Jones Lang LaSalle

Real value in a changing world

Can landlords' business plans sustain stable, predictable tenancies?

A report for Shelter

8 June 2012

Contents

1 Executive Summary 2
1.1 Key Points 2
1.2 Background 3
1.3 Purpose and Methodology 3
1.4 Model Outputs 5
2 Introduction 8
2.1 The Growth of the Private Rented Sector 8
2.2 The Assured Shorthold Tenancy (AST) 10
2.3 Business models within the sector 11
3 Methodology 14
3.1 Recruitment 14
3.2 Data Collection 14
3.3 Modelling 15
4 Landlord Characteristics 16
4.1 Pen Portraits 16
4.2 Qualitative Feedback 18
4.3 Quantitative data 19
5 The Model 22
5.1 Methodology 22
5.2 Key inputs and outputs 24
5.3 Income Tax 27
5.4 Capital Gains Tax (CGT) 27
6 Results 28
6.1 Introduction 28
6.2 Differences between case studies 28
6.3 Differences within case studies 31
6.4 A note on yields and returns 33
6.5 Comments on model outputs 34
6.6 Testing other scenarios 34
6.7 Observations on other scenarios 34
7 Conclusions 36
8 Appendix 39

1 Executive Summary

1.1 Key Points

- The Private Rented Sector (PRS) has grown rapidly in recent years. More than 8 million people in England now rent from a private landlord. This report examines whether this market could feasibly offer its customers the choice of longer, more stable tenancies. It does not analyse or propose the possibility of additional regulation for the PRS.
- The structure of the sector is changing, with tenants staying in properties for longer. Increasingly, major life changes are occurring within privately rented accommodation, with the result that the number of families with children living in the sector is estimated to have increased by more than 70% since the financial crisis.
- The usual form of tenancy agreement is the Assured Shorthold Tenancy (AST), which normally guarantees six months' or twelve months' occupation at the given rent. After this period, the tenant or landlord can end the tenancy with one or two months' notice, respectively, or a new AST can be agreed, potentially at a different rent.
- Given the radical changes that are occurring in the PRS, many tenants, particularly those with children, may wish to choose from different tenancy structures that suit their particular needs. A competitive and functioning marketplace should offer the option of more stable, predictable tenancies. Indeed, theoretically, investors, landlords included, should seek the security of fixed, long-term income streams represented by such tenancies.
- This research investigates the business models of a number of landlords, through detailed interviews and case studies. It then incorporates the findings into a model, which evaluates the overall returns to the investor over a 15-year period and the effects of different tenancy periods and methods for increasing rents.
- The central conclusion is that landlords' returns and business models are enhanced by longer tenancy terms and indexing, particularly if the Retail Price Index (RPI) is used.
- The effects are relatively mild as the main driver of landlord business models has been, and is likely to continue to be, house price inflation, which is unaffected by tenancy lengths and rental indexing.
- The benefits of stable and predictable tenancies mainly result from the fact that the landlords studied tend not to increase rents within tenancies, so any increase within a typical rental period of 18-24 months is a benefit above the existing model. However, for some landlords studied, some forms of indexing enhanced returns above the level they would be if they increased rents each year in line with the market rate.
- Given that the length of stay in the sector is increasing, with many tenants likely to remain in accommodation for longer, such tenancies would offer landlords a way of enhancing returns within a framework that allows tenants to anticipate maximum increases, preventing undue stress on the relationship.
- The results also show that the returns from residential investment are likely to continue to be strong. Qualitative feedback from the interviews shows that there is a great deal of faith in the future prospects for both rental and house price growth.
- While landlord business models are enhanced by indexing, the effects are slight. The Government may need to consider incentives that could induce landlords to offer a wider choice of tenancy options. Encouraging new entrants and greater supply generally could increase competition and choice for consumers of rental property.

1.2 Background

1.2.1 After several decades of decline, the Private Rented Sector (PRS) in England has experienced an astonishing renaissance. According to Government figures, the number of households renting privately increased from circa 2m in 2000 to 3.6m in 2010/11.

1.2.2 Growth has been particularly rapid over recent years, with over 900,000 more households joining the rental sector in the three-year period following the financial crisis. Difficulties in the mortgage market and a shortage of social housing continue to propel more people towards privately rented accommodation.

1.2.3 The 2010/11 English Housing Survey suggests that around two thirds (66%) of all newly forming households enter the private sector; this compares with the 21% becoming owner-occupiers and the 13% becoming social tenants.

1.2.4 In a matter of years the tenure has gone from being declining and marginal to the primary form of housing for new households. Moreover, rather than being a temporary form of tenure, analysis presented by Shelter suggests that it is a longer-term form of accommodation for a broader range of households.

1.2.5 As it stated in a recent policy briefing: “The sector is increasingly a picture of hard-working Britain.” To many observers, the continued expansion of the PRS seems likely, given the strains on affordability and the ongoing issues in the mortgage market.

1.2.6 As more life changes occur within the sector, the number of households with children has increased - by more than 70% over the four years to 2010/11. There are now more than a million families with children renting privately. The vast majority of these households, as well as others in the sector, will have signed Assured Shorthold Tenancies (ASTs), giving them security of tenure for, in most cases, just six months or a year.

1.2.7 After this period has ended, either party can end the arrangement at short notice. Alternatively, a new contract can be agreed, potentially at a higher rent. If the tenant does not agree to any change, and the landlord will not negotiate, the household will have to move.

1.2.8 While the relationship between landlords and tenants is generally good, tenants are ten times more likely to move than those in owner-occupation. More importantly, tenants are likely to feel insecure if they know they could legally be forced to move within a matter of months. This could be a particular issue for households containing children.

1.2.9 There is nothing in law to stop landlords from offering longer tenancies. In most sectors, secure, indexed income streams would be actively preferred to more unpredictable ones. Few private landlords do, however – partly because of established practice among letting agents, but also because of the perception that removing problematic tenants would be more difficult under longer tenancies.

1.2.10 Buy-to-let mortgage conditions also often insist that tenancy lengths do not exceed one year. This may be related to the established practice that Vacant Possession Value (VPV) for single properties is higher than that of a similar property with an existing tenant.

1.2.11 However, a competitive and functioning market might be expected to offer tenants a wide range of choices as to how to structure their tenancy. This could include longer tenancies and indexed, predictable rent increases.

1.3 Purpose and Methodology

1.3.1 It is clear from the statistics above that the entire UK housing system is changing fundamentally, with the Private Rented Sector now the default tenure for many new households, particularly those under 40. Owner-occupation, once the main way in which housing was accessed, is in retreat.

1.3.2 The default operating model of the PRS came into being when it was a temporary and minority form of tenure. It is not apparent that it is still fit for all the purposes the sector now serves, given that it is now the main, and long-term, form of tenure for a wide cross-section of society.

1.3.3 In particular, it is questionable whether the model of successive six-month tenancies, followed by rent reviews (if chosen by the landlord) or reversion to a two-month notice period for the tenant, is appropriate for all households. As the market becomes larger and more diversified, it is likely that tenants will seek to choose from a range of tenancy options according to their needs and life stages.

1.3.4 This issue is of particular concern to the growing numbers of families in the PRS. Government statistics show that there has been a 70% increase in the number of families with children in the sector since the financial crisis. Many such families may desire longer, stable tenancies with predictable rental increases.

1.3.5 The purpose of this report is to examine whether private landlords' existing business models could sustain such tenancies. There is no suggestion that such tenancies should be enforced by law or regulation. This study aims purely to examine whether existing business models could accommodate, or even benefit from, more stable, predictable tenancies.

1.3.6 Indeed, with the length of stay in the private rented sector increasing, some landlords may seek a method of increasing rents in a predictable, agreed way that does not place undue strains on their relationship with their tenants.

1.3.7 However, there is little clear, reliable information on the costs and incomes of landlords, so in order to model their businesses, it is necessary to carry out primary research to understand cashflow, gearing, tenant churn and rental increases (among other variables), and how they vary among different landlords.

1.3.8 The aim of this research is twofold:

- To procure reliable figures on the business models of a range of landlords, and;
- To model the effects of longer stable tenancies and indexed rents on landlord returns

1.3.9 To this end, Jones Lang LaSalle interviewed eight landlords holding portfolios of various sizes, from single-property investors to those owning 25 or more homes. They were drawn from a wide variety of geographical locations and own a cross-section of property types.

1.3.10 The research took the form of telephone interviews with each case study lasting approximately 30 minutes. The landlords were screened for their willingness to answer detailed financial questions and were queried in-depth on their income, rent increase policies, costs, void periods and the locations and values of their properties. They were also asked about their motivations, attitudes to the sector and their expectations and strategies.

1.3.11 Many had begun investing in the sector because of the sale of a business or an inheritance, and over the years had reduced their leverage to a low level. Most expected rents and house prices to rise in the longer term and were looking to expand their portfolios.

1.3.12 Their commitment was driven more by disillusionment with other asset classes and the tangibility of property. A common argument was the "small, crowded island" thesis – that Britain cannot possibly keep up with the housing demands of a growing population and this will inevitably lead to future house price inflation. Few had specific estimates of future rental and price changes.

1.3.13 The results were presented to a sounding board comprising private landlords and industry representatives as a form of 'sense checking'. The figures obtained were agreed to be reasonable given the locations and properties involved.

1.3.14 During this process (as well as in the interviews themselves), there was some resistance to the idea of longer tenancies. However, many also noted that tenants appeared to be staying longer, which they attributed to the inability of many to access mortgages.

1.3.15 The figures were used to create formal spreadsheet business models calculating the expected levels of return, from both rents and house price growth over a fifteen year period. The length of tenancies, and the way in which rents were increased, could be varied within the model, allowing their effect on returns to be measured.

1.3.16 The effects of fixed 3-, 5- and 7-year tenancies were tested, as well as annual indexing to the Consumer Price Index (CPI), the Retail Price Index (RPI) and the change in average full-time wages. This was compared to a standard model of 24 month tenancies, with rents either not increasing at all or changed annually in line with the market average.

1.3.17 As the financing arrangements and longevity of landlords' property holdings varied enormously, and were often complex, with properties bought and sold at different times, with mortgages taken on or paid off at intervals, it was decided to standardise the investment timeframe. This would also allow easier comparison between landlords.

1.3.18 For the purposes of the model, all landlords were assumed to buy their portfolio on day one using a single 25-year repayment mortgage. At the end of year 15, the investment is then sold and the remainder of the loan repaid. Two scenarios, of 50% and 75% loan-to-value ratios, were examined. As many purchases had been made some time in the past, desktop valuations were carried out to estimate the market and rental value of the portfolios based on type and location.

1.3.19 Oxford Economics forecasts were used to model future mortgage rates, base rates, materials (using RPI) and labour/time costs (based on future wage/income changes). Their house price forecasts were also used. For rents, it was assumed that they would rise by RPI+2% in London and the South East and RPI+1% in the remainder of the country. A retrospective scenario was also created using historic trends in these indicators, although here historic rental indices were used to modify rental levels.

1.3.20 Taxes were calculated at the relevant rate, depending on other sources of income and family status. The model also included relevant void and churn levels (typically 18 months to two years), professional fees, maintenance and management costs as well as the landlord's time costs, priced at regional median income levels.

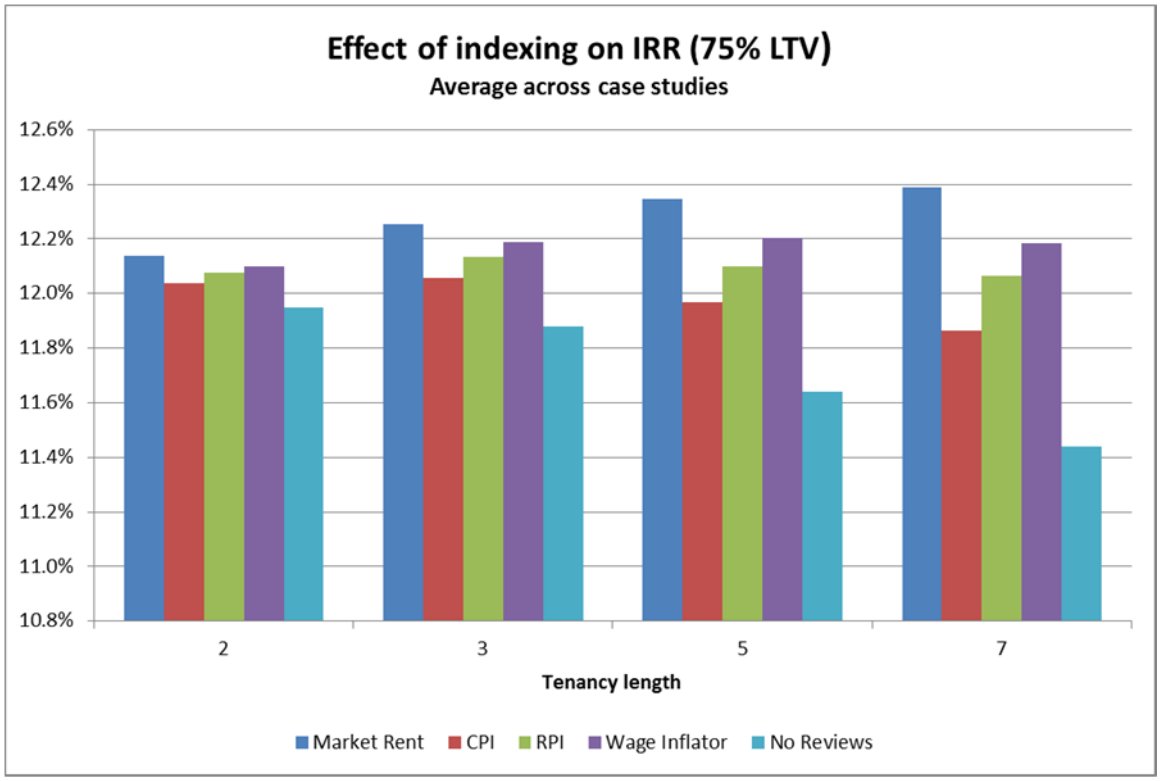
1.4 Model Outputs

1.4.1 The model outputs suggest that stable, predictable tenancies are entirely compatible with existing landlord business models, and appear to enhance returns. Indeed, the longer the tenancy term, the greater the enhancement of the returns.

1.4.2 The model produced estimates of rental returns (the overall income from rents over the lifetime of the investment, minus management and debt costs, compared to the initial investment) and capital returns (forecast house price inflation).

1.4.3 These can be combined to produce an Internal Rate of Return (IRR). Technically, this is the discount rate that results in all future income streams having a net present value of zero. It can more easily be understood as a way of measuring overall returns over the lifetime of an investment, with a particular view to comparing different options.

1.4.4 The model outputs, averaged across all landlords, are shown below (using the forecast data and assuming a 50% mortgage). Indexing results in a relatively mild increase in overall IRR compared to the current default of not increasing rents during individual tenancies. Overall, increasing in line with the market rate each year produced the highest returns, but indexing to RPI is close in terms of IRR achieved. Wage inflation and, in particular, CPI (which does not include housing costs) produced lower overall returns if used as indices.



1.4.5 For the significant proportion of landlords who do not increase rents within a given tenancy, offering these longer-term, predictable options to tenants actually increased their overall return. Even for those who do increase rents annually in line with the market, RPI indexing seems to offer comparable returns.

1.4.6 These figures are averages, however, and for individual landlords the results varied considerably. For some, 3-year tenancies with rents indexed to RPI or wage inflation produced higher returns than 2-year tenancies at market rent levels (as a result of the costs of changing tenants), highlighting the potential advantages of longer, more stable tenancies.

1.4.7 For much of the history of the PRS, tenancy lengths have been short, and rents have generally been increased as tenants change. In a market in which tenancy lengths appear to be increasing, landlords will naturally seek some method of increasing rents more frequently.

1.4.8 These forms of tenancy would manage occupier expectations and allow the landlord to benefit from increases in rents without placing undue stress on the relationship with the tenant. It would also insure to some extent against falling rents (which have occurred in recent history). The alternative could lead to higher levels of voids, arrears and bad debt.

1.4.9 Indexing has a relatively minor effect overall on IRR, however. The model's outputs showed that, irrespective of whether historic or forecast data is used, house price inflation has been, and is likely to remain, the main driver of landlords' returns. Capital returns at a 50% loan-to-value mortgage were generally 200%-250% for the forecast scenario and 250%-300% for the historic dataset.

1.4.10 This compares with rental returns of less than 80% and less than 70% for the forecast and historic data respectively. Nevertheless, the overall level of returns produced in the forecast scenario suggests that residential property will remain a strong investment class, albeit with slightly lower returns than historically.

1.4.11 There was a wide variety in the level of rental income achieved. This is a result of both varying personal circumstances, while lead to different marginal tax rates, and the yield of the portfolio, which varies with location and type. Larger portfolios tended to result in higher yields as a result of management costs being lower as a proportion of the rental income, which might be expected given the efficiencies of scale that could be achieved even in a dispersed portfolio.

1.4.12 If a 75% loan-to-value mortgage is assumed rather than 50%, it has the effect of increasing capital returns (as the capital employed is lower while price gains remain the same) and decreasing rental returns (as there are higher repayments and interest charges to be deducted from the rent). Internal Rates of Return generally increase with gearing as a result of the importance of the capital growth.

1.4.13 It is worth noting that, using the forecast data, the model suggests that the contribution of rental income to overall returns will be higher in the future. This may lead to a greater concentration on the security and stability of income.

