Zoopla

# Rental Market Report 2019 Q3

Powered by hometrack

# Executive Summary - 2019 Q3



## Headline trends

| | |
|---|---|
| Rental growth – UK (% yoy) | +2.0% (+1.3% a year ago) |
| Average rental value (£pcm) | £876 (up from £859 a year ago) |
| Rental affordability - UK – single earner | 31.8% (32.7% 5-year average) |
| Average days on market | 17.0 days |
| Highest rental growth - country/region | +3.2% - East Midlands |
| Lowest rental growth – country/region | +0.5% - North East |
| Highest rental growth - city | +5.4% - Nottingham |
| Lowest rental growth - city | -4.1% - Aberdeen |

## Summary of key findings

- The annual rate of UK rental growth is +2.0%, up from 1.3% a year ago as rental growth increases on tightening supply as levels of new investment decline.
- Rents are rising at their fastest pace for 3 years, but this growth is half the level of earnings growth (+4.0% ONS), continuing a 3-year trend.
- A single earner spends 31.8% of earnings on rent for the typical rented property. This measure of affordability varies widely across regions and cities. In markets with high rents, increased levels of sharing improve affordability levels.
- Rental affordability has remained broadly stable over the last decade and has been trending downwards over the last 3 years.
- Rental growth across UK cities ranges from 5.4% in Nottingham to -4.1% in Aberdeen where the fall in the oil price has adversely impacted demand.
- In broad terms, markets where rental supply is static or falling are registering an above average growth in rents. Rental growth is slower in markets where rental supply is rising through new investment or renters existing the market to purchase their first property.

# 01. **Headline results**

# Headline UK rental growth and impact of London

- The annual rate of UK rental growth for new lets is +2.0% - the highest rate for 3 years (Sep-2016). Growth has increased from a low of 0.5% in June 2017 as a result of 1) a tightening in rental supply as a result of tax changes and fewer investment buyers, 2) rising levels of employment and 3) affordability constraints limiting access to home ownership in southern England which supports underlying rental demand.
- Average earnings are growing at +4.0%, twice as fast as the growth in UK rents (Fig.4). Earnings have been rising faster than rents for 3 years now, improving rental affordability.
- London is the UK largest rental market with c.30% of rental supply. The size and scale of the London market influences the headline UK growth rate over time. Fig.2 compares rental growth for the UK including and excluding London. The headline UK rate was inflated between 2010-2012 as a result of London rents increasing by 8-10% as employment and in-migration into London grew. Rental growth in London over 2016 and 2017 has been negative, acting as a drag on the headline rate. The UK ex. London series has tracked earnings growth until 2016 and has run below earnings growth for the last 2 years.

**Fig.1 - Headline UK rental growth (new lets %yoy)**

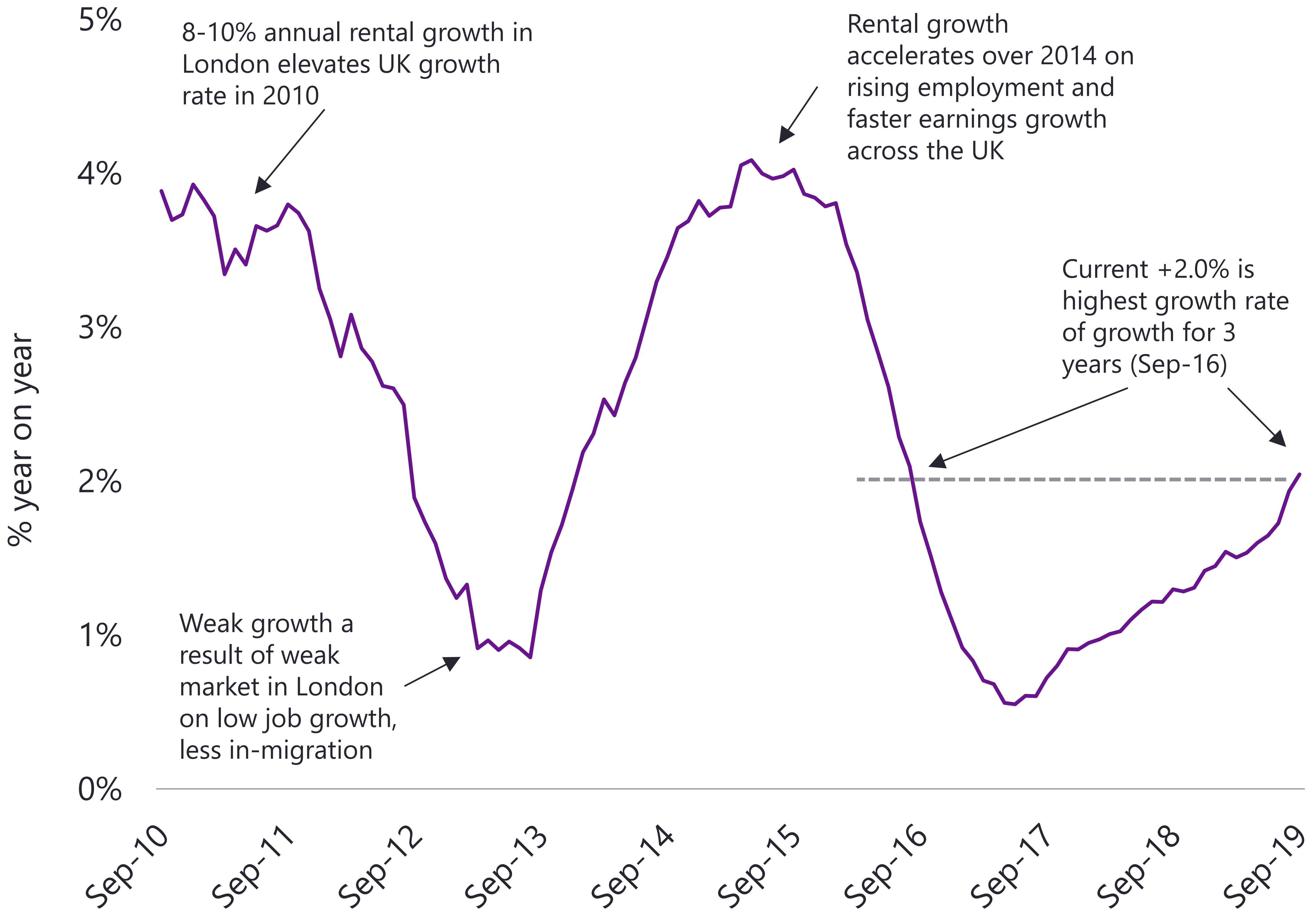
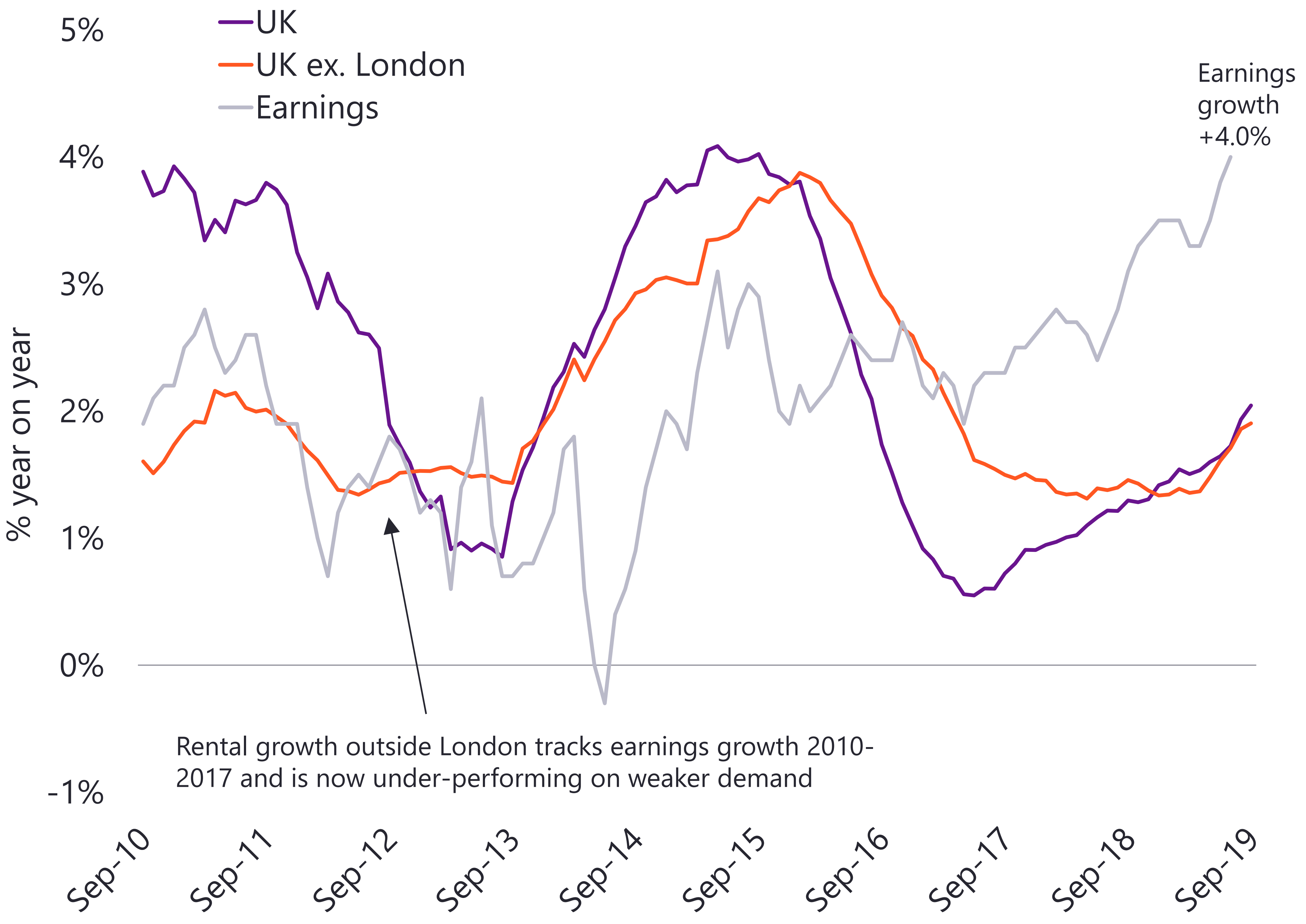



