

# UK Rental Market Index

**+11.1%**

Annual rental inflation for new lets, UK

**+51%**

Rental demand relative to the 5 year average

**+1%**

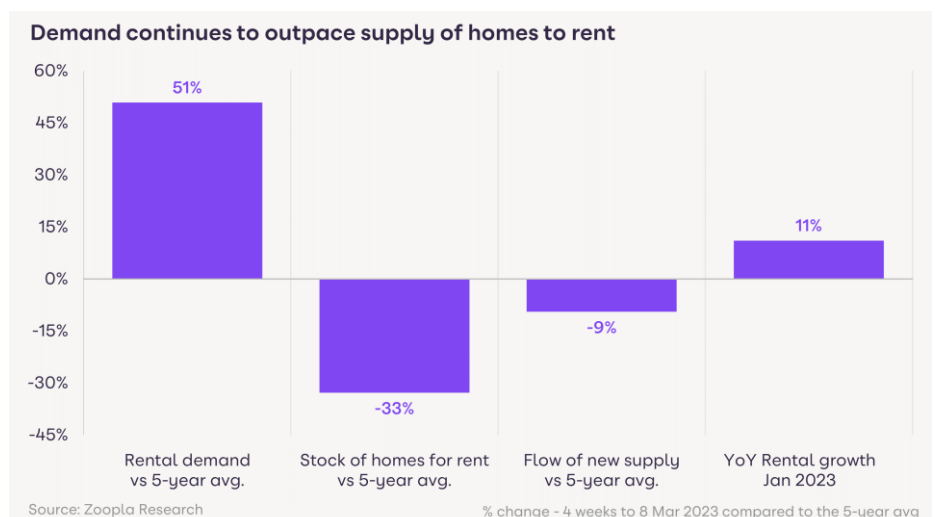
Increase in number of private rented homes, GB 2016-2021

## Executive summary

- Rental inflation has slowed to 11.1%, from a high of 12.3% in mid-2022
- A strong labour market and record immigration drove demand in 2022. Private rented housing supply has grown just 1% since 2016
- Higher mortgage rates have further weakened the economics of investing for landlords, impacting new investment in rental supply
- Landlords ‘searching for yield’ to offset rising costs will push some to let into different sectors of the private rental market
- The growth in overall rental supply is set to remain limited in 2023. Demand is expected to remain above average but lower than 2022
- Rental inflation for new lets will slow to 4-5% by the year end. The slowdown could be rapid in inner London and other city centres.

“The demand for renting was incredibly strong in 2022 helping push rents up by 11%. Rents will continue to rise over 2023 but at a slower rate as demand moderates and affordability pressures start to bite harder on renters.”

Richard Donnell  
Executive Director



**10%**

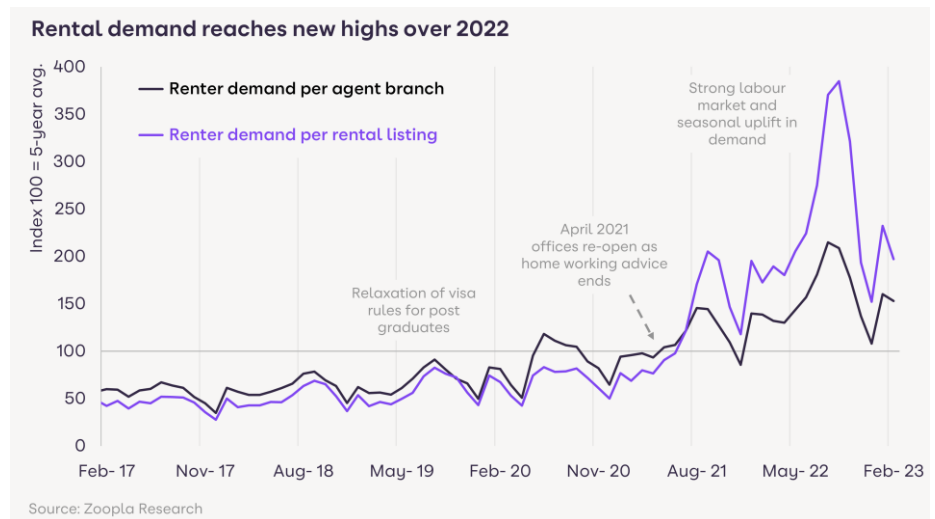
Demand for rented homes versus a year ago

### Rental market running very hot

The residential rental market has been running hot for 2 years, with something of a perpetual boom in residential rents which continue to run well ahead of earnings growth.