1.4.14 The results also indicate that the returns from investment will continue to be strong compared to other asset classes and that mass disinvestment from the sector is unlikely. This is compounded by qualitative evidence suggesting that landlords have a strong belief in rental and house price growth, often referring to the shortage of housing and land within a 'crowded island'.

1.4.15 Institutional investors tend to be guided by the stability and scale of rental returns, rather than capital growth. If such organisations enter the market en masse, they may actively prefer more stable, predictable tenancies and be more prepared to offer this choice to their customers.

1.4.16 Nevertheless, the overall effect of indexing is not substantial given the overall level of returns. Given the growth of the sector, and the importance of stability for families, the Government should consider what incentives could be offered to landlords to increase the attractions of longer-term, indexed tenancies.

1.4.17 The Government should also attempt to attract new entrants to the market, including pension funds, who might be better placed to offer such tenancies within a business model focussing on the stability of returns. It should also continue with its attempts to increase supply, which will be essential to increasing both competition and quality within this market.

2 Introduction

2.1 The Growth of the Private Rented Sector

2.1.1 For much of the second half of the twentieth century, the Private Rented Sector (PRS) was in decline. As late as 1953, a little over half of the population – some 6.5m households – rented privately[1], many from pension funds and other institutions. At the same point in time, there were 4.1m owner-occupying households and 1.7m who were social tenants. The subsequent 35 years saw a rapid growth in owner-occupation (and, until the late 1970s, the social rented sector), in parallel with declining numbers of private tenants.

2.1.2 In 1988 – the year of the Housing Act which arguably triggered the renaissance of the sector – the numbers renting from private landlords reached a post-war low. There were just 1.7m privately renting households – a quarter the number there had been less than four decades previously. In contrast, there were approximately 12.2m owner-occupied homes, some three times the number in 1953.

2.1.3 There were several reasons for this, not least the growth of the mortgage market and its increasing level of competition and innovation, as well as the expansion of the social rented sector. More direct Government policies were also factors, notably the Compulsory Purchase of properties by Local Authorities as well as the introduction of draconian rent control legislation, which removed many of the incentives for landlords.

2.1.4 Policymakers at the time appeared to assume that these trends would not be reversed. Owner-occupation and its benefits would spread to an increasing proportion of the population, and the size of the PRS would either continue to decrease or stabilise at a low level.

2.1.5 For example, in 1974, the Conservative Political Centre predicted that "The private landlord, as he exists now and has existed, will, within a generation, be almost as extinct as the dinosaur. There is nothing that can be done about this." (Patten, 1974).

2.1.6 The Housing Act of 1988, which introduced the Assured Shorthold Tenancy (AST, see below) and prepared the way for the later growth of buy-to-let mortgage products and the PRS itself, needs to be understood in this context.

2.1.7 There was no expectation that there would be rapid growth in private renting, beyond perhaps the provision of more flexible short-term accommodation either for those in need or in pursuit of a more geographically flexible labour market. There was an inherent assumption that the vast majority of new households would become homeowners and mortgagees, as indicated by the rhetoric of politicians of all persuasions around the idea of a "property owning democracy".

2.1.8 This context framed not just the legal aspects of the bill, but also the regulatory context of the industry and – most importantly – the norms, expectations and business models that have grown up around the PRS. These persist, and persist strongly, despite the fact that the size, function and clientele of the sector has changed fundamentally since its initial period of expansion.

2.1.9 The growth of the sector after the 1988 reforms was slow at first. However, the early 1990s housing crash provided opportunities for many landlords to initiate or expand their portfolio, with many properties becoming available at low prices through auction or forced sale.

2.1.10 The introduction of the buy-to-let mortgage in 1996 allowed the sector to grow more dramatically, although the effects did not become really apparent until the early 2000s. Undoubtedly the growth in equity among established owners, produced by the price boom, inspired greater investment in rental property; this was reinforced by the downward trend in mortgage rates.

[1] Department of Communities and Local Government

2.1.11 During this latter period, demand for rental properties also began to spiral upwards. The number of households renting grew from just over 2m in 2000 to 2.7m in 2007, an increase of 700,000 or households or almost a third (33%) in just seven years. (Meanwhile, from 2005, the number of home owning households began to fall).

2.1.12 Affordability issues were central, with many would-be first-time buyers simply unable to afford to purchase and forced to rent instead. However, other social changes were important, such as the increased number of higher education students and the prevalence of student debt. This directly increased demand for rented accommodation in university towns, while postponing the date at which graduates could begin saving for a deposit.

2.1.13 Increasing workforce mobility, higher numbers of single-person households, reduced availability of social housing and the internationalisation of cities such as London were also instrumental.

2.1.14 Buy-to-let mortgages were more widely available to a greater range of investors, while the house price boom had made many households equity-rich, giving them the confidence and the ability to purchase investment properties.

2.1.15 Meanwhile, affordability issues were mounting for first-time buyers, with many new households on average – or even above-average incomes in some parts of the country – simply unable to afford homeownership.

2.1.16 The financial crisis of 2007/8 accelerated these trends. The number of mortgage products dropped dramatically, and almost all with loan-to-value ratios of greater than 80% were withdrawn. The few that remained charged prohibitively high interest rates or had stringent criteria attached. Consequently a first-time buyer needed a deposit of £30,000 to access a mortgage to buy a typical £150,000 property – a situation that has not changed substantially since. This has forced – and continues to force – more households into the private rented sector.

2.1.17 Unemployment and low wage growth are also likely to have disproportionately impacted on new households, compounding the problems detailed above.

2.1.18 The stagnation in the wider housing market – the difficulty of buying or selling in a low supply context – has probably also pushed many existing owners into the rental sector. There is some anecdotal evidence that those needing to move or upgrade are letting their own homes out and renting elsewhere rather than engaging with a problematic market. The scale of this is difficult to quantify.

2.1.19 Whatever the reasons, the sector has grown from 2.7m households in 2007 to 3.6m in 2010/11 – an increase of 0.9m in little more than three years. In other words, the sector expanded by approximately the same proportion (34%) over the three and half years since the financial crisis as it did in the seven years leading up to it. The pace of growth has doubled over a relatively short period of time.

2.1.20 As of 2010/11, newly forming households were five times more likely to enter the PRS than buy their own home (in 2004/5 they were slightly less than twice as likely to do so). It is perhaps no longer true, as concluded in the Rugg Review, that it is a small part of the English housing market. It appears to be increasingly the norm for those setting up home for the first time, and for many young households for some time after that. As Shelter's recent policy briefing states: "The sector is increasingly a picture of ordinary hard-working Britain."

2.1.21 Equally importantly, the composition of the sector appears to be changing. Households are staying in the sector for longer, with an increasing number of households moving between privately rented dwellings rather than moving into the social rented or owner occupied sectors. Alongside this, major life changes that stereotypically trigger house purchase – marriage or the equivalent, or the birth of a child – are occurring more frequently in the PRS.

2.1.22 According to Shelter's analysis of Department of Communities and Local Government housing statistics, the number of households with children in the sector has increased by more than 70% over the four years to 2010/11; at the end of that year there were estimated to be more than a million families with children renting privately. It is important to note that the vast majority of these families will be on ASTs.

2.1.23 It seems likely that many individuals, couples and families currently in their twenties and thirties – ranging from those dependent on benefits to those receiving above average incomes –will remain in the PRS for much of their adult lives.

2.1.24 This was never envisaged when the legal, financial and cultural apparatus around the private rented sector was initiated. It may well be time to revisit those frameworks, but that is not the focus of this study. The key area here is whether this market, now a key part of the housing system, can begin to provide its customers with a wider choice of options within the existing legal and regulatory framework.

2.2 The Assured Shorthold Tenancy (AST)

2.2.1 The main form of lease, at least for new tenancies, is the Assured Shorthold Tenancy (AST). This usually gives six months' security of tenure at a fixed rent. After this period, the landlord or tenant can end the tenancy with a month's notice, or a new contract can be agreed, perhaps at a different rental level, giving the tenant(s) a further period of secure tenancy. Tenants are ten times more likely to have moved over the past year than those in owner-occupation.

2.2.2 There is nothing in law to stop landlords from offering longer leases, although in practice few offer more than a year. The volatility of house prices and, more recently, rents, would suggest that landlords would want to retain the maximum flexibility to increase rents in line with market conditions or sell the property at market value – despite the attractions of a more secure income stream.

2.2.3 As the Rugg Review stated: "Data demonstrate that the existence of ASTs does not necessarily preclude tenants staying in a particular tenancies for long periods of time, although feelings of insecurity remain. However, landlords are dissuaded from offering assured tenancies because of the perceived risks, particularly with regard to non-payment of rent and anti-social behaviour."

2.2.4 It is worth noting that empty properties (with "vacant possession") are valued more highly than tenanted ones (although there is some evidence that this is changing for larger portfolios). This is a particular issue for mortgage providers who usually stipulate short tenancies so that they are able to liquidate the property at market value if landlords default.

2.2.5 The inherent insecurity of the AST lease presents more problems as the composition of the tenure changes. It is a particular issue for families with children, who may in the most extreme case face homelessness if ASTs end unexpectedly, but even in more benign situations may be forced to move far more than is ideal at such a life stage.

2.2.6 This could have particular negative impacts on education (particularly if the family cannot find alternative accommodation within a reasonable distance of their school), as well as less quantifiable impacts on perceptions of security, stability and well-being.

2.2.7 Indeed, this issue is particularly salient in the current climate. Rents appear to be rising at above-inflation rates in many areas, but there is some anecdotal evidence that rents for family size accommodation are rising more rapidly than for other types.

2.2.8 The insecurity of most AST leases is an issue for other groups; older people may be particularly disadvantaged by frequent moves, whereas younger couples and singles may also wish to have the comfort that they can remain in the property for an extended time at a predictable level of rent (assuming that they can continue to pay it).

2.2.9 It is important to point out that the existing body of research indicates that many tenants do stay in accommodation for a prolonged period of time, and that most tenancies end at the tenants', rather than the landlords', request. Most tenants are happy with their landlord and their accommodation.

2.2.10 Nevertheless, as the sector grows, and its composition more closely reflects society as whole, the potential problems caused by insecurity of tenure are likely to intensify. Landlords may be benign and professional in all

but a handful of cases, but families – and particularly the life chances of their children – may be adversely affected by the knowledge that they could legally be evicted without reason within two months.

2.2.11 It is clear that the Government has no appetite or inclination to introduce additional regulation or legislation for the PRS. Nevertheless, there remains the question of why the market – despite its spectacular growth – has failed to offer consumers the range and choice of products that they might expect in many other sectors.

2.2.12 For example, an individual taking on a mortgage can choose from various variable rate packages or those fixed for a certain period of time; the same applies for a choice of personal or car loans. If someone chooses to deposit money, they can choose a higher interest rate with less flexibility (with penalties for withdrawing money without notice) or the reverse.

2.2.13 If the market were functioning effectively, it would provide tenants not just with a choice of properties at various rents in various locations, but also a choice of tenure options (not necessarily from the same landlord or property). They could commit just to a six-month AST, knowing that they may be forced to leave if rents rise quickly; alternatively – and this may be the choice for families with children – they could sign up for a longer secure tenancy with rents indexed to the Retail Price Index (RPI) or similar.

2.2.14 It may well be that longer tenancies could offer more secure sources of income for landlords. However anecdotally it seems that the weight of recent convention and practice precludes any moves in this area. It may well be that a more significant and reliable evidence base is required if this is to happen.

2.3 Business models within the sector

2.3.1 Given the constraints on the mortgage and wider debt market, weak wage growth among younger people and the financial advantages of landlords and many other equity-rich owners, among other factors, many commentators believe the sector will continue expanding. In most other markets, this would lead to a greater degree of choice for tenants, assuming that supply rises in tandem with demand.

2.3.2 There are two potential barriers to this expansion. First is the undersupply of properties. Compared to historic trends, there are few second-hand properties for sale. Meanwhile, new build volumes are at the lowest peacetime level since the 1920s. Finally, there are far fewer properties being repossessed (or subject to forced sale) than in the previous housing downturn of the early 1990s. Unless these things change (perhaps through institutions 'building' properties for rent) it is hard to see where the additional rental stock will come from.

2.3.3 More saliently to this study, some have questioned whether the coming years will prove fruitful for landlords, with capital growth – which drove the high returns of the past decade – unlikely to be as strong and rents constrained by static or even falling real wages.

2.3.4 Ball (2011) analysed the findings of a survey of 200 landlords belonging to the Residential Landlords Association (RLA) examining their revenues and costs. These were fed into a bespoke model which calculated overall returns. The base-case indicated an Internal Rate of Return (IRR) of just 0.4%. It concluded that the UK rental model was viable only when there is a high level of house price or rental inflation. Low returns were attributed to the "high cost and tax burdens" faced by the industry.

2.3.5 The report then suggested that rental yields were so low that there was a threat of large-scale disinvestment from the sector. It argued that this would have "a detrimental effect on many cities' housing markets", which would lead to "much higher rents and far more limited choice" for tenants. Only rising yields would encourage a greater supply of rental property.

2.3.6 The report estimated that rented dwellings result in £1,000 a year in tax, amounting to 17% of annual rent, compared to zero for owner-occupiers. It suggested reducing regulatory compliance burdens, lowering the tax load on renting, removing the ban on privately rented housing in SIPPS, encouraging build-to-let models through tax relief and introducing a taper on capital gains tax.

2.3.7 It is undeniable that landlords' main source of returns have been related to capital growth, particularly in the period leading up to 2007. This is recognised by many in the industry. Agents suggest that landlord investments are made on the basis of expected house price growth, and landlords themselves appear to agree.

2.3.8 Moreover, net rental yields are generally low, particularly in more expensive areas such as London and the South East. While landlords gave gross yields of 5.1% and 5.3% in the Q3 2011 Association of Residential Letting Agents (ARLA) survey, management costs are high.

2.3.9 The Investment Property Databank (IPD) quotes rental returns of 2.9% for its sample of properties in 2011, although this is weighted towards Central London, where returns are extremely low (2.2%). Its results for Outer London and the South East are 4.1% and 4.4% respectively, and this rises to 4.8% in the South West and the Midlands. Nevertheless, these are still low compared to commercial properties which yield in excess of 6%-7% (although there are methodological differences in how these yields are calculated).

2.3.10 However, the assumptions made in the Ball report need to be considered. Firstly, house prices were assumed to rise only in line with inflation for the next ten years. This is more than plausible in the near term but, as this report will show, many landlords have a strong belief that prices will rise more strongly in the longer term and certainly within a ten-year period.

2.3.11 Secondly, the model assumes a depreciation rate of 1.5% per annum on the property (exclusive of furnishings and equipment, and presumably independent of maintenance and refurbishment which are dealt with separately in the model). This implies that using a property as a rental investment results in a 14% decrease in value, compared to market pricing, over the 10-year period of the model. It should be noted that the vast majority of the PRS stock is made up of relatively old homes, rather than the new properties that attract a premium.

2.3.12 It should be noted that these two assumptions in tandem mean that the model assumes that the value of all rental properties will be just 15.5% higher in 2021 compared to 2011, while general inflation (and rental increases, assumed also to be line with inflation) will have been some 34.4% over the period. This will clearly have a suppressing effect on capital growth in the model.

2.3.13 In contrast to the study's conclusions, the Private Landlord Survey carried out by the Department of Communities and Local Government in 2011 suggested that, over the subsequent two years, more landlords expected to increase holdings than reduce them, irrespective of type or size (although most intend to maintain their current portfolio).

2.3.14 BDRC's August 2011 survey of private landlords, commissioned by Paragon, shows a similar trend, with more than a fifth (22%) of the landlords that took part in the survey saying that they expect to purchase additional properties in the next 12 months, and just 8% considering reducing their stock.

2.3.15 The ARLA study of Q42 2011 shows a similar result, with some 19.2% of landlords currently looking to buy, compared to 9.8% looking to sell.

2.3.16 Moreover, all these studies show overwhelming tenant demand for property. Across all regions, some 73.6% of ARLA respondents stated that there were more tenants than properties (rising to over 84% in the South East). This, together with other recent surveys, represents the highest figures since records began in 2002 (the figures have generally been between 20% and 50%, and fell to as low as 10% in 2008/9). Void periods, meanwhile, appear to be very low. There are also signs that the supply of and demand for buy-to-let finance is rising.

2.3.17 Nevertheless, there is little in the way of reliable data on the sector, or any concrete information on landlord business models. Surveys, such as the ARLA work discussed above, and the Ball study examining RLA data, use samples drawn from landlord or letting agent associations. These associations represent a minority of the overall market, with many single-property landlords – which represent a large slice of the sector – unlikely to feature in such samples.

2.3.18 Shelter commissioned Jones Lang LaSalle to conduct in-depth interviews with several landlords, with a view to building up a number of 'case studies'. The objective is to garner some clear information on landlords' incomings and outgoings, as well as more qualitative information on their motivations and expectations.

2.3.19 The intention was that this could be used to build a formal spreadsheet model of landlord business plans. This would enable returns – both in terms of rent and capital growth – to be measured. The impact of longer tenancies, and indexed rents, could be analysed in terms of the effect on the performance of the investment.

2.3.20 This would enable more general conclusions to be made about whether the market could provide families with children, among other groups, with the choice of longer, stable tenancies with predictable rents. Indeed, it may help inform landlords of alternative business models that might offer more secure, reliable income streams.

3 Methodology

3.1 Recruitment

3.1.1 Recruitment was contracted to Perspective Market Research, a part of BDRC, which has substantial experience in recruiting landlords. It was made clear to the recruiters that there was a need to find landlords through less conventional routes, i.e. not using lists provided by landlord associations. It is understood that the case studies were "free found", i.e. they were contacted using local networks, letting agents or advertisements.

