

Residential insight

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Summer 11

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Political & Economic Overview

The UK Government's planned austerity measures are expected to reduce the UK budget deficit to 2.5% of GDP by 2014/15, from its peak in 2009/10 of 11.1%, largely in line with OBR projections.

Unemployment has fallen since its 8% post-recession peak in February 2010 to stand at 7.7% or 2.45m people (as at May 2011). The contradictory increase in the claimant count is believed to have resulted from the transfer of those on incapacity benefit to jobseekers allowance - a one-off effect. The private sector is leading the jobs recovery, with every public sector job lost in the last year being offset by three positions being created in the private sector. While high levels of youth unemployment remain a concern, the overall picture in job creation is encouraging.

However, the consumer is in recession, with UK families suffering their biggest annual fall in spending power in 34 years. Since the consumer accounts for two thirds of economic output, this is a major concern. According to the ONS, disposable income is 2.7% lower than last year. This is resulting more from price inflation than austerity tax increases, as a result of rising food and petrol prices as well as higher energy bills. Average earnings, excluding bonuses, rose a faster-than-expected 2.1% in the three months to May 2011, but well short of inflation measured by the Consumer Prices Index, which fell slightly to 4.2% in June 2011. Rising interest rates would add even more pressure to the household purse strings. However, base rates are being maintained by the Bank of England's monetary policy committee at the record low of 0.5% and expectations are for no change to this until late 2012.

Elsewhere around the globe, the financial crises in Greece and the US are worthy of particular note not to mention the difficulties faced by Italy, Spain, Cyprus, Portugal and Ireland. [a](#)



In the middle of the UK Parliament's summer recess with talk of Eurozone sovereign debt crises, US debt default legislation, the UK's hacking scandal, UK public sector pension reform, riots on the streets of London and other major cities and the Arab Spring at the centre of current affairs coverage, it is perhaps easy to lose sight of the UK's massive budget deficit.

Over a year on since the Coalition's emergency Budget outlined £110bn of austerity cuts and plans to reform the UK economy, the recovery has slowed as both the consumer and the UK's production industries slipped into technical recessions. More positively, employment levels have continued to rise and the deficit reduction plan is largely on target. On balance, although the recession ended 21 months ago, the UK recovery remains fragile.

UK economic growth in the three months to June 2011 of 0.2% is a weak performance. According to the Office for National Statistics (ONS), as much as 0.5% of economic growth was lost through one-off

factors such as the Japanese tsunami and the Royal Wedding. In the past 12 months, the UK economy has grown by only 0.7%. Even when annualised for the period from the end of the recession, economic growth has been only 1.5%. **A slow economic recovery is apparently typical of banking-led recessions**, but this is even weaker than the Office for Budget Responsibility's (OBR) official forecast of 1.7% (who only a year ago was forecasting 2.3%). The economy is still 3.9% below its peak, and the Governor of the Bank of England has warned there could be three more years of limited growth and difficulty to come. [a](#)

Housing market



According to the Nationwide Building Society, house prices increased slightly by 0.2% in July 2011, meaning a 0.4% reduction in prices year on year - a result of muted demand for home purchase combined with a gradual rise in supply.

House prices according to this index have now risen or remained unchanged for six of 2011's seven months, with the highest increase being 0.6% in February. The average price of a house now stands at £168,731 according to Nationwide.

The Nationwide figures suggest prices are rising slower than the Halifax index, which reported prices rose 1.2% month-on-month in June, although with the average house price being a lower £163,049.

The Land Registry showed house prices for England and Wales moving sideways in June, reaching an average of £161,479, taking the annual fall in prices to 2.5%. London was the only region in England and Wales to experience an increase in prices over the last year (up 0.8%).

Both the Land Registry and the Royal Institution of Chartered Surveyors (RICS) say that prices in London continue to buck the national trend, although the Land Registry says that the annual growth in the capital has now slowed to its lowest level since October 2009. At the top end of the London market, supply is limited and demand is booming and this is steadily driving prices up. Less fashionable areas appear more of a buyers' market, with more supply and fewer buyers. The RICS also reports that the volume of house sales being achieved currently is at a two year low.

A recent Hometrack survey paints a gloomy picture of the housing market, with only 8% of postcodes (all of them in London) posting a small rise. The north-south and east-west divide is widening, with a 0.3% rise in prices across the south-east and East Anglia, compared with a 0.6% decline in the south-west.

Northern Ireland has been the most affected by the economic downturn compared with the rest of the UK.

This is a view shared by the RICS and the Joseph Rowntree Foundation's 'Housing and Neighbourhoods Monitor' which showed average house prices plummeting from £250,586 in the third quarter of 2007 to £149,795 in the last quarter of 2010.

Analysis by PricewaterhouseCoopers (PWC) suggests that there is only a 50% chance that the average UK house price will return to its pre-2007 peak by 2020, with further falls expected this year.

