aug-07 for Halifax and Oct-07 for Nationwide we are 18.8% down on peak for Halifax, (October 2010), and 19% down on peak for Nationwide, (December 2010). Still a long way short of the 31% fall from Peak (Nationwide), in the early 90's. A significant contributor to the decelerated fall this time is doubtless the continued low interest rates. With interest rates at 15 – 16% in the early 90's, we saw far greater numbers of re-possession. However, at that time access to mortgage finance was far easier, and the increased affordability resulting from the

dramatic fall in capital values allowed entry to home ownership for considerably greater numbers of first time buyers. Transactional activity compared with the early 90's is paltry.

At October 2010, the Bank of England saw a tiny but positive lending growth rate of 0.1%. It remains to be seen, but the cessation of government assistance for aspirational home owners may tip the slow but sustained improvement in lending rates as this door closes. Libor appears to have withstood the threat in confidence that the crisis in the Irish banks could have brought about and at 21/12/10, stood at its highest level, 0.7525% since August 2009. There appears to be a degree to which the UK economy is standing firm, irrespective of the potential threats to a gradual return to health. The Council of Mortgage Lenders (CML) report the expected seasonal decline in lending in November. A greater fall than the same period last year, however, activity at that time was higher as purchasers took action ahead of the ending of the then prevailing stamp duty concession. The CML forecast lending levels for 2011 to remain at around £135 bn, little or no change from 2010. November 2010 was the lowest November since 2000, with the CML reporting lending at a ten year low of £10.9 bn.

The Scottish government is offering assistance to first time buyers, as well as housing associations and new homes builders. Its 'Low-cost Initiative for First Time Buyers'. (LIFT)', offers a number of routes to government assisted home ownership, including shared equity. There are also incentives to build and live in rural areas.

The Land Registry (England and Wales only) reports growth in housing transactions with average monthly transaction volumes of over 60,979 achieved in the quarter June to

September 2010. The same period last year saw monthly transaction levels at 58,772.

Accessibility to mortgage finance is likely to remain unchanged. The slippage in house prices over recent months will deter all but the most committed of sellers, which may well in turn have the effect of slowing this further. A return to modest and positive growth is expected in the second half of 2011. There are no great hopes for a bounteous first half as the UK economy starts to feel the effect of government cuts. The FSA's consultation on their Mortgage Market Review published November 2010, focusing on distribution and disclosure, will take a step further towards increased regulation on lending protocols. The impact of this is somewhat arbitrary given that most lenders are no longer falling over themselves to provide mortgage finance, however, the implementation of the review is feared to further stifle lending. The functions of the FSA will almost certainly be moved to existing government departments. How this may impact the review has yet to be seen. As a far reaching policy proposal, it's unlikely to be abandoned.

Mortgage repossession levels have continued to fall through 2010. Of the 18,931 repossession claims issued in Q3, 14,138 led to claims for possession being ordered, the latter being 28% lower than Q3 2009, however, it is up 5% on Q2 2010. All figures have been subject to seasonal adjustment. There is reservation that this annualised downward trend will continue through 2011. The Ministry of Justice report an increase in the number of applications for repossession and with a challenging employment market, opportunities for those struggling now to turn their fortunes around remain limited.

The widely held view that prices will continue to drop in 2011 seems the sensible

expectation. Predictions typically hover between 2% and 5%, with RICS anticipating an improvement towards the end of 2011. London and the South East have demonstrated greater resilience and the regional picture shows no sign of changing, with the North East and North West both expected to see further falls.

House Pricing will be helped by any fulfilment of the projected scarcity as desirous sellers, rather than essential, beat a retreat once again. This may offset what could otherwise be steeper falls once the government cuts truly bite. The inevitable rise in unemployment that must follow and the impact of this on GDP, along with the increase in vat, the higher costs of energy and commodities plus the irrecoverable losses to the UK and EU that the harsh winter has brought.

## UK Auction Market

2010 was a year of mixed fortunes for the auction market. A positive start during Q1 and Q2 halted in July, when a mood of sombre pessimism returned to the auction rooms. By Q3, the mood had lifted a little, with the cash investors out in force. By the end of December, the annualised increase in lots sold seen earlier in the year had reversed.

EIG indicate that over 20% of all lots offered at auction are repossessions and the opportunity to turn around failed assets has continued to prove attractive to investors.