3.1.2 It was crucial that the case studies were drawn from diverse parts of England; and that they covered a range of different portfolio sizes (from one upwards) and types of market. Shelter suggested the following as an initial three cases:

- A single property sideline investor landlord, uses management agent, with an average tenancy experience (in terms of length, void periods and arrears)
- A small portfolio (2-4 properties) investor landlord, uses management agent, with an average tenancy experience (as above)
- Medium size portfolio (10-25 properties), full-time landlord, uses letting agent for finding tenants, self-manages, with slightly higher than average arrears experience (due to greater likelihood of letting to vulnerable tenants)

3.1.3 The case studies recruited broadly cover these types, although at Jones Lang LaSalle's suggestion the scope has been increased and eight case studies have been recruited.

3.2 Data Collection

3.2.1 The research took the form of telephone interviews lasting approximately 30 minutes. The following areas were covered:

- Number of properties, experience and motivation
- Employment status – full-time or part-time landlord?
- Income from other sources
- Location of properties, purchase prices and rents
- Mortgage details and gearing
- Profile of tenants
- Letting costs or letting agent fees
- Management costs or management agent fees
- Maintenance and repair costs
- Estimated voids, arrears and eviction, and costs
- Time spent on management and/or maintenance and associated travel
- Time spent on renovation between tenants (and costs)
- Accountancy and legal fees
- Insurance
- Fees relating to gas safety and EPCs
- Future intentions and strategies

- Perception of market conditions and estimates and expectations of rental and capital growth

3.2.2 It was suggested that qualitative data also needed to be obtained – particularly with regard to landlords' views on profitability and prospects within the sector. Economic analysis usually quantifies the balance of future risks and rewards and assumes that landlords will act rationally in response to available information. This approach is clearly invaluable and will form the major part of this piece of research. However landlords' beliefs about the sector and the housing market, conditioned by wider cultural norms and 'stories' in the media and elsewhere, are arguably equally important in determining behaviour, particularly in the short to medium term.

3.2.3 The results obtained were presented to a sounding board comprising two private landlords, a representative of a national organisation (who was also a landlord) and a representative from a major corporate investor. They felt that the figures obtained were broadly in line with their own experiences.

3.2.4 As a result of the small sample size, this study cannot be said to be representative of the market as a whole. Its aim is to highlight some landlord business plans in detail, while examining the effects of stable tenancies and indexing and exploring investor motivations.

3.3 Modelling

3.3.1 The landlords involved bought properties at different times; some have sold, while others have expanded their portfolios. Some have had mortgages which they have paid off; others have remortgaged, and in most cases their financial arrangements are complex. Their interest rates and packages have varied with time. Consequently, it was necessary to standardise some aspects of their experience.

3.3.2 For the purposes of modelling, it was assumed that:

- The landlords all buy their properties at the same point in time and hold them for 15 years before simultaneously selling the entire portfolio
- They all have 15-year mortgages at the same loan-to-value ratio (which can be varied)

3.3.3 This avoids the production of an unnecessarily complicated model featuring many different property purchases made at different times with a variety of mortgage products at different interest rates, paid off at different times and sometimes replaced with other loans.

3.3.4 It also makes the business models of each landlord more comparable. However, it should be noted that there are individual circumstances of each landlord – notably the presence of other sources of income – that will affect returns, albeit indirectly through applicable tax rates.

4 Landlord Characteristics

4.1 Pen Portraits

4.1.1 The descriptions below provide brief outlines of the landlords recruited to the study. Full details of their incomes and outgoings are provided in a later section. The names of the interviewees have been changed to ensure their anonymity.

Martin started acquiring properties in London around two decades ago, and now owns seven properties in London, as well as a student portfolio in Leeds[2]. The London portfolio is mainly composed of one- and two-bed flats in affluent inner London suburbs. He estimates that they are worth between £350,000-£375,000 (for the one-beds) and £500,000-£600,000 (for the two beds). Around half of the properties still carry a mortgage. He was more heavily geared in the past but has paid off several of the loans by selling some properties he used to own. The London properties are mainly let to wealthy young professionals at rents of between £1,200 and £2,000 per month. He uses letting agents and management agents (at a cost of 10% of rent) for all his properties. He estimates that every property requires two weeks management per year. He refurbishes the London flats roughly every ten years at a cost of £4,000-£5,000. He has not had a problem with arrears and his voids amount to little more than a week or two. Unlike some of the other landlords, he does intend to sell some properties over the coming years.

Sarah and her husband bought a two-bedroom flat in a wealthy outer suburb of Birmingham 15 years ago. It was their primary residence for 13 years, but two years ago they bought a house and are now renting out their first property. She paid £57,000 for it and estimates that it is now worth £125,000, although the mortgage was paid off some years ago. The rental income is £7,140 per year, and she has had the same tenants since she became a landlord. She paid a letting agent a £350 one-off fee to find the current occupier, and has spent around £200 on the property since becoming a landlord – roughly the amount she expects to spend each year on it. She does not work, but her husband is a project manager earing around £65,000 per annum. They would like to buy another rental property at some point in the future.

Chris has been involved in the rented sector since the early 1990s, when he began acquiring properties in Brighton – mostly converted flats in central locations, where he could see an opportunity to renovate and refurbish and charge higher rents. He now owns some 21 properties in Brighton & Hove, of which 12 are one-bed flats and six are two-bed flats. He also owns two three-bed houses and one three-bed maisonette. He has complicated mortgage, management and financial arrangements which vary from property to property – but his outstanding debt, at around £500,000, is only circa 10% of the value of his portfolio. His properties are worth upwards of £5m and his rental income amounts to £14,400 per month – although he has substantial outgoings for insurance and, sometimes, maintenance, given the Victorian nature of much of the portfolio. This is substantially lower than market rates as many of his tenants have stayed for some time and he does not generally increase rents in such situations – even though he can usually find another tenant to move in within a week. He has noticed that tenants are staying for longer in recent years. His rental business is his main form of income.

Kate and her husband bought their first investment property, an ex-council house in Leeds, for £94,000 at the height of the market in 2007 after receiving some inheritance. They have gone on to buy a further two similar properties in the area, together with another in a nearby town. They are all two- and three- bed ex-council houses, and the couple have paid £50,000-£60,000 for their subsequent purchases. All except the first of the properties needed a significant amount of renovation, but Kate's husband is in the building trade and has carried out all the work himself. They are generally rented at £490-£550 pcm, and all but one contain tenants in receipt of

[2] This is treated as a separate business income in the model below as the business model is different, and student landlords would not be expected to offer long-term tenancies.

the Local Housing Allowance. All have been bought using 75% buy-to-let mortgages. She works full-time and earns around £35,000 per annum; her husband is self-employed and can take home anything from £25,000 to £40,000 a year. They intend to buy more properties in the future and are already looking at other options around West Yorkshire. The income on their portfolio is relatively high, and while they do not expect prices to grow much in the medium term, they regard any capital growth as a future 'nest egg'.

Mike purchased a two-bed flat in a new development in central Nottingham some 12 years ago for £63,000. It is now rented at £700 pcm, mostly to staff from the nearby hospital or Boots headquarters, although he uses a letting agent to find tenants for a one-off fee of £320 per letting. There has never been a gap of more than about a week between tenants. As is usual with flats, he has to pay management costs amounting to £1,000 per year. There are also costs associated with landlords' insurance (covering tenant default or arrears) as well as buildings and contents insurance. In between tenants – on average every two years – he usually changes the carpets and paints, a job that he estimates costs around £200 in terms of materials. He carries out the work with his wife. He would like to buy some more investment properties, particularly flats in similar locations, which he sees as having better rental yields. He is a self-employed contractor earning £45,000-£55,000 per annum.

Paul has purchased four relatively new family houses in a pleasant outer suburb of Manchester over the past three and a half years. The first was a four-bed detached house for £170,000, and the other three have been three-beds, costing between £125,000 and £138,000. He is a surveyor and believes the houses are well-built and well-located – particularly for a new tram line to the city centre which he thinks will have a strong impact on the value of his portfolio. He uses letting and management agents – they charge 50% of the first rent payment and 10% of the annual rent respectively. He has three mortgages amounting to around £500,000, on a typical rate of around 4.8%. As the properties are relatively new, there has been little need for renovation or refurbishment. He spends five to six hours a week managing his properties, and all of his tenants are families who have been there for at least two years. He wants to expand his portfolio and is already looking at other options in the Greater Manchester area. He earns circa £40,000 per year from his day job.

Dan is a relatively large scale landlord in North London, owning some 28 properties in total. He started building up his portfolio in 2000 following the successful sale of his business. He made his last acquisition in 2008 and it now comprises some 21 two-bed flats and 7 one-bed flats. He decided to invest in property as he felt it was a more reliable and tangible investment than the other options he could pursue, which have generally performed poorly for him in the past. He has several mortgages which in total amount to around 50% of the portfolio value. The rental income varies from £8,500 to £15,000 per annum per property, and he prefers to let to young professionals using a letting agent which charges 10% of the annual rent. Typically properties are empty for no longer than four weeks between tenants, and they tend to stay for between 18 months and two years. He spends on average 11 hours a week managing the properties, and renovates between tenants spending between £500 and £1,500. On six occasions he has carried out a more significant refurbishment, spending £7,000-£8,000, but only if the agent has persuaded him that it would allow him to charge higher rents. He prefers to put rents up slightly each year, even if it is only slight, in order to keep up with the market. He has had two cases of arrears, one was resolved and the other led to the end of the tenancy with two months' rent uncollected. The portfolio is his main source of income.

Mark owns some six properties in Hertfordshire. He started acquiring properties in 1997 when he met his wife. They chose to rent out her flat, and soon realised that rental property was a good business to be in. Over the next ten years they gradually expanded their portfolio, using both their salaries to access 75% mortgages, most of which are now paid off. They are, with one exception, two-bed flats, and all were purchased for £60,000-£80,000. He estimates that the value of the portfolio has doubled or even tripled over the period. His rental income is around £850 - £1,000 pcm for the two-bed flats (lower for the one-bed). His decision to invest in property was profoundly affected by his experience of losing money he invested in Equitable Life, which led to him losing faith in the pension system. He feels property is a much more secure alternative. Tenants tend to be young

professional people who are looking to buy in the medium term. He is relatively selective over tenants – he does not accept children or animals – and this leads to slightly longer than usual void periods of 1-2 months between lettings. He estimates that he spends around £900 per property per year on maintenance, plus £100 to the block management company. Occasionally he has had to spend significantly more on a major refurbishment – up to £10,000 in one case. He has landlords and buildings insurance. He is the only interviewee who has had to evict a tenant through the legal system, which took six months and cost £5,000.

4.2 Qualitative Feedback

4.2.1 The landlords had many characteristics in common, despite the varying histories, portfolio sizes and locations.

4.2.2 All but one, for example, tended not to increase rents for established tenants. They believe that a tenant who takes care of the property and pays rent promptly is more valuable than the additional rent that could be achieved. Many added that letting agents were often putting pressure on them to increase rents.

4.2.3 It is questionable whether these attitudes are typical; during the sounding board it was apparent that not all landlords share this view. Indeed, Shelter's recent survey of landlords, carried out by BDRC, showed that more than half of landlords increased their rent to reflect market conditions – with an average increase of 5.4%. While most of these increases took place when a new tenant moved in, a third occurred during the renewal of a lease with an existing tenant. Only 4% of landlords cited increased mortgage costs as a reason for the increase, while a fifth attributed it to pressure from the letting agent.

4.2.4 With some exceptions, they generally had low gearing. Many of the smaller landlords had paid off their mortgages, while larger ones had only a few outstanding. Some had been able to enter the market through the sale of a business or through receiving an inheritance.

4.2.5 There were strong perceptions that rents and demand for rental property were both increasing. There was little expectation of substantial capital growth over the coming two to three years but most believed that significant house price increases would return within a decade.

4.2.6 All the landlords spoken to during the study said that they would be looking to expand their portfolio within the next few years. Some were already looking at opportunities, but most were waiting for the time being.

4.2.7 Lack of trust in the pension system and other investments were quoted as the main reason for investing in rental property. There was a strong belief in the resilience of house prices and also in an asset that could be, in the words of one interviewee, "seen and touched", rather than simply "numbers on a printed sheet".

4.2.8 It is clear that landlords do not treat their portfolios in a disinterested manner, examining rationally the costs, benefits and returns. If they have paid off substantial amounts of equity, they view rents as pure income, without considering whether the capital could be realised and more effectively invested elsewhere.

4.2.9 There is often an emotional attachment to property as an investment class, coupled with a distrust of less tangible investments and pension vehicles. This overshadows any hard-headed analysis of costs and benefits. Indeed, if this attitude is widespread and persistent, it suggests that the appetite for investment in the sector will continue.

4.2.10 Moreover, there is a belief that prices and rents will rise strongly in the longer term. The 'small, crowded island' view is almost universal – i.e. the belief that Britain simply cannot provide enough houses for a growing population. This, above all, is the primary reason why landlords believe that residential investments are very robust in the medium to long term, and would hold them even if prices and rents fell for a short period.

4.2.11 To the extent to which yields are considered, it is the current rent compared to the original purchase price which is often considered, rather than the market value of the assets. It remains the case that landlords view future capital gains as the main investment motive, with rents treated as a 'bonus' which could cover financing costs (for some) or provide for everyday costs (for others).

4.2.12 Nevertheless there is some belief that rental returns will become more important in the future, given the widely held view that rents will continue rising at above the rate of inflation.

4.2.13 Landlords were generally slightly resistant to the idea of longer, more stable tenancies. They gave several reasons for this:

- With shorter tenancies, it is easy to remove a difficult tenant without recourse to legal action (by simply ending the tenancy without an explanation);
- Many mortgage lenders require that tenancies are limited to a year

4.2.14 They did not mention the underlying reason for this latter point – the fact that tenanted properties are generally given lower market valuations by surveyors than empty properties ('Vacant Possession Value' or VPV). All the landlords interviewed were very long-term investors who envisaged holding the properties for decades and even passing them on to the next generation. More speculative or trading investors might be more aware of the lower valuations given to tenanted properties.

4.3 Quantitative data

4.3.1 The table overleaf gives the cost and income data (together with some other relevant information) procured from each landlord.

4.3.2 The figures below were discussed by the industry representatives and landlords at the sounding board, who felt that they were generally in line with a typical scenario.

	Martin	Sarah	Kate	Chris	Mike	Paul	Dan	Mark
Location	London	Birmingham	Leeds	Brighton	Nottingham	Manchester	London	Hertfordshire
Number of Properties	7	1	4	21	1	4	28	6
Year started as landlord	1992	1997	2007 and 2009	1997-2012	2000	2008	2000-2008	1997
Property costs (landlord estimate at purchase)	£3,425,000	£57,000	£262,000	£5,360,000	£63,000	£563,000	£5,600,000	£420,000
Property costs (current market values)	£2,600,000	£150,000	£400,000	£5,030,000	£130,000	£635,000	£6,440,000	£1,200,000
Annual Rent (according to landlord)	£139,200	£6,600	£24,480	£172,800		£29,100	£329,280	£57,600
Annual Rent (based on market values for area)	£125,000	£7,200	£25,200	£238,200	£7,800	£32,700	£403,200	£65,000
Gross initial yield	4.8%	4.8%	6.3%	4.7%	6.0%	5.1%	6.3%	5.4%
Professional fees	£500	£200	£1,500	£800	£200	£900	£1,000	£1,000
Mortgage value	£500,000	£65,000	£196,500	£1,200,000	£25,000	£520,000	£2,800,000	£400,000
Interest rate paid	1.5% to 5.5%	Variable – now repaid	4.5% approx	1% over base, 0.5% over LIBOR	Variable – now repaid	4.5% approx	4% -5%	3-6% depending on mortgage
Initial renovation	£4,000	£12,000	£40,000	£10,000-£20,000	New property	£4,000	£1,500 per property	£2,000-£8,000
Time spent renovating (per property, at purchase)	2-3 weeks	2-3 weeks	700 hours	3 weeks	New property	1-2 weeks	4 weeks	1 month - 6 weeks
Letting agents fee	10% with management	£350 per letting	£295 per letting	8% on half properties with management	£320 per letting	50% of first month rent	10% with management	12% with management
Management agent	10% with letting	None	None	8% on half properties with management	None	10%	10% with letting	12% with letting
Maintenance costs (per year, per property)	£400-£500	£95	£250	£600	£100	£1,000 per annum	included in above	on purchase
Renovating after tenant	Included above	No changeover	No changeover	£200	£150	£100	£250-£500	12% fee for let & manage
Landlords Insurance					£120 pa		£550 per year	12% fee for let &

								manage
Average tenancy length	2 years	3 years		18 months, increasing	2 years	2-3 years	18 months to 2 years	£500 per year on all properties
Service charges, ground rents, management agent for block (total)		£1,200 pa			£960 pa	£50 pa	£7,050 pa	Included in cost above
Buildings Insurance	£1,250	£175	£720	£3,500	£175	£650	£4,200	£900
Management time	one day per month	1 hour per month	4 hours per week	0.5 day per week on all portfolio	1 hour per month	5-6 hours per week	11 hours per week	10 hours per week
Void periods	1 week	1 week	1 week	1 week	1 week	1 week	4 weeks	4 weeks
Accountant costs	£400 pa	£150 pa	£200 pa	£200 per year	£100 pa	£500 pa	£250 pa	c. £4,800 pa
Other income	Student rental income	£65,000	£70,000 pa	None	£50,000 pa	£40,000 pa	None	None, but previously £40-£50,000 pa
Arrears	1 week at most	None	1 month three years ago, none since	1 month on some properties	None	£100 on portfolio	1 week each property	Up to 1 month once a year for one property

N.B. Mark has had one experience of eviction which cost £5,000 plus 6 months in lost rent.