**Fig.2 - Rental growth - London and UK ex. London – compared to earnings (%yoy)**




Source: Zoopla Rental Index, powered by Hometrack, ONS AWE

# UK rental growth – longer run context

- UK rental growth is running just below the 10-year average (2.3%). The increase in rental growth has been modest by recent standards – rental growth accelerated over 2007 and then fell between 2008 and 2010.
- While the rental market is viewed as 'contra-cyclical' (i.e. rental demand increases as the sales market weakens), increased unemployment over 2008-2010, reduced the pool of demand for renting while available supply expanded (Fig.2) as households rented out property they could not sell, creating a downward pressure on rents over 2009.
- The stock of private rented homes has grown faster than owner occupied housing over the last 15 years. This is down to continued new investment by private landlords (Fig.2). Tax and policy changes have shifted the market dynamics for private investors since 2016. This has led to a decline in new investment and some disposals which has led to a tightening in private rental supply.

**Fig.3 - UK rental growth since 2006 (new lets %yoy)**

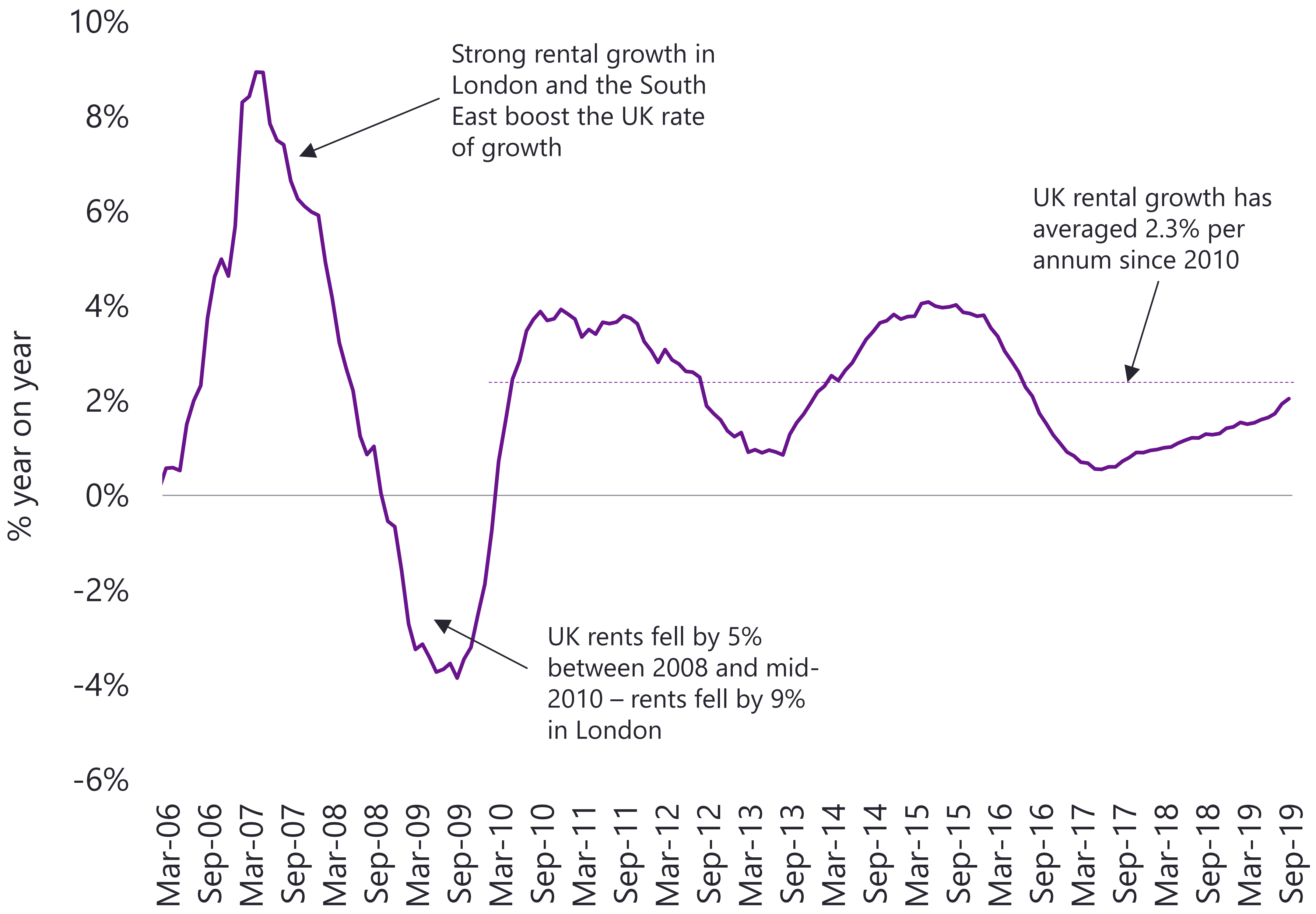
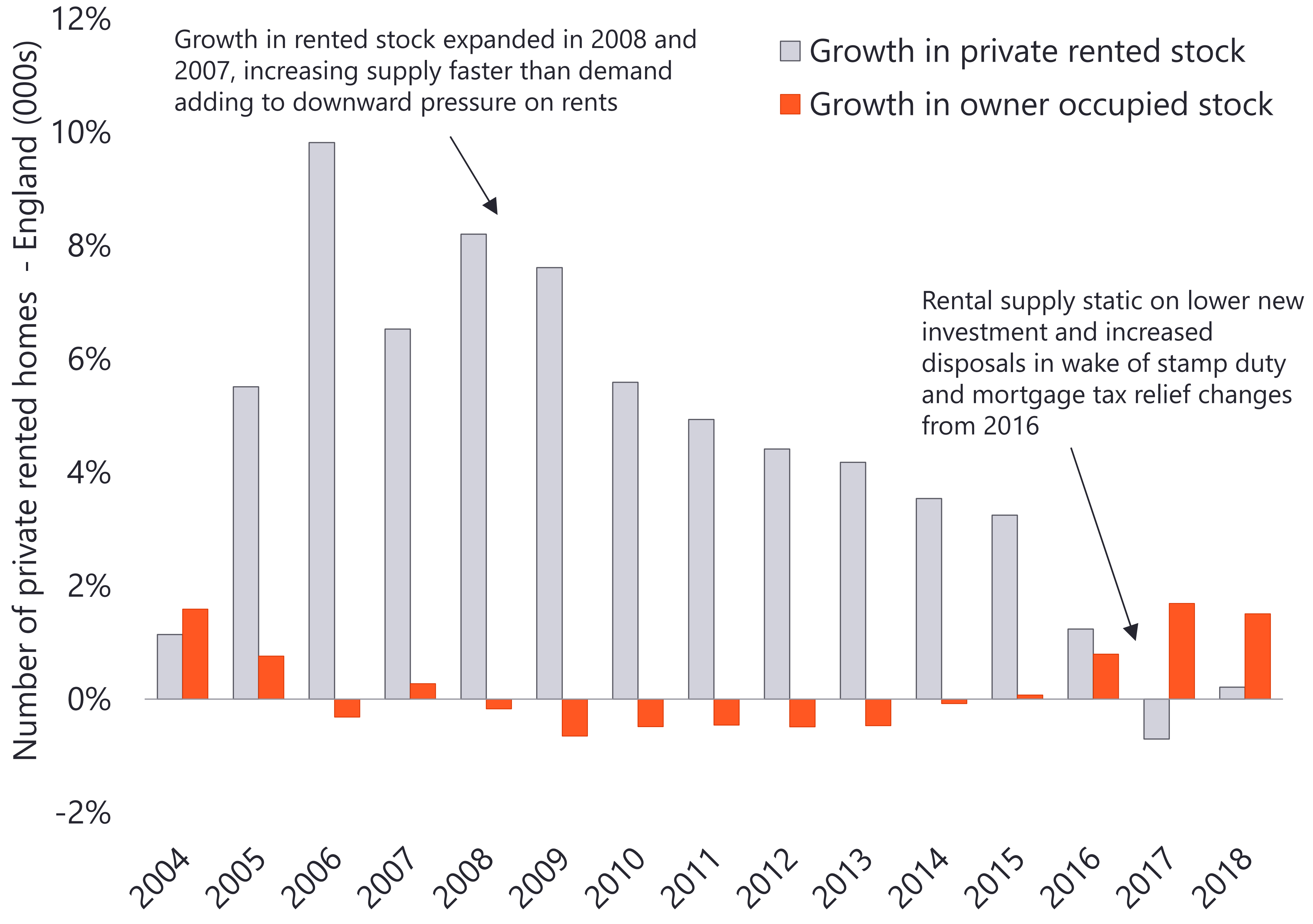



**Fig.4 – Annual change in housing stock – private rent and owner occupied**




Source: Zoopla Rental Index, powered by Hometrack, MHCLG live tables 102/104, NI Housing Statistics 2017/18

# Rental growth and rent levels – regions and countries

- Rental growth at a country level is +1.9% in Wales, +1.8% in Northern Ireland, +2.0% in England and +2.9% in Scotland.
- Rental growth across English regions ranges from +0.5% in the North East to +3.2% in the East Midlands. Rental growth in the West Midlands has slowed the most compared to the 5-year annual average as demand for rented homes has weakened as the sales market, and demand from first time buyers (FTBs) has strengthened – survey data shows that c.80% of FTBs are private renters.
- Rental growth in London has been the second weakest, after the North East, over the last 5 years and the pace of growth has increased after a prolonged period of weakness.

