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Buy-to-let optimism driven by new rental demand peak

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Amid all the recent gloom about the housing market with its falling prices and mortgages, high interest rates and talk of the credit crunch, the **buy-to-let** market has had its obituary written more than once. Undoubtedly the market is less favourable now to investors who simply want to buy and sell quickly, the risks are greater for such a move as the levels of supply exceed demand in some areas and the long-termist option is neglected.

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For those involved in buy-to-let in the longer run, however, there is one piece of news which consistently shines like a beacon in the gathering gloom. Moreover, it is a light to which those put off entering the housing market at a time of economic uncertainty and continued affordability concerns are drawn.

That beacon is rental returns, the result of a market situation in which a growing number of potential first-time buyers decide instead to let a property, at least until the dust settles on the credit crunch. Paragon announced today in its October buy-to-let index that the average monthly rental yield had hit a record high, at £11,000. This was up 10.2 per cent, with total yields stable at six per cent and total annual returns on a property bought a year earlier up to 15.5 per cent from September's figure of 14.2 per cent.

Contrasting the long-termist landlord with the short-term investor, Paragon's director of mortgages John Heron said: "Much of the recent negative media comment on the buy-to-let sector has confused genuine well-researched **buy-to-let investment** with property speculation." He added that while it was essential for investors to find the right property for the kind of people who would rent them out, the evidence was that this was exactly what was going on: "These figures show that professional landlords continue to invest in the types of property where there is strong and sustainable tenant demand."

Thus Paragon sees the present of buy-to-let as bright. So too is the future, according to Zone 4 Property. In a statement, the company said the structural reality of the housing market meant that buy-to-let was set to go on prospering, the only factors which could prevent it being higher interest rates, the government managing to meet its housing targets or some major global or UK disaster.

Zone 4 founder Grant Delmege concluded: "The UK property market is essentially driven by supply and demand and with the population set to dramatically increase over the next 10 years property prices look set to increase as long as the economy remains stable and interest rates stay low."

Thus it seems the future belongs to the long-termists, who are, by definition, the people most likely to pay attention to it. Of Zone 4's three possible problems for buy-to let, one might surmise that a major disaster would leave people worried about rather more than just their property yields, while any government housebuilding problem, even if it succeeds in building enough houses, could take a number of years to do soon.

As for interest rates, the nearest thing to a certainty in a currently uncertain economic climate is that these will soon come down, the only question being when. There is no sign at the moment that rental rates will.

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