The PWC prediction is consistent with the Department of Communities and Local Government (DCLG) view that house prices fell by an average of 0.5% in May, taking the annual house price fall to 1.6%. The average UK home is now worth £203,528, dragged down by average falls of 1.3% in England, 6.1% in Wales, 2.5% in Scotland and 13.2% in Northern Ireland. In the past year only London recorded a price rise, with falls in all of the other eight regions monitored by the DCLG.

Gross mortgage lending was up £1.8bn in June, a 16% increase on the previous month, but remained 3% lower than June 2010, according to the Council of Mortgage Lenders (CML). It takes gross lending for the second quarter of 2011 to an estimated £33.5bn, an 11% increase on the first three months of 2011 but a 3% decline on the second quarter of 2010, when lending reached £34.4bn.

The number of loans approved for house purchase climbed to a 13-month high of 48,421 in June from 46,418 in May and a four month low of 45,804 in April, according to Bank of England (BoE) figures. The BoE also reported that there was a net mortgage repayment of £0.1bn in June. This appears to be the consequence of current low mortgage activity and elevated repayment levels, reflecting the desire of a significant number of homeowners to reduce

their debt by paying off more of their mortgages.

The CML's view is that recent emotive headlines on repossession prospects appear exaggerated given that large interest rate rises are not anticipated for the foreseeable future. The CML does expect to see moderately higher arrears and possessions through the second half of 2011 and into 2012 though, as previously forecast.

Demand for homes will undoubtedly be affected by the uncertain economic factors coupled with stretched affordability and strict lending criteria, but some commentators suggest more fundamental factors at play, such as a trend away from owner-occupation to a greater preference for renting.

In June 2011, the Genesis Housing Association reported that the proportion of people who are homeowners had dropped from a peak of 70.9% in 2003 to 67.4% in 2009-10. If the current trend continues, only 15.5m people will own their own home by 2025 – 1.9m fewer than now – while about a quarter of households would rent their home from the private sector. The Smith Institute shares that view with the number of people who own homes set to fall by almost 2m by the middle of the next decade, according to their report on home ownership published in June 2011.

Flat and house share website, Spareroom, supports this view. **"For many people, property ownership is increasingly associated with financial risk rather than financial stability, and it's a risk they are less inclined to take. The result is an explosion within the rental market, with competition for rental property higher than ever and rents going through the roof."**

Residential investment market & private rented sector



Corporate ownership of large residential rental portfolios has been well established in countries such as the US and Germany, but has been slow to take off in the UK despite government support for the concept.

The perception of low investment yields, intensity of management and lack of sizeable portfolios being available have been blamed, as has the British preference for home ownership, but the strength of the London market, and the changing British psyche, appears to be changing those perceptions. The new SDLT relief for multiple dwellings effective on transactions on or after 19th July 2011 is a welcome fiscal measure to encourage institutional investment as will further progress on the development of a viable REIT structure.

Companies such as British Land and London & Stamford, traditionally investors in commercial property, are developing and buying housing schemes with a view to increasing their exposure to the residential sector. Their strategy appears not just to develop or build to sell, but to hold the assets to take advantage of the rising rental income. Average London rents have hit a record high, climbing to more than the £1,000 a month barrier for the first time in June, according to LSL Property Services. (The average rent in England and Wales stands at £700). There are even instances of flats being snapped up on the day they hit the market, sealed bids for rental properties as well as gazumping with higher rental offers.


Growing numbers of tenants are finding themselves priced out of their sectors of the rental market as the strong demand and a shortage of supply continue to push rents up, according to research by the RICS. Although rents increased across the whole of the UK, London and the south-east continued to see the most notable rises. Surveyors said rents in some areas had risen so sharply that previously affordable homes were now out of reach for many people. However, the higher cost of being a tenant fails to deter people from renting as the prospects of home ownership are even more financially challenging for most.

Some commentators say that tenants in central London should brace themselves for increases of between 8% and 10% following record increases of up to 19.1% in

2010. Existing tenants who wish to renew their tenancies are facing smaller rises in the region of 4%, as landlords concerned about the general economic outlook opt to retain quality tenants rather than risk void periods.

A YouGov report commissioned by Shelter claims that more than 13m people say they keep up with rent or mortgage payments, a drop of six million in 2009, while 12m have reduced the amount they spend on food to help pay housing costs. Mental health charity, SANE, confirm that they are hearing more from people who are worried about their financial situation – where the next meal is coming from, job security, cuts in benefits and whether they can keep a roof over their head. They say that many are getting in touch with them for the first time.

For tenants, unable to buy, renting is becoming less affordable as demand booms. Rents are increasing at twice the rate of salaries. LSL Property Services found that more than one in 10 tenants (11.5%) in the UK missed or were late paying their rent in May. ARIM is also experiencing an increase in missed or late payments – making it increasingly difficult to maintain our historically low levels of arrears coupled with far greater management intensity for general rental collection. Down-sizing enquiries and payment plans are also on the increase.

