

Analytics Report

Rental Market Report

8 Dec 2020

W10 Postcode District

Rental Market Summary

This report provides analysis of the rental market in the W10 Postcode District using data on rental listings and other information held by Hometrack. This information is correct as at December 2020.

Market classification:

- > W10 is classified as a mature rental market by Hometrack's unique rental market typology.
- > W10 is ranked 56 out of 2,836 Postcode Districts in Great Britain (excludes Northern Ireland) for rental market activity.
- > There are sufficient numbers of listings in W10 to provide a large enough sample size for the analysis in this report.

Current rental values:

- > The median rent across all property types in W10 is £1,818 per calendar month (pcm).
- > The median rent for 1, 2 and 3 bedroom properties is £1454pcm, £1933pcm and £2312pcm respectively.
- > Rents for 2 bedroom properties range from £1694pcm to £2278pcm.

Market Trends:

- > Median rents for all types of property have fallen by 9.5% over the last 6 months.
- > They have fallen by 12.1% over the past 12 months.

Rental property mix:

- > The largest group of listings in W10 over the last 12 months was 2 bedroom properties (42%), followed by 1 bedroom properties (39%).
- > Flats account for 92% of listings and houses make up the remaining 8%.

Capital values and yields:

- > The average yield for a 2 bedroom property is currently 3.6%.
- > House price inflation over 2020 was -1.1%.
- > The total gross return in 2020 for an average 2 bed rented property was 2.5%.

Affordability:

- > The gross household income required to buy a 2 bedroom property in W10 is £144,680, compared to £100,494 for renting a similar property.
- > Renting is cheaper than buying for all property types.

Report Background

This report provides an analysis of the residential rental market in W10 Postcode District, as shown in Figure 1. It uses property listings data and other market information to provide a detailed analysis of rental levels, market performance, the mix of properties for rent and the affordability of renting or buying.

The Hometrack Rental Report provides local insight to answer the following questions:

1. What are pricing levels in the market?
2. How have rents performed over time?
3. What is the market type and rental activity?
4. What are yields in the area and how have house prices changed?
5. How affordable is renting?

Figure 1: Map showing report catchment area, shaded red



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The rental information in this report is based on advertised lettings, drawing on a database of over a million listings every year.

The differential between asking rents and achieved rents varies from area to area, but is relatively small, averaging just 1-3%. Table 2 on page 5 ('Rental Levels') shows the gap between asking and achieved rents at both regional and national level, using the Valuation Office Agency's private rental statistics as the basis for achieved rents.

The size of the rental market and its geographical concentration in urban areas means that many areas of the country will have limited coverage with a lack of comparable data available. This report is therefore only delivered for areas that exceed a minimum number of listings.

1. Rental Market Typology

The supply of rented housing is not spread uniformly across Great Britain. It tends to be focused in urban areas and those with high concentrations of employment. The risks associated with the rental market vary depending upon the size and characteristics of any given market.

Hometrack have developed a unique classification system for rental markets which ranks markets according to size and levels of activity. Generally, large markets with varied unit mix and high turnover are lower risk than smaller markets with poor coverage and low turnover.

While other sections of this report provide a detailed overview of the rental market in W10, this typology puts W10 into a national context.

W10 is classified as a mature market, as shown below. It has a large proportion of private rented stock, high turnover and coverage over most types of rental properties available.

Figure 2: Rental market classification relative to markets across the rest of the UK



Source: Hometrack - listings and market characteristics database 2020

The Hometrack Rental Market Classification

Hometrack has assessed every postcode district in Great Britain on the characteristics of its local housing and rental market and ranked them against indices of activity and liquidity.

These rankings are grouped into three broad market classifications. Classifications are based on a complex set of variables, but on the whole rental markets can be described as:

- > **Mature:** Large markets with high turnover and a varied unit mix
- > **Active:** Moderate to large sized markets with less varied stock
- > **Inactive:** Smaller markets with poor coverage and low turnover

Some of the specific variables for W10 are given above.