5 The Model

5.1 Methodology

5.1.1 Financial modelling techniques were used to examine the effects of introducing various lengths of fixed term tenancies and different indexing mechanisms on landlords' returns.

5.1.2 The data procured from the interviews was used to create eight separate models which calculated the income and capital return over a 15-year period. The tenure length, method of indexing (if any) and mortgage rates could be varied to examine the effects on returns.

5.1.3 As there were huge variations in mortgage arrangements, equity levels and length of time as a landlord, the overall scenario was kept constant. In each case, investors purchased their entire portfolios on day one of the first year (even though, in reality they were all assembled over a period of time using different sources of finance).

5.1.4 It was also assumed that they took out 25-year repayment mortgages with the same loan-to-value ratio (50% and 75% were both modelled, see rationale below) and sold the entire portfolio at the end of year 15, paying off the remainder of the mortgage with some of the capital receipts.

5.1.5 The sales value and rental value of each portfolio was estimated using comparable sales data relating to the property types and locations quoted by the landlords during the interviews, and then increased over the lifespan of the model as described below.

5.1.6 The model assumed that the current legal and tax conditions (rates and thresholds) faced by landlords remain in place for the duration of the investment period.

5.1.7 Two separate scenarios were used – a forward-looking one using Oxford Economics forecasts for base rates, wages, house price inflation and mortgage costs – and a retrospective one using the historic data for the fifteen years to 2012.

5.1.8 In essence, this latter scenario examined what returns would be if the increases in rents and house prices, and the interest rate/base rate environment (among other macroeconomic conditions) were repeated over the next fifteen years.

5.1.9 For the forward-looking scenario, it was assumed that rents will rise at RPI+2% in London and the South East and at RPI+1% outside these regions. For the retrospective scenario, historic rental growth was modelled based on an amalgam of Digital Property Group and the Department of Communities and Local Government data.

5.1.10 Within the model, the landlords had a variable-rate mortgage which precisely follows the average building society rate and the forecasts of future rates provided by Oxford Economics.

5.1.11 The modelled landlord incurred all costs relating to the purchase of the property in year one as follows:

- Initial equity stake;
- Mortgage arrangement; and
- Professional fees.

5.1.12 In addition, it was assumed (as per the interview evidence) that landlords spend a period of time renovating the property. This is included purely as a void period.

5.1.13 Renovation costs, while quoted in the data table above, are not included in the model. There was huge variation in the amount landlords spent after initial purchase, which had a substantial impact on overall returns. However, as the model used prices and rents based on states of good repair, it was assumed that the cost of the property plus the renovation cost equals market value – i.e. landlords spending a large amount on renovation had bought a property at below market value, with the investment in renovation equalling the difference.

5.1.14 The model assumes that properties were let at the prevailing market rent. The costs of letting, based on landlords' responses, were deducted from each year's income as follows:

- management (agents);
- management (landlord's time cost);
- annual maintenance;
- accountant's fees;
- mortgage costs;
- service charge and ground rent; and
- tax

5.1.15 Maintenance, management and mortgage costs were inflated by reference to the Oxford Economic forecasts for RPI, wage growth and lending rates respectively.

5.1.16 In year 15, a sale of the property was modelled at a value inflated in line with the relevant criteria above. At the point of sale, the mortgage was redeemed, and capital gains tax deducted from the capital receipt. It was assumed that the landlords would not be liable for an early repayment fee.

5.1.17 A formulaic representation of the model is as follows:

$$MV_{yr15} + \left|\sum_{n=0}^{15} [MR_n - M\&M_n - MC_n - VC - I\,T] - \left(MV_{yr1} + AC + SDLT + Mort.Redemption + CGT\right)\right.$$

Where

MV	=	Market Value
N	=	Number of years
MR	=	Market Rent
M&M	=	Year on year management and maintenance costs
MC	=	Year on year cost required to service the mortgage
VC	=	Void costs as a percentage of lost income between tenancies
IT	=	Income Tax
AC	=	Professional costs involved in purchasing the properties
SDLT	=	Stamp Duty Land Tax
Mort.Redemption	=	Cost of paying off the mortgage upon the sale of the property
CGT	=	Capital Gains Tax

5.1.18 The returns were calculated as follows:

Internal Rate of Return[3] (IRR)

$$NPV = -MV_{yr1} + \sum_{n=0}^{15} \frac{NI_n}{(1+r)^n} = 0$$

NPV = Net Present Value
MV = Market Value (in this case, the initial capital committed)
N = Number of years
NI = Net income in the n^{th} year
R = Target rate of return for the investment

5.1.19 In practice, and as show above, the IRR is the interest rate (r) required to return a net present value of zero.

Income return on equity

$$\frac{Total\ Net\ Income\ over\ 15\ years}{Initial\ Equity\ Committed}$$

Capital return on equity

$$\frac{Net\ Capital\ Gains}{Initial\ Equity\ Committed}$$

Total return on equity

$$\frac{Total\ Net\ Income\ over\ 15\ years + Net\ Capital\ Gains}{Initial\ Equity\ Committed}$$

5.1.20 It should be noted that where a repayment mortgage is modelled,some of the gross rent is used to service the mortgage (reducing leverage and increasing equity in the property)which means that the income return appears understated.

5.2 Key inputs and outputs

5.2.1 In order to establish the balance between rental income and capital growth, the total return from the investment was split into the income return on equity achieved over the 15 years and the capital return achieved after the sale.

5.2.2 The most important variable affecting the returns is the amount of capital initially committed by the investor. It therefore follows that loan to value ("LTV") ratio is a key variable. In order to adequately compare the different landlords, two scenarios were modelled in which investors' initial LTV ratio is 50% and 75% respectively. This is to ensure parity between each case study while demonstrating the differential effects of different levels of gearing.

[3] The IRR used in the model takes into account gearing levels, and is effectively the Geared IRR (as the full results, shown in the appendix, indicate)

5.2.3 Where possible the inputs were those provided by the landlords during the interviews. However, in certain instances and in the interest of providing comparable studies, certain standard inputs and assumptions were used. The table below provides a full explanation.

5.2.4 An explanation is set out in the following table:

Assumption	Explanation
Property Costs	Each property portfolio is purchased today at a level which is the sum of the current market value of the properties, assessed based on location and average property type within each portfolio. These are increased in line with Oxford Economics house price forecasts to produce the selling price at the end of the 15 year period. It was thought appropriate to use an independent forecasting house with a reputable track record rather than figures from Government or those within the property industry.
Professional Fees	The cost of purchasing, including valuation and legal costs, which are increased in line with RPI throughout the model.
Loan to Value Ratio	The percentage of the purchase price which is borrowed by the investor. Based on the responses to our questionnaire, the loan to value ratio varied widely, not just between case studies but also with time and by property during an investors' time as a landlord. In order to adequately compare returns on equity, we have modelled loan to value ratios of 50% and 75% respectively for each case study.
Renovation Cost	The cost of renovating the property at purchase, and a nominal amount for renovation following each tenancy, inflated in line with RPI.
Interest/Mortgage Rate	This is the mortgage rate paid by each landlord. We found this to be widely variable both between the case studies, and also for each individual investor where different interest rates had been applied when purchasing different properties. In the interests of bringing the analysis into the present day, we have assumed that all the investors pay the same interest rate. The model uses variable interest rates based on Oxford Economics forecasts over the 15 year period.
Gross Passing Rent (rents paid by the tenants)	Following acquisition and refurbishment, the properties will be let on day one at the prevailing market rent based on location and property type. After the initial year, the rent was increased in line with the scenarios being tested (i.e. linked to RPI, base rate, market indices etc.) The passing rent was rebased to market levels at the beginning of every new tenancy – clearly the frequency of this will vary depending on the selected tenancy length.
Market Rent	Market Rents increase over the 15 years at a rate of either one or two percentage points (as set out in the appendix) above RPI.
Letting Cost	The cost paid to letting agents for letting the property, inflated in line with RPI.
Management Agent	The percentage of the gross income paid to managing agents on a monthly basis. In several of the case studies, the Landlord treated the letting cost and the management agent cost as one and the same.

Assumption	Explanation
Management Time	The notional time cost related to the investor or landlord's own time spent managing the portfolio. It was found during the interviews that landlords occasionally spent substantial time on the portfolios, especially if a management agent was not instructed. Where management time was incurred, we used a rate in line with the mean local average earnings for the respective regions as provided by the Annual Survey of Hours and Earnings (ASHE). This is inflated in line with Oxford Economics' forecasts of regional wage increases.
Maintenance Costs	The year on year cost of maintaining the property, not including expected refurbishment or renovation between tenants, inflated in line with RPI.
Insurance	The cost of insuring the buildings, inflated in line with RPI.
Service Charge, Ground Rents and Block Management	Ongoing property costs relating to payment of communal services and management, which would not be passed on to the tenant.
Void Costs	Costs incurred as a result of lost rental income between tenancies.
Accountant Costs	Amount paid by the investors to their accountants for accounts relating to the respective portfolios. Inflated in line with RPI.
Income Tax and Capital Gains Tax (CGT)	Income tax and CGT has been calculated as set out below.
Stamp Duty Land Tax	Tax to be paid at the acquisition based on the property value.

5.2.5 As discussed the models' main outputs are the internal rate of return (IRR), income return on equity and the capital return on equity. Clearly, in the context of this investigation, the return on capital in each scenario is fixed, as the length of the tenancies, tenant churn rate, and rental growth have no impact on the capital gains over the investment period.

5.2.6 However, as the tenancy term and rate of inflation within the term are varied, there are impacts on the frequency on which certain costs are incurred (e.g. set up costs, refurbishment costs etc.) as well as effects on overall income from rent. This affects the cash flow and the returns on income as laid out in the following section.

5.3 Income Tax

5.3.1 Income tax was calculated using the prevailing rate. Landlords' existing income was used to calculate the marginal rate of tax for their rental income, which was then applied to the net income received, after offsetting allowable running costs.

5.4 Capital Gains Tax (CGT)

5.4.1 The taxable amount was calculated by deducting the cost of improvement and the annual exemption relief. The applied tax rate was either 18% or 28% depending on the landlord's individual circumstances.

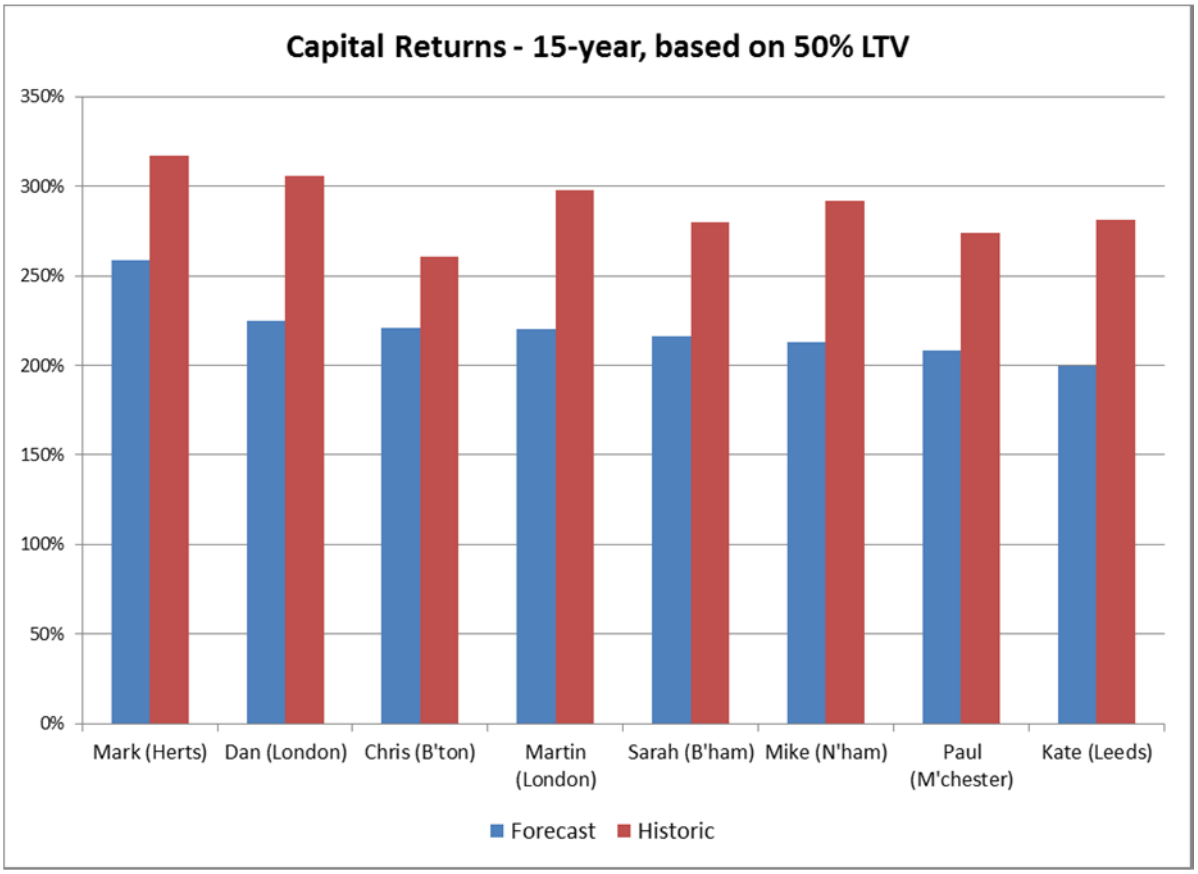
6 Results

6.1 Introduction

6.1.1 This discussion is split into two halves. The first examines the differences between case studies the base case of a two-year tenancy with rents only increasing between terms The second examines the difference within each case study as indexing of different types and lengths is introduced.

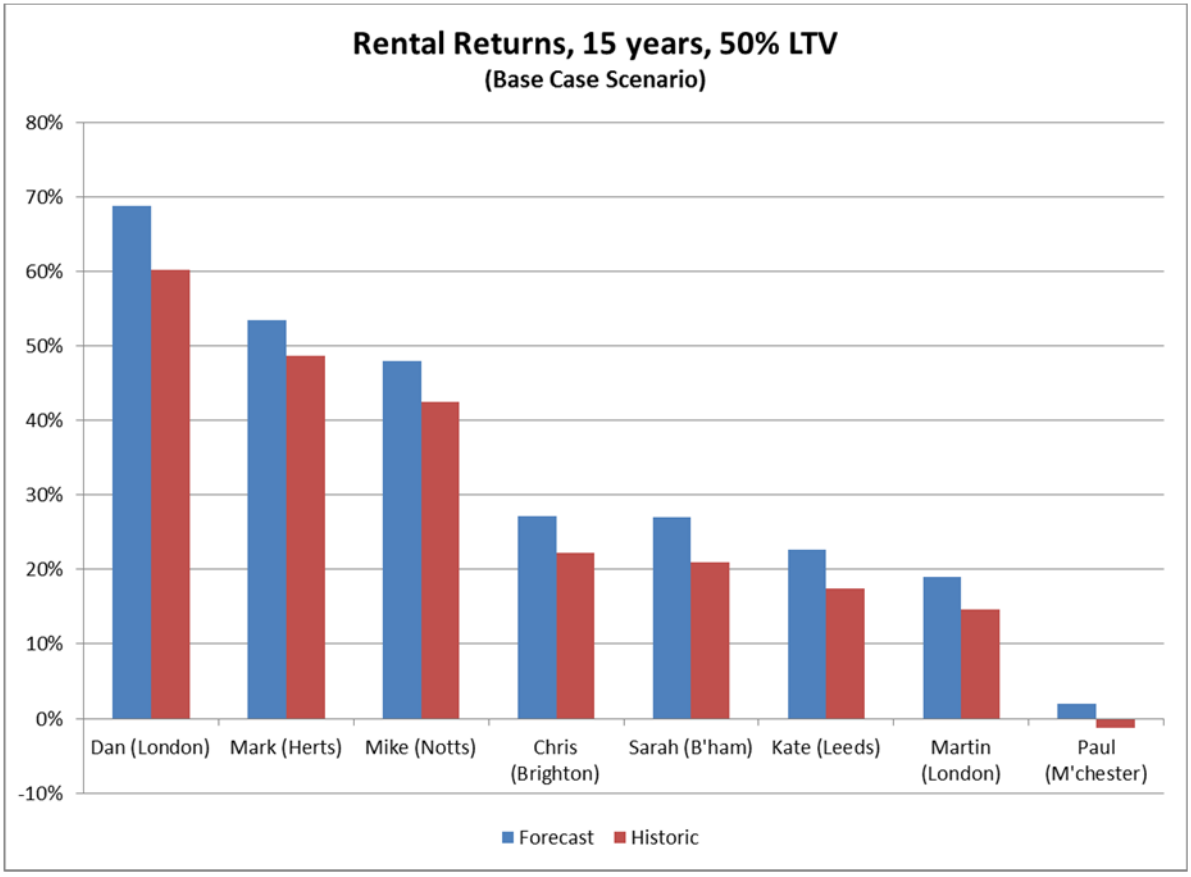
6.2 Differences between case studies

6.2.1 The chart below shows how the 15-year capital return varied for each landlord for both forward-looking and historic scenarios.(A 75% LTV resulted in much higher returns as the initial capital involved would be lower, while the increase in prices would be the same).