With a plethora of commentaries going 'through the roof', we have to search for voices of reason. Haven't we learned anything from the housing market crash? Surely there has to be an affordability ceiling? Stretched affordability cannot be exclusive to mortgage payments and while there is an expectation of increased mortgage arrears and repossessions, the same must surely be true in the rental context – with increases in rent arrears and evictions or abandonments to be expected. This will undoubtedly force market rents to level or even reduce, particularly in the less affluent areas to mitigate the higher cost of rental default and property voids. All of this on top of changes to housing benefit regulations to deal with. 

Auction Market

Overall in June 2011, Essential Information Group (EIG) have seen double digit growth in 'Lots Sold', 'Percent Sold' and 'Total Raised' (16.4%, 17.6% and 17.8% respectively). Broadly similar



numbers are coming through in the quarterly comparisons, with the yearly figures seeing a 6% increase in 'Lots Sold' and a small decline in 'Amount Raised'. The residential sector performed positively, showing 17.6% growth in 'Lots Sold' for the month (21.3% for the quarter and 8.1% for the year), with increases recorded for the 'Percent Sold' and the 'Amount Raised' as well.

On the day that PWC predicted that house prices 'won't recover until 2020' and the RICS declared that the UK property market remained in 'stalemate', Allsop Residential restored confidence by raising £47m from 82% of lots offered at its 14th July 2011 auction. In all, 236 properties were successfully sold. According to the Estates Gazette Auctioneers' League Table (9th July 2011), Allsop Residential remains the number one auction house in its field by sales total, success rate and market share (11.1%).



Allsop Space held their second auction in Dublin on 7th July 2011. The sale was another great success raising just short of €16m with a success rate of 95%. 79 lots were sold from a total of 83 offered. 

UK housing market and private rented sector analysis



Housing Market

- House prices on balance continue to fall, activity levels remain flat and are at relatively depressed levels, and there continues to be a stark regional divergence with London continuing to buck the national price trend. **(Source: RICS Housing Market Survey – June 2011)**
- Sales of houses worth £1m or more have increased by almost a third during the first six months of 2011 when compared to last year. **(Source: Registers of Scotland)**
- The proportion of people who are homeowners dropped from a peak of 70.9% in 2003 to 67.4% in 2009-10. **(Source: Genesis Housing Association)**
- The number of mortgage borrowers in negative equity stood at 827,000 for the first quarter of 2011. The figure suggests the problem is not as great as in the early 1990's when an estimated 1.6m households were in negative equity. **(Source: CML)**
- Wales experienced the largest monthly growth, with average prices there rising by 2.8%, followed by south-east England (1.3%) and the West Midlands (1.1%). North-east England experienced the greatest annual (-7.1%) and monthly (-2.1%) price falls. **(Source: Land Registry – June 2011)**
- Average asking sales price in Scotland as at Q2 2011 stood at £158,570. **(Source: FindaProperty Q2 2011 Index)**
- House prices in Scotland rose by 0.4% between April and June 2011 compared with the same period last year. The number of homes sold during the same period in 2010 fell by more than 10%. The average home cost stood at £153,820. **(Source: Registers of Scotland)**
- House prices in East Renfrewshire have emerged as the highest in Scotland, with the average house price between April and June 2011 £221,309 – up 10.9% on the same period last year. The area has overtaken Edinburgh, as Scotland's capital recorded a 2.7% decrease to £208,333. **(Source: Registers of Scotland)**
- The Housing and Communities Agency has announced that first allocations for the FirstBuy Direct scheme have been confirmed. FirstBuy Direct is a shared equity loan scheme announced in the March Budget, designed to help first-time buyers and give developers security of sales. A total of £180m has been allocated to provide nearly 10,500 homes across England over the next two years. The first homes will be available for sale in September. **(Source: Colliers Residential Data Shot – June 2011)**
- Developers are taking advantage of the changes in planning allowing the conversion from office to residential. **(Source: Colliers Residential Data Shot – May 2011)**
- Senior officials warned that statistics the government used to promote a flagship policy to convert office space into new homes were too optimistic. Mandarins at both the Treasury and Communities and Local Government department wrote to each other over the government's claim that the scheme could deliver 250,000 homes. **(Source: Inside Housing – 5th August 2011)**

Indices and Pricing

- House prices in July 2011 increased by 0.2% month on month and fell by 0.4% year on year, with the current average house price standing at £168,731. **(Source: Nationwide)**
- House prices in July 2011 increased by 0.3% month on month and fell by 2.6% year on year, with the current average house price standing at £163,981. **(Source: Halifax)**
- Average asking sales prices for England and Wales as at Q2 2011 – London £441,149; South East £279,078; South West £241,330; East of England £214,116; West Midlands £177,071; East Midlands £173,410; Yorkshire & Humberside £160,786; North West £163,683; North East £152,157; Wales £172,672. **(Source: FindaProperty Q2 2011 Index)**
- House prices remained static in June 2011 compared to the previous month and fell by 2.5% year on year, with the current average house price standing at £161,479. **(Source: Land Registry)**
- House prices fell in May 2011 by 0.5% month on month and by 1.6% year on year, with the current average house price standing at £203,528. **(Source: DCLG)**
- Prices across England and Wales tracked sideways in June, reaching an average of £161,479 compared with £161,823 in May, taking the annual fall in prices to 2.5%. **(Source: Land Registry)**
- London was the only region in England and Wales to experience an increase in prices over the last year (up 0.8%, but annual growth in the capital has now slowed to its narrowest since October 2009). **(Source: Land Registry – June 2011)**