2. Market Rental Levels

The analysis in this section examines current rental levels in the W10 Postcode District.

Table 2 shows both average rents and the distribution of rents in W10 Postcode District, split by the number of bedrooms. Lower quartile and upper quartile rents are 25% and 75% of the overall rental distribution.

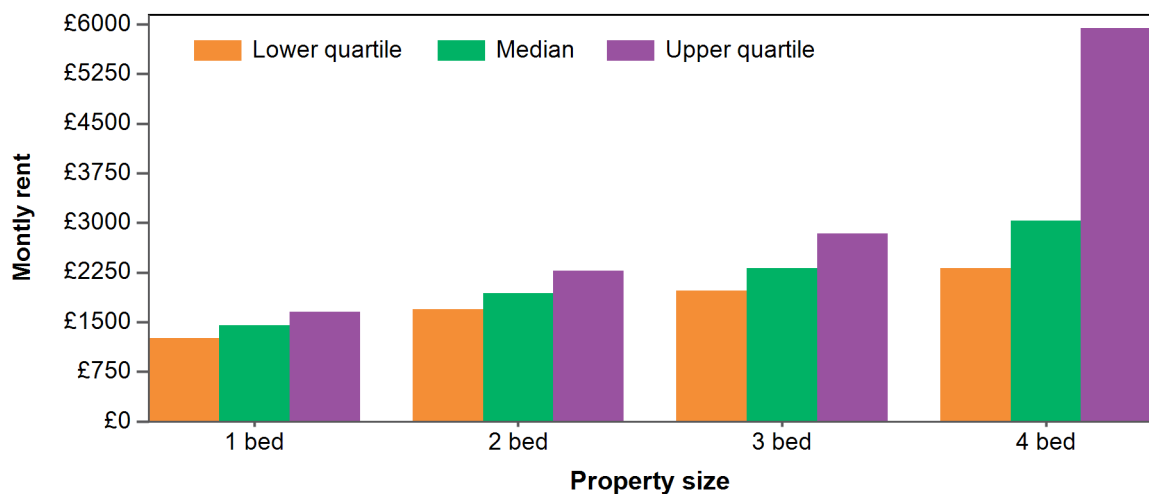
Table 1: Rents by size of property

Bedrooms	Average	Lower Quartile	Median	Upper Quartile	80% Median	Sample
1	£1,511	£1,261	£1,454	£1,660	£1,163	327
2	£2,113	£1,694	£1,933	£2,278	£1,546	345
3	£2,696	£1,975	£2,312	£2,837	£1,850	98
4	£4,196	£2,312	£3,037	£5,947	£2,430	46

Source: Hometrack - rental properties listed in the 6 months to November 2020

Figure 3 plots the distribution (by percentile) of rents in W10. This indicates the range of rents across the market. More detail on the distribution of rents can be found on the following page.

Figure 3: Range of monthly rental values by size of property



Source: Hometrack - rental properties listed in the 6 months to November 2020

Table 2: Difference between asking and achieved rents by property size

Bedrooms	London	England
1	-5.0%	-1.7%
2	-7.4%	-3.3%
3	-8.0%	-4.1%

Source: Hometrack listings and VOA private rental market statistics

3. Distribution of Rents

The table below plots the volumes of properties listed at different monthly rental bands within the W10 market over the last 12 months. This analysis can be used to gauge market size at each pricing level to help in identifying price ceilings and estimating landlord's potential void rates.

