hometrack

Research and Insight
September 2020

UK Rental Market Report

Latest insight on the UK Rental Market

+1.7% Annual change in rents, UK excluding London	**-5.2%** Annual change in rents, London	**-0.5%** Annual change in rents, UK
31% Affordability: % of salary to cover rent, single earner, UK	**17 days** Average time to let a property, UK average	**£890** Monthly rent, UK average

Executive Summary

- Two-speed market between London and the rest of the UK to be entrenched during second lockdown in England
- A supply/demand imbalance is supporting positive rental growth across most regions and the majority of cities outside London.
- A squeeze on mortgage lending especially for those with smaller deposits leading to more people staying in the rental sector.
- In contrast, average rents are down -5.2% in London, a further decline from Q2, as indicated in our report, amid supply overtaking demand due to changing working practices, commuting patterns and weaker tourism.
- The search for space has resulted in a faster-moving market for rented houses rather than flats, although demand in the sector means all rented property is trading faster than in 2019.

"Demand is still outstripping supply in many markets, underpinning rental growth. However, subdued earnings growth may start to limit further rises in rents in some markets."

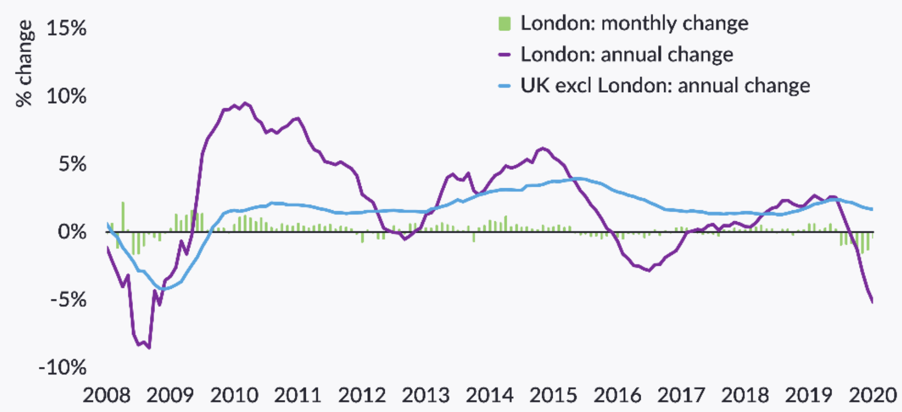
Gráinne Gilmore
Head of Research
Zoopla

Two-speed market

Average UK rents outside London rose by 0.7% in the three months to September, taking the annual growth rate to 1.7%. Rental growth remains in positive territory across most regions and cities in the UK. This is in sharp contrast to London, where rents fell by -3.2% in Q3, taking the annual decline to -5.2% at the end of December. The London market is examined in more detail later in this report.

This two-speed market, outlined in the chart below, is likely to be entrenched during the additional lockdowns in England and across the regions, which will exacerbate the trends which is causing the split in rental performance, especially as more people work from home.

Change in Average Rents



Source: Zoopla Research

Demand and Supply

Rental growth is being underpinned in many areas by the continued imbalance between tenant demand and the supply of rental properties, with rents rising in most cities across the UK. Renter demand has moderated from the highs seen in early summer after the first lockdown ended, but year on year, demand is still around 20% higher than in the same period in 2019.

The challenges in the mortgage market for first-time buyers trying to obtain a home loan, given the current squeeze on lending for those with smaller deposits, means that many of these aspiring homeowners will be staying in the rental market for longer, underpinning demand. This comes as overall supply into the rental market from individual landlords has been constrained. Investment levels have fallen markedly since the additional 3% stamp duty was introduced for those buying a second property or investment property in 2016.

The return of students to University as usual in the Autumn will also have boosted demand in the rental sector.