Average rents for new-lets have increased by 11.1% in the last 12 months while earnings had increased by 6.7%<sup>1</sup>. Rental inflation has slowed slightly from 12.3% in mid-2022 but there is no sign of any imminent slowdown. Rents have risen by 20% in 3 years - an extra £2,220 a year - which is an ongoing concern for renters, especially those on lower incomes and/or in receipt of housing benefit.

This report takes a detailed look beneath the headlines into what is driving the boom in rental demand and why we are not seeing a supply-side response. The key questions are 1) when will we see rental growth slow?; and 2) is there a risk the rapid rise in rents means landlords over-shoot and need to recorrect in future?



### Rental demand accelerates from mid 2021

Demand for rented homes, and rental inflation, took off as the economy reopened in the spring of 2021 and new visa rules attracted a major inflow of students and others for work. Our core measure of rental demand - enquiries received per estate agency branch - peaked in summer 2022 at double the 5-year average.

However, with a third fewer homes available for rent than normal, demand per available rental home spiked even higher last year by 250% above the 5-year average.

Demand for rented homes remains 10% higher than this time last year. Rents will continue to rise ahead of incomes unless we see a sustained increase in rental supply or a material weakening in demand, both of which appears unlikely at this stage.

<sup>1</sup> ONS growth in regular pay year to Oct-Dec 2022

# 500k

Record high net immigration of people into the UK in 2022

## High economic immigration boosts rental demand

The underlying driver of rental demand is the strength of the jobs market which has been strong and where there are over 1m vacancies according to the latest ONS data. Many jobs are filled by UK nationals, but the world's advanced economies are increasingly looking to immigration to fill jobs, particularly highly skilled workers.

In early 2021, the UK government conducted a major shake-up of visa rules to attract skilled talent. This was one of the drivers of record-high net immigration totaling 504,000 people in the year to June 2022<sup>2</sup>. This was boosted by humanitarian schemes supporting Ukrainians fleeing the war and a specific visa scheme for British Overseas citizens looking to leave Hong Kong and move to the UK.

## Rapid growth in overseas students adds to demand

A jump in student numbers also boosted migration. Overseas students studying in the UK totaled 680,000<sup>3</sup> in 2021/22, up 122,000<sup>3</sup> in 2 years thanks to new visa rules. This group are a lucrative market for universities and part of the strategy to attract talent to the UK.

All university towns have sizable amounts of purpose-built student accommodation (PBSA). There is a widely reported supply/demand imbalance for PBSA due to the growth in student numbers. This means student demand will spill over into the wider rental market, boosting rental demand in the summer months which was particularly strong in 2022 as international borders continued to re-open. This explains why rental inflation has remained strong across major UK cities.

## Supply of private rented homes remains broadly static

While demand has increased, the number of privately rented homes remains largely static. In 2021, there were 5.5m private rented homes in Great Britain<sup>4</sup> - slightly more than the 5.4m total in 2016. This follows a doubling in the number of private rented homes between 2002 and 2015, driven by landlords using buy-to-let mortgages.

In simple terms, a static supply of rented housing means new investment that adds to supply is offset by property leaving the sector, as landlords dispose of rented homes as part of ongoing portfolio rationalisation or exit the rental market altogether.

We are registering a slight slowdown in landlord sales in the face of a weaker sales market. Some 11% of homes listed for sale on Zoopla in early 2023 were formerly rented. This is a reduction from over 13% last year but levels remains above average. Tax changes, growing regulation and higher borrowing costs are leading many private landlords to review their portfolios and the pros and cons of investing in housing.