**Fig.5 - Rental growth – current and 5 year average**

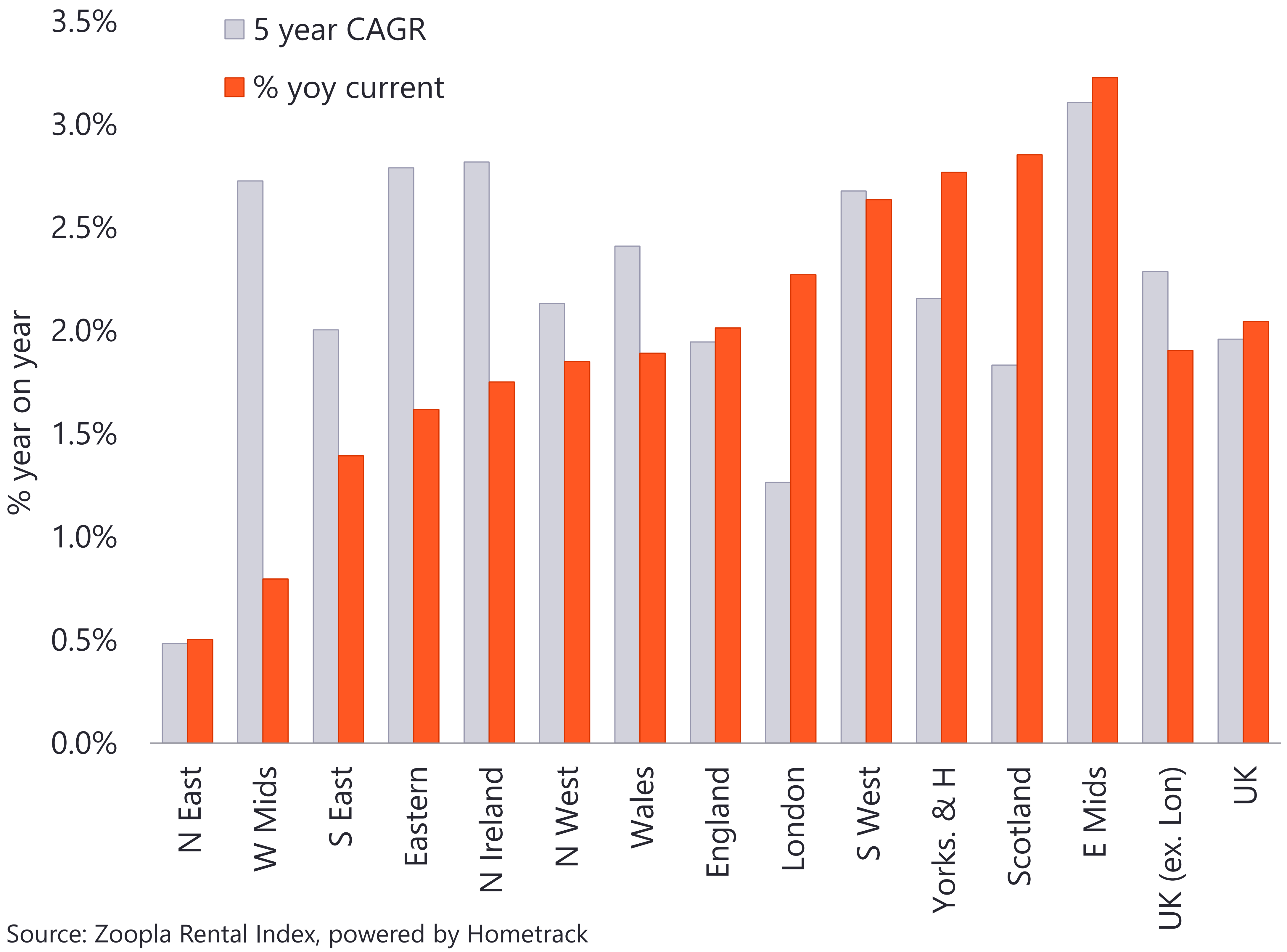
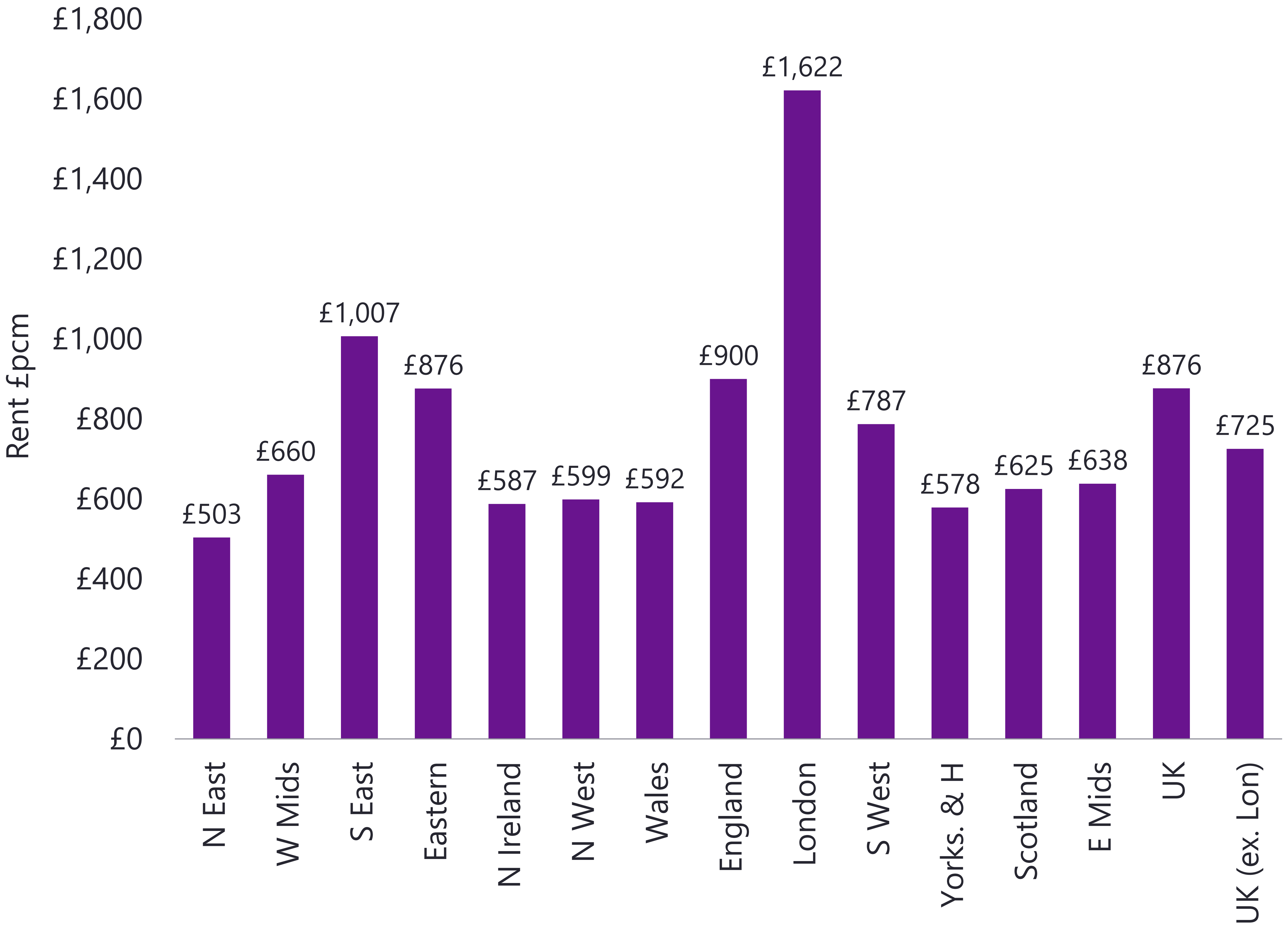



**Fig.6 - Average rent £pcm 2019 Q3 (stock weighted average 1-4 beds)**




Source: Zoopla Rental Index, powered by Hometrack

# Rental growth rates across 40 UK cities

- Each quarter we publish trends on rental market for 40 cities – see data tables for full details.
- The latest index data finds that rental growth ranges from +5.4% in Nottingham to -4.1% in Aberdeen, where the collapse in the oil price since 2015 has resulted in a decline in demand and lower rents.
- In addition to Nottingham, two other cities have a growth rate that is higher than the 4% annual growth in average earnings – Leeds and Bristol (both +4.5%).
- Twenty-two cities are registering rental growth that is lower than the 5-year average – primarily in cities with the weakest growth rates – a combination of supply and demand side factors explain these variations in rental growth.

