

Property market insights

How affordable are rents in Great Britain?

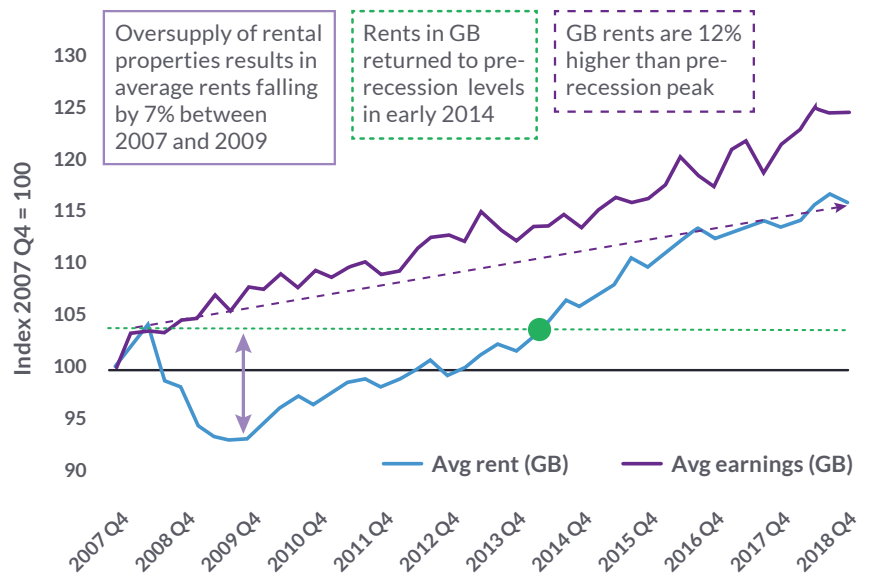
Introduction

The demand for, and the supply of, private rented housing has expanded over the last decade. Private rents have increased but to different degrees across local housing markets. More recently, there have been calls for regulation of rental growth.

This report uses Zoopla's long run regional rental indices to explore the development of private rental values and the affordability of renting, taking us from 2007 to 2018.

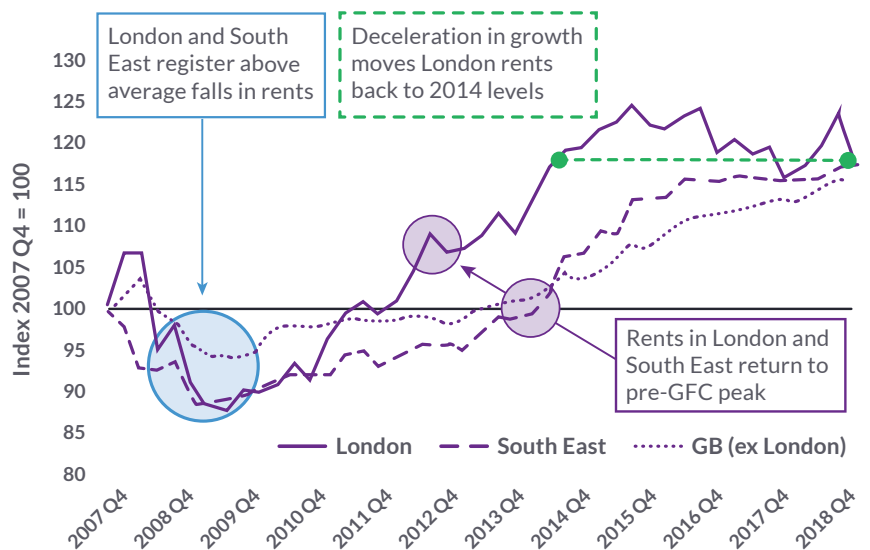
Index of private rents and earnings for GB

- Rents track earnings growth; this is because those living in private rented homes will typically allocate a certain proportion of earnings to rent. There are periods when rental growth diverges with growth in earnings.
- The largest divergence between rents and earnings followed the global financial crisis (GFC). There was an oversupply of rental properties, largely as a result of "accidental landlords"— they could not sell as house prices started to fall and mortgage availability reduced.
- 11 years on from the GFC, average monthly rents in Great Britain are £676 pcm — 12% higher than their pre-recession peak.