<sup>2</sup> Long-term international migration, provisional: year ending June 2022, ONS

<sup>3</sup> Where do HE students come from? HESA January 2023

<sup>4</sup> Zoopla calculations using DLUHC live tables, Scottish Government and Welsh Government - data to FY 2021

**50%**

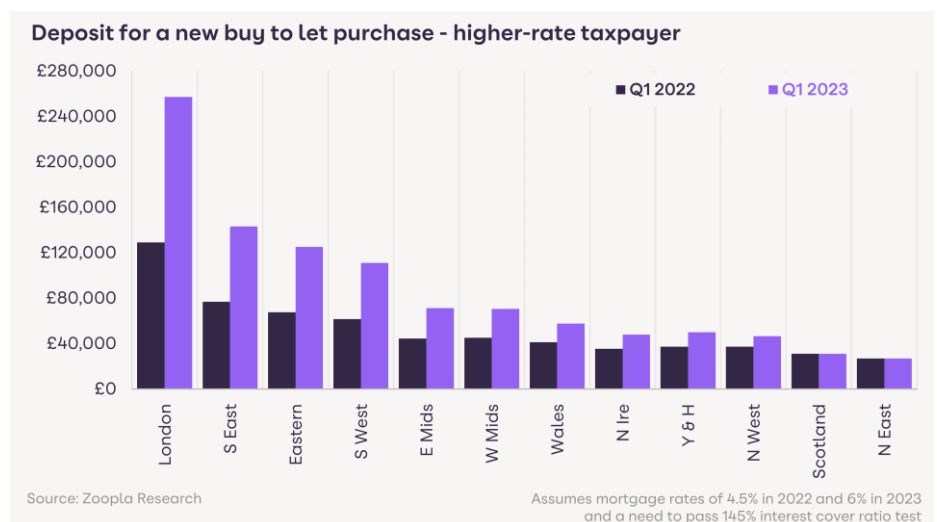
Maximum loan to value for a mortgaged investor buying a London property

### The economics of being a private landlord has changed

The equity needed to buy new rented homes with a mortgage has been increasing in recent years as a result of rising house prices, lower rental yields and tighter lending criteria. This has been exacerbated over the last six months by rising mortgage rates.

Buy-to-let mortgages are generally interest only. Lenders require the rental income generated by a property to be at least 125% of the mortgage interest payments for lower-rate taxpayers. This increases to 145% for higher-rate taxpayers, reflecting tax changes made in 2016. Today, banks are stress testing the affordability of new buy-to-let loans using a 'stress rate' of c.6%, compared to c.4.5% a year ago.

The chart shows the amount of equity (deposit) needed to buy a typical rented home for a higher rate taxpayer and how higher mortgage rates have pushed this higher over the last year. It will be a similar profile for lower rate tax-payers albeit at slightly lower values.



In London, the equity needed to invest has jumped from £129,000 to over £257,000 - or 50% of the property value. This is a sizable deposit to buy a property delivering a gross rental yield of just 4%. The level of equity to buy remains lower in regional markets where rental yields are higher - in most cases a higher rate taxpayer will need to take a 60-70% loan to value mortgage.

The changing economics of buy-to-let, taken together with rising costs, more regulation and the uncertain outlook for property values is severely limiting the level of new investment by private landlords. Some landlords are shifting portfolios into limited companies to find tax efficiencies, but this isn't an option for all landlords.