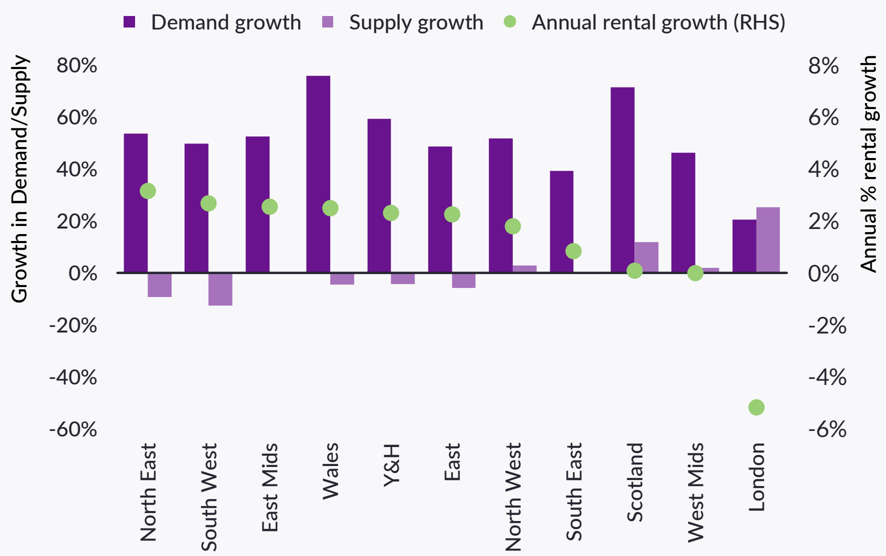
+3.2%

North East annual % change in rents, year to Sept 2020

Rental growth is being underpinned where demand is outstripping supply. In the North East, rental demand was 54% higher in Q3 than the average in previous years, while supply is down 9% compared to the typical levels seen in Q3 in 2017-2019. The region is seeing the strongest rental growth at present, at 3.2%. Rental growth is in positive territory in all other regions except Scotland and the West Midlands, which have other factors affecting the dynamics of the market.

In Scotland, rental growth in Glasgow is still positive at +2.4%, but in Edinburgh, the 1.6% fall in rents reflects muted tourism and the shift from short-lets to long-lets. In Aberdeen, the market has been affected by the travails of the North Sea energy industry.

Regional rental growth strongest where supply constrained



Source: Zoopla Research

Growth in Demand/Supply Q3 2020 vs average Q3 2017-2019

In the West Midlands, rents in Birmingham, the largest rental market in the region, narrowly dipped into negative territory in September. The city may be starting to feel the impact of changing working patterns, with demand in some city centres being affected by limited office attendance, as well as new-build supply coming into the market creating more choice.

There is also increasing sensitivity about rental levels in some regional and city markets due to muted earnings growth. Average pay in the private sector fell in real terms in April, according to the latest official data, and this pressure on wages is likely to have continued through the summer. These factors could cause a gradual slowing in rental growth in the months to come, but the UK market outside the capital will still outperform London.