## Residential Investment Market

The residential investment market in the UK is now, more than ever, centred on London, with the South East close behind. Investors are once again keen to buy land for residential development and property in the UK, but in most cases, the only market is London. The gap between primary and secondary markets is set to widen further, with poor quality tenanted accommodation expected to drop further in value through 2011. Any change in fortunes for the capital value of this stock will come in time as the yield becomes increasingly attractive to investors. Nonetheless, in an uncertain world, London is seen as a truly international city, with equity rich investors competing for the best stock in the best areas, all relatively unscathed when compared to the rest of the UK.

As occupiers, we are moving closer to the norm across Europe with renting no longer a second choice. The balance of 2/3 owner occupiers is expected to shift inexorably towards the 2/3 home renters that is the case in Germany. Hometrack statistics give an average first time buyer age of 37, with a deposit of £50k. Mortgage finance is out of reach of most with typical salaries needing just shy of 5 times income to buy an averagely priced home.

Many of the institutions have been slow to commit to residential investment. Despite the poor performance of the commercial IPD index, there is still a hesitancy to be the 'first' to truly invest in resi. With a clear cut housing

crisis, the worst environment for engendering homeownership since the second world war, the safe bet seems to be long term investment in providing housing. If some institutions remain hesitant, others are less so.

Aegon have been amongst the first to commit to residential investment in a joint venture with Terrace Hill.

The HCA Private Rented Sector Initiative continues to deliver housing and regeneration schemes throughout the UK. For the first time, a significant build to let scheme by Berkley Homes has received the support of the HCA. Berkley Homes will build 500 quality homes to let.

Aviva plan to launch a private rented sector fund in 2011 and BNP Paribas Real Estate have similar ambitions for 2011 or 2012.

By no means a mad dash by the institutions to join some of the more traditional scale investors, but perhaps the start of a new, long term investment strategy in the UK.

## Market Prospects

The feared double dip has not arrived, at least not yet and the broad consensus is that it won't. It is generally accepted that residential values will continue to decline and the economy will suffer further contraction. Transaction levels remain low and there is nothing in the current climate that will serve to reverse this through 2011. With current pricing, the established investors are geared to buy again, and on scale yet opportunity is rarely presenting to do so.

## UK Housing Market and Private Rental Sector Market Outlook

- Private Rented Sector (PRS) provides housing for 14% of households in the UK. (Source: HMT - Consultation on Investment in the PRS 2010)
- Shared equity purchases have accounted for 10% of all new build purchases in the last year, with this increasing to up to 30% for some of the large firms through a combination of government and developer backed schemes. (Source: Hometrack - October 2010)
- 'A growing division between the equity rich, owner occupied grade A stock at one end of the mainstream market and grade C stock at the other, the latter dominated by low levels of owner occupation and equity and high levels of renting'. (Source: Savills - November 2010)
- Key issues hanging over the mortgage market include the recommendations of the FSA's Mortgage Market Review. (Source - RICS Economics December 2010)
- The proportion of landlords looking to sell property at the expiry of a lease has declined in each of the last three quarters as rents have begun to increase once again. (Source - RICS Economics December 2010)
- (Realistic) weaker scenario could see economic growth amounting to little more than one per cent in 2011 (not amounting to a recession) with the ILO unemployment rate climbing to nearer 9%. In these circumstances, house prices could fall further. However, even in this environment our judgement is that the lack of new supply is likely to prevent the decline amounting to very much more than 5%. (Source - RICS Economics December 2010)
- Bank of England ceased quantitative easing in October 2010. December 2010 - In the United Kingdom, the news over the month was on balance interpreted by market participants as making a resumption of further asset purchases by the MPC less likely. (Source: B of E Minutes Monthly MPC Meeting December 2010)
- Private housing starts are set to grow 5% in both 2011 and 2012. (Source - Construction Products Association December 2010)
- The UK has divided, between an equity rich top tier and an equity poor lower tier- in which prospective buyers have struggled to access the mortgage market.
- This wealth divide is likely to remain a dominant trend influencing the market in 2011. (Source: Knight Frank - December 2010)
- Interest in residential property from investors is growing. The key reasons are related to improving yields, rents have been rising steadily over the past two years, especially in southern England and London, and also supply and demand dynamics. (Source: Knight Frank - December 2010)
- Mainstream UK housing values projected to be -3% through 2011 and recovering to 1.5% through 2012. (Source: Savills - November 2010)
- Prime central London values projected to be -1% through 2011 and recovering to 10% through 2012. (Source: Savills - November 2010)
- Prime Scottish property projecting annual pricing -1.5% through 2011 and recovering 4.5% end 2012. (Source: Savills - November 2010)

