

UK Rental Market Index

+10.5%

Annual rental inflation for new lets, UK

+12.7%

Scottish rental growth, highest in UK

28.4%

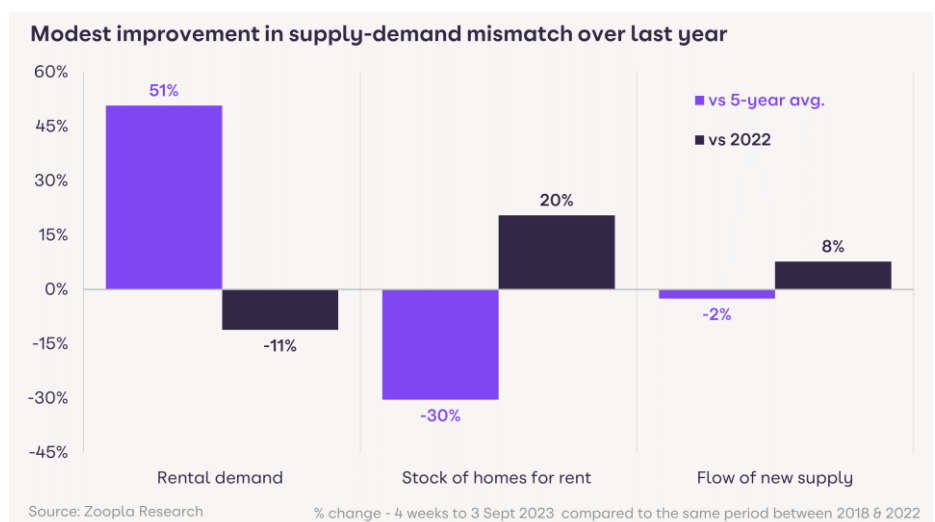
Rent as % earnings, highest for a decade

Executive summary

- Rents for new lets are up 10.5% over the year (12.2% a year ago)
- Rental inflation has been in double digits for 18 months
- Average renter has seen costs rise £2,800 over last 3 years
- Scotland recording fastest growth in rents at 12.7% where rent controls are forcing landlords to maximise rents for new lets
- The UK rented sector remains stuck in a period of low supply and high demand. Affordability is the key influence on rental growth
- Rents continue to outpace earnings and rental affordability is now the worst for over a decade
- Rents for new lets expected increase by 9% in 2023 then slow to 5-6% in 2024

“Rental growth in the near term is set to be shaped more by the affordability of renting, and how renters adapt to higher rents, than major shifts in supply and/or demand.”

Richard Donnell
Executive Director



12.7%

Annual rental inflation in Scotland – the highest in the UK

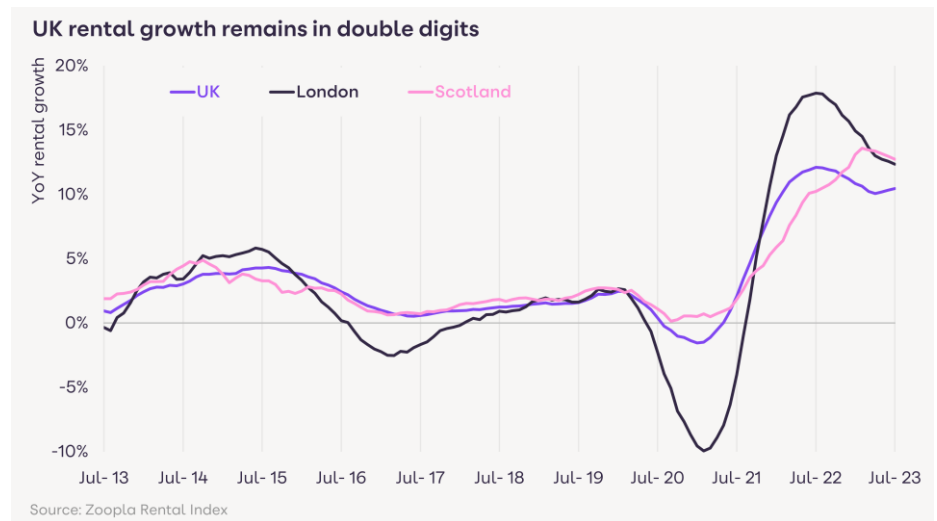
18 months of double-digit rental inflation

Demand for rented homes is slowing off a very high base but rental supply remains low, keeping an upward pressure on rents.