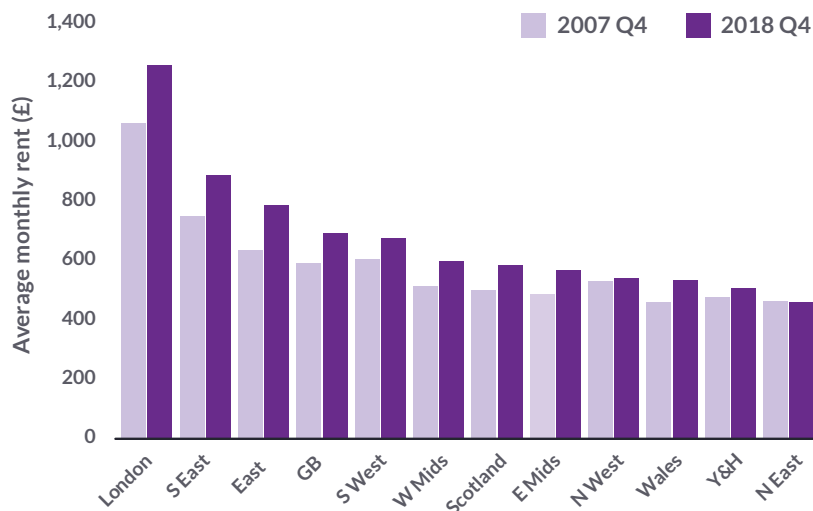
Index of rents in London, South East and GB

- An important driver of rental demand in London is the financial services sector – 35% of all employees in London are employed in this sector with 78,000 (2%) jobs lost in London between 2007 and 2009. Subsequently, there was a 10% decrease in average monthly rents during this same period.
- 2012 – 2013 is when London and the South East returned to their GFC peak. The recovery in rents was quicker than the regions due to stronger employment growth – rents in the North East, for example, have not yet returned to pre-GFC levels.
- Both regions have experienced weaker growth over the past two years. This is down to stretched affordability, slower employment growth and weaker in-migration.
- In London, average rents are on par with rental levels last seen in 2014 (£1,250 per month).



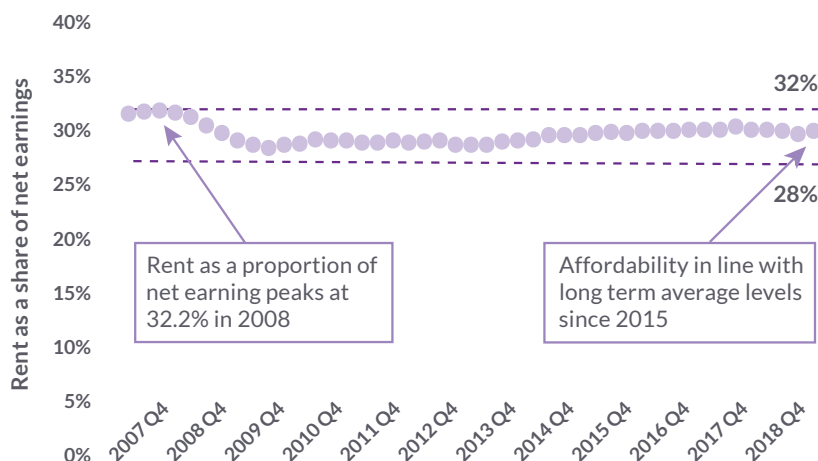
Absolute regional rental levels

- Rental growth in the southern regions, the Midlands and Wales has outpaced most of the rest of the UK – with growth between 17% and 20%. Conversely, growth in the northern regions averaged just 3% between Q4 2007 and Q4 2018.
- Absolute rental values remain perennially higher in London and the southern markets than elsewhere. This is largely a function of population, employment and earnings growth, as well as the high cost of accessing home ownership which supports demand for renting.
- Another important driver of rents in inner London are high occupancy levels, where renters share the cost of housing across more than one income.