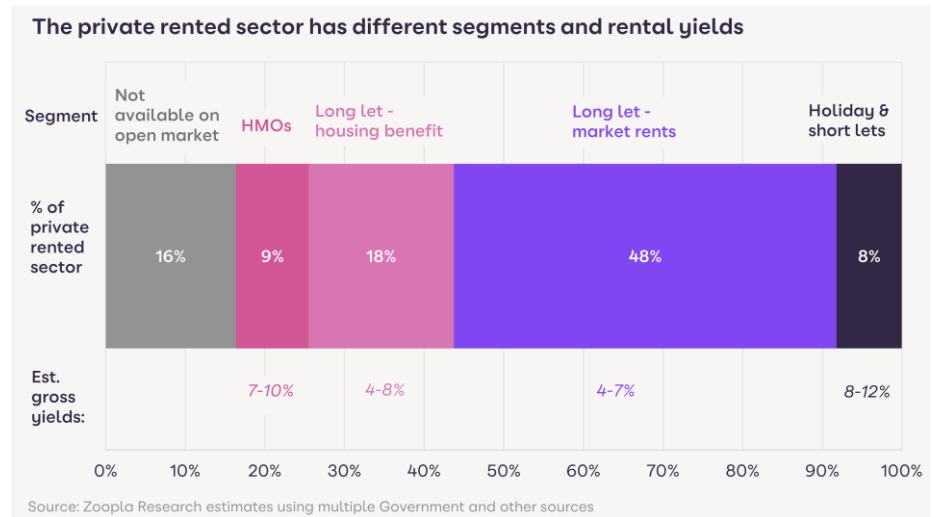
Those that continue to invest will be focusing on buying lower value homes with higher rental yields or looking at segments of the rental market that deliver higher revenues and stronger cashflow potential.

48%

Proportion of rented homes available on long lets at market rents

### New investment focused on revenue and yield

To help illustrate the choices facing landlords, the chart below shows our estimates on how the private rental market breaks down by sub-sector nationally. This profile will vary widely at a local level.



The key take-aways on the make up of the rented sector are:

- 1) c.1m homes are not available on the open market e.g. they are rented as part of a job or let under secure long-term tenancies.
- 2) We estimate up to 8% of rented homes are operating in the holiday / short let sector where revenues are higher but so are running costs. Concentrated in cities and tourist hotspots, there is a risk that the availability of homes for rent in the long-let market will be squeezed if landlords shift into this sector for better returns.
- 3) HMOs (houses in multiple occupation) are single dwellings where people rent a room and share other facilities - these are subject to local licensing schemes and incur higher management costs, but revenues and yields are higher than a typical buy-to-let property.
- 4) The 'core' private rented sector is the long-let market where renters pay an open market rent and take initial tenancies of 6-12 months. Rental yields are lower in this segment, but it delivers almost half of all rental supply. It is an important tenure to support economic growth and mobility in the labour market.
- 5) Within the long-let market c25% of renters are in receipt of housing benefit<sup>5</sup>. Rents are set by the Government - at the low end of the market - and have been frozen since 2020. Yields are similar to the open market assuming landlords buy lower value homes.

Landlords facing cost and regulatory pressures have some choices other than selling. In most cases planning permission is not required to change between segments. In a sector where overall supply is static, small shifts within these segments can compound supply side pressures, especially in local markets.

<sup>5</sup> Falling short: Housing benefit and the rising cost of renting in England, Crisis and Zoopla, 2022

**20%**

Annual rental inflation in London Borough of Newham

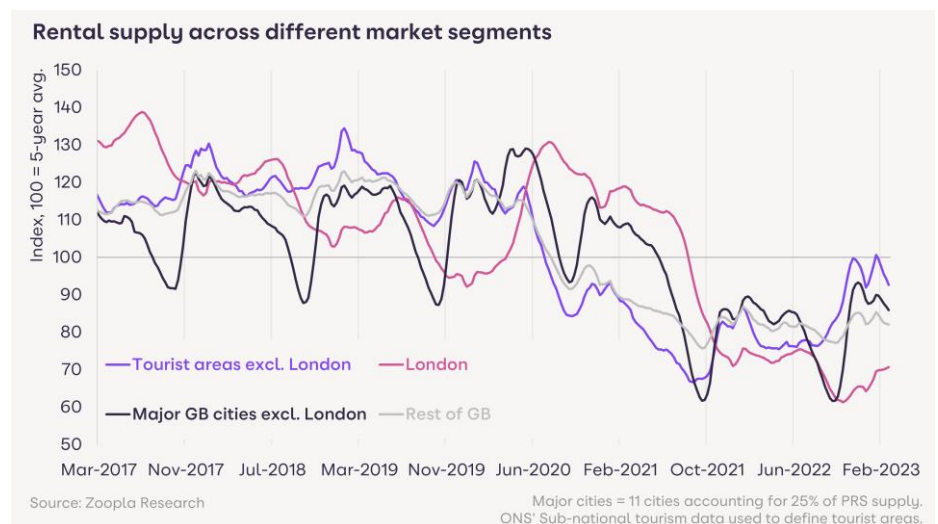
### Variations in available supply by type of area