# UK Housing Market and Private Rental Sector *continued*

## Housing Market Activity

- RICS report an increase in the number of contributing surveyors advising that prices are falling. Scotland indicates the slowest decline, with the South West of England outperforming all other regions in England and Wales.  
(Source: RICS Housing Market Survey – November 2010)
- The average price of a house in the UK stands at £164,708. At the close of the third quarter the strongest performance was to be seen in the South West of England with annualised growth of 10.6%, East Midlands in second place with growth of 8.9% followed by London with 4.8%. Northern Ireland suffering the worst of the contraction with an annualised fall of -13.9%.  
(Source: Halifax House Price Indices November 2010)
- Gross mortgage lending was down by 10% for November 2010 when compared with November 2009. At £10.1bn, the lowest level since November 2000. There is of course some seasonal element plus the end of concessionary stamp duty levels last year contributed to a period of activity then, nonetheless, this is the 5th consecutive monthly fall in lending.  
(Source: CML- December 2010)
- Home sales for the period May – August 2009, saw average monthly transactions of 55,614, the same period for 2010 saw this increase to 59,512. Transaction levels though are less than 60% of levels reported across the same periods in 2005 – 2007. HMRC report a fall to 77,000 sales in November, 6000 less than a year ago, and 3000 less than October 2010.  
(Source: Land Registry - November 2010)
- Increasing mortgage availability with additional higher loan to value products reaching the market and more price competition. However, conditions remain challenging for first time buyers and loan approval rates have tailed off in recent months, with consumer appetite for borrowing on the decline. Net reduction in consumer credit to 1.6%, with borrowers repaying more than their debt  
(Source: BBA- December 2010)
- House purchase lending is estimated at £9bn for 2010 by the CML. With a forecast of just £6bn for 2011, this represents a fall from a 2006 high of £110bn a level in keeping with 1968.  
(Source: CML - November 2010)
- House prices in the Feb – Apr 2010 quarter higher – a positive trend evident across the last 6 – 9 months.  
(Source: RICS– April 2010)
- New buyer enquiries are decreasing and a modest increase in instructions, 3.3%;



there will be a seasonal element, but it's significant that the same report indicated a second consecutive monthly drop in net sales, for the first time since October 2008.

(Source: RICS– November 2010)

- Transaction levels are expected to remain steady with the net forecast only dropping marginally from 7 to 6%, but pricing levels are forecast to fall further.  
(Source: RICS Housing Market Survey – November 2010)
- Demand for mortgage lending dropped unexpectedly in Q3, with the split between loans for purchases and re-mortgages split, with the latter being weak. The 12 month annualised growth rate remains at just 1%.  
(Source: Bank of England – November 2010)

## Auction Market

- AST yields for Q4 ranged from 8.1% - 9.1%  
(Source: Allsop LLP)
- AT yields for Q4 ranged from 5.3% - 6.0%  
(Source: Allsop LLP)
- REG yields for Q4 ranged from 4.0% - 5.0%  
(Source: Allsop LLP)
- Ground Rents 80 years + for Q4 ranged from 4.6% - 6.0%  
(Source: Allsop LLP)
- Allsop ended 2010 on a high note with a £45.7m residential auction selling 85% of all lots offered. The sale brings the residential sales total for the year to £335m and 88% from 2089 lots (2009 £330m and 87% from 2049 lots).  
(Source: Allsop LLP- Allsop Residential Results December 2010)
- National residential auction success rate of just 68.5% December 09 – November 10, compared with 74% for Dec 08 – Nov 09.

Down 8.3 % but with the number of lots offered up 19. 5%.