Housing Development

- Housing planning permissions granted in the first quarter of 2011 again show a year-on-year fall and are now at around half the level of five years ago. Permissions for fewer than 34,000 new homes were approved in Q1 in England, compared with 40,000 in Q1 2010 and against a quarterly housing requirement of nearly 60,000 based on the Government's household projections. In Q1 2006 over 60,000 permissions were granted by local authorities. **(Source: House Builders Federation – Housing Pipeline Report)**
- The number of new homes being registered by builders rose by 9% in the first half of the year compared with the same period last year – up from 58,571 to 63,832 – boosted by registrations of properties in the Athletes' Village ahead of the 2012 Olympics. **(Source: NHBC – July 2011)**
- The government has introduced a scheme that will free up public sector land with planning permission to cash poor developers in a bid to facilitate the building of 100,000 new homes. Whitehall departments with large land banks will publish plans in the autumn on how they will release the land to house builders. It is expected that £10bn worth of public sector land will be offered for sale. The government has devised a plan called "build now, pay later" where developers will not have to pay for the land until the first house is built. This would give smaller developers an opportunity to build homes on land they would never have been able to afford to buy outright. **(Source: Colliers Residential Data Shot – June 2011)**

Mortgage Lending

- Gross mortgage lending was up £1.8bn in June 2011, a 16% increase on the previous month but remained 3% lower than June 2010. It takes gross lending for the second quarter of 2011 to an estimated £33.5bn and for the first six months of the year to £63.7bn. **(Source: CML)**
- The number of loans approved for house purchase climbed to a 13-month high of 48,421 in June 2011 from 46,418 in May 2011 and a four month low of 45,804 in April. **(Source: Bank of England)**
- The number of first-time buyer mortgages has increased by 17% in the past month, with 312 products available for those with a 10% deposit (the highest since November 2008). **(Source: Moneysupermarket.com – July 2011)**
- The number of buy-to-let mortgages available has hit 505 – the highest level since September 2008. **(Source: Moneyfacts)**
- Yorkshire Building Society has entered the buy-to-let mortgage market, at a time when the buy-to-let mortgage market is becoming increasingly competitive. In arch, Skipton Building Society re-entered the market after withdrawing from the sector two years ago. Santander and Metro Bank have both signalled plans to enter the sector this year as soaring rents and high yields, on the back of tenant demand, attract investors back to buy-to-let. **(Source: FT – 3rd August 2011)**
- Cash buyers are an emerging trend in the UK residential market, taking over from first time buyers. Nearly 40% of buyers paid cash when purchasing their home. London had the highest proportion of cash buyers (80%). **(Source: CML – January 2011)**

Mortgage Repossessions

- The CML forecasts a rise in repossessions from 40,000 this year to 45,000 next. This still remains well below the 75,500 peak of 1991. **(Source: CML - June 2011)**
- Out of the 11.3m outstanding first-charge mortgages in the UK at the end of March 2011, a total of 9,100 properties were taken into possession in the first quarter of 2011 (0.08% of all loans). This was 15% up from the 7,900 in the fourth quarter of 2010 (the fourth quarter of the year typically sees a lower number), but 10% lower than the same period a year ago, and equal to the average quarterly number of repossessions throughout 2010. **(Source: CML - May 2011)**
- The CML forecasts 180,000 arrears cases of 2.5% or more at the end of 2011 and anticipates short-term pressure on household finances as a result of an expected squeeze on incomes. **(Source: CML - May 2011)**
- The total number of mortgages in arrears also continued to fall, and numbers fell in all but the deepest arrears band. At the end of March 2011, the number of mortgages with arrears equivalent to 2.5% or more of the outstanding balance showed an improvement to 166,900 (1.47% of all loans), just under 2% down from 170,000 (1.5% of all loans) at the end of December 2010, and an 11% improvement on the 187,300 (1.65% of loans) a year earlier. On this measure, the first quarter saw the lowest share of mortgages in arrears since the third quarter of 2008. The only arrears band where a worsening was experienced was where arrears exceeded 10% of the mortgage balance. This band increased slightly in number, from 27,400 at the end of 2010 to 27,700, although the proportion of all loans was unchanged at 0.24%. **(Source: CML - May 2011)**
- Forbearance has been brought into play in up to 12% of mortgages, which may not be sustainable and may be providing a misleading picture of lenders' financial health. **(Source: Financial Policy Committee)**
- With 750,000 customers, UK Asset Resolution (set up to run the nationalised mortgages of Bradford & Bingley and parts of Northern Rock) is the country's fifth largest mortgage lender. But 23,000 of those mortgage holders are more than six months behind with payments and the projections for the number of people falling behind could get "scary" if lenders do nothing to prepare for higher rates. **(Source: UK Asset Resolution)**