**Fig.7 – Top 20 cities registering highest annual growth**

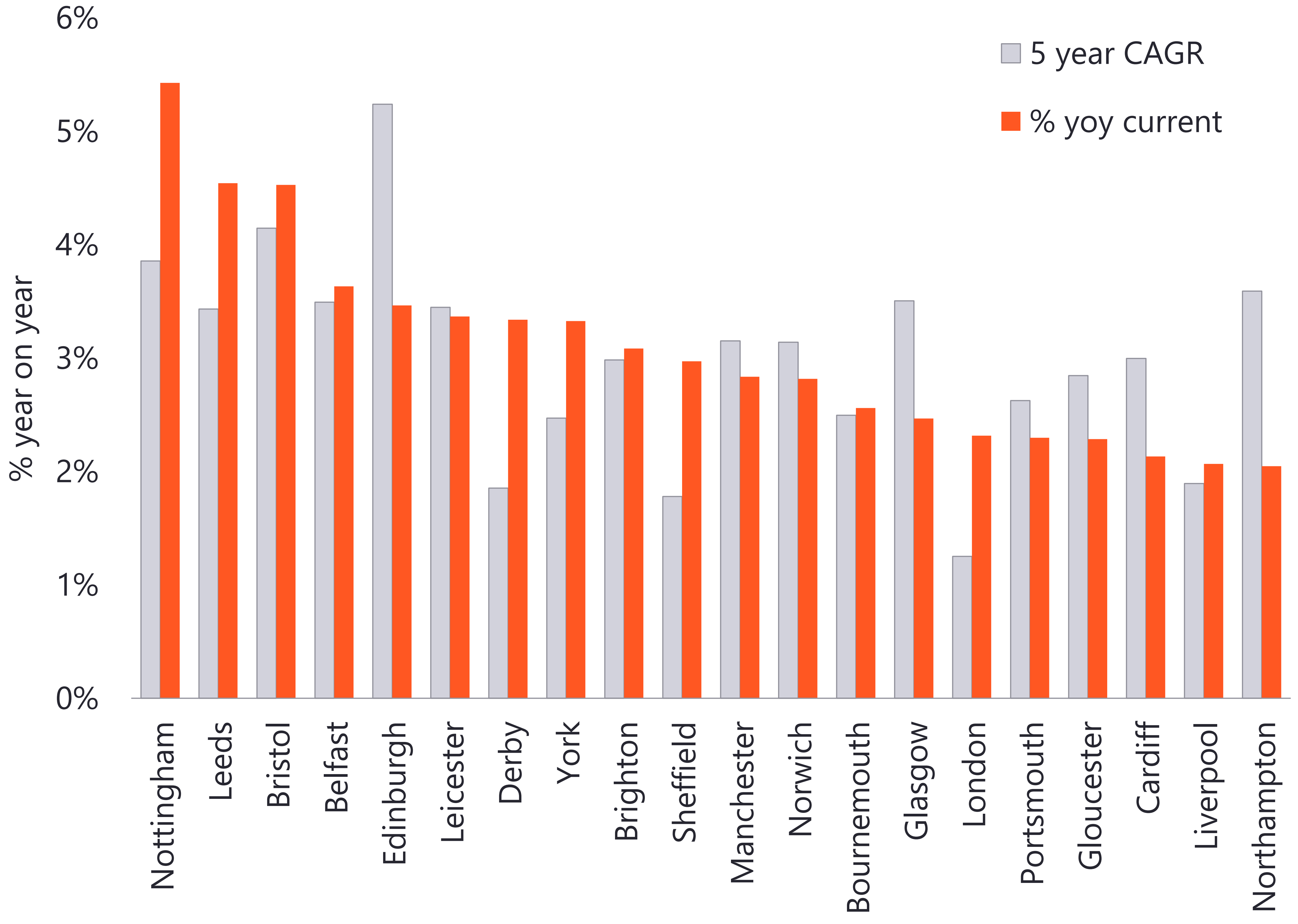



**Fig.8 – Bottom 20 cities registering lowest annual growth**


Source: Zoopla Rental Index, powered by Hometrack - London is London City covering London Region and commuter areas

# Headlines trends in rental affordability

- Rental affordability has been improving since 2016Q1 as earnings rise faster than rents.
- We define affordability as the monthly rent (weighted average for a 1-4 bed home) as a proportion of gross earnings for a single person (ONS). UK rents are 31.8% of average earnings, lower than the 10-year average of 32.1% and a recent high of 33.3% (2016 Q1) – Fig.9.
- Rental affordability is most attractive in the North East region (22%) and least affordable in London (46% for a single person). Higher levels of occupancy in London i.e. multiple earners per rented home explain the elevated level of affordability which has improved over the last 3 years as a result of falling rents over 2016-2017 – see page 14 which analyses affordability by size of property.

**Fig.9 - Rent as % single person earnings - UK**

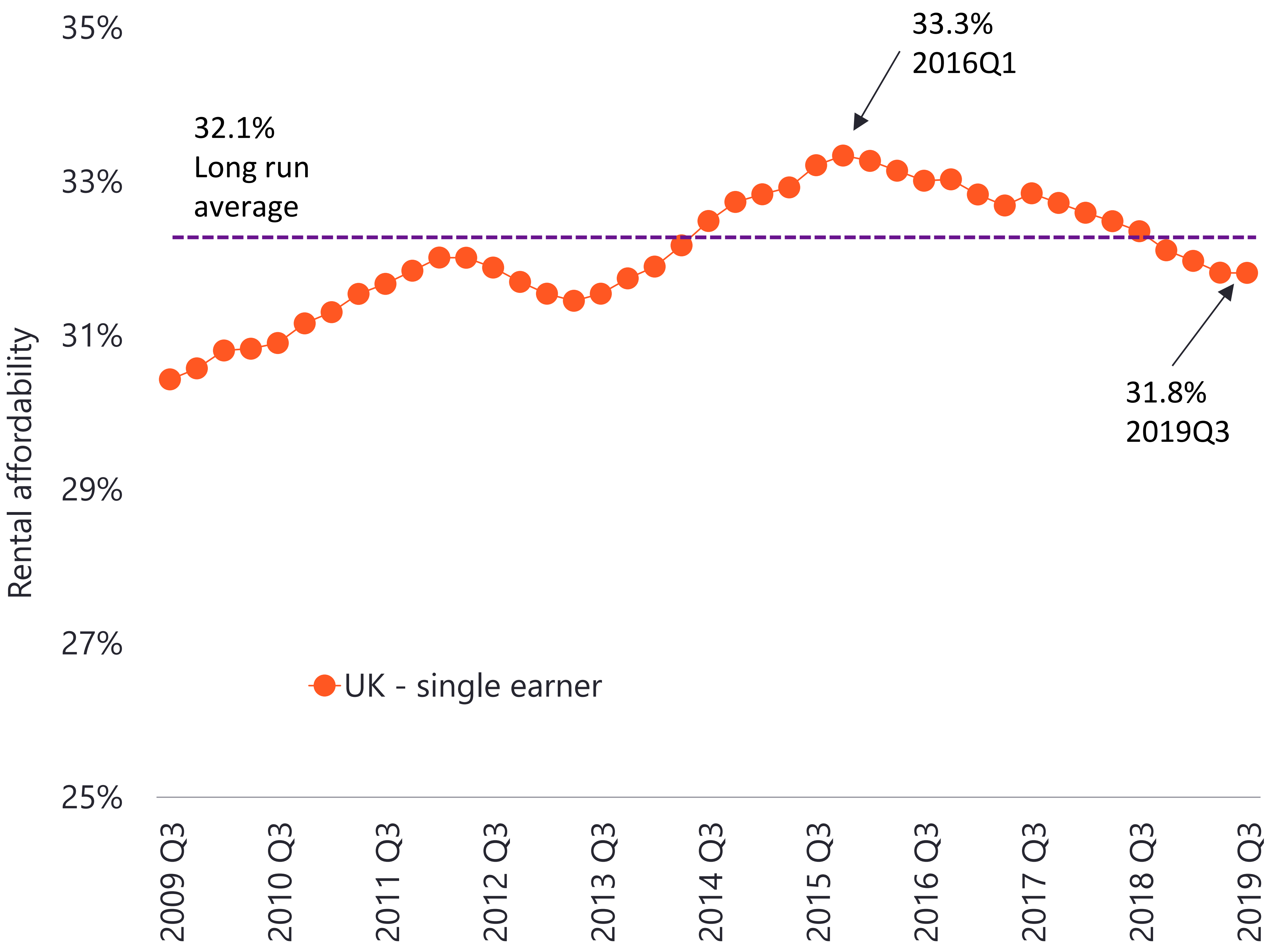
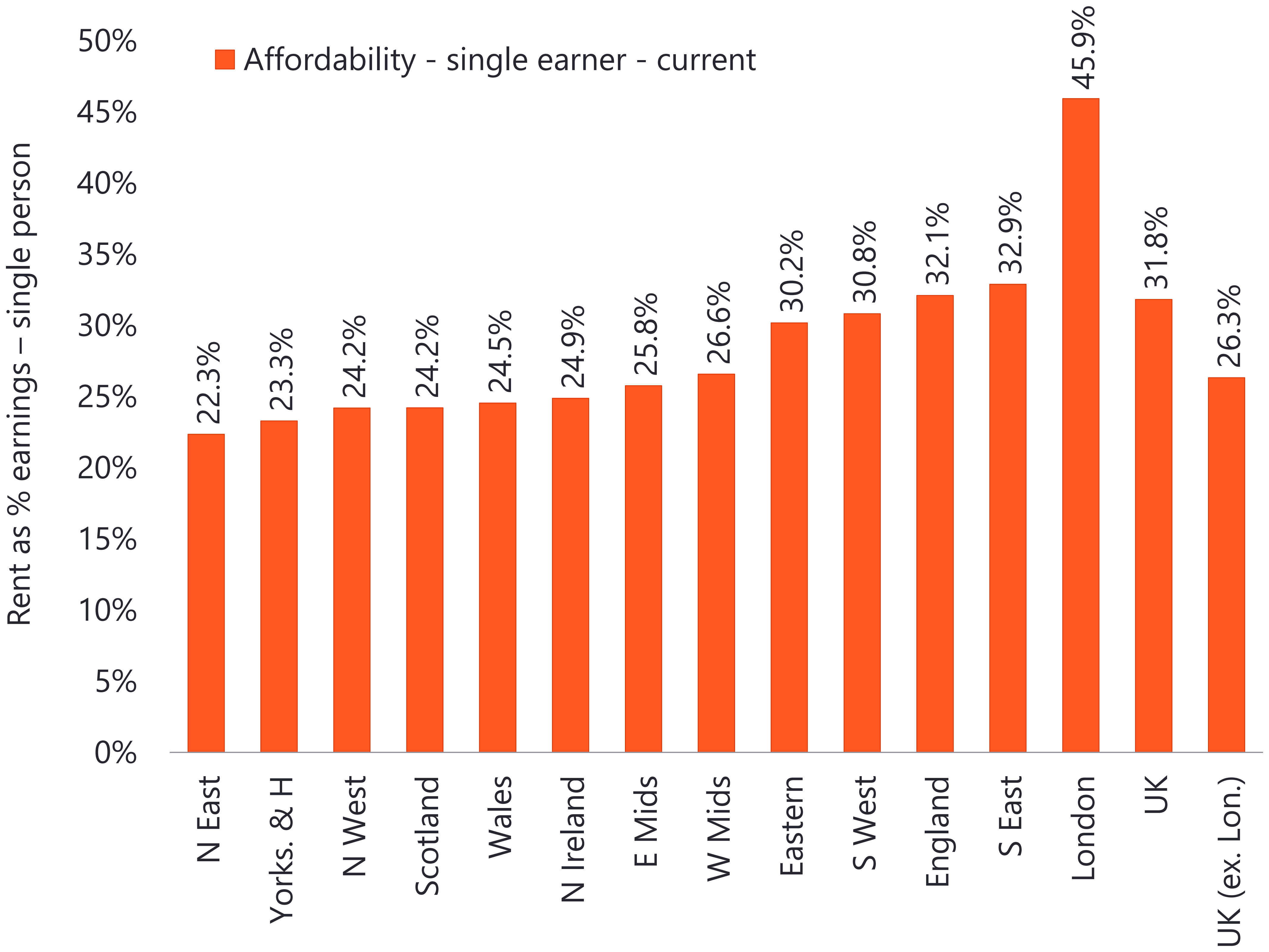