Table 3: Distribution of rents by bedroom

Value Range	1 Bed	2 Bed	3 Bed	4 Bed
Below £1000	42	0	1	1
£1000 to £1049	4	0	0	0
£1050 to £1099	7	0	0	0
£1100 to £1149	10	0	0	0
£1150 to £1199	16	1	2	0
£1200 to £1249	22	0	1	0
£1250 to £1299	25	2	0	0
£1300 to £1349	25	0	0	0
£1350 to £1399	40	7	0	0
£1400 to £1449	20	8	0	0
£1450 to £1499	55	14	0	0
£1500 to £1549	16	11	0	0
£1550 to £1599	42	26	3	0
£1600 to £1649	15	29	4	0
£1650 to £1699	37	37	3	0
£1700 to £1749	8	18	2	0
£1750 to £1799	23	23	3	0
£1800 to £1849	12	19	1	0
£1850 to £1899	24	46	7	0
£1900 to £1949	6	23	4	0
£1950 to £1999	8	22	1	1
£2000 to £2049	1	11	5	2
£2050 to £2099	6	24	4	0
£2100 to £2149	5	17	6	0
£2150 to £2199	0	12	1	0
£2200 to £2249	3	32	7	4
£2250 to £2299	0	4	1	1
£2300 to £2349	7	26	10	4
£2350 to £2399	1	1	2	0
£2400 to £2449	0	20	6	2
£2450 to £2499	0	2	4	2
Above £2500	24	89	72	29

Source: Hometrack - rental properties listed in the 12 months to November 2020

4. Market Rental Trends

This section sets out the trends in asking rents over time across the W10 market.

Across Great Britain, rental growth has averaged 5.3% over the last 12 months. In London rental growth is % and across the rest of the country 5.3%.

Rental growth in W10 has averaged -12.1% over the last 12 months for all types of property with growth of 0.3% over the last 2 years. Table 4 sets out a breakdown of rental growth in W10 by property size.