There are also different patterns in the availability of rented homes by type of area whether tourist hotspot, city or London. The chart shows that the number of homes for rent is below average in all types of area, reflecting the national trend.

The availability of homes for rent is worst in London where there is huge competition from a range of renters including students, those working in London and short term visitors. London also has the lowest rental yields rental in the UK. We have shown how much equity is needed by private landlords to invest in this market which limits the flow of new supply to improve availability. The net result is that London tops the league tables for rental inflation at 15.2%.

Supply has improved in tourist areas which are out of season at present. This might also reflect more supply that was holiday/short let moving into the long let market as the ‘staycation’ boom slows.

Available rental supply has also improved in major UK cities - the largest 11 excluding London. This is the most seasonal line, reflecting the ebb and flow of student demand each summer. There is also significant corporate investment in so called ‘build to rent’ schemes across many UK cities which is steadily adding to supply in city centres, although overall city availability remains below average.



### Risks of rents over-shooting?

Low supply exacerbates rental growth. In local areas where rents for new lets have jumped the most, there is a risk that rents may over-shoot sustainable levels. If rents get so high that many existing renters in an area simply couldn't afford them and demand were to cool or supply improve, the rental level would need to reset lower. This would result in a sharp slowdown in growth rates. The greatest risk is in inner London where affordability is stretched.

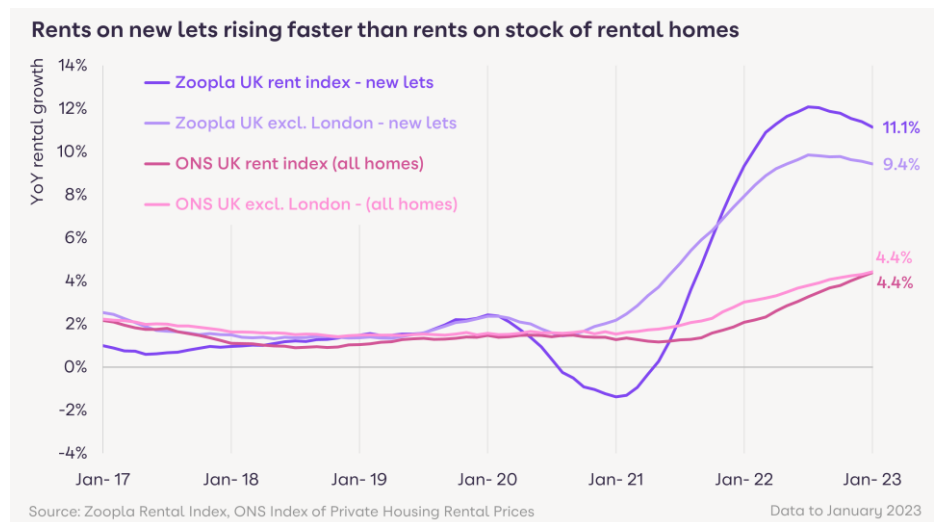
**4-5%**

UK rental inflation at the end of 2023

### Rental growth varies for new lets vs all rented homes

There is a difference between the pace at which rents are rising for new lets, when a property becomes vacant and the rent resets to the market rate, and how which rents are rising across the whole rental market, whether people are moving or not. Both matter to renters as they impact the decision whether to move to a new property or how much their landlord might increase the rent after the initial term.

Higher growth in new lets, measured by the Zoopla rental index, leads the whole market growth rate, tracked by the ONS index.