Demand for rented homes is 20% lower than a year ago but still 51% above the 5-year average. The number of homes for rent is 20% higher than a year ago but remains 30% below average for this time of year. This supply/demand mismatch is an established feature of the rental market across all regions and countries of the UK.

Annual UK rental growth is currently 10.5%, down from 12.1% a year ago as demand moderates and supply slowly improves. Rental growth has been running in double digits for 18 months. Average rents have increased by £110 per month over the last year – an annual increase of £1,320.

Over the last 3 years, rents for new lets are up by an average of £2,772 per year, compounding cost-of-living pressures for renters. The affordability of renting will have an increasingly important impact on rental growth in the coming months.



Scotland registers highest rental growth

Annual rental growth ranges from 4.2% in Northern Ireland to 12.7% in Scotland, which has overtaken London as the area with the fastest rental growth. Rents for new lets in Scottish cities are 15.6% higher in Edinburgh and Dundee and up 13.7% in Glasgow.

The introduction of rent controls in September 2022 is a key factor here. These have capped increases in rents for existing tenancies at 3% a year. As properties become vacant, landlords can reset the rent to the full market rate. This means landlords are seeking to maximise the rent for new tenancies to cover increased costs and allow for the fact that future rent increases will be capped over the life of the tenancy. This has added extra impetus for rental growth in Scotland versus other parts of the UK.

-30%

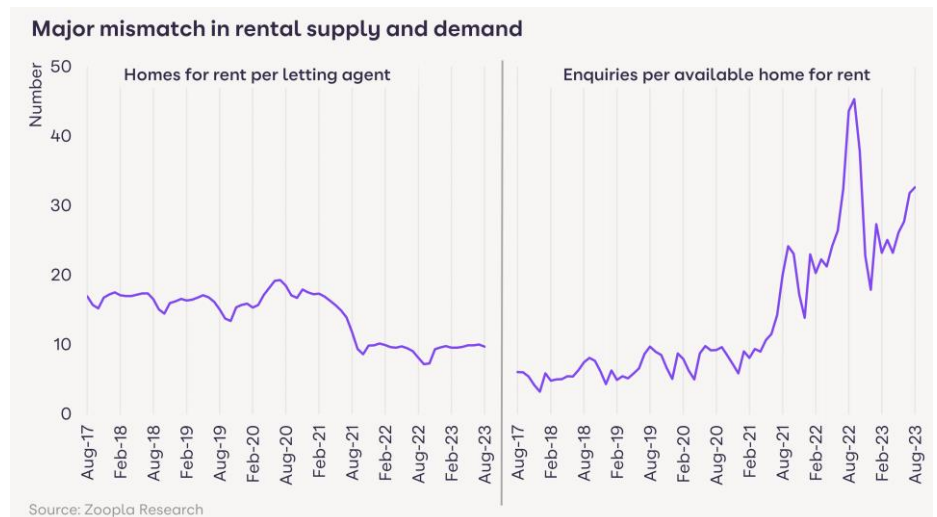
Supply of homes for rent versus the 5-year average

Persistent supply/demand mismatch

The rental market remains stuck in a period of low supply and high demand. Growing rental supply is the most efficient and sustainable way to reduce rental growth. However, levels of home building and net new investment by private landlords is falling and set to remain weak into 2024 due to the impact of higher borrowing costs.

New investment from corporate landlords via ‘build to rent’ is a bright spot, boosting supply in many city centres. However, rental levels set by corporate landlords are above-average and not at a scale to impact the wider market.

Many existing renters will also try to avoid moving and paying a higher rent, delivering a further drag on available supply. The net result is that the average estate agent has less than 10 homes to rent compared to a pre-pandemic average of 16.5 homes.



Demand for rented homes continues to be driven by multiple factors. The strength of the labour market and job creation is a key driver of rental demand, as is record levels of immigration. This was particularly apparent a year ago as international borders re-opened with an influx of overseas students returning to study in the UK. The number of renters chasing each property for rent spiked to a record high over the summer of 2022. Demand has risen again this year, tracking the seasonal trend, but is now 20% lower than a year ago.

Rental demand is also boosted by higher mortgage rates, which have increased the cost of buying, keeping more would-be buyers in the rented sector. Mortgage repayments for a first-time buyer are more expensive than rental costs at 5.5% mortgage rates. The greatest impact of this is being seen across southern England.