(Source: EIG - January 2011)

- Value of residential sales at auction , December 09 – November 10 amounts to £2,197,544,887, down 0.7% year on year  
(Source – EIG January 2011)

## Mortgage Lending

- Buy-to-let lending rose by 12% in the third quarter with 26,900 buy-to-let loans worth £2.8 billion. This represents an increase of 8% by volume and 12% by value. Compared to the third quarter in 2009 this is an increase of 14%.  
(Source: CML- November 2010)
- Whilst the buy-to-let market is low by historical standards, with numbers similar to the 2002 level, this quarter has seen a second consecutive increase in lending. This increase follows strong demand for rental properties and limited access to lending in the owner occupier market. However the recent housing benefit reforms may well cast uncertainty back into the arena.  
(Source: CML - November 2010)
- As at the end of September 2010, there were 1.29 million buy-to-let mortgages outstanding, which is an increase of 2% from the second three months of the year. 1.45% of buy-to-let mortgages are in arrears of more than 1.5% of the outstanding balance.  
(Source: CML – November 2010)
- Buy-to-let landlords dominate the PRS, with the majority of landlords in this category being single people or couples owning less than 5 properties. Access to finance has seen debt for this market grow to over a million mortgages by 2007, with a value of £122bn.  
(Source - HMT Consultation Investment in the PRS 2010)

## Mortgage Repossessions

- There were 8,900 mortgage repossessions in the third quarter of 2010, down 27% from the same period in 2009 and 5% less than the preceding quarter this year. (Source: CML – November 2010)
- In the first nine months of the year, there were 28,400 repossession cases, which is below the revised forecast of 38,000 for the whole year. (Source: CML - November 2010)
- A slight improvement in mortgage arrears with 1.55% of the total number of mortgages in arrears of 2.5% or more of the outstanding balance. This is consistent with the revised forecast of 175,000 mortgages in arrears at the end of 2010. (Source: CML - November 2010)
- This downward trend is down to a combination of low interest rates and an ongoing commitment from lenders and government to assist those in financial difficulties wherever possible. (Source: CML - November 2010)

## Housing Development

- Many developers are electing to opt for the shared ownership route in favour of renting unsold stock. For the period September - November 2010, there was an uplift of 7% in the number of new homes registered on the same period last year; 28,910, up from 27,124. (Source – NHBC December 2010).
- The government's estimate of an additional 232,000 homes needed each year, in addition to the existing shortfall, if fulfilled would create homes, jobs and provide investment in local communities.

The challenge is on what basis would these homes be occupied, and therefore how is the financial modelling to be composed? Developers in the main do not expect to hold onto their stock and become investors by default, but to an extent, that is exactly what is happening with the plethora of shared ownership schemes that are now available.

- In 2009, there were fewer houses built than in any peacetime year since 1924 (Source: House Builders Federation – October 2010)
- Private rents have risen over 60% since 1997. (Source – DCLG live Table 731)
- There is 1.7m on the waiting list for social housing. (Source - DCLG Live Table 600)

## Indices and Pricing

- House prices in November 2010 were 2.4% lower than at the end of 2009; current average house price is £164,798. (Source: Halifax House Price Indices)
- The Nationwide HPI reveals a fall of 0.4% from a year ago; current average house price is £163,398. (Source: Nationwide House Price Indices)
- Annual house price change at 2.2% and average house price in England and Wales now £164,773. (Source: Land Registry House Price Index – November 2010)
- Housing transactions from June 2010 – September 2010 stood at 60,979 transactions per month, compared with 58,722 for the same period in 2009. (Source: Land Registry House Price Index – April 2010)

- Average asking prices fell by 0.5% in December 2010 from the previous month and by -0.3% on an annualised basis. (Source: FindaProperty.com – December 2010)
- First time buyer homes now priced at the lowest level since August 2009, at an average asking price for a FTB property of £153,797. For the first time since January 1998, given the improvement in lending multiples, the deposit required has dropped by 6% to £49,783. (Source: FindaProperty.com – December 2010)
- First time buyer, income to property price ratio now stands at 4.8%. (Source: FindaProperty.com - December 2010)