Rental Highlights

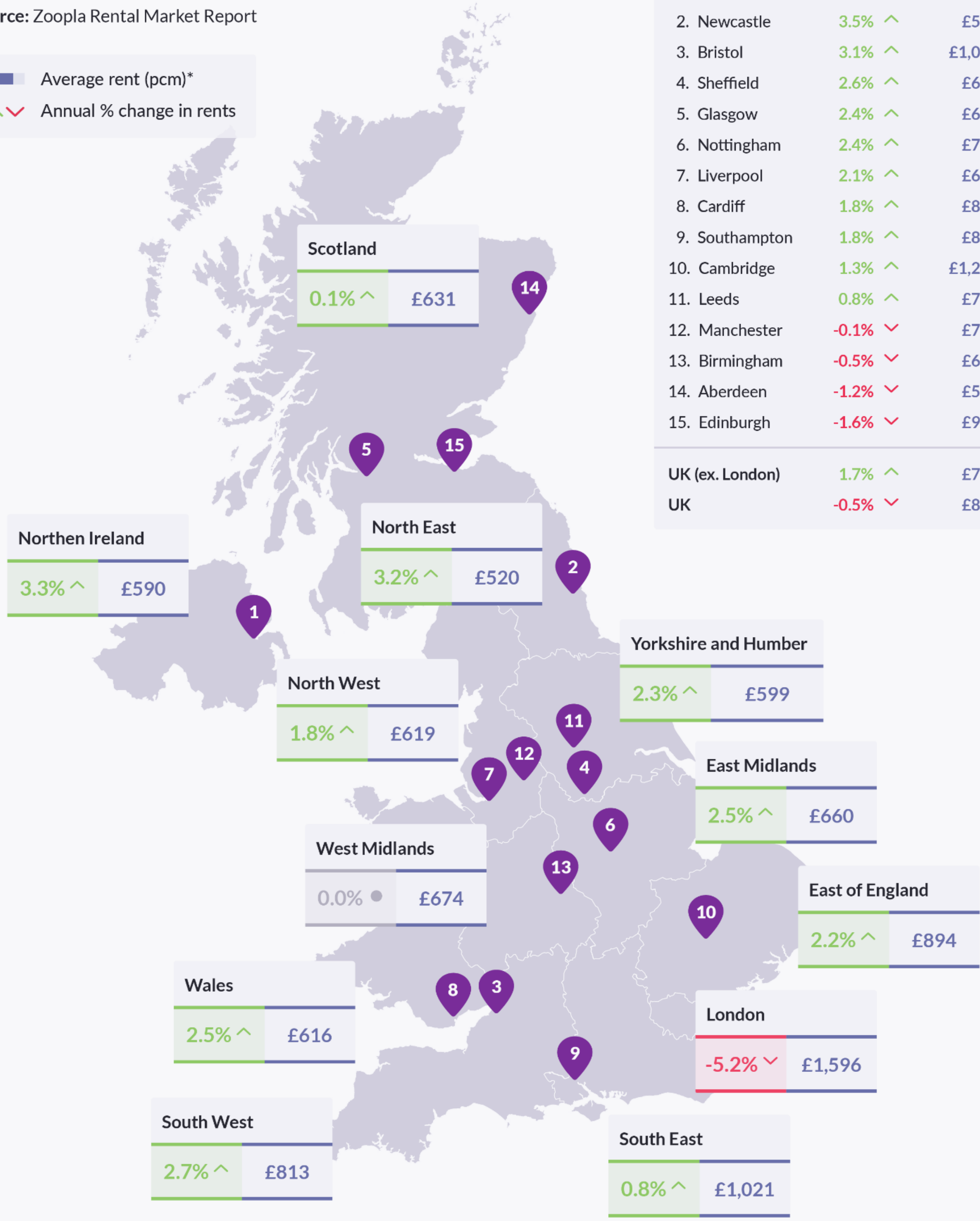
Zoopla

September Index 2020
(Published October 2020)

Source: Zoopla Rental Market Report

Average rent (pcm)*
Annual % change in rents

City	Annual % change in rents	Average rent (pcm)*
1. Belfast	3.5% ^	£604
2. Newcastle	3.5% ^	£587
3. Bristol	3.1% ^	£1,008
4. Sheffield	2.6% ^	£607
5. Glasgow	2.4% ^	£648
6. Nottingham	2.4% ^	£706
7. Liverpool	2.1% ^	£601
8. Cardiff	1.8% ^	£814
9. Southampton	1.8% ^	£858
10. Cambridge	1.3% ^	£1,220
11. Leeds	0.8% ^	£727
12. Manchester	-0.1% v	£742
13. Birmingham	-0.5% v	£684
14. Aberdeen	-1.2% v	£598
15. Edinburgh	-1.6% v	£941
UK (ex. London)	1.7% ^	£744
UK	-0.5% v	£890



