

# YOUNGindex

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RESEARCH: YOUNG INDEX - Q4 2011

## Private Rented Sector Sentiment Report

By Neil Young  
CEO, Young Group & Young London



### REGIONAL DISPARITY REIGNS

The latest Young Index research reveals the starkest difference in sentiment between London and the rest of the UK since the sentiment survey began in 2007 (fig. 1).

For the first time, a full 100% of active investors expect that capital values in the capital will rise or remain static throughout 2012 (an increase of 21.3 percentage points on Q3). Contrast this with the sentiment for UK property outside London: only 30.4% of respondents express a positive expectation for capital growth.

This regional disparity in sentiment is confirmed in the detail of capital value growth expectations and in landlord's aspirations to grow their investment portfolios. Investors predict a healthy rise of 4.73% in London, compared to an

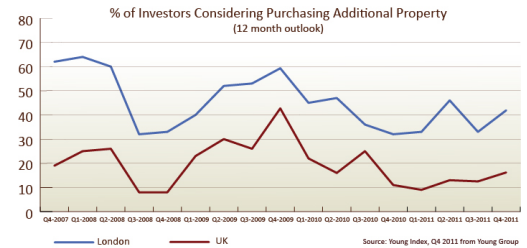
average drop in value of 1.39% for PRS property outside the capital.

41.9% of PRS investors indicate that they are considering adding further London property assets to their portfolios over the coming year, up from around a third in the previous quarter. Those considering adding UK property assets located outside of the capital to their portfolio also increased quarter on quarter, but appetite remains more subdued than for assets within London (fig. 2).

### RENTAL MARKET STRENGTH

Interestingly, this overwhelming focus of positive sentiment towards the capital is less apparent when turning to rental income expectations. London does still lead the way, but the difference is much less stark, reflecting the perceived (and much-reported) strength of the rental market as a whole.

figure 2.



However, the proportion of investors expecting rents to continue to rise over the next 12 months has abated. 85.1% of investors expect to see an increase in rental income from London property throughout 2012, down from 88.9% in the previous quarter. This compares to 79.5% who expect rents to increase for properties located outside London. The overall outlook for rents in 2012 is for the pace of increase to moderate. Landlords questioned in Q4 2011 predict an average increase in London rental income of 2.39%, marginally lower than in Q3 2011 (2.47%).

Anecdotally, respondents point to concerns over affordability and they cite the pace of rental increase seen over the past 18 months as 'unsustainable'.

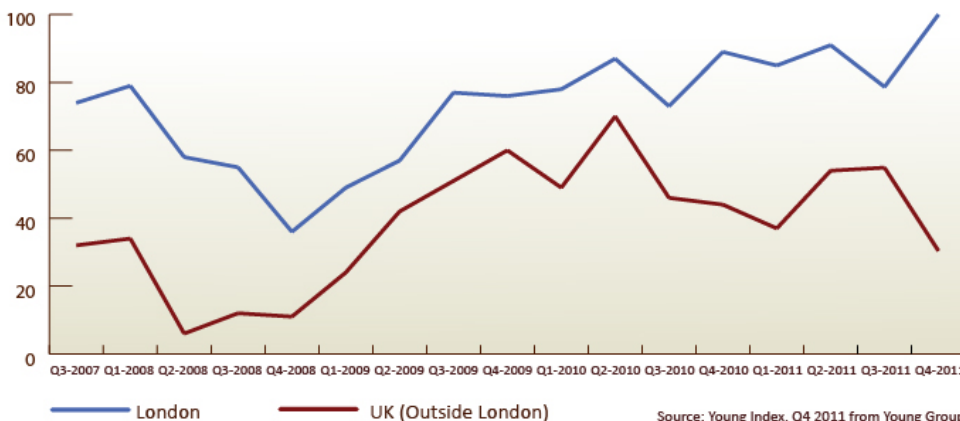
### COMMITMENT TO THE PRS

Investors appear more committed to the Private Rented Sector than ever; 97.9% of respondents have no intention of liquidating PRS assets during 2012.

36.9% of investors are intending to hold their properties for at least the next 20 years and the average anticipated future

figure 1.