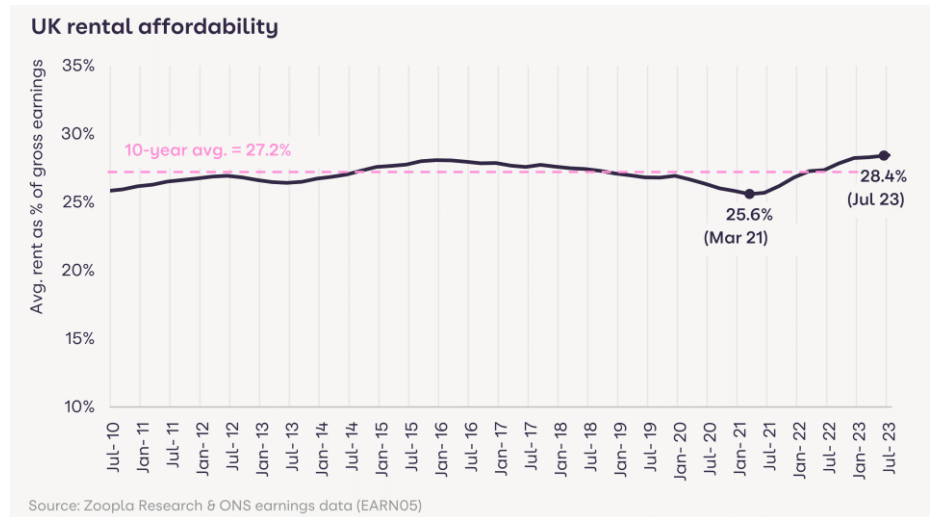
The net result of these trends is that the current supply/demand imbalance shows no sign of reversing as we move into 2024. Rental growth in the near term is set to be shaped more by the affordability of renting, and how renters adapt to higher rents, than major shifts in supply and/or demand.

27%

Rent as a percentage of gross earnings – 10-year average

Rental affordability deteriorates further

While the pace of UK earnings growth has been accelerating, the growth in rents for new lets continues to be higher, worsening rental affordability. Over the last decade, the average rent as a percentage of gross earnings¹ has tracked in a narrow range between 25% and 28%, averaging 27.2%. Double digit rental growth means rental affordability is now at its worst for over a decade at 28.4%.



Stretched affordability should reduce rental growth

Increasingly unaffordable rental costs should temper demand and lead to a reduction in the rate of growth. However, the scale of the mis-match between supply and demand means that rental growth will reduce more slowly than might be expected. If supply remains low then a weaker labour market, lower immigration and falling mortgage rates would all be needed to reduce demand to a level that would reduce rental growth back towards 5% per annum.

More sharing supports headline rents, at a cost

Faced with higher rents and a scarcity of supply, renters are being forced to consider renting smaller homes, moving to cheaper areas or sharing property with other renters to reduce costs.

More renters sharing does reduce the cost per renter, but this comes at the personal expense of less private space. It also supports headline rental values. Data from the Resolution Foundation² found private renters have experienced a 16% reduction in floorspace per person over the last 20 years. In our view, sharing is supporting high rents in inner London, where the reduction in floorspace per renter has been greatest. Increased levels of sharing could be a key factor in rents continuing to rise above earnings across regional cities over the next 12-24 months.

¹ We track rental affordability over time to assess how the cost of renting is improving or worsening as well as enabling comparison between areas. We calculate rental affordability based on average rents as a % of average gross earnings for a single earner from ONS i.e. before tax. We then apply an adjustment to reflect the income of renting households, (often more than one earner) assuming 1.25 earners per home which delivers affordability numbers broadly consistent with the ONS rental affordability analysis in 2021. After allowing for tax, the proportion spent on rent will be higher than the gross figure.