6.2.2 Unsurprisingly, areas with higher house price forecasts (London, the South East) showed higher future capital gains, although historic performance was less obviously divided. The contrast with the historic trends demonstrates that capital growth is unlikely to be as strong over the next 15 years as over the past 15- although it will still be significant.

6.2.3 The chart below shows how 15-year rental returns on capital varied for the same scenario described above (with the base case of rents only increased at the end of successive 2year tenancies). The patterns between case studies are similar for both scenarios, with historic rental returns only slightly below the RPI+2% forecast used for London and the South East and the RPI+1% used for the rest of the country.



6.2.4 Between case studies, there was huge variety in the level of rental returns produced, particularly compared to the more consistent level of capital returns. This is not as obviously reflected in IRRs as the contribution of rents to overall returns is relatively minor compared to that provided by capital gains.

6.2.5 While gross initial yields (i.e. the first year's rent divided by the selling price) vary from 4.7% to 6.3%, according to area and portfolio composition, this is not sufficient to explain the broad range of different results shown above.

6.2.6 This variation is explained by four other factors:

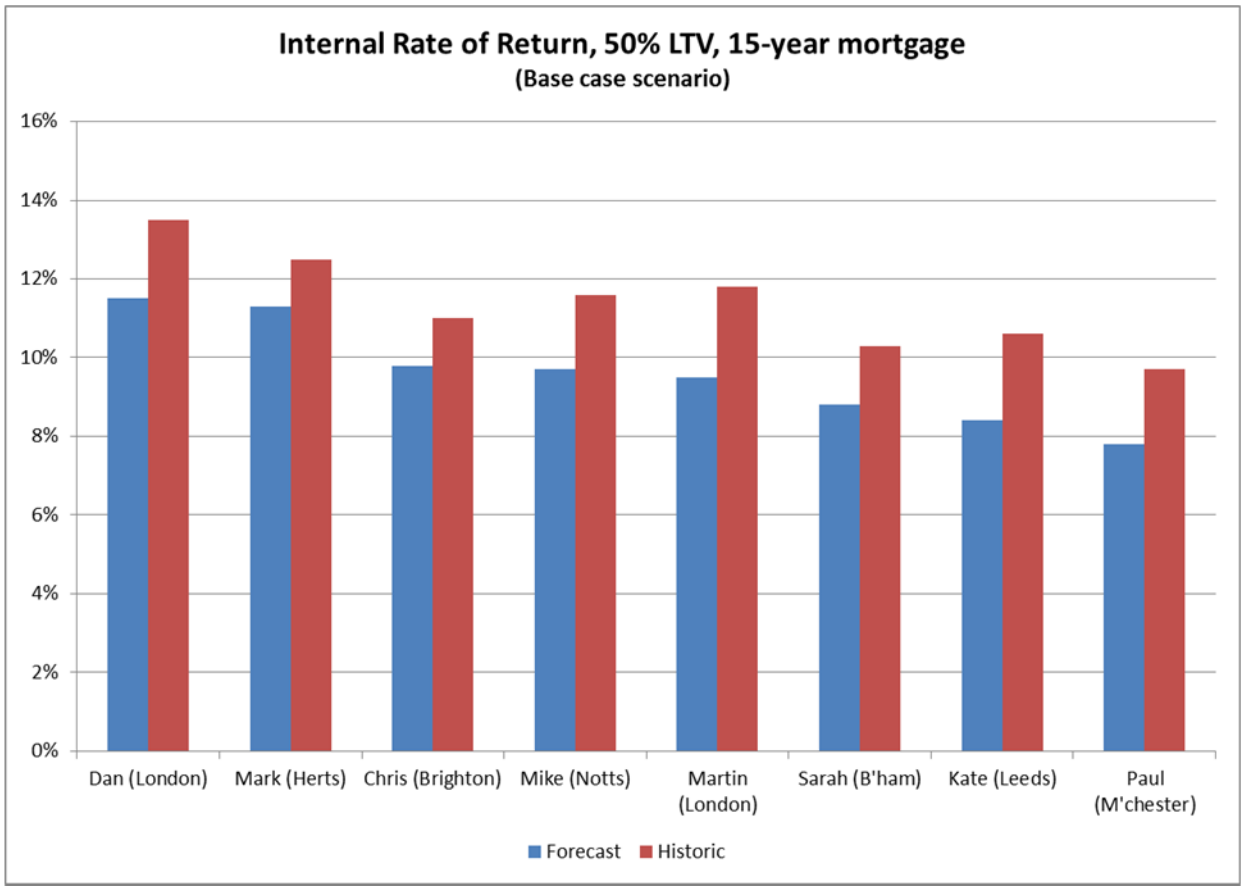
- Size of portfolio. Those with larger portfolios generally achieved better returns (although there are some exceptions). This may relate to the fact that larger properties can be managed more efficiently, i.e. the cost per unit is lower.

- Management costs. Those using management and letting agents (the Manchester and right hand London case study) had the lowest overall returns. While the time costs of management were factored into other case studies, it may well be that landlords are underestimating the number of hours spent in management tasks.

- Maintenance costs. There was wide variation in the amount landlords spent on refurbishment. Those saying they spent the highest (notably the Manchester case study) were particularly affected. However, looking at the figures, there is some suspicion that those quoting low figures may have significantly

underestimated their maintenance costs, thus inflating their theoretical rental returns (while the Manchester case study may have overstated his costs). Also, the model does not take into account the effects of good-quality refurbishment on rental growth for individual properties; it does not measure whether investment in a home would produce higher rents.

- Employment status. The rental income of those with full-time work, particularly those in upper tax bands, was taxed at higher marginal rates than those with no other source of income. Those landlords with the lowest rental returns fell into this category, although it should be noted that in many other cases only one partner was working so lower marginal rates and/or tax-free allowance could be used. Those with one or two properties are also more likely to be taxed at lower marginal rates.



6.2.7 Finally, the chart above shows the Internal Rate of Return (IRR) for each case study (using the same scenario described above). The technical definition of the IRR is defined above – it effectively represents the discount rate at which future income streams are equivalent to the initial investment, but it is perhaps better envisaged as a simple way of comparing the annual returns between investment categories.

6.2.8 The variation in IRRs is what might be expected given the components described above, with the forecast scenario likely to show IRRs of up to 2 percentage points lower over the next fifteen years compared to the previous fifteen. At the levels in the graph, it appears that "buying to let" will remain a very attractive investment, even with no rental increases within a tenancy.

6.2.9 Nevertheless, these returns are dependent on high levels of capital growth; the rental return in itself is small, particularly if management costs are factored in properly. Indeed, the case studies to the right of the chart may show a more realistic picture in which such costs are properly accounted for.

6.2.10 Using a higher LTV of 75% effectively increases returns on capital (as less of the landlord's equity is employed) while reducing rental returns (as interest costs are higher). IRRs are higher under this scenario owing to the lower levels of initial investment and the comparable overall returns.

6.2.11 The study is obviously subject to valuation errors. In neighbourhoods, or with housing types with lower than average prices for the area in question, yields are usually higher. For a case study such as Leeds, where the landlord is specifically targeting ex-council properties, the returns from rent alone may be understated. On the other hand, the capital returns may be overstated as such a portfolio may well see lower than typical capital growth over the model period.

6.3 Differences within case studies

6.3.1 This section will examine the effects of stable tenancies and indexed rents on landlord returns. It will focus on rental returns and IRRs, as capital growth will be unaffected by changing tenancy terms or indexing.

6.3.2 The scenarios are defined as follows.

- Market Rent - Rents are adjusted at the beginning of each year in line with the average increase in market rents over the previous twelve months

- CPI – Rents are adjusted at the beginning of each year in line with the change in the Consumer Price Index over the previous twelve months (e.g. if CPI inflation is 5%, they are increased by 5%). This would ensure that rents do not increase more than the general cost of living excluding housing costs. In this scenario, rents would be less affected by changes in mortgage costs, which remain the main housing component of CPI.

- RPI – Rents are adjusted at the beginning of each year in line with the change in the Retail Price Index over the previous twelve months (e.g. if RPI inflation is 5%, they are increased by 5%). This would ensure that rents do not increase more than the general cost of living including housing costs. In this scenario, rents would be more impacted by changes in the mortgage rate.

- Wage Inflator – Rents are adjusted at the beginning of each year in line with the change in average full-time wages for the region in question. While this may present some practical issues in terms of accurate and timely data, it would mean that rents rise in line with the average change in gross income.

- No Reviews – Rents are not adjusted except when tenants change (this can be treated as the current 'norm' for many tenants and landlords)

6.3.3 The chart below shows how the rental returns for three-year stable tenancies (using varying indices) compare to the two-year 'no review' base case. Note the market rent scenario is one in which rents are increased each year in line with the market level and tenancies, as with the base case, last for two years. (N.B. This is effectively comparing a stable, indexed three-year tenancy with the current 'base cases' of a two-year tenancy with no uplift and a two-year tenancy with annual market rent increases).

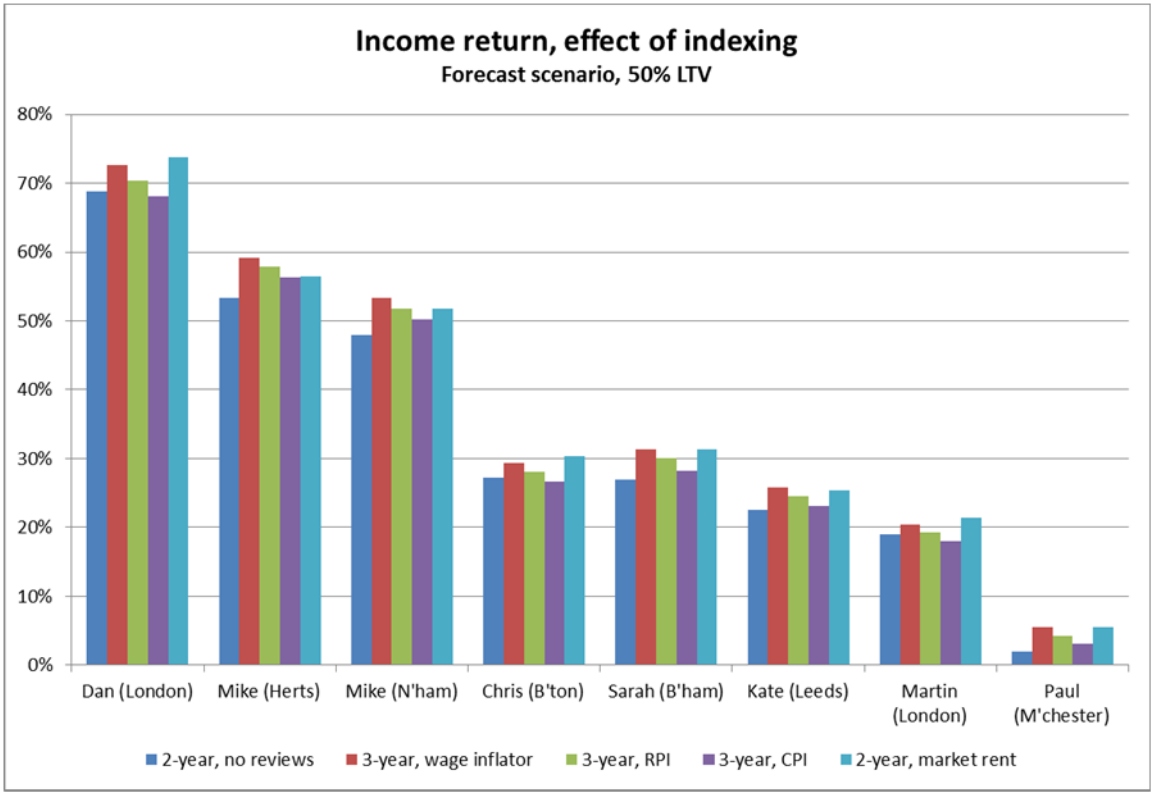
6.3.4 There is little difference between the different scenarios. In a situation in which average rental returns over the 15-year period amounted to around 35%, the indexed scenarios were, on average, 0.7 percentage points above the 'base' no review scenario and 0.2 percentage points below the 'market rent' scenario. Even singling out the indices which produce the largest differences for each case study produces averages which are just 2.9 percentage points above and 2.7 percentage points below the base and market rent cases respectively.

6.3.5 However, in most of the case studies the 'base case' of 2-years with no reviews (the current situation for many landlords) offers the lowest returns.

6.3.6 In some cases (the two London examples as well as Brighton) the CPI indexed case produces lower rental returns than the base case. This is because the rental growth in these areas is assumed to be higher than CPI, and the additional revenue in the third year outweighs the savings from not changing tenants. However, the other indexes used are all higher than the base rate level, which suggests that indexing of any form will improve returns from the current norm for most landlords.

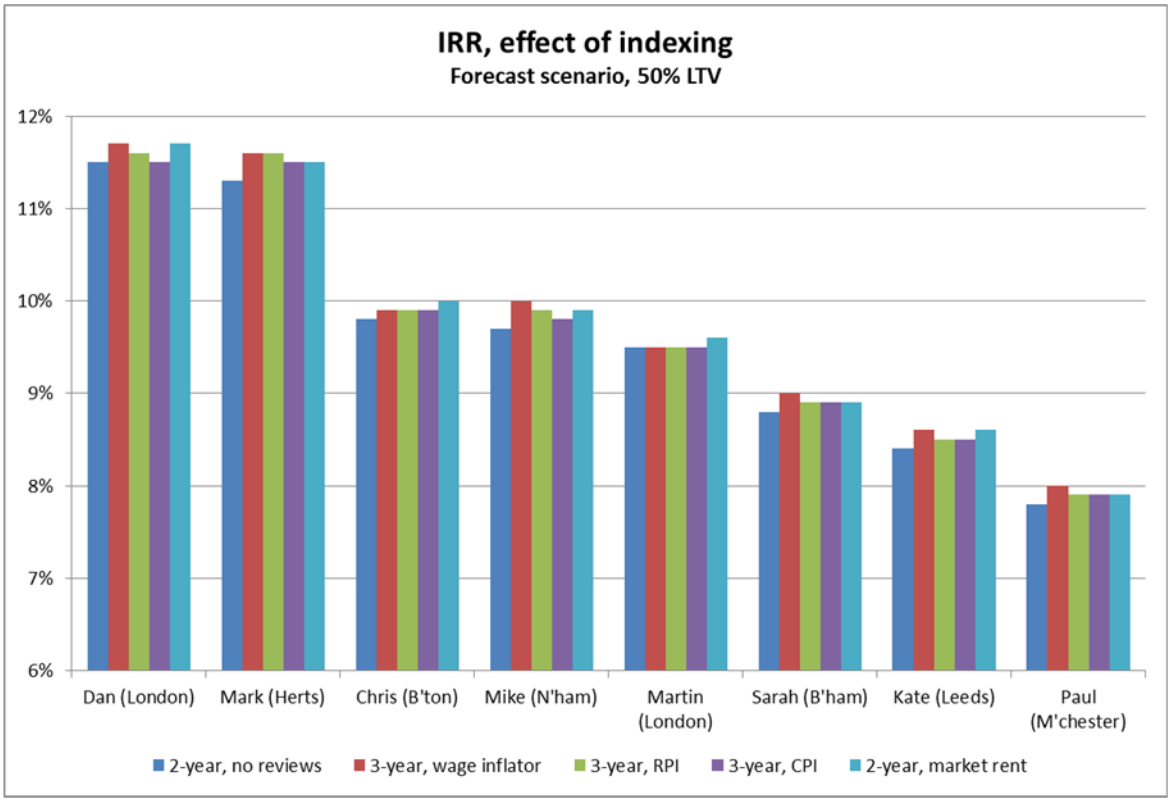
6.3.7 Indexing to RPI or wage inflation offers returns that are closest to, and in some cases in excess of, those produced if the properties are relet every two years – with an average difference of 1.2 percentage points. The Hertfordshire and Nottingham examples produce comparable figures because the cost of reletting are high compared to the other case studies – i.e. the savings produced by not having to find another tenant outweigh the additional rent produced by raising levels each year in line with the market.

6.3.8 A longer tenancy significantly depresses returns if there are no increases (as might be expected) and also has a negative effect on returns for the CPI index scenario (as CPI forecasts fall well below rents within the model). The wage inflator index actually produced higher returns with longer tenancies. This suggests that for shorter stable tenancies landlords might look to use an RPI index, whereas longer tenancies might be better suited to a wage



inflation index (if this is possible).

6.3.9 The effects on IRR are similar are shown below. The results are as might be expected – although these differences are milder as capital growth, the main contributor to the IRR, is unaffected by tenancy terms. (Note that the largest difference between the strongest and weakest case is just 0.3 percentage points).



6.4 A note on yields and returns

6.4.1 The contrasts in the level of returns calculated – notably the very low levels for the Manchester landlord who may have overstated his management costs – highlight the sensitivity of rental returns to management costs. This has been noted by institutional investors approaching the sector who are wary of net-to-gross ratios – the widespread view is that up to 40% of rental income is 'lost' in management and maintenance

6.4.2 It is worth noting that almost all the landlords appear to believe that their net-to-gross ratio is substantially higher than this. This would suggest that they are underestimating both their own time costs and those involved with maintenance. This has been put forward in other studies as a reason why private landlords can outcompete professional ones, who are more stringent in quantifying their labour and materials costs.

6.4.3 However, it does highlight that the amount allocated to maintenance and management has a huge effect on rental returns and will be crucial in determining whether a particular residential investment appears to offer a good return or not.