## PRS & Lettings Market

- Scotland as a whole where the average monthly rent in Q3 2010 stood at £649; a modest 1.4% increase on the previous year. (Source: Citylets – Q3 2010)
- Time to let (Scotland) - For the first time since 2008 more than half of all properties are letting within 4 weeks. The ongoing improvements in TTL can also be seen in the proportion of properties letting in under a week which jumped from 12% in Q3 2009 to 17% in Q3 2010. (Source: Citylets – Q3 2010)
- During Q4 2010, almost three quarters of ARLA member offices reported that there were more tenants than available properties. (Source: ARLA December 2010)
- 39% more surveyors reported seeing an increase in rents over the past three months. This compares favourably with last quarter's headline balance of +27. The change in rents from last quarter was greater for houses than it was for flats, although both improved significantly to +47 and +35. (Source: RICS Residential Lettings Survey October 2010)
- Average rental yields up to 4.69% - their highest level since October 2008. (Source: Findaproperty September 2010)
- Central London - Highly active market sees rents surge 19.1% in 2010, 7.3% in Q4 (Source: Cluttons – London View Winter 2010)
- The average rent is now £851pcm, the highest it's been since November 2008. - Average rental property remains on the market for 49 days which is the second shortest length of time since the index started in January 2008. (Source: FindaProperty.com – September 2010)

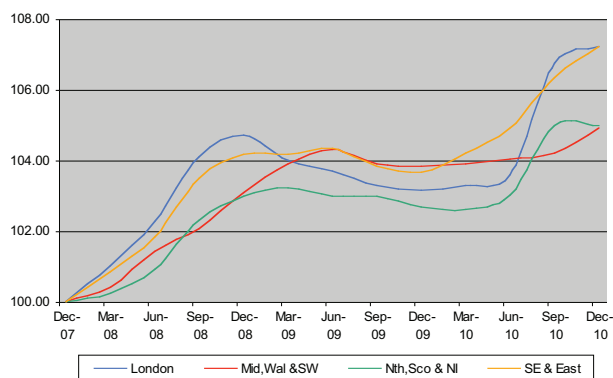


# ARIM Management Experience

## Current Trends in Rental Pricing, Rental Voids and Rental Arrears

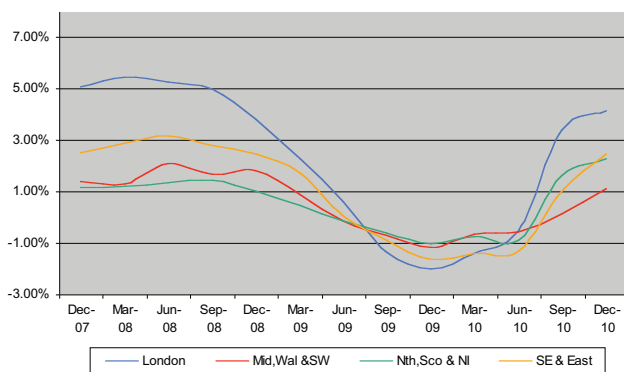
The following analysis draws on rental evidence from a sample set of in excess of 6,000 market rented residential properties comprising the ARIM residential management portfolio for the review period January 2007 through to December 2010.

### 1 Portfolio Rental Pricing Index



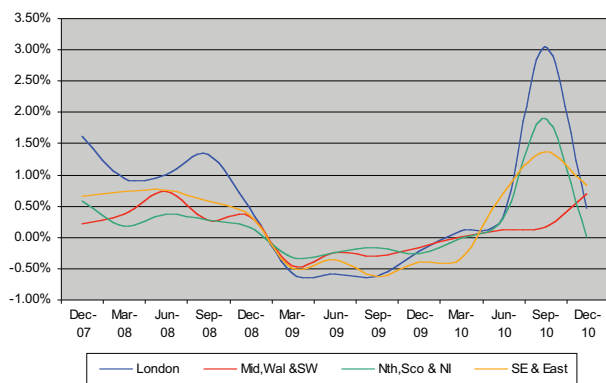
**Graph 1** presents cumulative growth of between 4.91 and 7.23% across all regions for the 3 years to December 2010 when measured by our Portfolio Rental Pricing Index (Dec-07 = 100) driven from an analysis of the market rented tenancies under ARIM management across the review period. This appears to be generally consistent with the wider market experience we have seen. In certain London Boroughs and where the quality of the stock permits it, we have seen significant out-performance on these indices with such rental growth well into double digits.

### 2 Portfolio Rental Growth



**Graph 2** illustrates the trend in year on year rental pricing growth for the market rented tenancies comprising our residential management portfolio. Using actual rental levels where let and expected rental levels where vacant, the profiles illustrate a deepening increase in the regional variation as London recovery accelerates and outperforms most of the regions. The downward trend in rental growth turned around in June 2010 and we have experienced a strong recovery, approaching September 08 levels with the expectation that this will continue well into the Q1 of 2011. Q2 and beyond are increasingly difficult to forecast and the wave of further economic pressure, usually felt in the States first, may well decelerate the pace as we progress in 2011. However, demand for housing is such that the continued lack of mortgage availability will continue to support a strong PRS.