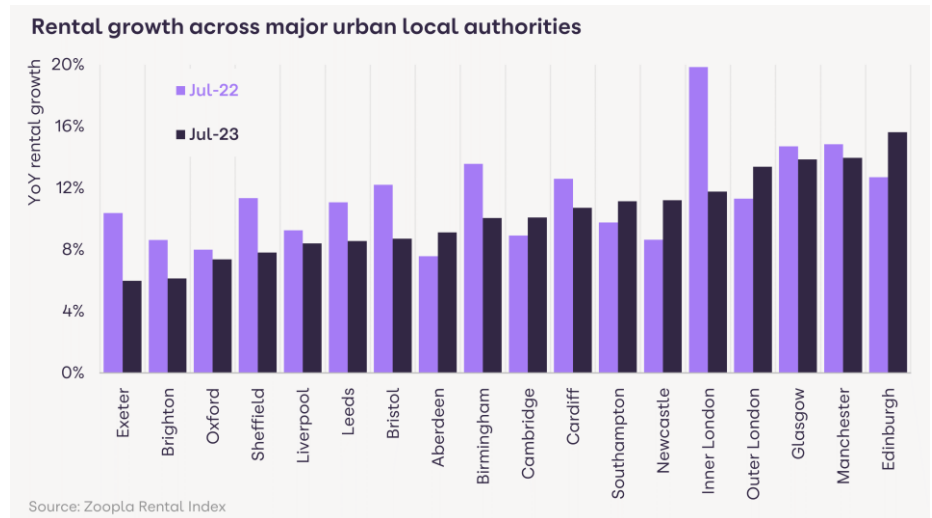
² Resolution Foundation Housing Outlook Q3 2022, September 2022

9%

Expected growth in rents for new lets over 2023

Rental growth shifts to more affordable areas

Rental growth at a city level is running from 6% per annum in Brighton and Exeter, up to 15.6% in Edinburgh and 14% in Manchester. Several cities are registering slower annual growth than a year ago, while others are tracking at a similar rate of growth. The biggest slowdown has been registered in inner London. In this area, rents are slowing from a high base, having sharply rebounded following the pandemic.



There is a clear trend emerging in London with the impetus for rental growth coming from the outer London suburbs as renters seek better value for money. We expect rental growth in inner London to slow further in H2. This is due to expanding supply on the back of new build sales to corporate investors and affordability pressures impacting demand.

Outlook

Rental growth is on track to end the year at over 9%, higher than earnings growth, which is expected to be 6%³. Rental growth is higher than we anticipated due to faster earnings growth and the impact of higher mortgage rates keeping more people renting.

Rents for new lettings are expected to keep rising ahead of earnings growth in 2024, projected to be 3.6%³, in the face of ongoing supply constraints and sustained higher mortgage rates. We currently anticipate UK rental growth of 5-6% in 2024 with the impetus for growth originating from regional cities.

We believe rental inflation in inner London will slow more quickly in the next year in the face of higher rents and affordability constraints. This would act as a drag on the UK rate of growth, potentially halving it to more sustainable levels.

³ Forecasts for the UK economy: a comparison of independent forecasts, August 2023