* Average 1-4 bed properties

-5.2%

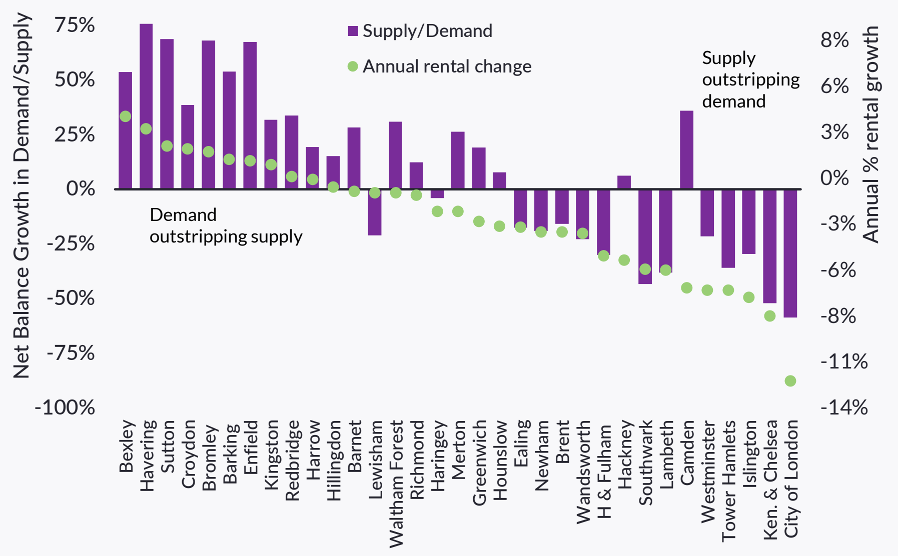
Annual change in rents, London, year to Sept 2020

London focus

The rental declines in the capital reflect the changing picture on working and commuting patterns and tourism. At the start of lockdown, there was a shift from short-lets to long-lets, especially in the centre of the city, pushing up supply in the sector which is still being absorbed.

The market is highly localised however, with the balance between supply and demand a key factor determining the movement in rents, as shown in the chart below. The central London rental market is being affected by the changes in working trends, with rental property typically used by workers staying in town for part of the week coming back to the market as many continue to work from elsewhere. The muted tourism during Summer and Autumn mean that any short-let landlords who had not switched into a long-let option may be choosing to do this now.

London: Rental growth vs balance of rental demand and supply

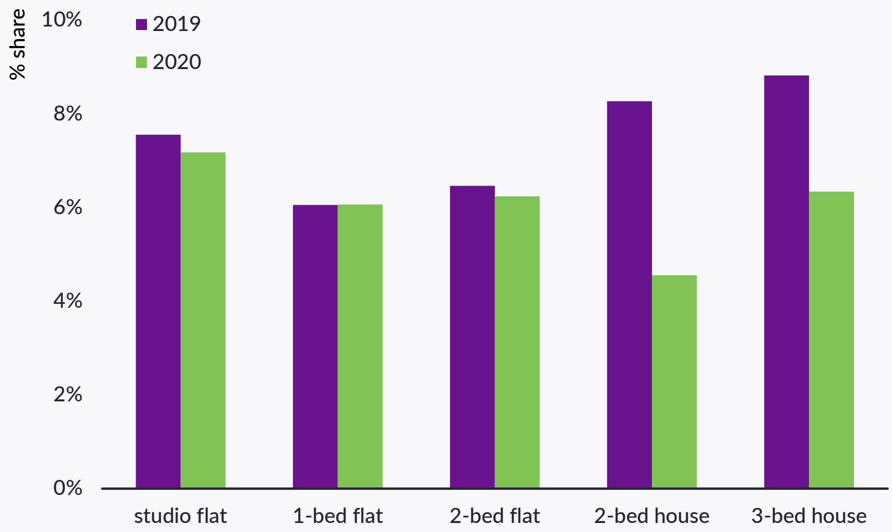


Source: Zoopla Research

Balance between growth in demand & supply Q3 2020 vs average Q3 2017-2019

Demand remains stronger for rental property in outer London boroughs however, stretching supply and underpinning rental growth. The housing stock available in mid and outer London zones, with more houses and outside space, also fits with the search for space being seen across the rental market as a whole. The data suggests that landlords in the rented housing market are making fewer cuts to asking prices (see chart on next page), highlighting demand in this sector. This also underlines the fact that headline rents in London are covering markets which are becoming more distinct, namely rented single-family houses, single-family flats and houses of multiple occupation.