**Fig.10 - Rental affordability – rent as % earnings – single earner**




Source: Zoopla Rental Index, powered by Hometrack, Average weekly earning from table EARN05, ONS

# Rental affordability – single earner – 40 UK cities

- Rental affordability – for a single earner - varies widely across UK cities from a low of 19% in Hull to 44% in London City (a larger area than London Region.
- There is no official definition for a sustainable level of rental affordability, the latest English Housing Survey shows that private renters spent 32% of gross income on rent.
- Where rental affordability is elevated this reflects a mix of 1) strong or a large labour market where growth in employment has been faster than the growth in housing supply, 2) higher capital values and a higher income to access home ownership which increases underlying demand for renting and 3) student populations elevating demand levels.

**Fig.11 – 20 cities with most affordable rental markets**

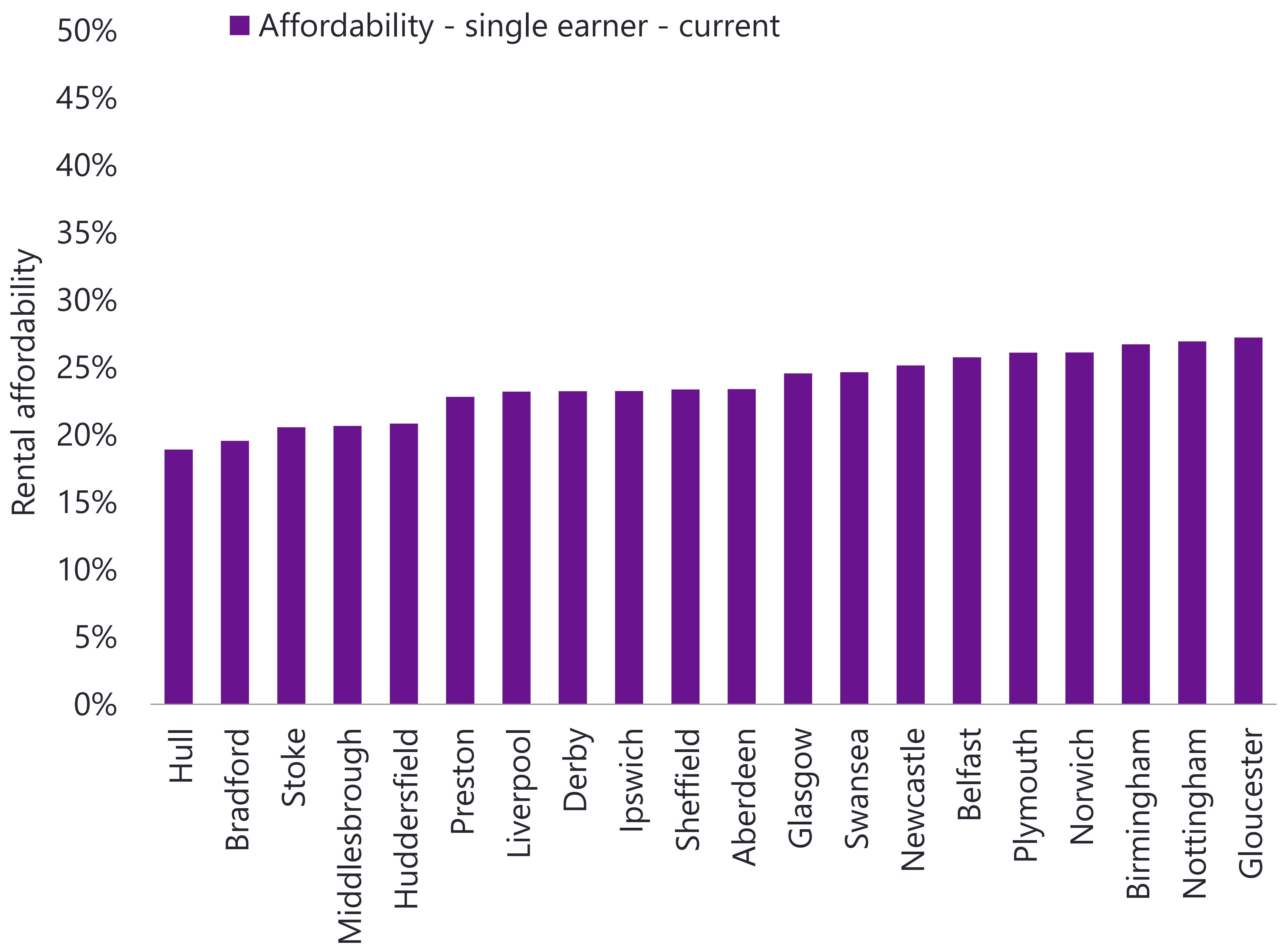
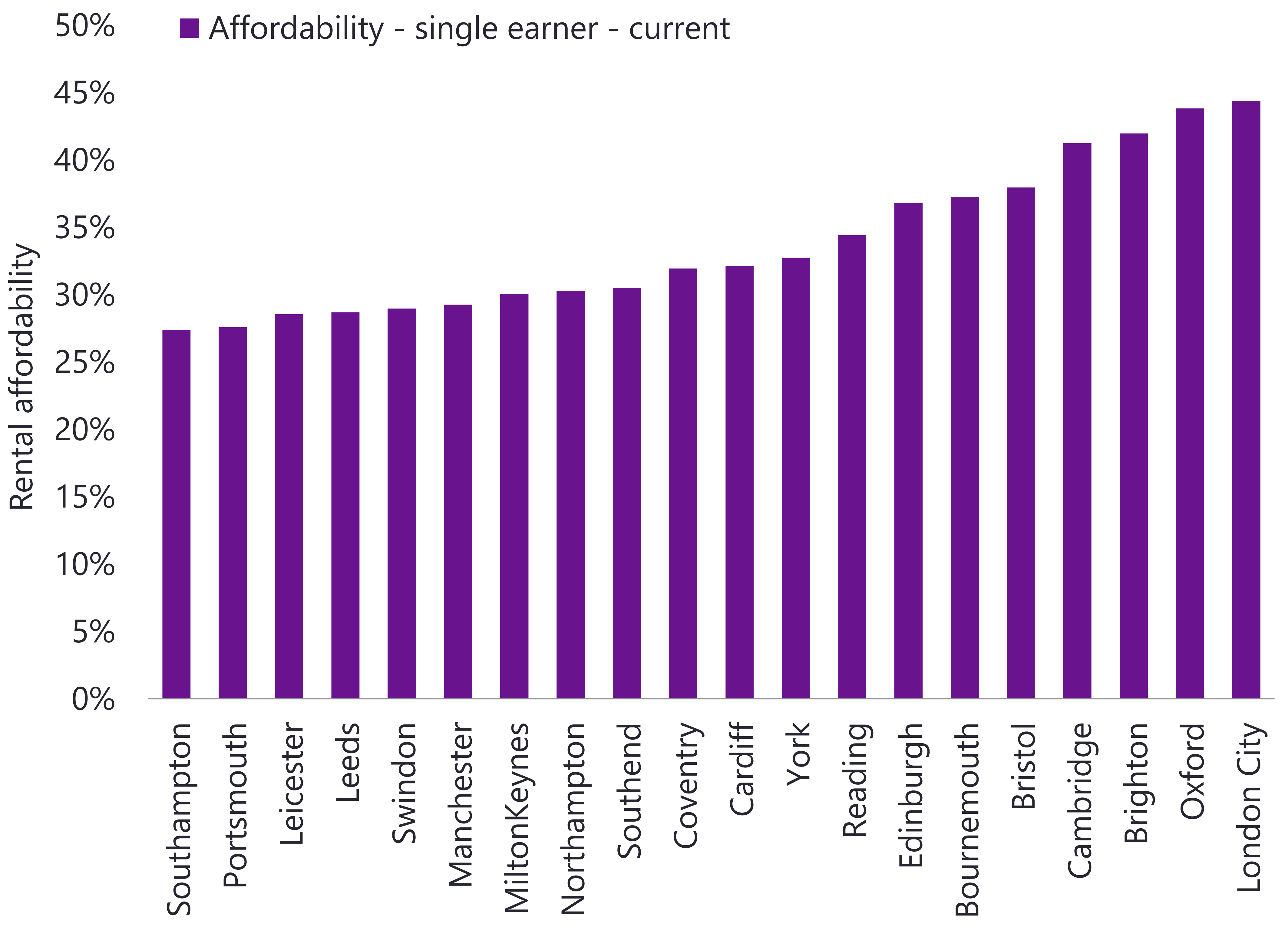