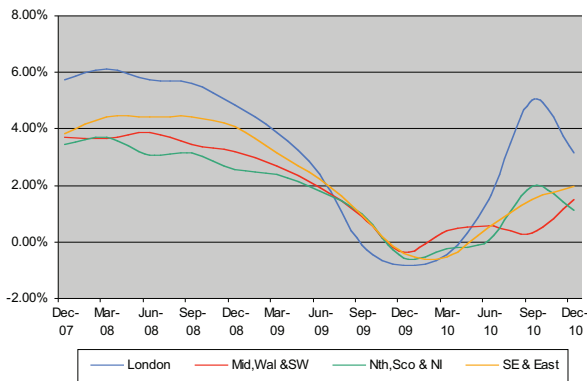
### 3 Portfolio Rental Growth – Quarterly



**Graph 3** illustrates our quarter on quarter measure of changes in rental pricing. We can see a peak in September flattening-off in the December 2010 quarter indicative of a prevailing strategy to minimise winter voids. We should start to see further growth in the period to June 2011 although beyond this is difficult to assess.



## 4 Occupational Rental Growth

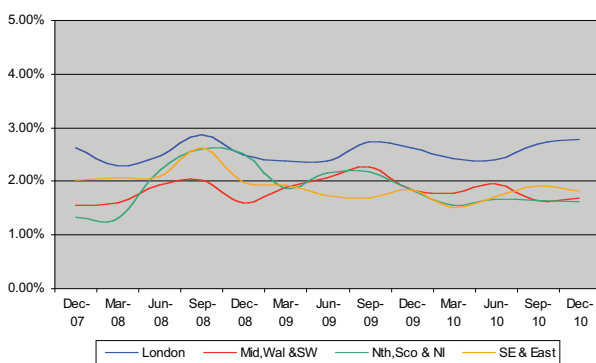


**Graph 4** illustrates our experience of rental growth for that part of the ARIM residential management portfolio where tenants remain in occupation for in excess of 12 months. Overall, the regional occupational growth mirrors that of the portfolio rental growth.

As investor focus has switched to income growth away from capital, some investors that have perhaps in the past been content to adopt a less bullish approach, are now doing so. There has been opportunity to re-adjust those tenancies that had dropped behind the market, and for those tenancies, we have seen dramatic increases, in the mid – late teens as a % in London. In certain instances, investors have protected themselves against the adverse rental conditions prevailing through Q3 2009 to Q3 2010 by granting longer tenancy occupancy terms with robust contractual rental increases. For the medium to long term investor, this is very good call, particularly where there is tenant appetite for longer tenancy occupancy terms.

Under investment in the maintenance of residential stock can provide short term positive yields. However, the medium – long term investor will be successful where there is a prudent and responsive repairs and maintenance commitment coupled with building positive relationships with tenants through excellent customer service. Cyclical inspections ensure that the asset condition is known and preserved, the nature and desirability of the occupancy understood and market rental and indicative capital values assessed in context. These factors along with familiarity with localised environmental factors allow informed asset management.

## 5 Live Tenancy Default Rates



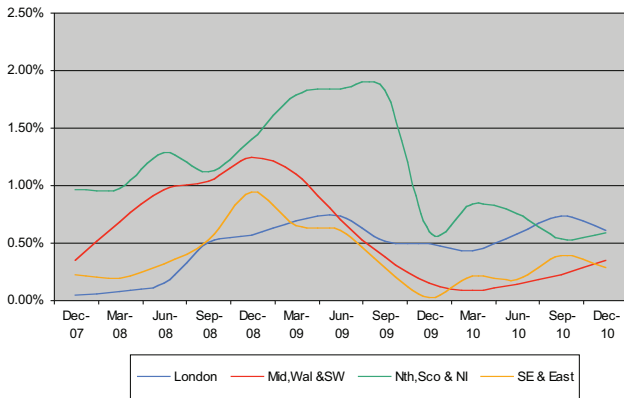
**Graph 5** illustrates the presentation of live tenancy rental default rate as measured by current tenant arrears as a proportion of annual rental demand.