Auction Market

- The residential sector performed positively, showing 17.6% growth in 'Lots Sold' in June 2011 (21.3% for the quarter and 8.1% for the year) with increases also recorded for the 'Percent Sold' and the 'Amount Raised'. **(Source: EIG)**
- Allsop Residential raised £47m from 82% of lots offered (236 properties) at its July auction. **(Source: Allsop Residential)**
- AST yields average 8.82%; REG yields averaged 4%; ground rent (80+ years) yields averaged 5.74%; no AT lots. **(Source: Allsop Residential - July 2011 Auction)**
- Allsop Space raised just short of €16m with a success rate of 95% (79 lots) at its second auction in Dublin in July. **(Source: Allsop Space)**

Private Rented Sector (PRS) & Lettings Market

- The PRS is the only growing housing tenure - £500bn market - bigger than UK commercial property. **(Source: Paragon)**
- There has been an 84% increase in the PRS between 1991 and 2010, and by 50% in the past six years. **(Source: CLGD)**
- The number of rental properties coming on to the market increased, with stock levels up 10% from Q1 2011, taking them to their highest point since May 2010. **(Source: FindaProperty Q2 2011 Index)**
- PRS in England is now 3.4m (16%) of all households, up from 2.9m as at March 2007. **(Source: CLGD)**
- 75% of members reported demand from tenants outstripping the supply of rental properties, up from just 10% two years ago. PRS stock is at straining point and needs to expand to cater for demand. **(Source: ARLA - July 2011)**
- The average monthly rent in the UK rose to its highest ever level (since the end of 2007) in the second quarter of 2011 - rising 1.9% to £876. The increase takes the annual rise in rents to 4.4%, with an average gross rental yield of 4.8% in the last quarter - beating the return from the FTSE index and cash on deposit. **(Source: FindaProperty.com)**
- Houses have driven the increase in asking prices for rental properties over the last quarter. The average asking price for a rental house increased by 2.5% between Q1 and Q2, with flats increasing by 0.3% over the same period. Yields on flats remain higher however with the average annual yield running at 5.6%, compared to 4.5% for a house. **(Source: FindaProperty Q2 2011 Index)**
- Rents in England and Wales rose by 0.7% in June 2011 to reach a record high of £701 per month, pushing annual rent inflation to 4.1%. **(Source: LSL Property Services)**
- In London, LSL claim rents have smashed the £1,000 a month barrier for the first time, rising 1% in June 2011 to reach a high of £1,006 per month. However, FindaProperty puts London rents at £1,979 per month - almost 100% higher than LSL. **(Sources: LSL Property Services; FindaProperty.com)**
- London continues to be one of the strongest performing rental markets, with rental prices here being 14.5% higher in Q2 this year than the corresponding period last year. However, the last three months have increased by just 0.6%. **(Source: FindaProperty Q2 2011 Index)**
- It is now cheapest to rent in the North East, where the average rent is £582 a month. The West Midlands was the only region to show a fall in rental prices (of 0.3% between the first and second quarters of 2011) with all other areas showing rent rises compared to the first quarter of 2011. East Midlands increased fastest by 3.5% to £627, closely followed by the South East where asking prices increased to 3.4% to reach £1,150, second highest to London. **(Source: FindaProperty.com)**
- The average rental asking price in Scotland increased 0.9% between Q1 and Q2 2011 to reach £686, but this is an annual fall of -3.4%. **(Source: FindaProperty Q2 2011 Index)**
- The average rent in Scotland reached £663 which is the highest level since the third quarter of 2008. The mix adjusted average was up 1.4% on the previous year. **(Source: Citylets Report - Q2 2011)**
- Glasgow average rents were up 1.9% on the year to £601, the first time Glasgow has exceeded the £600 barrier. Rents in Edinburgh also experienced a steady annual rise of 1.9% to £769. Aberdeen rents adjusted downwards from the peak of £907 in Q1 2011 and now stand at £862, though still up 0.9% on the year. **(Source: Citylets Report - Q2 2011)**
- The average monthly rent in Edinburgh was £818 in the three months to the end of June 2011, and £748 in Glasgow. **(Source: DJ Alexander Rental Track)**
- The average Time to Let (TTL) improved from the previous quarter, with just over half (51%) of properties taking longer than 4 weeks to let compared to 52%. This is slightly down on the figure recorded in Q2 2010 when just under half (49%) of properties exceeded this TTL. Over the last two years TTL figures have eased downwards. **(Source: Citylets Report - Q2 2011)**
- The influx of rental properties to the market has not had a dramatic effect on the length of time they take to occupy. The average rental property typically takes 50 days to fill - one day more than three months ago but this is still 30% less than two years ago. **(Source: FindaProperty Q2 2011 Index)**
- More than one in 10 tenants (11.5%) in the UK missed or was late paying their rent in May 2011. **(Source: LSL Property Services)**