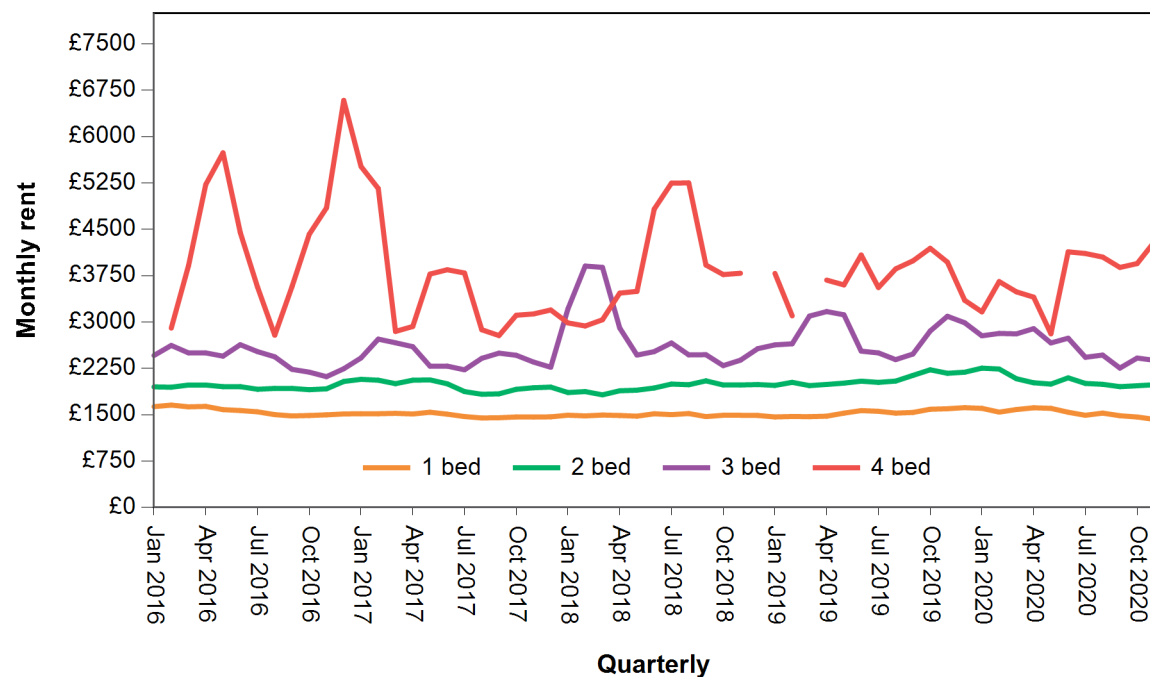
Table 4: Change in rents over time

Bedrooms	6 months	12 months	2 years
1	-9.2%	-7.9%	-1.9%
2	-2.4%	-11.6%	-0.6%
3	-10%	-15.3%	5.3%
All	-9.5%	-12.1%	0.3%

Source: Hometrack - inflation analysis based on time series of rolling average rents, no seasonal adjustment, all types series weighted November 2020

Figure 4 shows the performance of rental values across different property sizes from 2017 to the present quarter. Volumes tend to be lower for 4 bedroom properties than other sizes and can be volatile as a result.

Figure 4: Median monthly rents from 2017



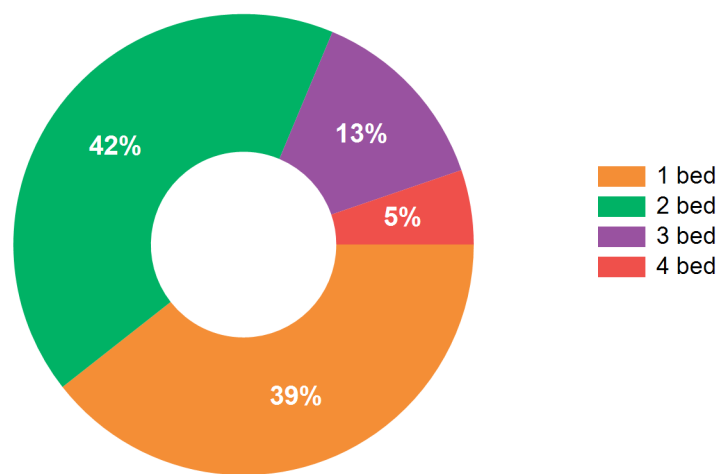
Source: Hometrack – rents rolling 3 months median average from 2017 to 2020

5. Rental Property Mix

The mix of property for rent in any market has an impact on letting periods and forms an important part of any market assessment.

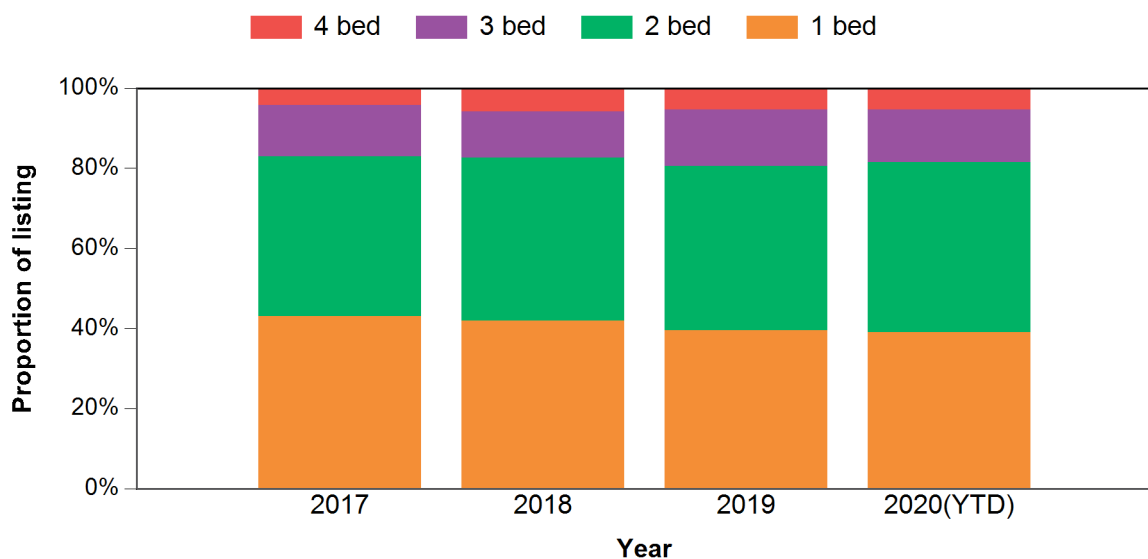
Figure 5 shows the mix of listings of different property sizes over the last 12 months and Figure 6 shows the mix of listing by year from 2017. The largest group of listings in W10 over the last 12 months was 2 bedroom properties, followed by 1 bedroom properties. 1 and 2 bedroom properties make up 81% of listings.