**Fig.12 – 20 cities with higher % of rent spent on earnings**




Source: Zoopla Rental Index, powered by Hometrack - London City not included – refer to London Region data

# Rental growth and affordability - London region



- Rental growth in London has fluctuated more than the UK excluding London series. An increase in the supply of homes for rent - as investors rushed to buy homes before April 2016 increased supply at a time when affordability was approaching a high point in mid 2015. At the same time, the EU referendum result impacted levels of in-migration while the growth in employment also started to slow. The net result was a realignment of rental levels with modest falls registered across London.
- Rental growth in London has turned positive since 2018, on tighter supply and increased demand. More recently, rental growth has plateaued at c2% and has increased to +2.3%.
- Average 1-4 bed property rents in London are £1,622 pcm but there is a wide variation across London – affordability for a single earner is 46% but for 1.5 earners it is 33.2%, in line with the UK average.

**Fig.13 – Rental growth – London region and UK ex. London**

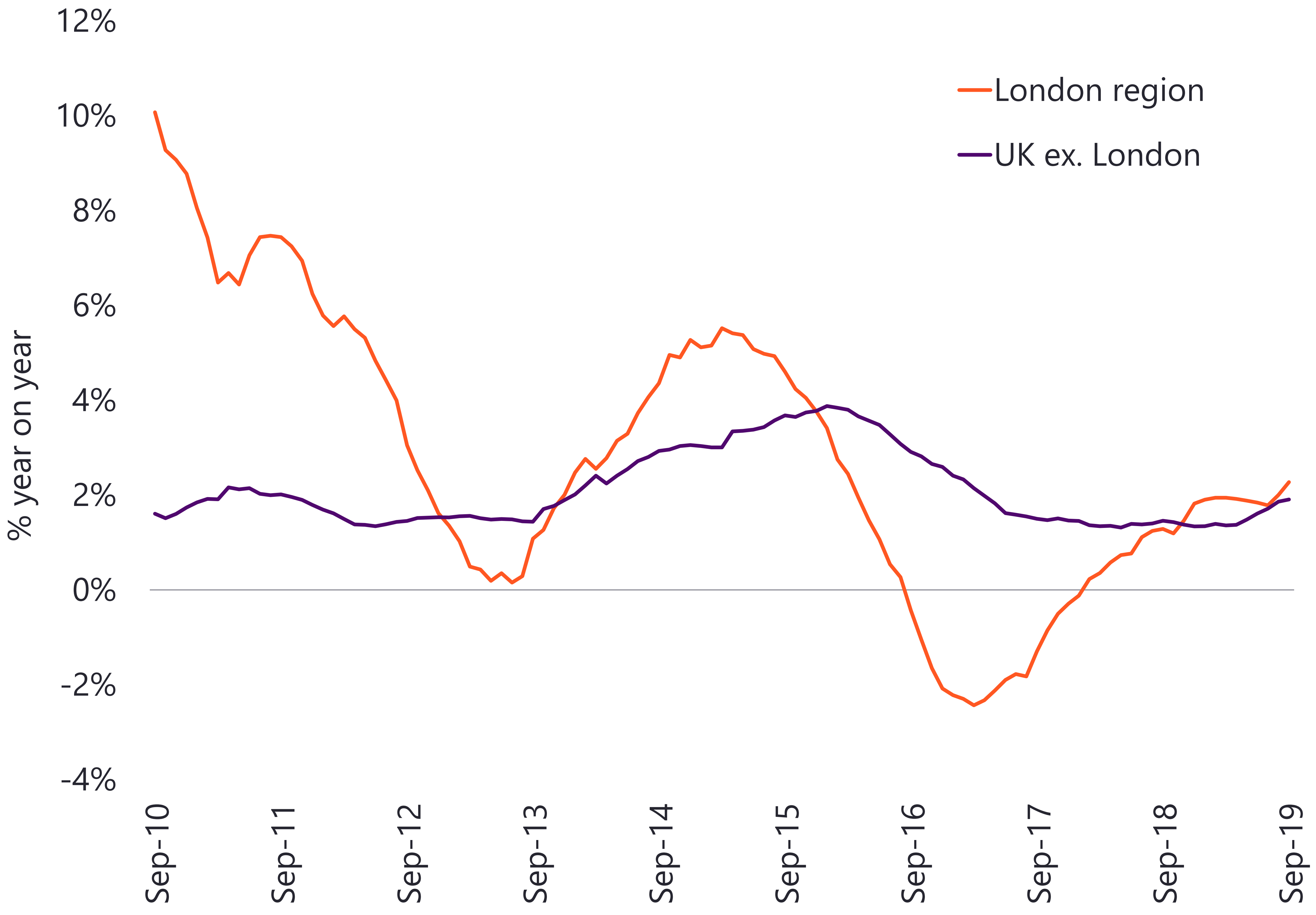
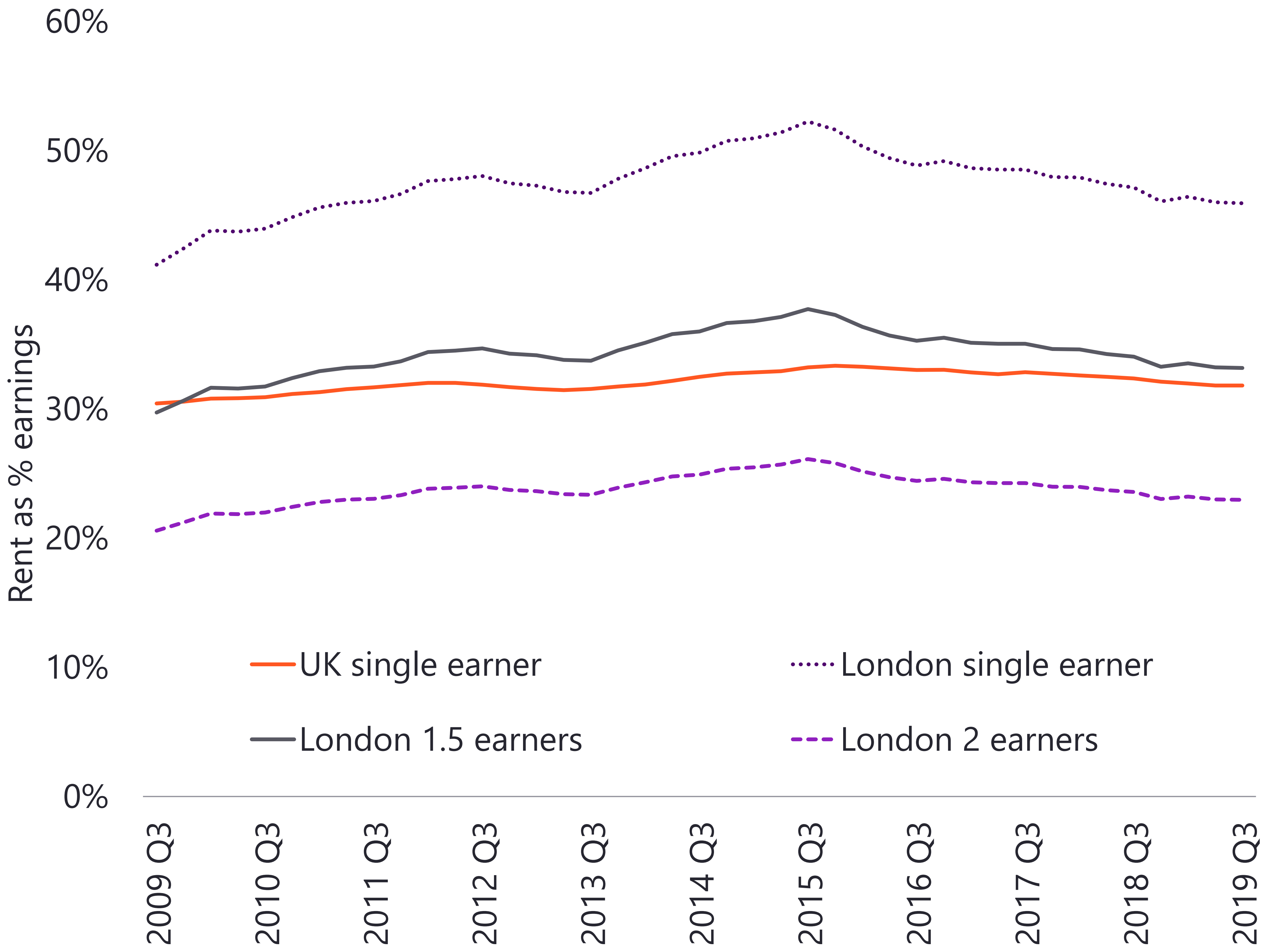