Market Outlook

- If the current trend continues, only 60% (15.5m) of the population will own their own home by 2025 - 1.9m fewer than now, while about a quarter of households (6.5m) will rent from the private rented sector. **(Source: Genesis Housing Association - June 2011)**
- A warning of a possible shortfall of 750,000 homes across England in less than 15 years unless government housing policy is reviewed and new measures to boost supply implemented. **(Source: The Institute of Public Policy Research)**

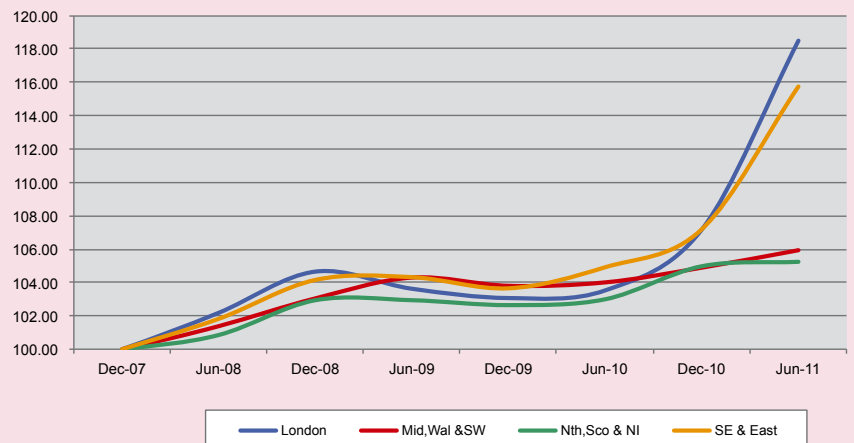
arim management experience

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 through to June 2011.

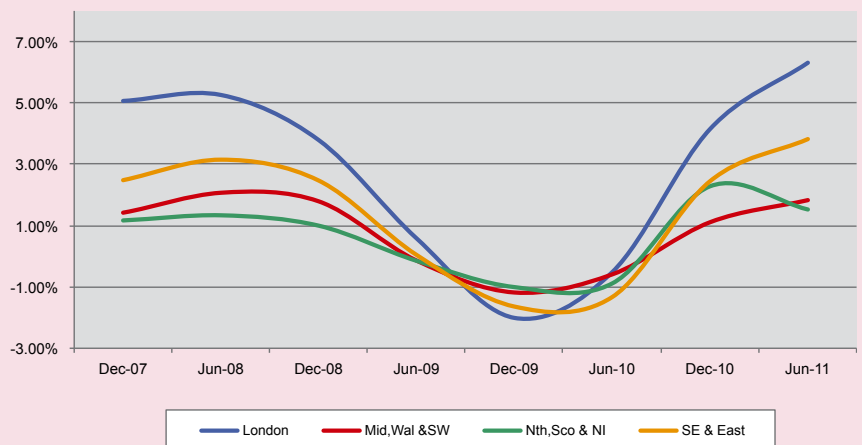
Portfolio rental pricing index

Graph 1 presents cumulative growth of between 5.25% and 18.52% across all regions from December 2007 to June 2011 when measured by our Portfolio Rental Pricing Index (December 2007 = 100) driven from an analysis of the market rented tenancies under ARIM management across the review period. Over the last six months in particular, significant growth has been experienced in London, followed closely by the South East, which is consistent with the wider market experience. Growth was also experienced in the other regions, albeit less marked.



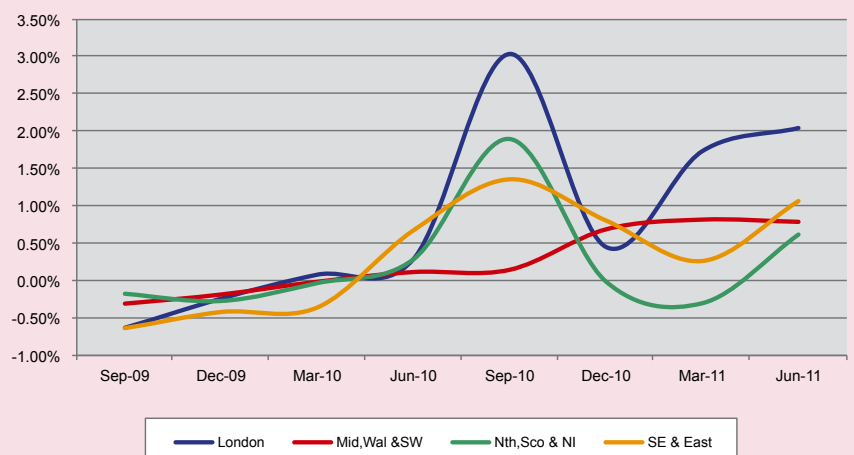
Portfolio rental growth

Graph 2 illustrates the trend in year on year rental pricing growth for the market rented tenancies comprising the ARIM-managed residential portfolio. Using actual rental levels where let and expected rental levels where vacant, the profile illustrates continued widening of the regional variations as the London market in particular accelerates and significantly out-performs the other UK regions. The upward trend continues, with year on year rental pricing growth now above pre-recession levels across all regions. The North and Scotland however dropped between December 2010 and June 2011 from 2.28% to 1.52%.