6.5 Comments on model outputs

6.5.1 House price inflation is the major contributor to overall returns in every scenario, contributing around four to five pounds in price increases for every pound of rent returned over the fifteen year period. Stable tenancies and indexing will have only a limited effect on overall returns within a business model that relies heavily on house price inflation.

6.5.2 Rental returns are, unsurprisingly, lowest if landlords do not raise rents between tenants, and the returns become poorer with the length of the tenancy. Indeed, in a climate in which tenants appear to be remaining in the same properties for longer periods, landlords who choose not to increase rents may have to reassess their business model. Indexing to RPI or wage inflation would offer superior returns.

6.5.3 Clearly, raising rents in line with the market does offer higher returns, but not to the same extent as provided by longer tenancies with indexing. The income from higher rents needs to be set against the cost of high tenant turnover, something minimised in the 'stable tenancy' scenario.

6.5.4 It could be argued that indexing to RPI, wage inflation or even CPI offers more secure returns for landlords as well as more predictable rents for tenants as rental changes will not be based on local or regional conditions, which could produce falling or rapidly increasing rents. Indeed, if rents fall – as they have done in the past – some form of index would maintain upward movement in rental returns, at least until the end of the tenancy.

6.6 Testing other scenarios

6.6.1 The above scenario utilises a 15-year mortgage on a 50% loan-to-value ratio (full results included as Appendix A). The modelling work also included:

- The same assumptions, but a 15-year mortgage with a 75% loan-to-value ratio (included as Appendix B)
- The same assumptions, 50% loan-to-value ratio, historic trends in mortgage rates, house prices and rents (based on the 15 years to end 2011, as if day one were in 1997 and the property were sold at the end of 2011) (Appendix C)
- The same assumptions, 50% loan-to-value ratio, historic trends in mortgage rates, house prices and rents (based on the 15 years to end 2011, as if day one were in 1997 and the property were sold at the end of 2011) (Appendix D)

6.7 Observations on other scenarios

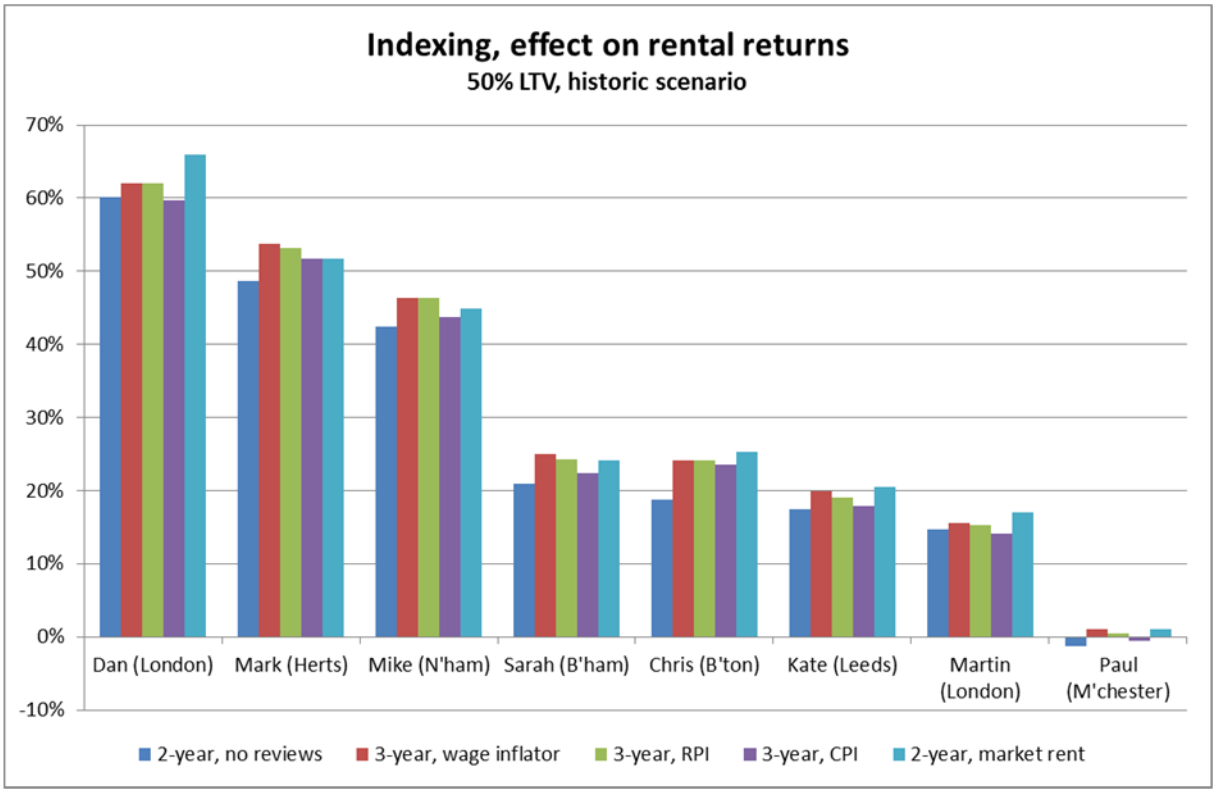
6.7.1 A higher loan-to-value ratio shifts the overall return to capital growth (as a result of the lower level of capital employed) and sharply reduces the income return (into negative territory in most cases) as a result of the increased financing costs. IRRs are improved as a result of the lower levels of equity initially employed. However, the contrast between different indexing, while following the pattern above, is more intense.

6.7.2 This is a result of the way the returns above are calculated. Someone taking out a 75% mortgage is putting less of their own capital into the investment than someone taking out a 50% mortgage. In purchasing, say, a £200,000 house the former investor is using £50,000 of equity, whereas the latter is using £100,000. So if that house increases in value to £300,000 (an increase of £100,000), the return for the 75% investor is 200% (the profit is twice their £50,000 investment), while for the 50% investor it is 100% (the profit is equivalent to their initial investment).

6.7.3 The gearing ratio also has an effect on rental returns. Larger loans imply greater servicing costs which will impact directly on the net level of rental returns

6.7.4 Using lower interest rates within the model – for example, forecast base rate plus half a percentage point – has the effect of increasing rental returns by up to 100%, as a result of the lower financing costs. Capital growth is virtually unchanged.

6.7.5 Using historic costs and rates has the effect of massively increasing capital growth (as a result of the long house price boom from 1997 to 2007, which is not forecast to be repeated) while mildly depressing rental returns. This is a result of higher base rates during the period in question combined with relatively mild rental increases.



6.7.6 However, in this scenario (shown in the chart above), the gaps between some of the scenarios are slightly more pronounced, a result of the lower levels of rental growth in the historic scenario (which uses actual rental growth figures from DCLG and Digital Property Group rather than a factor above RPI). Indeed, the Birmingham landlord also sees higher rental returns for 3-year tenancies indexed to RPI or wage inflation compared to a 'base case' of a 2-year market rent tenancy.

6.7.7 It should be emphasised, however, that the differences in rental returns are not substantial in either historic or forecast scenario, as most of the overall return stems from the capital growth which is unchanged by the rental regime.

6.7.8 Nevertheless, indexing to RPI or wage inflation has little impact on the level of rental returns, and in some cases may even slightly increase it.

6.7.9 The full results from the scenario modelling are provided in the appendices.

7 Conclusions

7.1.1 The results suggest that landlords' business models can accommodate longer, stable tenancies and, indeed, in many cases returns would be stronger if such agreements were in place (albeit using RPI or wage inflation, rather than CPI).

7.1.2 While rental returns appear to make a comparatively small – and sometimes negative – contribution to overall returns, it is clear that some forms of indexing, and stable tenancies, would result in higher returns compared to conventional tenancies in which rents are not increased during a typical 2-year residence.

7.1.3 According to this model, landlord returns would have been higher if they had adopted longer tenancies with indexed rents. In some cases, using RPI or wage inflation as an indexing mechanism would have produced (and will produce) higher returns than increasing rents in line with market rents at the end of each year of tenancy.

7.1.4 This paper does not propose making it compulsory to offer longer tenancies – it merely attempts to point out that there may be financial advantages for landlords. Most professional investors should, given marginal differences in return, choose an investment with more secure and defined income. Given the small contrasts between income and IRR in most cases, it might be expected that landlords would actively seek longer, more stable tenancies.

7.1.5 So why do landlords not offer such tenancies? The sounding board offered several potential reasons. Firstly, mortgage providers appear to specify that the tenants must be on 6- or 12-month ASTs. This precludes landlords offering longer tenancies.

7.1.6 Secondly, there is a belief that longer tenancies will make it more difficult to remove difficult, disruptive or unreliable tenants. Clearly, there would be no effect on Section 21b proceedings (notice requiring possession), but under such circumstances it would not be possible simply to end a tenancy after, say, six months, without providing any reason.

7.1.7 It might be possible for landlords to offer six-month 'trials' before offering longer tenancies, or to be more selective in who they offer longer tenancies to. It is ultimately up to landlords to weigh up whether the potential advantages of longer, secure tenancies outweigh the chance that a tenant might cause damage or build up serious arrears.

7.1.8 Indeed, the returns for more stable tenancies are not so much higher than conventional ones that landlords will be strongly drawn to them. The Government could, however, consider offering incentives for longer stable tenancies. This would induce more landlords to offer such tenancies, benefiting families and other relevant groups, while improving the level of choice for consumers of rental accommodation. Given the rapidly expanding size of the rental market and the fact that a wider cross-section of society will be private tenants than in the past, there is likely to be increasing demand and need for such products.

7.1.9 The model did have some limitations. It could not model the effects of longer secure tenancies on tenant behaviour – i.e. they may be more likely to look after the property and carry out minor improvements themselves. It may well be that under such circumstances arrears or the likelihood of eviction would actually be reduced. (Note that in some countries longer leased properties are offered as completely unfurnished. Tenants furnish and decorate themselves, and retain responsibility for non-structural/infrastructural maintenance).

7.1.10 Thirdly, convention or established practice has a significant role. Markets can adopt particular ways of 'doing business' which have no inherent advantages over alternatives, but simply become the expected modus operandi. In the steering group there was a general attitude that the current model was fit for purpose and did not need to change. As the rental market grows and becomes more competitive landlords may need to become more innovative. The entry of corporate investors or institutions seeking RPI-linked income streams may provide the stimulus that leads such a change.

7.1.11 Another significant problem is the attitude of mortgage lenders, which appears to be rooted in the fact that a vacant property ("vacant possession value") is worth more than a tenanted property.

7.1.12 There are some signs that this is beginning to change as more portfolios are traded. Indeed, the establishment of an institutional presence in the sector might lead to a higher level of transactions here, leading to a shift in valuation practice. This might alter the relative values of a tenanted and untenanted property, making a tenant providing a secure, indexed income stream an asset rather than a liability.

7.1.13 Moreover, the landlords who are now active are more likely to be long-term investors with a commitment to the sector. It is clear from the interviews with the case study landlords that, despite the ongoing weakness in the housing market, there is still a very strong appetite for, and faith in, residential property investments.

7.1.14 The small sample size precludes definite conclusions on market appetite, but all investors involved expressed a strong desire to expand their portfolios in the medium term (two to four years). This intention was so widely and adamantly held that there is a strong suggestion that it exists across the wider marketplace and that landlords will expand their portfolios over the coming years.

7.1.15 While most anticipate that the period of static nominal prices will continue, there is a belief that rents and prices will rise strongly in the longer term. The belief that Britain is a small, crowded island with a rapidly growing population appears to be the primary justification for this. There is also a lack of trust in more abstract or paper investments; 'bricks and mortar' is solid, viewable and tangible.

7.1.16 The changing rental market may, with time, force landlords' hands. There will be more families with children as well as more tenants with stable incomes who envisage renting for the longer term. Landlords are already noticing that tenants are staying for longer periods and, in some ways, this is compromising the ad hoc business model some landlords have adopted of only increasing rents when tenants change.

7.1.17 Clearly, if tenants remain in properties for longer, the gap between their rent and the market average increases (assuming, of course, increasing rents). Indexing may offer a more sensitive and reasonable way of introducing rental increases, rather than ad hoc changes which may damage the tenant-landlord relationship, while still providing enhanced returns for the landlord.

7.1.18 It is apparent from these studies that the overwhelming majority of returns over the next fifteen years are likely to stem from house price changes rather than rental income. This has been the model for residential investment over the past decade or more and seems unlikely to change. As a result, changes to rental terms and conditions have only a marginal effect on overall investment returns.

7.1.19 Landlords may overstate the level of rental returns as they fail to take into account their own time costs as well as the management and maintenance costs for the property. Discounting their own 'effort' may allow them to perceive rental returns are significantly stronger, justifying their own investment decision.

7.1.20 It is worth noting that rental returns are also strongly affected by the relevant marginal tax rate. A single-property investor, for example, may find that the entire rental income falls within their tax-free allowance (even though their partner may be earning a significant salary). A multi-property investor who is a single individual will clearly pay much higher tax rates on their rental incomes.

7.1.21 These two latter points may explain why the market continues to be overwhelmingly composed of private individuals. Institutional and corporate investors, notwithstanding their ability to manage tax efficiently, are unable to justify the prices and yields involved in the same way.

7.1.22 This remains unfortunate in this case as such investors may be more inclined to offer longer stable tenancies with indexing (aside from the point that their involvement might lead to greater efficiencies of scale and hence higher net-to-gross ratios).

7.1.23 In summary, landlord business models could sustain, or could even be improved by, the introduction of long-term, stable tenancies with indexed rents, but policy incentives – such as tax reliefs for longer tenancies – would enhance returns to the point where the attraction of longer tenancies would become more apparent.

7.1.24 This would provide enormous benefits for the wider population given that the rental sector is increasingly required to cater for the needs of the majority of those seeking a home – a proportion that is likely only to increase with time.

8 Appendix

8.1 Forward-looking model: full results – 50% LTV

Case Study:	A
Name:	Martin
Geography:	London
Portfolio size:	7 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	241.0%	241.2%	241.5%	241.7%
CPI	239.5%	237.5%	234.6%	233.4%
RPI	240.1%	238.8%	236.8%	236.1%
Wage Inflator	240.4%	240.0%	239.0%	238.3%
No Reviews	238.5%	235.4%	230.6%	228.1%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	21.4%	21.6%	22.0%	22.2%
CPI	19.9%	18.0%	15.2%	13.8%
RPI	20.5%	19.3%	17.3%	16.6%
Wage Inflator	20.9%	20.4%	19.5%	18.8%
No Reviews	19.0%	15.9%	11.2%	8.5%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	9.6%	9.6%	9.6%	9.6%
CPI	9.5%	9.5%	9.4%	9.3%
RPI	9.5%	9.5%	9.4%	9.4%
Wage Inflator	9.6%	9.5%	9.5%	9.5%
No Reviews	9.5%	9.4%	9.2%	9.1%

Tenancy Length

Capital Return on Equity

220%

Case Study:	C
Name:	Sarah
Geography:	Birmingham
Portfolio size:	1 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	246.5%	247.6%	249.3%	250.5%
CPI	244.8%	244.4%	242.8%	240.8%
RPI	245.7%	246.3%	246.4%	245.6%
Wage Inflator	246.4%	247.5%	248.8%	249.4%
No Reviews	243.2%	241.2%	235.9%	231.4%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	30.3%	31.4%	33.1%	34.3%
CPI	28.7%	28.2%	26.7%	24.6%
RPI	29.5%	30.1%	30.3%	29.4%
Wage Inflator	30.2%	31.3%	32.6%	33.2%
No Reviews	27.0%	25.0%	19.8%	15.2%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	8.9%	9.0%	9.1%	9.1%
CPI	8.8%	8.9%	8.8%	8.7%
RPI	8.9%	8.9%	8.9%	8.9%
Wage Inflator	8.9%	9.0%	9.0%	9.0%
No Reviews	8.8%	8.7%	8.5%	8.3%

Tenancy Length

Capital Return on Equity

216%

Case Study:	E
Name:	Kate
Geography:	Leeds
Portfolio size:	4 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	225.2%	225.8%	226.2%	226.5%
CPI	224.6%	222.9%	221.1%	218.9%
RPI	224.4%	224.3%	224.0%	223.0%
Wage Inflator	225.0%	225.6%	225.9%	225.8%
No Reviews	222.4%	220.0%	215.3%	211.4%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	25.4%	26.0%	26.4%	26.7%
CPI	24.8%	23.1%	21.3%	19.1%
RPI	24.6%	24.5%	24.2%	23.2%
Wage Inflator	25.2%	25.8%	26.1%	26.0%
No Reviews	22.6%	20.3%	15.6%	11.7%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	8.6%	8.6%	8.6%	8.6%
CPI	8.5%	8.5%	8.4%	8.3%
RPI	8.5%	8.5%	8.5%	8.5%
Wage Inflator	8.5%	8.6%	8.6%	8.6%
No Reviews	8.4%	8.4%	8.2%	8.0%

Tenancy Length

Capital Return on Equity

200%

Case Study:	G
Name:	Chris
Geography:	Brighton
Portfolio size:	21 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	251.3%	252.0%	252.5%	252.7%
CPI	249.4%	247.8%	243.8%	241.4%
RPI	250.1%	249.2%	246.7%	245.1%
Wage Inflator	250.6%	250.6%	249.5%	248.3%
No Reviews	248.2%	245.0%	238.2%	235.3%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	30.3%	30.8%	31.4%	31.7%
CPI	28.4%	26.7%	22.8%	20.4%
RPI	29.1%	28.1%	25.6%	24.1%
Wage Inflator	29.6%	29.4%	28.4%	27.3%
No Reviews	27.2%	24.0%	17.2%	14.3%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	10.0%	10.0%	10.0%	10.0%
CPI	9.9%	9.9%	9.7%	9.6%
RPI	9.9%	9.9%	9.8%	9.8%
Wage Inflator	9.9%	9.9%	9.9%	9.9%
No Reviews	9.8%	9.8%	9.5%	9.4%