### Outlook will start to be shaped by affordability

We expect a continued scarcity of homes for rent over 2023 given the weaker economics for investors. Ongoing completions of build to rent schemes will be one bright spot, adding supply at the mid to upper end of the market across UK cities. One additional area of potential supply could come from sellers renting out homes they can't sell due to a weak sales market, but conditions aren't sufficiently challenging at this stage for this to impact the outlook.

Rental demand is unlikely to be quite as strong as last year given weaker economic growth, but we expect it to remain above the 5-year average. Much depends on trends in employment, especially across UK cities where rented homes and jobs are concentrated.

In terms of affordability, average rents expressed as a percentage of earnings are now at or close to ten-year highs in all regions except London. This will start to impact the pace of rental growth over 2023 which we expect to slow to 4-5% by the year end.

A faster slowdown in rents in inner London and some inner-city areas could develop later this year as stretched affordability combines with localised increases in supply and slower jobs growth.

## Rental Highlights

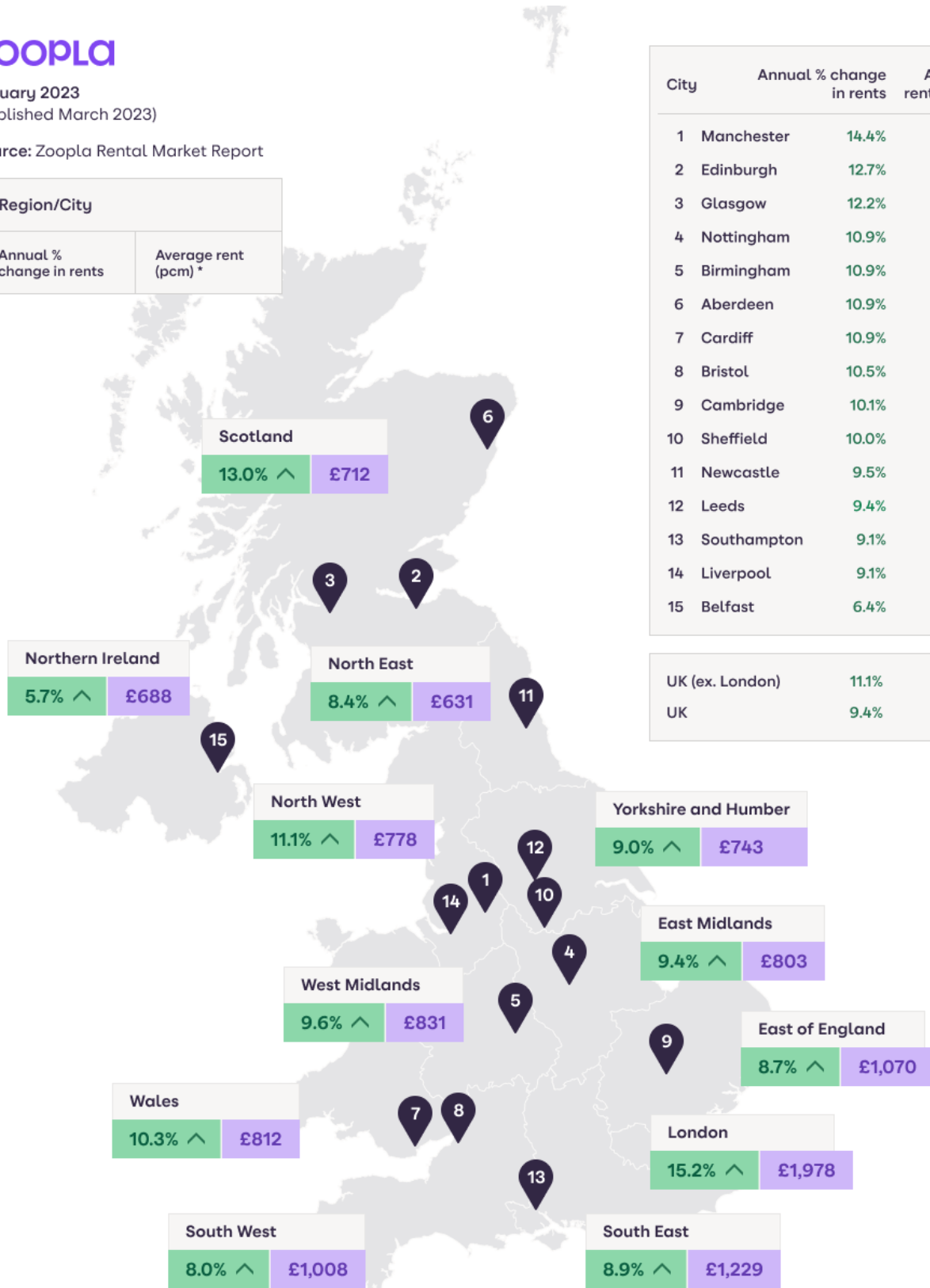
Note: The Zoopla rental market index is a repeat transaction index, based on asking rents and adjusted to reflect achieved rents. The index is designed to accurately track the change in rental pricing for UK housing.