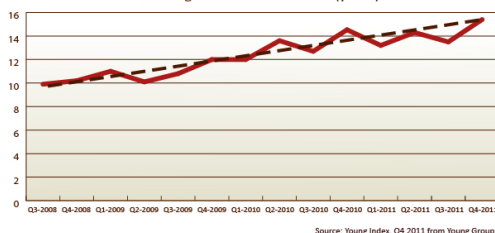
% of Residential Property Investors Expecting Prices to Rise or Remain Static (12 month outlook)



hold period increased in Q4 2011 to 15.4 years, an increase from 13.5 years in the previous quarter (fig. 3).

figure 3.

Average Future Hold Period (years)



Source: Young Index, Q4 2011 from Young Group

### ECONOMIC OUTLOOK

The majority of respondents (58.3%) expect that the Bank of England base rate will remain at the current historic low of 0.5%

throughout 2012. Of those who expect a rate rise, on average they expect it to stand at 1.25% by Q4 2012.

Against this backdrop, 19.6% of investors re-mortgaged an existing PRS asset in 2011 and 19.1% purchased additional investment property.

Mortgage availability remains the principal concern of the majority of investors (42.2%), unchanged from a year ago. However, concerns over the employment landscape are increasingly important with 24.4% of investors citing them as their main worry. House price stability fell in significance between the end of 2010 and Q4 2011. ■

## SUMMARY: Private Rented Sector (PRS) Investors' Sentiment, Q4 2011

### LONG TERM FOCUS...

- 97.8% of all landlords intend to hold their property for the next 12 months.
- 58.7% intend to hold their property assets for the next 10 years or more.
- 36.9% intend to hold their property assets for the next 20 years or more.
- 15.4 years is the average future hold period that residential landlords expect to retain their property assets for.

### APPETITE FOR INVESTMENT...

- 41.9% of investors are considering purchasing additional residential property assets within London over the next 12 months.
- 16.2% of investors are looking at opportunities in the UK outside of the capital.

### CAPITAL GROWTH & INCOME...

- A full 100% of respondents believe that London property values will be at current levels or higher by Q4 2012.
- For UK property outside of the capital, only 30.4% expect values to be at current levels or higher by this time next year.
- 85.1% of respondents expect rents in London to rise over the coming year.
- 79.5% of landlords expect UK rents outside London to rise over the coming year.

- Landlords expect capital values in London to see an average increase of 4.7% during 2012 with rental income increasing by an average of 2.4%.
- The predicted 12 month outlook for PRS capital values outside of London UK is a drop of 1.3% but average rental income is expected to increase by 1.2%.

### FUTURE BASE RATE EXPECTATION...

- On average, landlord investors expect the base rate to be 0.75% at Q4 2012.
- 58.3% of investors in the PRS expect the Bank of England base rate to remain static for the coming 12 months.

### 2011 ACTIVITY...

- 19.1% of active PRS investors added additional assets to their portfolios during 2011.
- 19.6% of investors re-financed existing Private Rented Sector assets during 2011.

### PRINCIPAL CONCERNS for 2012...

- 42.2% of active landlord investors are principally concerned with the lack of available mortgage finance.
- 24.4% of investors cite 'Job Security' as their main concern for the coming 12 months, up from 10% in Q4 2010.

### ABOUT YOUNG INDEX

Each quarter, through Young Index, Young Group polls investor sentiment among 500 of its Private Rented Sector (PRS) investment clients who hold UK property assets.

### ABOUT YOUNG GROUP

Young Group is actively shaping the Private Rented Sector (PRS) through research, investment, finance and asset management.

The Group's activity spans the entire investment cycle from identifying opportunities and financing their acquisition, through to managing the asset, regularly reviewing the performance of the property holdings and advising on strategic direction, through to realising returns in the most tax efficient manner.

Young Group delivers day-to-day asset management through Young London, our lettings and management agency, which has won multiple awards from *The Times*, *The Sunday Times* and *Bloomberg* for the quality of its service.

Young Group supports *NORWOOD*, a charity supporting thousands of people with learning disabilities, and children and families in need, helping them to improve the quality of their lives.

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### YOUR FEEDBACK

If you have comments or feedback on any of the issues raised in our latest Young Index report, we'd very much like to hear from you.

Feel free to contact us:

Michael Oakes  
 Director of Communications  
 Young Group  
 128 Webber Street  
 London  
 SE1 0QL

+44 (0)20 7593 33 00  
[moakes@younggroup.co.uk](mailto:moakes@younggroup.co.uk)