Tenancy Length

Capital Return on Equity

221%

Case Study:	I
Name:	Mark
Geography:	Nottingham
Portfolio size:	1 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	264.5%	266.5%	267.5%	268.7%
CPI	262.4%	263.1%	260.4%	258.2%
RPI	263.5%	264.6%	264.2%	264.1%
Wage Inflator	264.4%	266.3%	266.9%	267.7%
No Reviews	260.7%	258.9%	253.1%	248.3%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	51.8%	53.6%	54.6%	55.9%
CPI	49.6%	50.2%	47.6%	45.4%
RPI	50.7%	51.8%	51.3%	51.3%
Wage Inflator	51.6%	53.4%	54.0%	54.9%
No Reviews	47.9%	46.0%	40.3%	35.5%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	9.9%	10.0%	10.0%	10.1%
CPI	9.8%	9.8%	9.8%	9.7%
RPI	9.8%	9.9%	9.9%	9.9%
Wage Inflator	9.9%	10.0%	10.0%	10.0%
No Reviews	9.7%	9.7%	9.4%	9.2%

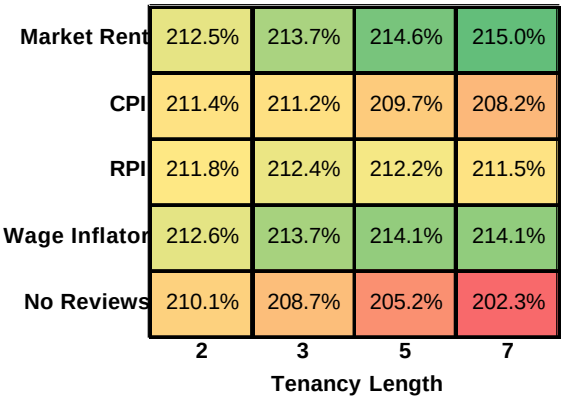
Tenancy Length

Capital Return on Equity

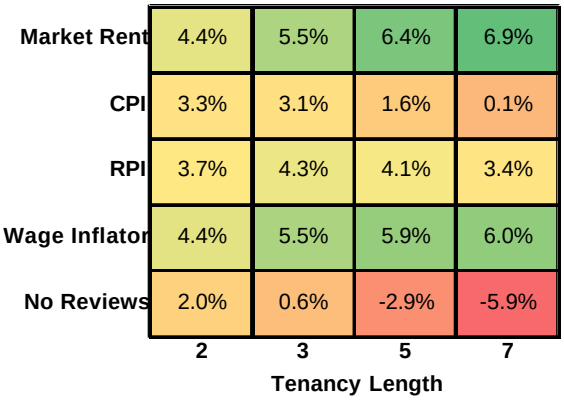
213%

Case Study:	K
Name:	Paul
Geography:	Manchester
Portfolio size:	4 Properties
Mortgage	50%

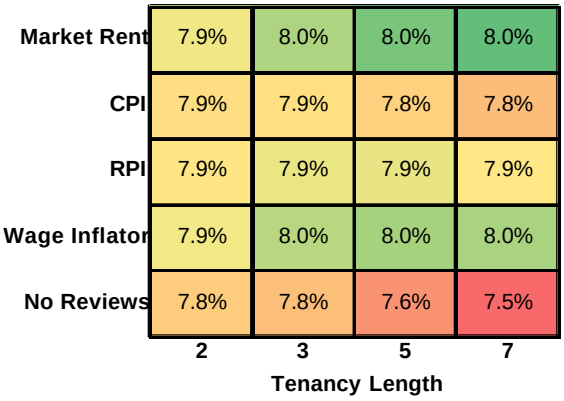
Total Return on Equity



Income Return on Equity



Geared IRR



Capital Return on Equity

208%

Case Study:	M
Name:	Dan
Geography:	North London
Portfolio size:	28 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	298.2%	299.4%	300.7%	301.0%
CPI	295.1%	292.8%	287.7%	283.6%
RPI	296.3%	295.1%	292.2%	289.1%
Wage Inflator	297.2%	297.3%	296.4%	294.1%
No Reviews	293.3%	288.7%	279.5%	273.7%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	73.7%	74.7%	76.0%	76.5%
CPI	70.6%	68.1%	63.1%	59.1%
RPI	71.8%	70.4%	67.5%	64.6%
Wage Inflator	72.7%	72.6%	71.7%	69.6%
No Reviews	68.8%	64.1%	55.0%	49.2%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	11.7%	11.7%	11.8%	11.8%
CPI	11.6%	11.5%	11.4%	11.2%
RPI	11.6%	11.6%	11.5%	11.4%
Wage Inflator	11.6%	11.7%	11.6%	11.5%
No Reviews	11.5%	11.4%	11.1%	10.9%

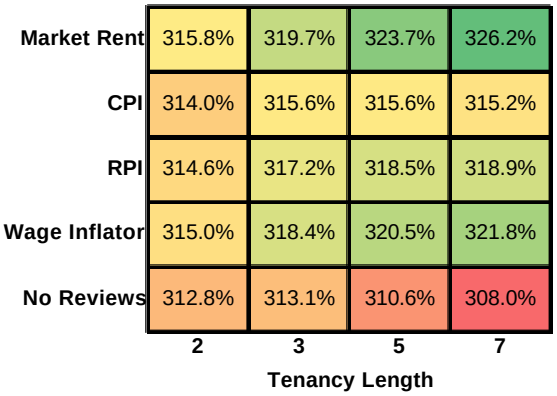
Tenancy Length

Capital Return on Equity

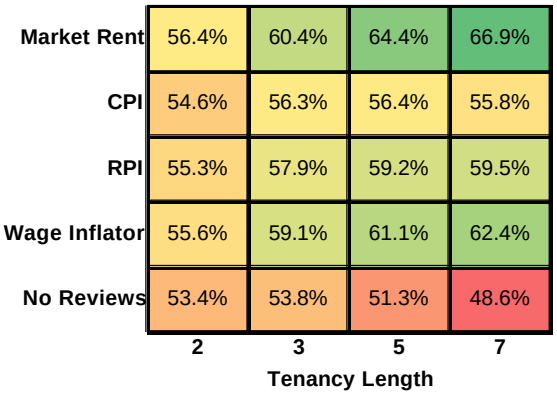
225%

Case Study:	O
Name:	New LL
Geography:	Hertfordshire
Portfolio size:	6 Properties
Mortgage	50%

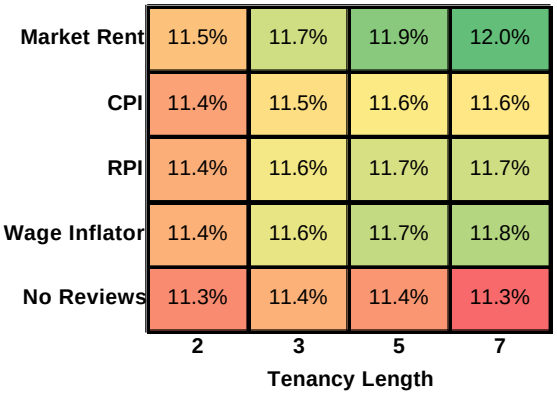
Total Return on Equity



Income Return on Equity



Geared IRR



Capital Return on Equity

259%

Forward-looking model: Full results – 75%

Case Study:	B
Name:	Martin
Geography:	London
Portfolio size:	7 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	320.3%	320.7%	321.3%	321.9%
CPI	317.4%	314.6%	309.3%	306.0%
RPI	318.4%	316.7%	313.2%	311.2%
Wage Inflator	319.2%	318.6%	316.8%	315.3%
No Reviews	315.5%	310.5%	301.6%	295.9%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-36.1%	-35.6%	-35.0%	-34.4%
CPI	-38.9%	-41.7%	-46.9%	-50.3%
RPI	-37.9%	-39.7%	-43.1%	-45.2%
Wage Inflator	-37.2%	-37.8%	-39.5%	-41.0%
No Reviews	-40.8%	-45.7%	-54.4%	-60.4%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	12.1%	12.1%	12.1%	12.1%
CPI	12.0%	12.0%	11.8%	11.7%
RPI	12.0%	12.0%	11.9%	11.8%
Wage Inflator	12.0%	12.0%	12.0%	11.9%
No Reviews	11.9%	11.8%	11.6%	11.4%

Tenancy Length

Capital Return on Equity

356%

Case Study:	D
Name:	Sarah
Geography:	Birmingham
Portfolio size:	1 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	308.0%	311.4%	314.6%	315.7%
CPI	304.8%	304.5%	301.1%	297.0%
RPI	306.5%	308.1%	307.9%	306.4%
Wage Inflator	307.6%	311.2%	313.7%	313.4%
No Reviews	301.7%	297.8%	287.9%	279.0%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-45.8%	-42.4%	-39.3%	-38.1%
CPI	-49.0%	-49.3%	-52.6%	-56.9%
RPI	-47.3%	-45.7%	-45.9%	-47.4%
Wage Inflator	-46.2%	-42.7%	-40.1%	-40.5%
No Reviews	-52.1%	-55.9%	-65.8%	-74.8%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	10.4%	10.5%	10.6%	10.7%
CPI	10.3%	10.3%	10.3%	10.2%
RPI	10.4%	10.4%	10.4%	10.4%
Wage Inflator	10.4%	10.5%	10.6%	10.5%
No Reviews	10.2%	10.2%	9.9%	9.7%

Tenancy Length

Capital Return on Equity

354%

Case Study:	F
Name:	Kate
Geography:	Leeds
Portfolio size:	4 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	296.9%	298.1%	299.4%	299.9%
CPI	294.6%	292.3%	288.9%	284.6%
RPI	294.8%	295.7%	293.9%	292.5%
Wage Inflator	296.5%	297.7%	299.4%	298.7%
No Reviews	291.4%	286.8%	276.6%	269.6%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-30.0%	-28.8%	-27.4%	-26.9%
CPI	-32.2%	-34.4%	-37.9%	-42.2%
RPI	-32.1%	-31.2%	-32.9%	-34.3%
Wage Inflator	-30.3%	-29.1%	-27.5%	-28.1%
No Reviews	-35.5%	-40.0%	-50.1%	-57.3%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	11.2%	11.3%	11.3%	11.3%
CPI	11.1%	11.1%	11.0%	10.9%
RPI	11.1%	11.2%	11.1%	11.1%
Wage Inflator	11.2%	11.2%	11.3%	11.2%
No Reviews	11.0%	10.9%	10.6%	10.4%

Tenancy Length

Capital Return on Equity

327%

Case Study:	H
Name:	Chris
Geography:	Brighton
Portfolio size:	21 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	337.9%	339.4%	340.6%	341.0%
CPI	334.0%	330.7%	321.9%	319.1%
RPI	335.3%	333.6%	328.0%	325.4%
Wage Inflator	336.3%	336.2%	333.5%	331.5%
No Reviews	331.3%	324.8%	310.0%	306.0%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-31.6%	-30.4%	-29.2%	-28.5%
CPI	-35.5%	-38.9%	-47.7%	-50.4%
RPI	-34.2%	-36.1%	-41.6%	-44.1%
Wage Inflator	-33.2%	-33.5%	-36.2%	-38.0%
No Reviews	-38.2%	-44.8%	-59.4%	-63.5%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	12.3%	12.4%	12.4%	12.4%
CPI	12.2%	12.2%	12.0%	11.9%
RPI	12.2%	12.2%	12.1%	12.0%
Wage Inflator	12.3%	12.3%	12.2%	12.1%
No Reviews	12.1%	12.0%	11.6%	11.5%

Tenancy Length

Capital Return on Equity

370%

Case Study:	J
Name:	Mark
Geography:	Nottingham
Portfolio size:	1 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	358.5%	362.3%	364.2%	366.5%
CPI	354.3%	355.7%	352.2%	346.1%
RPI	356.5%	358.7%	357.8%	357.6%
Wage Inflator	358.2%	362.0%	363.1%	364.6%
No Reviews	351.0%	346.7%	337.2%	329.6%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	7.1%	10.6%	12.6%	15.1%
CPI	2.9%	4.1%	0.7%	-5.3%
RPI	5.1%	7.1%	6.3%	6.2%
Wage Inflator	6.8%	10.3%	11.5%	13.2%
No Reviews	-0.4%	-4.8%	-14.2%	-21.8%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	12.3%	12.5%	12.6%	12.6%
CPI	12.2%	12.3%	12.2%	12.0%
RPI	12.3%	12.4%	12.3%	12.4%
Wage Inflator	12.3%	12.4%	12.4%	12.5%
No Reviews	12.1%	12.0%	11.8%	11.6%

Tenancy Length

Capital Return on Equity

351%

Case Study:	L
Name:	Paul
Geography:	Manchester
Portfolio size:	4 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	271.6%	274.2%	276.0%	276.7%
CPI	269.7%	269.5%	266.5%	264.4%
RPI	270.9%	271.8%	270.7%	269.6%
Wage Inflator	272.0%	273.9%	275.4%	275.4%
No Reviews	267.6%	265.3%	257.4%	252.0%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-71.1%	-68.6%	-66.8%	-65.9%
CPI	-73.0%	-73.3%	-76.2%	-78.3%
RPI	-71.7%	-71.0%	-72.0%	-73.0%
Wage Inflator	-70.7%	-68.9%	-67.4%	-67.2%
No Reviews	-75.1%	-77.4%	-85.2%	-90.6%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	10.2%	10.3%	10.4%	10.4%
CPI	10.2%	10.2%	10.1%	10.1%
RPI	10.2%	10.2%	10.2%	10.2%
Wage Inflator	10.2%	10.3%	10.3%	10.3%
No Reviews	10.1%	10.1%	9.9%	9.7%

Tenancy Length

Capital Return on Equity

343%

Case Study:	N
Name:	Dan
Geography:	North London
Portfolio size:	28 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	426.4%	429.1%	431.2%	432.0%
CPI	421.0%	416.5%	405.9%	400.2%
RPI	422.8%	420.9%	414.4%	410.9%
Wage Inflator	424.4%	425.0%	422.6%	420.4%
No Reviews	417.3%	408.5%	391.7%	380.5%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	48.6%	50.9%	53.0%	54.3%
CPI	43.2%	38.5%	28.0%	22.5%
RPI	45.1%	42.8%	36.4%	33.1%
Wage Inflator	46.6%	46.9%	44.4%	42.6%
No Reviews	39.5%	30.6%	14.0%	2.7%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	14.7%	14.8%	14.9%	14.9%
CPI	14.6%	14.5%	14.3%	14.2%
RPI	14.6%	14.6%	14.5%	14.4%
Wage Inflator	14.7%	14.7%	14.6%	14.6%
No Reviews	14.5%	14.3%	14.0%	13.7%

Tenancy Length

Capital Return on Equity

378%

Case Study:	P
Name:	New LL
Geography:	Hertfordshire
Portfolio size:	6 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	452.9%	461.4%	470.5%	475.4%
CPI	449.3%	453.6%	453.7%	452.6%
RPI	450.6%	456.2%	459.5%	460.1%
Wage Inflator	451.3%	458.7%	463.8%	465.0%
No Reviews	446.8%	448.1%	442.6%	438.1%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	6.9%	15.4%	24.5%	29.4%
CPI	3.3%	7.7%	7.9%	6.6%
RPI	4.6%	10.2%	13.6%	14.1%
Wage Inflator	5.2%	12.7%	17.8%	18.9%
No Reviews	0.7%	2.2%	-3.2%	-7.9%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	13.8%	14.2%	14.5%	14.6%
CPI	13.7%	13.9%	14.0%	14.0%
RPI	13.7%	14.0%	14.2%	14.2%
Wage Inflator	13.7%	14.0%	14.2%	14.3%
No Reviews	13.6%	13.8%	13.7%	13.5%

Tenancy Length

Capital Return on Equity

446%

8.2 Historic data – 50% loan to value

Case Study:	A
Name:	Martin
Geography:	London
Portfolio size:	7 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	315.4%	315.6%	316.0%	316.3%
CPI	314.1%	312.4%	310.7%	308.6%
RPI	314.6%	313.6%	311.8%	310.9%
Wage Inflator	314.7%	313.9%	313.7%	313.8%
No Reviews	313.1%	310.1%	306.4%	303.7%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	17.1%	17.2%	17.6%	18.0%
CPI	15.7%	14.1%	12.4%	10.2%
RPI	16.3%	15.3%	13.5%	12.6%
Wage Inflator	16.4%	15.6%	15.4%	15.5%
No Reviews	14.7%	11.8%	8.3%	5.4%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	11.9%	11.9%	11.9%	11.9%
CPI	11.8%	11.8%	11.7%	11.7%
RPI	11.9%	11.8%	11.8%	11.7%
Wage Inflator	11.9%	11.9%	11.9%	11.9%
No Reviews	11.8%	11.7%	11.6%	11.5%