### ZOOPLA

January 2023  
(Published March 2023)

Source: Zoopla Rental Market Report

Region/City	
Annual % change in rents	Average rent (pcm) *



\*Average 1-4 bed properties



## Rental Market Snapshot: January 2023

	Average Rent (PCM)	% YOY (Jan 2023)	% YOY (Jan 2022)	3YR CAGR	Affordability (Single earner)	Days to rent (Feb 2023)
UK	£1,119	11.1%	9.3%	6.2%	35.6%	14
UK ex London	£923	9.4%	7.9%	6.5%	29.4%	14
East Midlands	£803	9.4%	7.9%	7.0%	29.2%	16
East of England	£1,070	8.7%	6.5%	5.9%	32.4%	13
London	£1,978	15.2%	12.8%	5.7%	49.8%	12
North East	£631	8.4%	6.8%	6.5%	24.1%	16
North West	£778	11.1%	8.7%	7.2%	26.7%	15
Northern Ireland	£688	5.7%	10.5%	6.4%	26.6%	21
Scotland	£712	13.0%	5.9%	6.3%	24.3%	14
South East	£1,229	8.9%	6.8%	5.6%	35.4%	15
South West	£1,008	8.0%	9.7%	7.2%	33.9%	14
Wales	£812	10.3%	10.3%	7.8%	29.5%	18
West Midlands	£831	9.6%	9.2%	6.0%	29.5%	15
Yorkshire and the Humber	£743	9.0%	8.7%	6.7%	26.6%	16
Belfast	£702	6.4%	10.7%	6.5%	27.1%	18
Birmingham	£849	10.9%	10.8%	6.4%	30.1%	12
Bristol	£1,298	10.5%	10.6%	7.8%	43.6%	11
Cardiff	£1,043	10.9%	10.1%	7.5%	37.9%	19
Edinburgh	£1,133	12.7%	9.3%	6.0%	38.6%	14
Glasgow	£844	12.2%	10.7%	8.7%	28.8%	11
Leeds	£916	9.4%	9.9%	6.3%	32.8%	16
Liverpool	£758	9.1%	7.0%	6.5%	31.3%	20
Nottingham	£902	10.9%	10.2%	7.9%	32.7%	21
Sheffield	£747	10.0%	7.3%	6.9%	26.7%	15
Southampton	£1,035	9.1%	7.2%	6.2%	29.8%	15

### Contacts

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

#### Richard Donnell

Director of Research & Insight

[richard.donnell@zoopla.co.uk](mailto:richard.donnell@zoopla.co.uk)

#### Theo Brewer

Director of Innovation

[theo.brewer@hometrack.com](mailto:theo.brewer@hometrack.com)

### Recent publications



Sign up for all the latest research from Zoopla at [advantage.zpg.co.uk](https://advantage.zpg.co.uk)

The information and data in this report was correct at the time of publishing and high standards are employed to ensure its accuracy. However, no reliance should be placed on the information contained in this report and Zoopla Ltd and its group companies make no representation or warranty of any kind regarding the content of this article and accept no responsibility or liability for any decisions made by the reader based on the information and/or data shown here.