Portfolio rental growth - quarterly

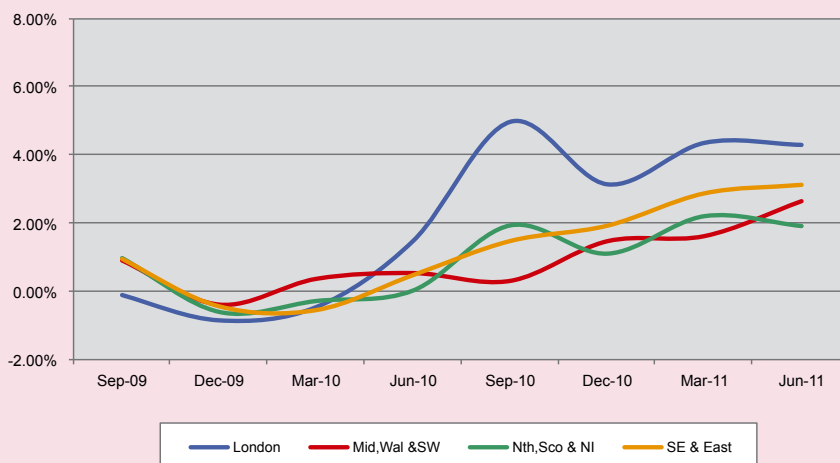
Graph 3 illustrates our quarter on quarter measure of changes in rental pricing. By June 2011 all regions had recovered somewhat from the drop experienced for the quarter to December 2010. We expect to see this recovery continuing over the next six months.





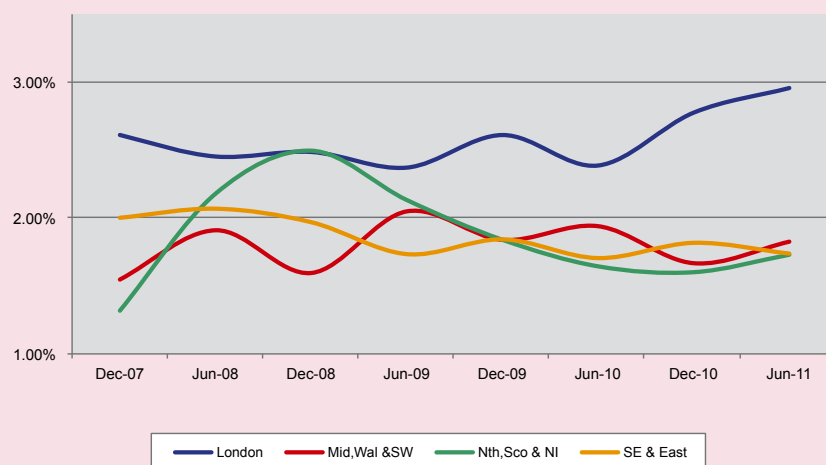
Occupational rental growth

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 occupational growth mirrors that of the portfolio rental growth, with London consistently able to sustain higher growth levels, particularly over the last 12 months. As with the wider market though, existing tenants in London are facing smaller rises than new tenants, as some landlords choose to retain quality tenants and minimise void costs. We expect to see a more bullish approach adopted where stock is in the more sought after areas and has been maintained to a higher standard. Indeed, we are experiencing an increasing number of instances where existing tenants, unable to accept or afford proposed increases, are being replaced by new tenants almost immediately on vacation at the higher rent levels. General tenant affordability will however also need to be considered.