**Fig.14 - Rental affordability – UK and London region**




Source: Zoopla Rental Index, powered by Hometrack, ONS AWE

# 02. **Summary tables**

# Headline results – UK, country and region

**Table 1 – Summary results for UK, countries and regions**

| Area | Average rent £pcm | Growth trend (12m v 5 year) | % year on year current | % year on year 12m ago | 5 year average growth rate | Affordability trend (current v 5 year) | Affordability - single earner - current | Affordability - single earner - 5 yr average | Time to rent (days) |
|---|---|---|---|---|---|---|---|---|---|
| **UK** | **£876** | **Static** | **2.0%** | **1.3%** | **2.0%** | **Improving** | **31.8%** | **32.7%** | **17.0** |
| UK (ex. London) | £725 | Lower | 1.9% | 1.5% | 2.3% | Improving | 26.3% | 26.9% | 17.9 |
| England | £900 | Higher | 2.0% | 1.2% | 1.9% | Improving | 32.1% | 33.1% | 17.6 |
| Scotland | £625 | Higher | 2.9% | 1.8% | 1.8% | Static | 24.2% | 24.2% | 15.0 |
| Wales | £592 | Lower | 1.9% | 2.5% | 2.4% | Improving | 24.5% | 24.7% | 19.0 |
| N Ireland | £587 | Lower | 1.8% | 2.6% | 2.8% | Improving | 24.9% | 25.6% | 20.7 |
| E Mids | £638 | Higher | 3.2% | 2.9% | 3.1% | Static | 25.8% | 25.7% | 15.7 |
| Eastern | £876 | Lower | 1.6% | 1.0% | 2.8% | Improving | 30.2% | 30.9% | 17.3 |
| London | £1,622 | Higher | 2.3% | 1.3% | 1.3% | Improving | 45.9% | 48.8% | 16.0 |
| N East | £503 | Static | 0.5% | 0.5% | 0.5% | Improving | 22.3% | 22.8% | 22.0 |
| N West | £599 | Lower | 1.8% | 1.0% | 2.1% | Static | 24.2% | 24.6% | 18.7 |
| S East | £1,007 | Lower | 1.4% | 0.8% | 2.0% | Improving | 32.9% | 33.8% | 18.0 |
| S West | £787 | Lower | 2.6% | 1.5% | 2.7% | Static | 30.8% | 30.6% | 13.0 |
| W Mids | £660 | Lower | 0.8% | 2.2% | 2.7% | Static | 26.6% | 26.8% | 19.3 |
| Yorks. & H | £578 | Higher | 2.8% | 1.7% | 2.2% | Improving | 23.3% | 23.9% | 18.3 |

# Rental affordability by number of bedrooms



- Rental affordability varies between areas but also by size of property and assumptions over the number of earners living in a property. The table below explores affordability by size of property and shows the rental affordability assuming one or two earners per home for two and three bed homes.
- While London has a high affordability ratio for a single earner, two earners renting a 2-bed property have an affordability measure of 24% of average earnings.

**Table 2 – Rental affordability for 1 or 2 earners by property size**

| Area | 1 bed rent pcm | % earnings single person | 2 bed rent pcm | % earnings single person | % earnings two earners | 3 bed rent pcm | % earnings single person | % earnings two earners |
|---|---|---|---|---|---|---|---|---|
| **UK** | **£581** | **23%** | **£710** | **28%** | **14%** | **£850** | **33%** | **17%** |
| Scotland | £486 | 21% | £551 | 24% | 12% | £613 | 27% | 13% |
| Wales | £502 | 22% | £614 | 27% | 13% | £726 | 31% | 16% |
| N Ireland | £457 | 20% | £533 | 23% | 12% | £619 | 27% | 13% |
| E Midlands | £478 | 22% | £584 | 26% | 13% | £697 | 31% | 16% |
| Eastern | £668 | 26% | £831 | 32% | 16% | £991 | 38% | 19% |
| London | £1,276 | 38% | £1,581 | 48% | 24% | £1,885 | 57% | 28% |
| N East | £396 | 18% | £465 | 22% | 11% | £551 | 26% | 13% |
| N West | £472 | 21% | £547 | 24% | 12% | £665 | 29% | 14% |
| S East | £441 | 20% | £541 | 25% | 12% | £604 | 28% | 14% |
| S West | £484 | 20% | £604 | 25% | 13% | £761 | 32% | 16% |
| W Mids | £736 | 26% | £946 | 33% | 16% | £1,180 | 41% | 21% |
| Yorks & H | £578 | 24% | £725 | 30% | 15% | £903 | 37% | 19% |

# City level rents and rental growth – 2019Q3



**Table 3a – 20 cities with highest rental growth**

| Area | Average rent (£pcm) | % yoy current | % yoy 12m ago | 5 year CAGR |
|---|---|---|---|---|
| Nottingham | £661 | 5.4% | 4.3% | 3.9% |
| Leeds | £707 | 4.5% | 2.3% | 3.4% |
| Bristol | £962 | 4.5% | 2.2% | 4.1% |
| Belfast | £604 | 3.6% | 2.5% | 3.5% |
| Edinburgh | £946 | 3.5% | 5.9% | 5.2% |
| Leicester | £705 | 3.4% | 3.2% | 3.4% |
| Derby | £568 | 3.3% | 1.5% | 1.9% |
| York | £807 | 3.3% | 3.1% | 2.5% |
| Brighton | £1,284 | 3.1% | 2.6% | 3.0% |
| Sheffield | £578 | 3.0% | 0.9% | 1.8% |
| Manchester | £721 | 2.8% | 1.0% | 3.2% |
| Norwich | £759 | 2.8% | 1.8% | 3.1% |
| Bournemouth | £946 | 2.6% | 0.9% | 2.5% |
| Glasgow | £631 | 2.5% | 3.9% | 3.5% |
| London City | £1,559 | 2.3% | 0.9% | 1.3% |
| Portsmouth | £842 | 2.3% | 0.6% | 2.6% |
| Gloucester | £689 | 2.3% | 2.3% | 2.8% |
| Cardiff | £768 | 2.1% | 2.6% | 3.0% |
| Liverpool | £573 | 2.1% | 0.6% | 1.9% |
| Northampton | £752 | 2.0% | 2.2% | 3.6% |

**Table 3b – 20 cities with lowest rental growth**

| Area | Average rent (£pcm) | % yoy current | % yoy 12m ago | 5 year CAGR |
|---|---|---|---|---|
| Swindon | £734 | 1.9% | -0.1% | 3.3% |
| Plymouth | £663 | 1.9% | 1.3% | 1.3% |
| Hull | £469 | 1.8% | 2.0% | 1.7% |
| Stoke | £511 | 1.8% | 2.2% | 2.0% |
| Reading | £1,051 | 1.7% | 1.6% | 1.6% |
| Cambridge | £1,194 | 1.5% | 2.6% | 2.2% |
| Bradford | £486 | 1.5% | 0.0% | 0.9% |
| Huddersfield | £514 | 1.3% | 2.6% | 1.7% |
| Ipswich | £672 | 1.1% | 2.7% | 3.0% |
| Southampton | £834 | 1.1% | 0.3% | 1.4% |
| MiltonKeynes | £918 | 1.1% | 1.3% | 2.7% |
| Southend | £884 | 1.0% | 0.8% | 3.1% |
| Preston | £561 | 0.9% | 0.4% | 0.6% |
| Oxford | £1,343 | 0.8% | 1.7% | 2.3% |
| Birmingham | £659 | 0.8% | 2.2% | 2.8% |
| Newcastle | £566 | 0.6% | 0.3% | 0.8% |
| Swansea | £591 | 0.1% | 1.4% | 1.6% |
| Middlesbrough | £467 | -0.5% | -1.7% | -0.2% |
| Coventry | £800 | -0.8% | 1.8% | 3.9% |
| Aberdeen | £609 | -4.1% | -3.8% | -8.3% |

# City level rental affordability



**Table 4a – 20 cities with highest % earnings spent on rent**

| Area | Average rent (£pcm) | Current (single earner) | 5 yr average (single) | Current (two earners) |
|---|---|---|---|---|
| London City | £1,559 | 44.4% | 47.2% | 23.6% |
| Oxford | £1,343 | 43.8% | 44.9% | 22.5% |
| Brighton | £1,284 | 42.0% | 41.7% | 20.8% |
| Cambridge | £1,194 | 41.3% | 42.1% | 21.1% |
| Bristol | £962 | 38.0% | 36.6% | 18.3% |
| Bournemouth | £946 | 37.2% | 37.2% | 18.6% |
| Edinburgh | £946 | 36.8% | 34.4% | 17.2% |
| Reading | £1,051 | 34.4% | 35.6% | 17.8% |
| York | £807 | 32.7% | 33.4% | 16.7% |
| Cardiff | £768 | 32.1% | 32.1% | 16.1% |
| Coventry | £800 | 31.9% | 32.7% | 16.4% |
| Southend | £884 | 30.5% | 31.4% | 15.7% |
| Northampton | £752 | 30.3% | 30.5% | 15.2% |
| MiltonKeynes | £918 | 30.1% | 30.8% | 15.4% |
| Manchester | £721 | 29.3% | 29.2% | 14.6% |
| Swindon | £734 | 29.0% | 29.1% | 14.5% |
| Leeds | £707 | 28.7% | 28.8% | 14.4% |
| Leicester | £705 | 28.5% | 28.4% | 14.2% |
| Portsmouth | £842 | 27.6% | 28.1% | 14.0% |
| Southampton | £834 | 27.4% | 28.3% | 14.1% |

