

## Get Clued Up on Yields

Saul Brock, Credit and Risk Manager at Auction Finance Limited, explains the importance of rental yields and a tactic that buyers can use to maximise them...

With the number of lots offered and sold beginning to creep up, it is clear that property auctions are still pulling in the investors, especially first-timers who see bricks and mortar as a real alternative to their poorly performing savings accounts. The current market is providing some great opportunities, and whilst the prospect of long-term capital gains is obviously an attraction for many, the vast majority of buyers are focused on the capacity of a property to provide them with a regular source of income.

### Doing the Sums

The most important factor in assessing the income that a property will produce is the rental yield, yet whilst most people are aware that higher equals better, they do not necessarily understand what these figures represent or how to calculate them.

Put simply, the gross yield on a property is the amount of rent it generates each year expressed as a proportion of its value or purchase price (whichever is most relevant).

Once this figure has been calculated a prospective buyer can proceed to calculate the net yield by factoring in other outgoings on the property such as insurance, maintenance and refurbishment costs, agency fees, and any other relevant expenses. Additionally, some investors prefer to use variations on the equation such as assuming that their property will be subject to a one month void period each year and multiplying the monthly rent by 11 rather than 12.

### Auction Yields

So, what makes a 'good' yield in the current market? Obviously, the answer is dependent on

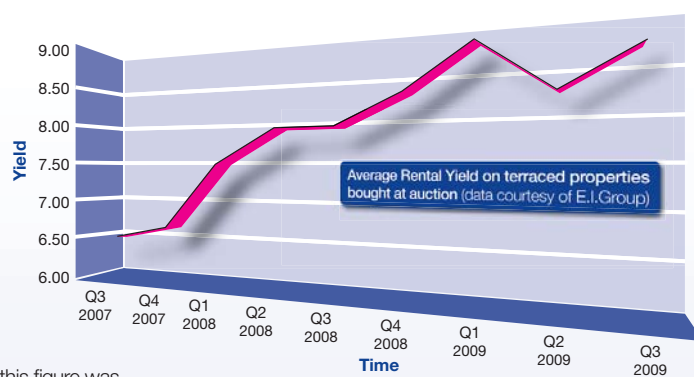
property type and can be subject to significant geographical variation. Nevertheless, the statistics that are issued by a number of different industry bodies do provide us with some basis for comparison.

The Association of Residential Letting Agents statistics for Q2 2009 show that the average rental yield on houses was 5.1%; for flats this figure was slightly lower at 5%. Statistics from the Essential Information Group show that the average rental yield for all residential properties bought at auction during the same period was 7.4%, with terraced houses achieving an average of 8.52% and flats achieving 8.54%. These figures demonstrate that auction properties are ahead of the broader housing market in terms of the return that they offer to investors.

### Two for One

The EI Group statistics also provide evidence for something that many of our experienced clients at Auction Finance Limited are already aware of: smaller properties tend to produce better yields. The figures show that the average yield on a detached house bought at auction in Q2 2009 was 4.75%, yet terraced houses produced an average yield of 8.52%. Obviously, detached houses will usually be larger and more expensive than terraced houses in the same area. It is therefore not unreasonable to conclude that somebody with £150,000 to invest will probably be better off purchasing two terraced properties at £75,000 each, rather than spending their money on a single detached or semi-detached property.

A quick search on the Essential Information Group website even provides us with a real-life



example to support this assumption. If we look at the investment properties that have been sold in Manchester over the past three months we can see that a semi-detached property producing a very respectable yield of 6.9% was sold for the sum of £110,000. Only a few miles away the same buyer could have picked up 2 terraced properties at £59,500 and £44,000 respectively. These properties were producing a combined rental yield of 10.1% and would therefore have provided the buyer with an extra £2,863 per year in income, as well as leaving them with £6,500 to play with. In this case the yield on the semi-detached property was considerably higher than the national average so there is no doubt that this property was still a good buy. However, if it had been on a par with the average then the two terraced properties would have been producing double the income for roughly the same investment!



Saul Brock,  
Credit & Risk Manager

Two auction properties are ahead of the broader housing market in terms of the return that they offer to investors

*Yield Calculation*

$$\frac{\text{Monthly Rent} \times 12}{\text{Property Value}} \times 100$$



# Essential Stats

By *David Sandeman*

For the first time in 6 months the overall sale rate has dropped below 70% but August is always a very quiet month for auctions. September figures will be a better barometer of the marketplace.



## Total

	Last Month			Last Quarter			Last Year		
	August 2009	August 2008	Increase	June - August 2009	June - August 2008	Increase	Sept 2008 - Aug 2009	Sept 2007 - Aug 2008	Increase
<b>Lots Offered</b>	664	996	-33.3%	6,910	8,784	-21.3%	32,053	38,005	-15.7%
<b>Lots Sold</b>	447	622	-28.1%	5,032	5,231	-3.8%	22,885	24,670	-7.2%
<b>Percent Sold</b>	67%	62%	7.8%	73%	60%	22.3%	71%	65%	10.0%
<b>Total Raised</b>	£51,756,625	£86,817,957	-40.4%	£790,167,264	£798,418,215	-1.0%	£3,284,027,024	£4,637,402,162	-29.2%

## Residential

	Last Month			Last Quarter			Last Year		
	August 2009	August 2008	Increase	June - August 2009	June - August 2008	Increase	Sept 2008 - Aug 2009	Sept 2007 - Aug 2008	Increase
<b>Lots Offered</b>	604	884	-31.7%	5,637	7,356	-23.4%	26,537	30,729	-13.6%
<b>Lots Sold</b>	408	560	-27.1%	4,098	4,292	-4.5%	18,885	19,453	-2.9%
<b>Percent Sold</b>	68%	63%	6.6%	73%	58%	24.6%	71%	63%	12.4%
<b>Total Raised</b>	£48,003,375	£60,654,040	-20.9%	£522,891,548	£567,387,896	-7.8%	£2,256,377,944	£2,952,396,283	-23.6%

## Commercial

	Last Month			Last Quarter			Last Year		
	August 2009	August 2008	Increase	June - August 2009	June - August 2008	Increase	Sept 2008 - Aug 2009	Sept 2007 - Aug 2008	Increase
<b>Lots Offered</b>	53	99	-46.5%	1,273	1,428	-10.9%	5,516	7,267	-24.1%
<b>Lots Sold</b>	34	54	-37.0%	934	939	-0.5%	4,000	5,209	-23.2%
<b>Percent Sold</b>	64%	55%	17.6%	73%	66%	11.6%	73%	72%	1.2%
<b>Total Raised</b>	£3,453,250	£25,876,517	-86.7%	£267,275,716	£231,030,319	15.7%	£1,027,649,080	£1,678,590,879	-38.8%

## Focus On...



Loveitts have been selling property at auction for over 100 years, and we are justifiably proud of our long and successful record of selling both residential and commercial properties, and land 'under the hammer'. We hold regular property auctions in Coventry and Warwickshire, usually every 2 months, and these attract a significant number of bidders.

Our Auction Team inspect every auction property personally to ensure that the best possible advice is given. In addition, as part of our ongoing service, vendors receive regular progress reports throughout the entire marketing campaign.

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