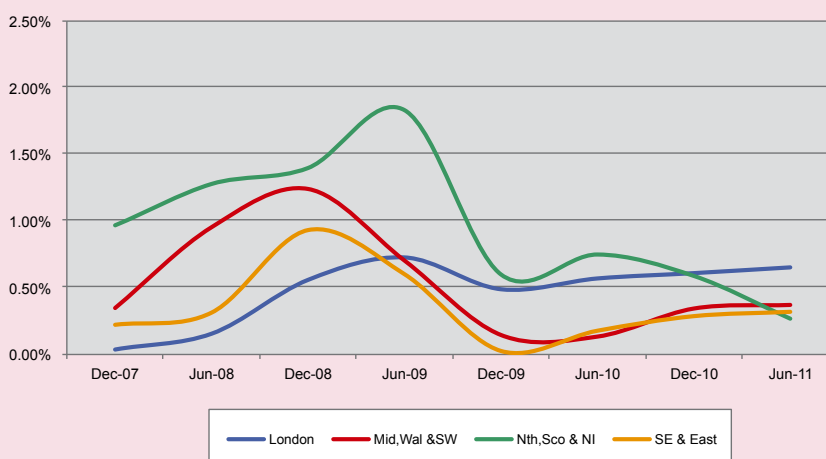
Live tenancy default rates

Graph 5 illustrates the presentation of live tenancy rental default rate as measured by current tenant arrears as a proportion of annual rental demand. London is now at its highest ever rate of live tenancy default and at risk of breaking the 3% threshold for the first time ever - perhaps unsurprising given the rent increases being demanded. It is increasingly difficult for us to maintain our historically low levels of arrears. We are experiencing greater management intensity for rental collection generally, and down-sizing enquiries and payment plans are also on the increase. By contrast, the other regions continue to perform below the 2% threshold, possibly reflecting the more affordable rent increases being demanded in these regions.



Bad debt rates

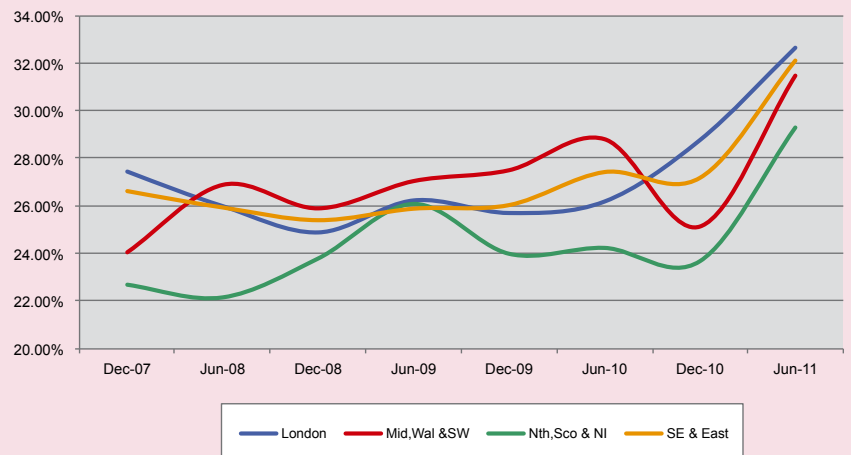
Graph 6 Live tenancy default rates are though only part of the overall picture. Graph 6 presents the ARIM view of bad debt as represented by tenants attaining 'former' status in the period gross of any written-off tenancy charges but with carried arrears balances. This is a worst case presentation of 'bad debt' as it takes no account of the potential downstream recovery of former tenant debt. We continue to see the majority of current tenancy default being recovered during the tenancy term or on possession for the time being. We do anticipate this worsening though in the overall context of affordability, particularly for London, to reflect the growing current tenancy default rate in that region.





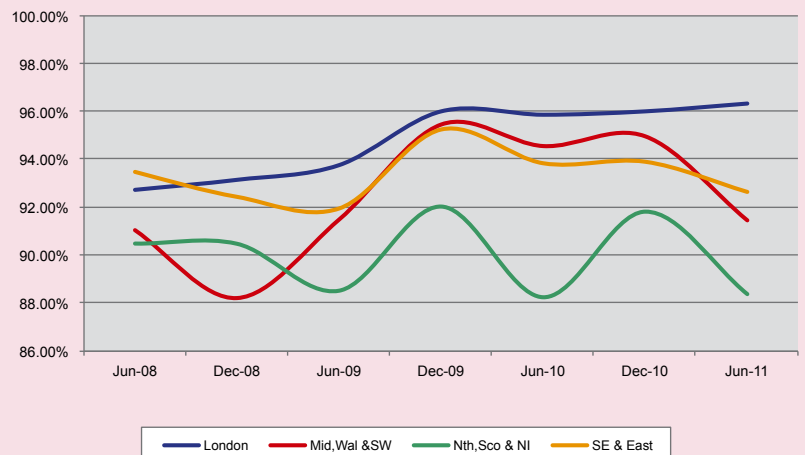
Current tenancy default volumes

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. The proportion in default is now at the highest level ever – across all regions – with the six months to June 2011 showing significant increases. This provides evidence of the greater management intensity being experienced by us, for rent collection generally, but also when trying to maintain arrears at our historically low levels. It also reinforces our view that tenant affordability is becoming increasingly challenging as rent levels are in danger of reaching levels that will be unsustainable in the wider economic context.



Occupancy performance

Graph 8 presents our recent experience of trends in occupancy performance for the **arim** residential portfolio. This occupancy performance should be reviewed alongside the rental performance. Occupancy levels are being maintained in London above the 96% level, despite also achieving significant growth in rental levels, reflecting tenant demand in this area. Over the last six months, we have accepted instruction on a number of void units in the North and Scotland, explaining much of the dip in occupancy which, otherwise, would have been fairly static at around the 90% level. The dip for the Midlands, South West and Wales region has also, in part, resulted from additional management instructions of void units.



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