Tenancy Length

Capital Return on Equity

298%

Case Study:	C
Name:	Sarah
Geography:	Birmingham
Portfolio size:	1 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	303.9%	305.7%	307.3%	307.8%
CPI	302.3%	302.1%	301.6%	299.2%
RPI	303.1%	304.0%	303.8%	303.2%
Wage Inflator	303.5%	304.7%	307.1%	308.7%
No Reviews	300.8%	298.4%	294.8%	290.6%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	24.1%	26.0%	27.6%	28.0%
CPI	22.5%	22.4%	21.9%	19.4%
RPI	23.4%	24.3%	24.1%	23.5%
Wage Inflator	23.7%	25.0%	27.4%	29.0%
No Reviews	21.0%	18.7%	15.1%	10.8%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	10.4%	10.5%	10.6%	10.6%
CPI	10.4%	10.4%	10.4%	10.3%
RPI	10.4%	10.5%	10.5%	10.4%
Wage Inflator	10.4%	10.5%	10.6%	10.7%
No Reviews	10.3%	10.3%	10.1%	10.0%

Tenancy Length

Capital Return on Equity

280%

Case Study:	E
Name:	Kate
Geography:	Leeds
Portfolio size:	4 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	301.6%	301.9%	302.3%	302.9%
CPI	300.0%	299.0%	298.1%	296.2%
RPI	300.9%	300.2%	299.7%	299.0%
Wage Inflator	301.2%	301.2%	302.6%	303.7%
No Reviews	298.6%	295.6%	291.9%	288.6%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	20.5%	20.8%	21.2%	21.7%
CPI	18.8%	17.9%	17.0%	15.0%
RPI	19.7%	19.1%	18.5%	17.9%
Wage Inflator	20.0%	20.0%	21.5%	22.5%
No Reviews	17.5%	14.5%	10.8%	7.5%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	10.7%	10.7%	10.7%	10.7%
CPI	10.6%	10.6%	10.6%	10.5%
RPI	10.7%	10.6%	10.6%	10.6%
Wage Inflator	10.7%	10.7%	10.8%	10.8%
No Reviews	10.6%	10.5%	10.4%	10.2%

Tenancy Length

Capital Return on Equity

281%

Case Study:	G
Name:	Chris
Geography:	Brighton
Portfolio size:	21 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	286.3%	286.9%	287.5%	287.6%
CPI	284.5%	282.9%	280.8%	277.7%
RPI	285.2%	284.3%	281.9%	280.4%
Wage Inflator	285.1%	284.3%	284.2%	283.9%
No Reviews	283.2%	279.6%	274.4%	272.4%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	25.3%	25.8%	26.4%	26.6%
CPI	23.5%	21.8%	19.7%	16.8%
RPI	24.2%	23.3%	20.9%	19.4%
Wage Inflator	24.2%	23.2%	23.1%	22.9%
No Reviews	22.2%	18.7%	13.5%	11.4%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	11.1%	11.1%	11.2%	11.2%
CPI	11.0%	11.0%	10.9%	10.8%
RPI	11.1%	11.1%	11.0%	10.9%
Wage Inflator	11.1%	11.1%	11.1%	11.1%
No Reviews	11.0%	10.9%	10.8%	10.7%

Tenancy Length

Capital Return on Equity

261%

Case Study:	I
Name:	Mark
Geography:	Nottingham
Portfolio size:	1 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	336.9%	340.1%	341.0%	341.7%
CPI	336.1%	335.8%	335.5%	332.6%
RPI	336.3%	338.3%	337.4%	336.5%
Wage Inflator	336.2%	338.3%	340.7%	342.4%
No Reviews	334.4%	330.9%	327.5%	323.8%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	44.9%	48.0%	48.9%	49.8%
CPI	44.2%	43.8%	43.4%	40.7%
RPI	44.4%	46.3%	45.4%	44.5%
Wage Inflator	44.2%	46.3%	48.7%	50.4%
No Reviews	42.5%	38.9%	35.6%	31.8%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	11.7%	11.8%	11.9%	11.9%
CPI	11.7%	11.7%	11.6%	11.6%
RPI	11.7%	11.8%	11.8%	11.7%
Wage Inflator	11.7%	11.8%	11.9%	12.0%
No Reviews	11.6%	11.5%	11.4%	11.3%

Tenancy Length

Capital Return on Equity

292%

Case Study:	K
Name:	Paul
Geography:	Manchester
Portfolio size:	4 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	275.4%	276.1%	277.1%	277.3%
CPI	274.1%	273.9%	273.4%	271.6%
RPI	274.5%	274.9%	274.6%	274.5%
Wage Inflator	274.8%	275.5%	276.9%	278.1%
No Reviews	273.0%	271.5%	268.7%	266.2%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	1.0%	1.7%	2.7%	3.0%
CPI	-0.2%	-0.5%	-1.0%	-2.7%
RPI	0.2%	0.5%	0.2%	0.1%
Wage Inflator	0.4%	1.1%	2.5%	3.7%
No Reviews	-1.3%	-2.9%	-5.6%	-8.2%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	9.7%	9.8%	9.8%	9.8%
CPI	9.7%	9.7%	9.7%	9.6%
RPI	9.7%	9.7%	9.7%	9.7%
Wage Inflator	9.7%	9.8%	9.8%	9.9%
No Reviews	9.7%	9.6%	9.5%	9.4%

Tenancy Length

Capital Return on Equity

274%

Case Study:	M
Name:	Dan
Geography:	North London
Portfolio size:	28 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	370.6%	371.8%	373.0%	373.3%
CPI	368.0%	365.5%	362.7%	358.4%
RPI	368.9%	367.8%	364.8%	362.4%
Wage Inflator	369.0%	367.9%	367.8%	367.6%
No Reviews	365.9%	360.7%	353.7%	348.6%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	65.0%	65.9%	67.1%	67.6%
CPI	62.3%	59.7%	56.9%	52.8%
RPI	63.2%	62.0%	59.1%	56.7%
Wage Inflator	63.3%	62.1%	62.0%	61.9%
No Reviews	60.2%	55.0%	48.1%	42.9%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	13.7%	13.7%	13.8%	13.8%
CPI	13.6%	13.5%	13.4%	13.3%
RPI	13.6%	13.6%	13.5%	13.4%
Wage Inflator	13.6%	13.6%	13.6%	13.7%
No Reviews	13.5%	13.4%	13.2%	13.0%

Tenancy Length

Capital Return on Equity

306%

Case Study:	O
Name:	New LL
Geography:	Hertfordshire
Portfolio size:	6 Properties
Mortgage	50%

Total Return on Equity

	2	3	5	7
Market Rent	369.0%	372.8%	376.7%	379.3%
CPI	367.3%	369.0%	369.7%	368.9%
RPI	368.0%	370.5%	371.5%	372.1%
Wage Inflator	368.0%	371.0%	374.3%	376.3%
No Reviews	366.1%	366.1%	364.6%	362.6%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	51.7%	55.4%	59.4%	61.9%
CPI	50.0%	51.7%	52.4%	51.6%
RPI	50.6%	53.2%	54.2%	54.7%
Wage Inflator	50.7%	53.7%	57.0%	58.9%
No Reviews	48.7%	48.8%	47.4%	45.2%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	12.7%	12.9%	13.0%	13.1%
CPI	12.6%	12.7%	12.7%	12.7%
RPI	12.6%	12.8%	12.8%	12.9%
Wage Inflator	12.6%	12.8%	13.0%	13.1%
No Reviews	12.5%	12.6%	12.6%	12.5%

Tenancy Length

Capital Return on Equity

317%

8.3 Historic model – 75% LTV

Case Study:	B
Name:	Martin
Geography:	London
Portfolio size:	7 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	461.3%	462.1%	462.8%	463.0%
CPI	458.5%	456.1%	452.7%	448.3%
RPI	459.7%	458.3%	455.1%	452.6%
Wage Inflator	459.8%	458.8%	458.4%	458.4%
No Reviews	456.7%	451.6%	444.5%	439.0%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-43.6%	-42.8%	-42.2%	-41.8%
CPI	-46.3%	-48.8%	-52.1%	-56.5%
RPI	-45.1%	-46.6%	-49.7%	-52.3%
Wage Inflator	-45.1%	-46.0%	-46.3%	-46.5%
No Reviews	-48.2%	-53.1%	-60.1%	-65.9%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	14.7%	14.7%	14.7%	14.7%
CPI	14.6%	14.6%	14.5%	14.4%
RPI	14.6%	14.6%	14.6%	14.5%
Wage Inflator	14.7%	14.7%	14.7%	14.7%
No Reviews	14.6%	14.5%	14.3%	14.2%

Tenancy Length

Capital Return on Equity

505%

Case Study:	D
Name:	Sarah
Geography:	Birmingham
Portfolio size:	1 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	418.6%	421.1%	424.2%	426.0%
CPI	415.5%	414.6%	413.8%	409.2%
RPI	417.2%	417.9%	417.9%	416.9%
Wage Inflator	417.6%	419.6%	424.2%	427.6%
No Reviews	412.4%	407.3%	400.0%	392.7%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-56.7%	-54.1%	-51.1%	-49.2%
CPI	-59.8%	-60.6%	-61.5%	-66.1%
RPI	-58.1%	-57.3%	-57.3%	-58.3%
Wage Inflator	-57.7%	-55.6%	-51.0%	-47.6%
No Reviews	-62.8%	-67.8%	-75.1%	-82.5%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	12.2%	12.3%	12.4%	12.4%
CPI	12.1%	12.1%	12.0%	11.9%
RPI	12.1%	12.2%	12.2%	12.2%
Wage Inflator	12.2%	12.3%	12.4%	12.5%
No Reviews	12.0%	11.9%	11.8%	11.6%

Tenancy Length

Capital Return on Equity

475%

Case Study:	F
Name:	Kate
Geography:	Leeds
Portfolio size:	4 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	446.6%	446.0%	447.3%	448.4%
CPI	442.8%	440.9%	437.5%	433.7%
RPI	445.2%	443.8%	441.0%	440.4%
Wage Inflator	445.2%	444.5%	446.8%	448.9%
No Reviews	440.2%	434.2%	427.0%	420.8%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-38.4%	-39.0%	-37.7%	-36.6%
CPI	-42.2%	-44.0%	-47.4%	-51.3%
RPI	-39.9%	-41.2%	-43.9%	-44.6%
Wage Inflator	-39.8%	-40.4%	-38.2%	-36.1%
No Reviews	-44.9%	-50.6%	-57.7%	-64.3%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	13.6%	13.6%	13.7%	13.7%
CPI	13.5%	13.5%	13.4%	13.3%
RPI	13.6%	13.6%	13.5%	13.5%
Wage Inflator	13.6%	13.6%	13.7%	13.8%
No Reviews	13.4%	13.3%	13.2%	13.0%

Tenancy Length

Capital Return on Equity

485%

Case Study:	H
Name:	Chris
Geography:	Brighton
Portfolio size:	21 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	406.3%	407.7%	408.8%	409.3%
CPI	402.3%	399.0%	393.7%	390.0%
RPI	403.8%	402.2%	397.0%	395.7%
Wage Inflator	403.9%	402.5%	402.7%	403.6%
No Reviews	399.8%	392.5%	382.2%	378.5%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-41.3%	-40.1%	-39.0%	-38.2%
CPI	-45.3%	-48.8%	-54.0%	-57.6%
RPI	-43.8%	-45.6%	-50.7%	-51.9%
Wage Inflator	-43.7%	-45.1%	-45.0%	-44.0%
No Reviews	-47.8%	-55.1%	-65.3%	-69.1%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	13.6%	13.7%	13.7%	13.7%
CPI	13.5%	13.4%	13.3%	13.2%
RPI	13.5%	13.5%	13.4%	13.4%
Wage Inflator	13.6%	13.6%	13.6%	13.7%
No Reviews	13.4%	13.3%	13.0%	12.9%

Tenancy Length

Capital Return on Equity

448%

Case Study:	J
Name:	Mark
Geography:	Nottingham
Portfolio size:	1 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	500.5%	504.9%	507.6%	509.0%
CPI	496.4%	498.4%	495.2%	491.4%
RPI	498.6%	501.6%	499.8%	499.7%
Wage Inflator	499.2%	502.5%	505.4%	509.4%
No Reviews	494.0%	489.7%	478.9%	473.4%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-4.4%	-0.2%	2.5%	4.1%
CPI	-8.5%	-6.6%	-9.9%	-13.5%
RPI	-6.3%	-3.5%	-5.2%	-5.2%
Wage Inflator	-5.7%	-2.6%	0.3%	4.5%
No Reviews	-10.9%	-15.3%	-26.0%	-31.5%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	14.4%	14.5%	14.6%	14.7%
CPI	14.3%	14.4%	14.2%	14.2%
RPI	14.3%	14.5%	14.4%	14.4%
Wage Inflator	14.4%	14.5%	14.6%	14.8%
No Reviews	14.2%	14.2%	13.9%	13.7%

Tenancy Length

Capital Return on Equity

505%

Case Study:	L
Name:	Paul
Geography:	Manchester
Portfolio size:	4 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	394.3%	396.1%	397.7%	398.5%
CPI	391.5%	391.0%	390.5%	386.7%
RPI	393.1%	393.8%	393.1%	392.2%
Wage Inflator	393.2%	394.6%	397.3%	398.9%
No Reviews	389.8%	386.0%	380.7%	375.7%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-76.9%	-75.3%	-73.6%	-72.8%
CPI	-79.7%	-80.3%	-80.8%	-84.5%
RPI	-78.2%	-77.5%	-78.2%	-79.1%
Wage Inflator	-78.1%	-76.7%	-74.0%	-72.4%
No Reviews	-81.5%	-85.2%	-90.5%	-95.5%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	12.3%	12.4%	12.4%	12.5%
CPI	12.2%	12.2%	12.2%	12.1%
RPI	12.3%	12.3%	12.3%	12.3%
Wage Inflator	12.3%	12.4%	12.5%	12.5%
No Reviews	12.2%	12.1%	12.0%	11.9%

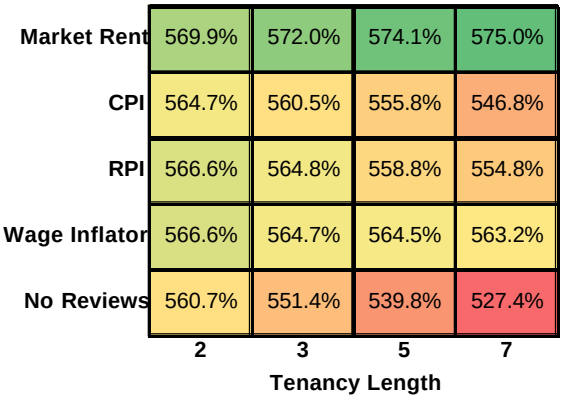
Tenancy Length

Capital Return on Equity

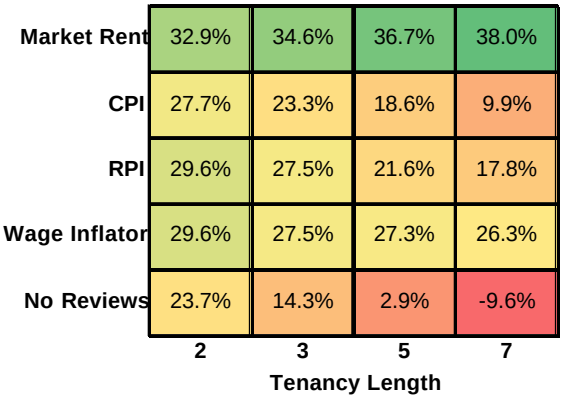
471%

Case Study:	N
Name:	Dan
Geography:	North London
Portfolio size:	28 Properties
Mortgage	75%

Total Return on Equity



Income Return on Equity



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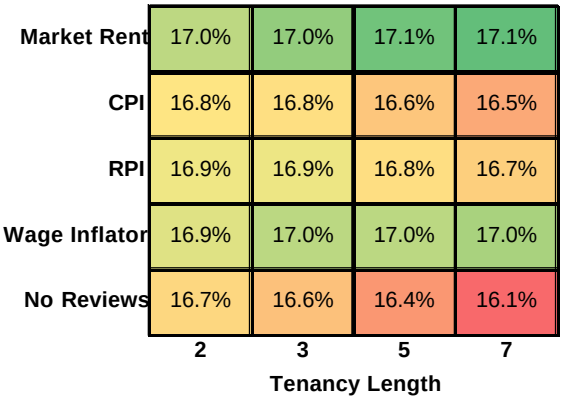

Capital Return on Equity

537%

Case Study:	P
Name:	New LL
Geography:	Hertfordshire
Portfolio size:	6 Properties
Mortgage	75%

Total Return on Equity

	2	3	5	7
Market Rent	557.3%	565.6%	574.8%	579.6%
CPI	553.7%	557.7%	559.7%	557.9%
RPI	554.9%	560.7%	563.7%	564.6%
Wage Inflator	555.5%	562.2%	569.6%	574.5%
No Reviews	551.5%	552.2%	548.9%	545.2%

Tenancy Length

Income Return on Equity

	2	3	5	7
Market Rent	-2.5%	5.8%	15.0%	19.7%
CPI	-6.2%	-2.1%	0.0%	-1.9%
RPI	-5.0%	0.9%	3.9%	4.7%
Wage Inflator	-4.4%	2.4%	9.8%	14.6%
No Reviews	-8.4%	-7.5%	-10.7%	-14.7%

Tenancy Length

Geared IRR

	2	3	5	7
Market Rent	15.1%	15.5%	15.8%	15.9%
CPI	15.0%	15.2%	15.3%	15.3%
RPI	15.0%	15.3%	15.5%	15.5%
Wage Inflator	15.1%	15.4%	15.7%	15.9%
No Reviews	14.9%	15.1%	15.1%	15.0%

Tenancy Length

Capital Return on Equity

560%

Real value in a changing world

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