London: Proportion of lettings where asking rents reduced

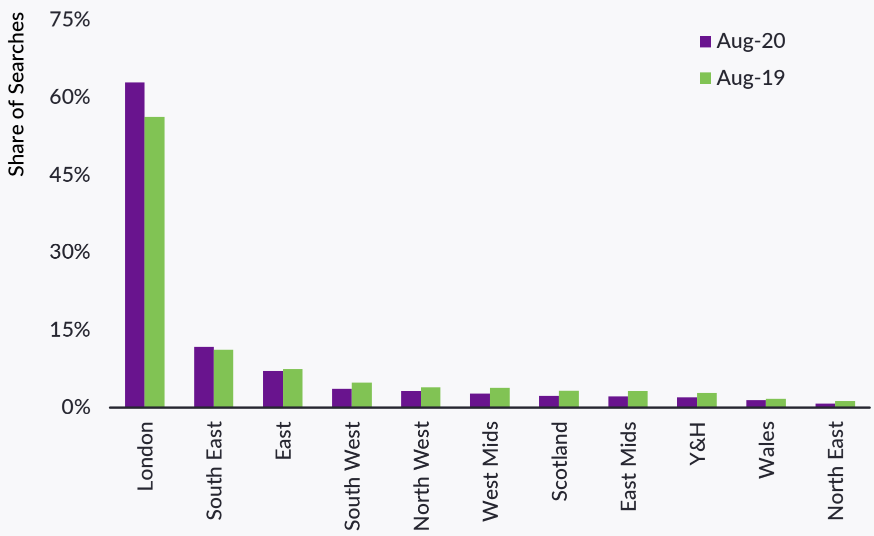


Source: Zoopla Research   % of inventory with cuts of 5% or more during marketing period, Q3 2020 vs Q3 2019

London exodus?

There has been an uptick in activity in some more suburban or urban rental markets, reflecting a cohort of renters who are choosing to make a change to how and where they live. However the data shows that most Londoners are looking for rental property within the capital, so the idea of a large-scale move from London is probably an overstatement. The proportion of Londoners looking to stay in the city has actually risen compared to last year. For those looking to move, the majority are looking in the South East and the East of England, which encompass most of the commuter zone for the capital.