**Table 4b – 20 cities with lowest % earnings spent on rent**

| Area | Average rent (£pcm) | Current (single earner) | 5 yr average (single) | Current (two earners) |
|---|---|---|---|---|
| Gloucester | £689 | 27.2% | 26.8% | 13.4% |
| Nottingham | £661 | 26.9% | 26.1% | 13.1% |
| Birmingham | £659 | 26.7% | 26.8% | 13.4% |
| Norwich | £759 | 26.1% | 26.2% | 13.1% |
| Plymouth | £663 | 26.1% | 26.5% | 13.3% |
| Belfast | £604 | 25.7% | 26.1% | 13.0% |
| Newcastle | £566 | 25.1% | 25.6% | 12.8% |
| Swansea | £591 | 24.6% | 25.4% | 12.7% |
| Glasgow | £631 | 24.6% | 23.9% | 11.9% |
| Aberdeen | £609 | 23.4% | 29.0% | 14.5% |
| Sheffield | £578 | 23.4% | 24.2% | 12.1% |
| Ipswich | £672 | 23.2% | 23.5% | 11.7% |
| Derby | £568 | 23.2% | 23.6% | 11.8% |
| Liverpool | £573 | 23.2% | 23.6% | 11.8% |
| Preston | £561 | 22.8% | 23.8% | 11.9% |
| Huddersfield | £514 | 20.8% | 21.7% | 10.8% |
| Middlesbrough | £467 | 20.7% | 21.6% | 10.8% |
| Stoke | £511 | 20.6% | 20.7% | 10.3% |
| Bradford | £486 | 19.5% | 20.7% | 10.3% |
| Hull | £469 | 18.9% | 19.5% | 9.7% |

# 03. The private rented sector in context

# New quarterly report to inform industry on market trends



- The rental market has **more home moves a year (1.2m)** than the sales market (1m)[1].
- Zoopla's **Rental Market Report** delivers comprehensive, granular insight on the key trends in this large, dynamic and important market sector.
- The report tracks trends across **55 geographies** from UK to country, region and 40 cities.
- Includes a **new private rental index for new lets, powered by Hometrack** – uses the same repeat sales regression methodology as the UK Cities House Price Index.
- The index has been developed to provide an **accurate view on changes in achieved rents over time**.
- Report also tracks the **affordability of renting** and the **time to let** rented homes.
- **Designed to inform** business, policy makers and consumers on the key trends in the market.
- Each quarter Zoopla will focus on a different aspect of the rental market as part of the report.

[1] 1.2m moves a year in 2017/18 in private rented sector versus 1m moves in sales market, based on extrapolation from the English Housing Survey

# Drivers of rental demand and supply



- The supply and demand dynamics for rented housing are different to the sales market and influenced by a range of economic, demographic and policy factors.
- We have set out below the background context for rental demand, drivers of renters leaving the market and influences on the supply side to assist with interpreting the analysis and commentary.

## Rental demand

The demand for private rented homes is diverse and shaped by the availability, and affordability of housing in other tenures as well as changes in employment and migration. The flexibility and liquidity of private rented housing means it attracts households with a range of needs and requirements.

The core profile of private renters is younger households aged 16 to 35 (46% renters – English Housing Survey (EHS) 2017/18) who like the flexibility of renting before they move into home ownership and buying their own home. Some see renting as a long-term choice and have no plans to buy a home.

Renting is not limited to younger, post university or early years of employment type households - 40% of private renters are aged 35 to 55 years (EHS). Over a third (34%) of private renters have dependent children while 42% are couples and other multi person households.

A lack of new affordable housing supply has resulted in the private rented sector absorbing demand from those in housing need or on low incomes. Twenty two percent of renters are in receipt of part or full housing benefit.

## Moves out of private renting

A primary driver of households exiting the private rented sector are households moving into home ownership. 80% of first-time buyers move from the private rental market and first-time buyers are now the largest buyer group in the sales market (36% sales).

The relative affordability of renting and buying impacts the demand for renting.  In higher priced housing markets the affordability gap between buying and renting is large and deposits to buy are high. This tends to support demand for rented homes and the overall levels of rents.

In markets where prices are lower the gap between buying and renting is smaller, and deposit levels are lower. This makes it easier for households to transition between renting and buying and this keep demand in check and results in lower levels of rental growth.

The introduction of mortgage affordability stress tests from 2014 has changed the dynamics of renting versus buying which has further shaped the demand for rented homes, particularly in markets with higher capital values

## Private rental supply

Most private rented housing is owned by private landlords with 1 or 2 properties. Corporate ownership, by long term investors developing homes for rent, is growing but remains relatively small (<5%) in the wider market context of >5m private rented properties.

Private landlords have driven the expansion of the rented sector over the last two decades thanks to the introduction of Buy to Let mortgages from 1996 which enabled landlords to buy property with interest only mortgages.

Policy changes have materially shifted the landscape for investing in recent years with the introduction of 1) additional stamp duty for investors, 2) a reduction in tax relief for higher rate tax-payers. Greater regulation of the rental market is adding to the cost of doing business.

These changes, together with a weaker housing outlook, have resulted in low level of new investment in rental property and some net selling in markets with low rental yields as landlords reshape their portfolios to avoid high tax bills.

A tighter supply of rented homes means changes in demand for rented homes may feed more quickly into levels of rental growth.

# The private rental market has important differences to the sales market

While there are multiple sources of indices on house prices, there are few, long run granular series on rental values.

There are some important differences between the sales and lettings markets which are important to consider when considering the trends reported in this report.

These are also important issues to address when constructing an index for rents that is designed to track the performance of achieved rents over time.

The most important differences to the sales market include:

- **Different profile of housing stock** – private rented homes are 63% 1-2 beds while the sales market is 75% 3+ bed houses.
- **A more liquid market** – private renters move, on average, every 3.8 years while home-owners move once every 20 years.
- **Geographically concentrated** – the rental market doesn't work everywhere and tends to be more concentrated in urban areas.
- **London as a global city** - London accounts for 30% of private rental supply and as a global city has very different demand drivers to the rest of the UK.
- The rental market has a **diverse base of demand** – over a fifth of renters are in receipt of housing benefit.
- 16% of rented homes are not available in the open market and are available with employment or rent free.

# Zoopla Rental Index, powered by Hometrack

## Methodology

Zoopla's rental index uses the same methodology as the Zoopla UK Cities house price index to generate a rental series that accurately tracks the changes in achieved rents over time. We build data across over 500 geographies - UK, country, region, city, postal area and local authority and are publishing data for 55 areas in this Rental Market Report.

The primary input data is Zoopla rental listings data with additional data on housing attributes and demographics used within the index algorithm and models.  The listings data is adjusted to reflect the difference between asking and achieved rents. The index uses over 125,000 rental data points per month.

We use a repeat sales regression model where pairs of lettings for the same or similar property in a local area are used to generate a raw index series. We build rental index series for 1, 2, 3 and 4 bed homes at each geographic level and aggregate these into an 'all property' type index using a rolling 3 year 'stock weight' by bedrooms. The index series are not seasonally adjusted.

The purpose of a rental index is to accurately track the change in rents over time. We have tested the accuracy of our rental index against a large, independent sample of achieved rents for single homes over time. This testing has confirmed our index provides an accurate view of the change in achieved rents over time.

A detailed index methodology paper is available under NDA.

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# Measuring the affordability of renting

## Background

### Complexities of tracking rental affordability

Measuring rental affordability is complex due to a lack of robust data on incomes for private renters who are a diverse occupier base.

1. Long run, granular time series for private renter incomes is not available. Headline data is only available from national surveys, limiting analysis of trends at local level.

2. The flexibility of the rental market means it supports a diverse range of occupiers. Over a fifth (22%) of private renters obtain support with rental payments from Housing Benefit – the majority (80%) obtain partial support from housing benefits (English Housing Survey, EHS).

3. The occupancy of private rented homes has a material impact on affordability, especially in higher value markets The affordability of a 2-bed homes with two earners will be very different to assuming affordability for a single earner or someone in receipt of housing benefit.

### Rental affordability - evidence from national surveys

Data from the Family Resources Survey (FRS) for FYE 2014 to FYE 2016 shows private rented households in England paid more for housing costs as a proportion of income (32%) than households in Wales (29%) and Scotland (25%). This profile of affordability has changed little over the last ten years.

EHS data finds that the proportion of household income (including housing benefit) that private renters spent on rent has not changed between FYE 2011 and FYE 2017. The latest analysis finds 33% of gross household income spent on rent across England (FYE2018).

EHS data from the 2017/18 survey found that 71% of private renters found paying rent 'very or fairly easy' with 21% saying it was 'fairly difficult' and 8% 'very difficult'.

Housing costs are more affordable for those on higher incomes – rental costs as a proportion of income for those in the lowest income decile are 64% in England compared to 20% for those in the highest income decile. Housing Benefit is available to support eligible low-income households with the cost of renting their home.

# Measuring the affordability of renting

## Zoopla measure

Our measure of rental affordability uses data on gross earnings for a single earner from the ONS and expresses rent as a percentage of monthly gross earnings. The earnings data comes from ONS table EARN05: Gross weekly earnings of full-time employees by region using Labour Force Survey data.

Using the earnings of a single person creates a like for like analysis of the affordability of renting over time and the relative affordability of rents across the country.  However, the occupancy of rented homes varies between markets and can impact the accurate assessment of affordability.

Data on the occupancy of rented homes to help adjust rental affordability measures is not available. Occupancy analysis is further complicated by the fact that occupiers will comprise a mix of dependents and earners.

EHS and 2011 Census data shows higher levels of occupancy for rented homes. The chart shows the ‘occupancy rating’ of homes split between private renters and owners. It shows how 70% of private rented homes in London have a 100% occupancy rating i.e. occupants for all bedrooms. 19% of rented homes in London are over-occupied.

In contrast, just 30% of rented homes in London have a spare room. Half of the rented homes across England and Wales have spare bedrooms with 40% fully occupied.

We recommend that when looking at trends in rental affordability for London and other higher value cities it is reasonable to assume that a more accurate view of affordability is represented by assuming 1.5 or 2 earners.

**Occupancy rating by tenure, 2011 Census**