Figure 5: Proportion of listings for different property sizes over the last 12 months



Source: Hometrack - rental properties listed over the 12 month period to November 2020

Figure 6: Mix of listings by year from 2017 to 2020 year to date



Source: Hometrack - rental properties listed over the 12 month period to November 2020

6. House Price and Implied Yields

Returns from property are made up of returns from rental income ('yield') and capital returns from house price inflation. This section provides analysis on yields and capital returns.

The gross yield is the overall return from rental income relative to the capital value of the property. 'Total returns' are the sum of the gross yield and the capital returns.

Table 5 shows the median capital value, monthly rent and gross yield split by number of bedrooms in the W10 area.

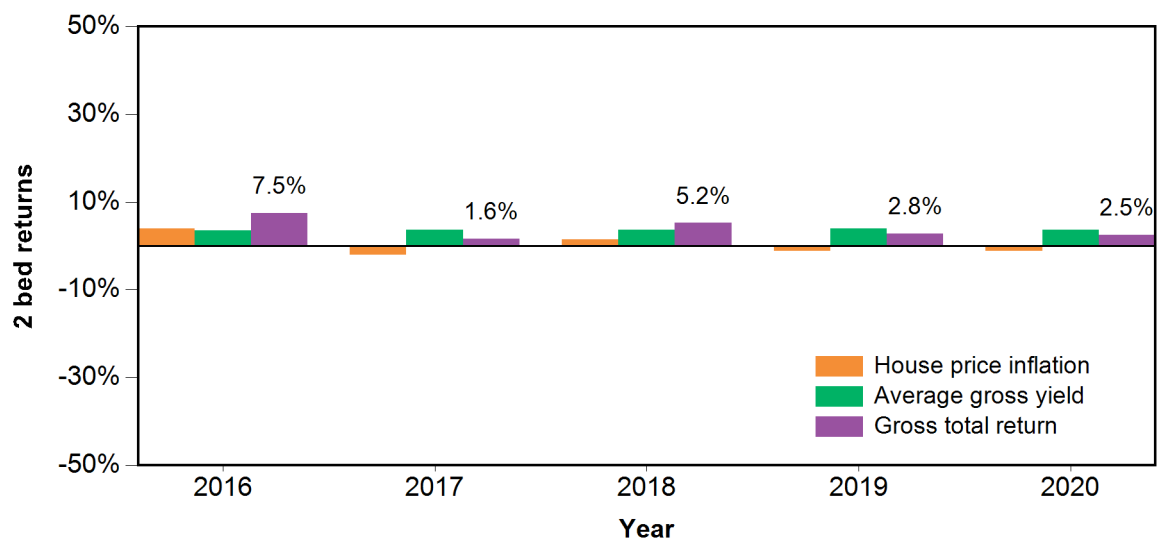
Table 5: Capital values, rental values and gross yields by beds

Bedrooms	Capital Value	Median Rent	Gross Yield
1	£498,452	£1,558	3.8%
2	£721,266	£2,169	3.6%
3	£1,014,691	£3,058	3.6%
4	£1,481,064	£4,116	3.3%

Source: Hometrack - average over six months to November 2020

Figure 7 shows annual house price inflation, gross yield and the total return over the last 4 years. In 2020 house price inflation in W10 was -1.1% and the gross yield was 3.6%, which gives a total gross return of 2.5% for a typical 2 bedroom property over 2020.