Where Londoners are searching for rental property

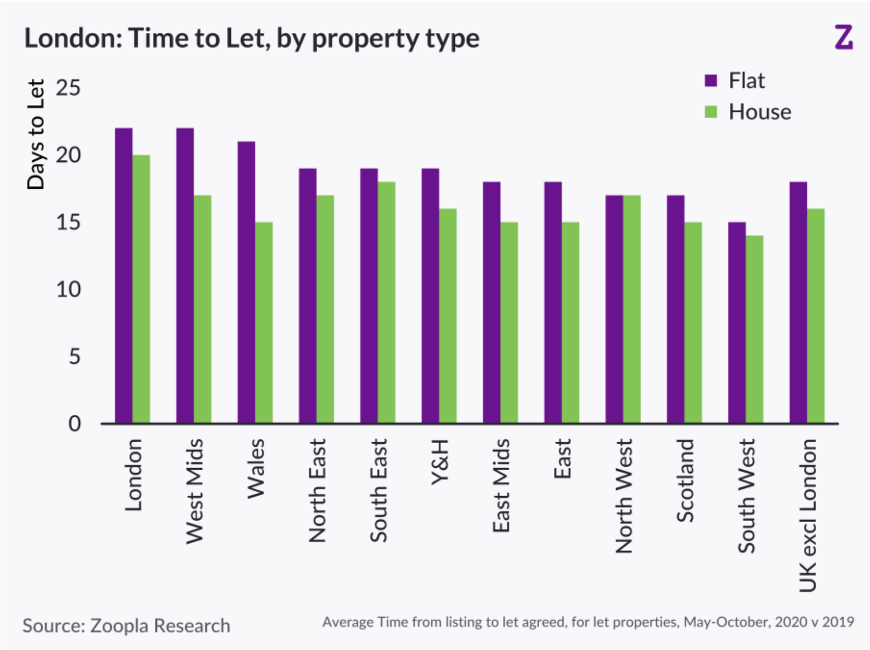


Source: Zoopla Research

Search for Space across the country

Just as in the sales market, the data indicates that renters across the UK are also reassessing the property in which they live. In some markets, rented houses are now being snapped up more quickly than flats, indicating the additional space, often with a garden, is increasingly attractive for renters. The average time taken to rent a house is now 16 days, down from 20 days last year. The time between listing a flat and let agreed is 18 days, also down from 20 days last year.

The most popular search terms for rental property also reflect the emphasis on space for renters, with Gardens, Parking, Garage and Balcony, topping the list. The fifth most popular search term is pets, with renters looking for pet-friendly accommodation.



Outlook for rents

The two-speed market across the UK is likely to remain in the coming months, as the lockdowns across the regions entrench some of the trends around working and commuting patterns seen during the previous lockdown and over the summer.

However, moving into next year, more large urban centres could see supply start to catch up with demand, especially in the city centres, which could put downward pressure on rental growth. There will also be more turnover in some parts of the market once the eviction bans are repealed into next year. Earnings growth, which is set to be subdued this year, is forecast to pick up again in 2021, however. This could allow more headroom for rental growth in some areas, especially if there is a return to more frequent office working.

Rental Market In Detail: September 2020

	Average rent £pcm**	Annual change	Annual change 12m ago	3-year average change	Affordability single earner*	Time to rent (days)
UK	**£890**	**-0.5%**	**2.0%**	**0.9%**	**31%**	**17**
UK (ex. London)	£744	1.7%	1.9%	1.7%	26%	18
Scotland	£631	0.1%	3.0%	1.6%	23%	15
Wales	£616	2.5%	1.9%	2.3%	26%	21
N Ireland	£590	3.3%	2.2%	2.6%	25%	16
North East	£520	3.2%	0.7%	1.4%	21%	19
North West	£619	1.8%	2.0%	1.6%	24%	17
York & Humber	£599	2.3%	2.9%	2.3%	24%	19
East Midlands	£660	2.5%	3.2%	2.9%	26%	17
West Midlands	£674	0.0%	0.5%	0.9%	26%	19
East of England	£894	2.2%	1.3%	1.5%	30%	18
London	£1,596	-5.2%	2.3%	-0.9%	44%	17
South East	£1,021	0.8%	1.3%	1.0%	33%	19
South West	£813	2.7%	2.7%	2.3%	31%	16
Belfast	£604	3.5%	2.2%	2.7%	25%	18
Birmingham	£684	-0.5%	0.4%	0.7%	26%	21
Bristol	£1,008	3.1%	4.4%	3.2%	38%	13
Cardiff	£814	1.8%	2.0%	2.1%	34%	22
Edinburgh	£941	-1.6%	3.2%	2.5%	35%	17
Glasgow	£648	2.4%	2.4%	2.9%	24%	18
Leeds	£727	0.8%	4.6%	2.4%	29%	19
Liverpool	£601	2.1%	2.4%	1.7%	23%	13
Manchester	£742	-0.1%	2.6%	1.2%	28%	18
Nottingham	£706	2.4%	4.9%	3.8%	28%	14
Sheffield	£607	2.6%	2.6%	2.1%	24%	19
Southampton	£858	1.8%	1.1%	1.0%	27%	20

***% of income for rent, based on average rent and average salary**
**** All properties**

Contact

If you have any questions about our research please do get in touch.

Richard Donnell
Director of Research & Insight
richard.donnell@zoopla.co.uk

David Ross
Managing Director, Hometrack
dross@hometrack.com

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