Despite a worsening general economic backcloth from late 2007 the profile of live tenancy rental default has remained largely constant over the review period. The regions have even marginally improved and are all now below 2%. London has increased slightly to 2.78% from 2.61% a year ago. However, such an increase whilst concerning may be explained by substantial rental growth over the last 12 months.

Our experience of tenant behaviour through the last 18 months has been as follows:

- Tenants are responsive to calls related to their rent payments and in many cases, pro active in letting us know of a change in circumstances, thereby allowing a realistic payment plan to be agreed where this is possible
- Landlords have been realistic in releasing tenants from agreements that they can no longer honour, usually agreeing an early surrender once a new tenant has been found. In this market, a sensible arrangement for all parties, especially given the time and cost associated with litigation
- Many of the tenants that have fallen into arrears have done so on a relatively small scale and for a short duration

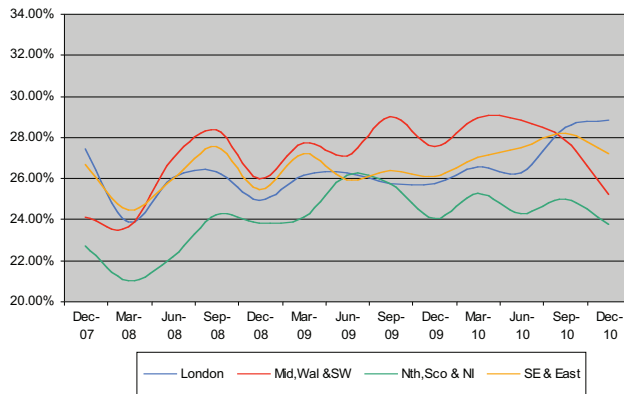
## 6 Bad Debt Rates



**Graph 6** Live tenancy rental default rates are though only part of the overall story. Graph 6 presents the ARIM view of bad debt as represented by tenancies attaining “former” status in the period gross of any written-off tenancy charges but with carried arrears balances. This is a worst case presentation of “bad debt” as it takes no account of the potential for downstream recovery of former tenant debt.

What we can see is that the majority of current tenancy default is recovered through or on possession. Whilst in most cases the tenancy deposit is adequate to cover dilapidations and arrears in some instances it will be insufficient to cover. However, we see a bad debt rate of only 0.5% of annual passing rent together with the ongoing opportunity to pursue collection.

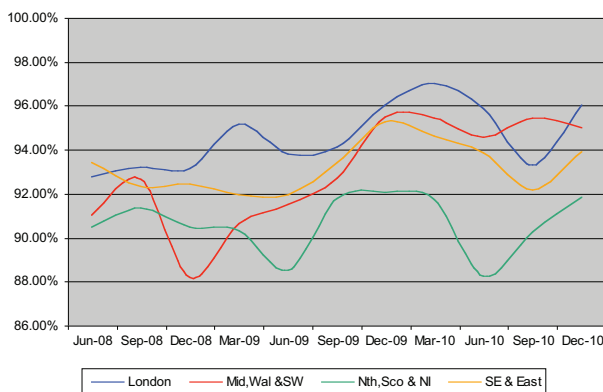
## 7 Current Tenancy Default Volumes



**Graph 7** provides a presentation of underlying management activity in the collection of rents. The graph presents the number of live tenancies in arrears as a proportion of total tenancies under management and plotted over time. What can be seen is that from Q4 2010, there is a divergence between London and the regions, indicative of higher rental values and more aggressive recent rental growth.

At present the London issue is activity based and presenting to a lesser degree in current arrears default terms and potentially in time through the bad debt rate.

## 8 Occupancy Performance



**Graph 8** presents our recent experience of trends in occupancy performance for the ARIM residential management portfolio. In June 2010, we accepted instructions of a number of void units in the north. This has been introduced into the graph and although these present a dip in occupancy, to exclude it, would frustrate future measures. Aside from the volume of voids that have come on, and in the main since been let, Scotland, the North and Wales typically show fairly flat levels of occupancy. London and the South East on the other hand present a dip through September, recovering in the following quarter. This graph needs to be reviewed alongside the rental performance. The market presented an opportunity to improve rental performance and we have acted upon this where appropriate to do so, although in some cases, this has resulted in a strategic decision to terminate a current let in favour of a disparate spread of rents at a development. Our expectation is that demand will continue to be high for PRS accommodation through Q1 and Q2 but that pricing may stabilise to reflect affordability.

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