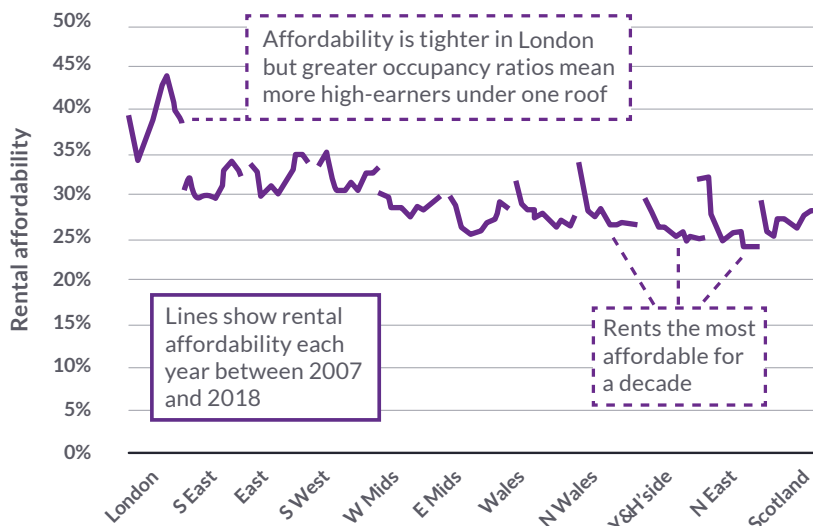
Rental affordability over the last decade

- At present around 30% of income is allocated to rent, this is exactly in line with the long run average.
- At a national level, rent as a proportion of earnings has remained stable at between 28% and 32% over the last decade and they have tracked earnings in the long-run.
- The marriage between rents and earnings is highly attractive to investors looking for assets that can match liabilities linked to earnings growth or inflation. This is a key attraction for corporate investors and institutions investing in rented housing via build to rent schemes. It's also important for private landlords, almost half of whom are investing to supplement their pension (MHCLG private landlords survey, 2018).



Affordability of renting across regions

- London affordability peaked in 2015 when an average 45% of net earnings was allocated to rent. Rents in London have reduced over the last three years as whole earnings continue to grow, improving affordability. Today renters in the UK capital are spending 39% of net earnings on rent.
- The north of England has the best affordability, with the North East, Yorkshire and Humberside regions more affordable than long term average levels. The North West is currently more affordable than it has been for a decade.
- Despite recent fluctuations in affordability, two things hold true: firstly, regional rental levels are a function of earnings growth, and when the spread between rents and earnings becomes too wide, rental levels will readjust.
- Affordability appears manageable across all regions; in London, affordability continues to improve.



Source: Zoopla Research, Office for National Statistics. Graph for 'absolute regional rental levels' refers to rents for 1-3 bed properties.

Summary / key findings

- Rental growth over the last decade has varied between +1% and +23% across regions. This is primarily down to variance in the growth in household numbers and employment as well as the affordability of home ownership.
- The proportion of net earnings spent on rent has remained broadly stable over the last 15 years – ranging between 28% and 32%. When affordability becomes stretched, rents will re-adjust as we have seen in London. Reportage suggesting that landlords are unfairly inflating rents should be considered critically.
- The occupancy level of rental housing is an important factor to consider when assessing the true affordability of renting, and subsequently the outlook for rental growth.
- There remains potential for further rental growth in regional markets where affordability remains attractive and levels of employment are rising. 80% of first-time buyers move from renting and lower costs of accessing home ownership are likely to limit the pace of rental growth in regional markets.