Figure 7: Gross total return by year, made up of house price inflation and gross yield



Source: Hometrack - capital price index and listings by year

7. Affordability

This section sets out a comparison of the minimum gross annual income required for potential purchasers to rent or buy in W10.

Table 6 shows rental values and house prices for properties in W10, as well as the gross income required to buy and rent for different property sizes (at average price points).

The income required to buy in Table 6 is calculated assuming a repayment mortgage, with a 25 year term, a 4.24% mortgage rate and an 20% deposit. We assume that a maximum of 35% of net income can be spent on mortgage costs/renting and that net income is 74% of gross income (accounting for tax). The calculation method and assumptions are in line with guidance on calculating affordability issued by the UK Homes and Communities Agency.

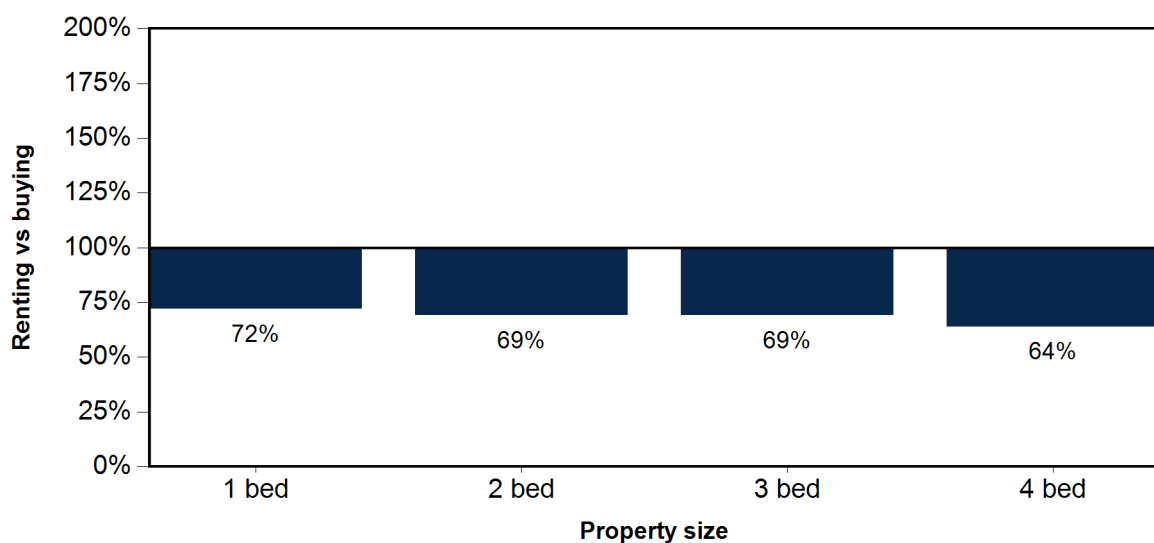
Table 6: Affordability by gross income for purchase and renting

Type	Average price	Gross income to buy	Median rent	Gross Income To Rent
1	£498,452	£99,985	£1,558	£72,185
2	£721,266	£144,680	£2,169	£100,494
3	£1,014,691	£203,538	£3,058	£141,683
4	£1,481,064	£297,088	£4,116	£190,703

Source: Hometrack - prices and rents over 12 months to November 2020

Calculating the cost of renting as a percentage of buying shows the relative position of the two tenures in affordability terms for a given market, as shown in Figure 8. If this measure is above 100% renting is more expensive than buying, if it is below 100% renting is cheaper than buying.

Figure 8: Renting as a percentage of buying by different property sizes



Source: Hometrack - prices and rents over 12 months to November 2020

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Hometrack delivers independent, specialist insight on residential property value, risk and opportunity.

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