Rental Highlights

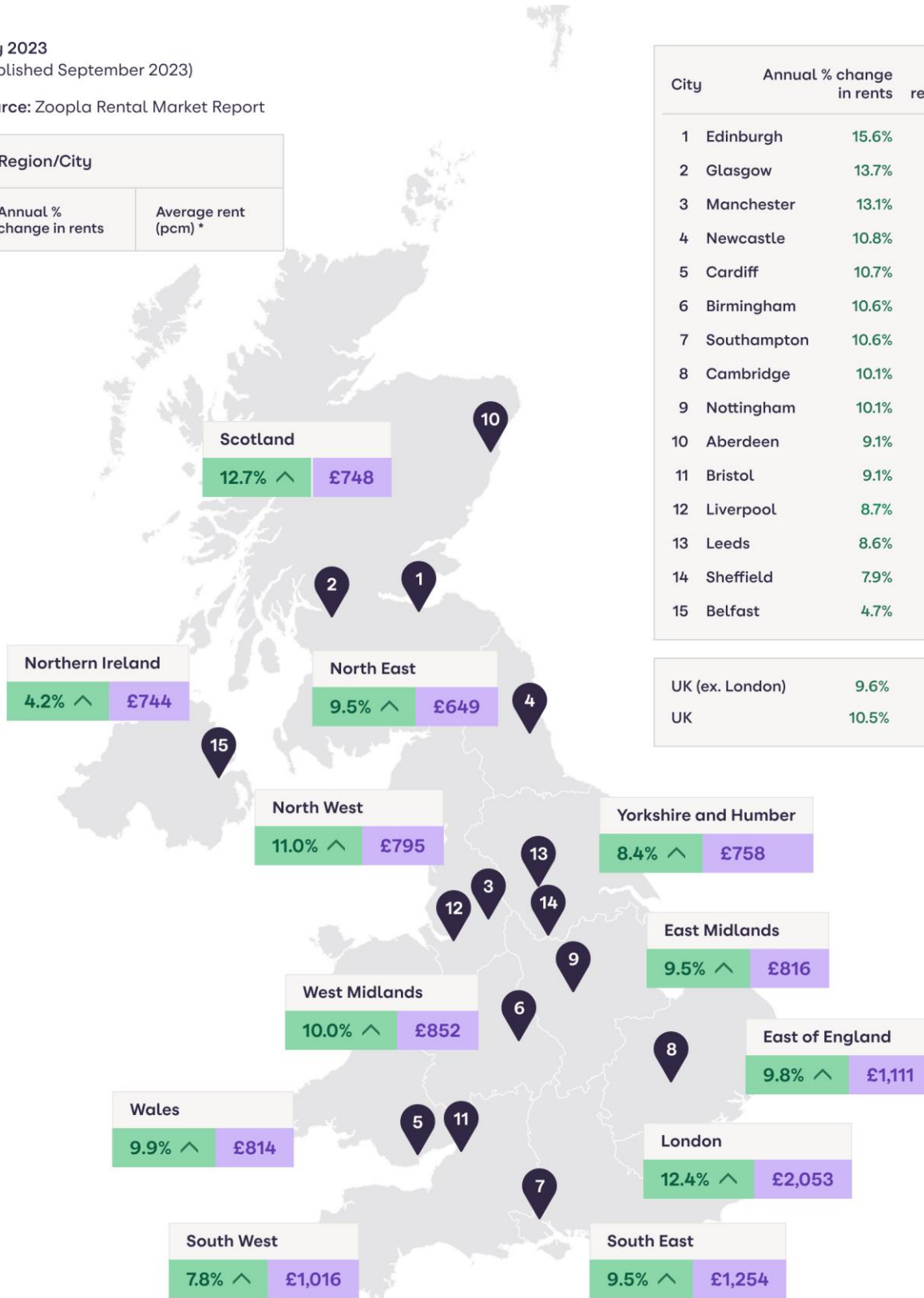
Note: The Zoopla rental market index is a repeat transaction index, based on asking rents and adjusted to reflect achieved rents. The index is designed to accurately track the change in rental pricing for UK housing.

July 2023

(Published September 2023)

Source: Zoopla Rental Market Report

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



*Average 1-4 bed properties

Rental Market Snapshot: July 2023

	Average Rent (PCM)	% YOY (Jul 2023)	% YOY (Jul 2022)	3YR CAGR	Affordability (Single earner)	Days to rent (Aug 2023)
UK	£1,163	10.5%	12.1%	8.1%	35.6%	12
UK ex London	£958	9.6%	9.8%	8.0%	28.5%	12
East Midlands	£816	9.5%	9.7%	8.5%	28.2%	14
East of England	£1,111	9.8%	7.5%	7.4%	32.8%	12
London	£2,053	12.4%	17.9%	8.3%	50.0%	12
North East	£649	9.5%	7.5%	7.6%	23.7%	13
North West	£795	11.0%	12.0%	8.9%	26.2%	13
Northern Ireland	£744	4.2%	10.0%	6.6%	28.0%	18
Scotland	£748	12.7%	10.2%	8.2%	24.1%	13
South East	£1,254	9.5%	8.9%	7.5%	34.5%	11
South West	£1,016	7.8%	10.2%	8.4%	32.1%	11
Wales	£814	9.9%	12.2%	9.3%	28.4%	13
West Midlands	£852	10.0%	10.9%	8.0%	28.9%	13
Yorkshire and the Humber	£758	8.4%	10.2%	7.7%	26.2%	13
Belfast	£759	4.7%	9.7%	6.7%	28.6%	18
Birmingham	£880	10.6%	12.9%	8.6%	29.9%	13
Bristol	£1,315	9.1%	12.8%	9.3%	41.5%	8
Cardiff	£1,011	10.7%	12.6%	9.2%	35.3%	11
Edinburgh	£1,199	15.6%	12.7%	9.3%	38.7%	13
Glasgow	£898	13.7%	14.5%	11.0%	29.0%	11
Leeds	£908	8.6%	11.1%	6.8%	31.4%	13
Liverpool	£764	8.7%	9.7%	7.8%	25.2%	13
Manchester	£994	13.1%	15.1%	9.8%	32.8%	11
Nottingham	£896	10.1%	11.5%	9.6%	30.9%	13
Sheffield	£772	7.9%	11.2%	8.4%	26.7%	12
Southampton	£1,057	10.6%	10.1%	8.3%	29.1%	9

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