Zoopla

Rental Market Report 2019 Q4

Powered by hometrack

Executive Summary - 2019 Q4

Headline trends

Rental growth – UK (% yoy)	+2.6% (+1.4% a year ago)
Average rental value (£pcm)	£886 (+£23 from a year ago)
Rental affordability - UK – single earner	31.9% (32.1% 10-year average)
Average days on market	17.8 days (19.0 days a year ago)
Highest rental growth - country/region	+3.6% - East Midlands
Lowest rental growth – country/region	+0.5% - North East
Highest rental growth - city	+5.8% - Nottingham
Lowest rental growth - city	-2.9% - Aberdeen

Summary of key findings

- The annual rate of UK rental growth for new listings is +2.6%, up from 1.4% a year ago and the highest growth for 3 years on tightening supply and rising demand. Zoopla recorded a 4% contraction in the supply of homes available to rent over the last two years, while demand for rented homes has increased by 8% over 2019 alone.

- Three cities are registering growth in excess of +5% led by Nottingham, while three cities have negative rental growth – Coventry, Middlesbrough and Aberdeen. We explore the trends in rental growth across these cities.

- Rental growth in London is at a 4 year high of +2.8%. This follows a modest decline in rents over 2017 and 2018. The available supply of homes for rent per estate agent branch is 20% lower than in 2017 - a factor pushing rents higher although stretched affordability levels are limiting the extent to which rents can increase in London.

- At a national level, average earnings have outpaced rental growth for the last 3 years so the increase in rents is not impacting affordability. A single average earner is spending 31.9% of earnings on rent – slightly below the 10-year average of 32.1%.

- We expect the acceleration in rental growth to moderate over the first half of 2019, which is typically a period of slower rental market activity. We expect rents to increase by 3.5% over 2020 as a lack of supply supports faster growth.

01. **Headline results**

Headline UK rental growth

- The annual rate of UK rental growth for new lets is +2.6% - the highest rate since July 2016 and slightly ahead of the 10-year annual average of +2.4%.
- Month-on-month change for the months of September and October (both at +0.5%) were at the highest levels since September 2015. Month on month growth moderated over the last 2 months of the quarter.
- Rental inflation is highly seasonal with the pace of growth increasing over a 6-month window from April to September before slowing over the winter months and early months of the new year as demand softens.
- Average earnings (+3.8%) are growing faster then rents, a trend that has been in place for the last 3 years meaning higher rental growth is not leading to a deterioration in rental affordability.

Fig.1 - Headline UK rental growth (%yoy and %mom)

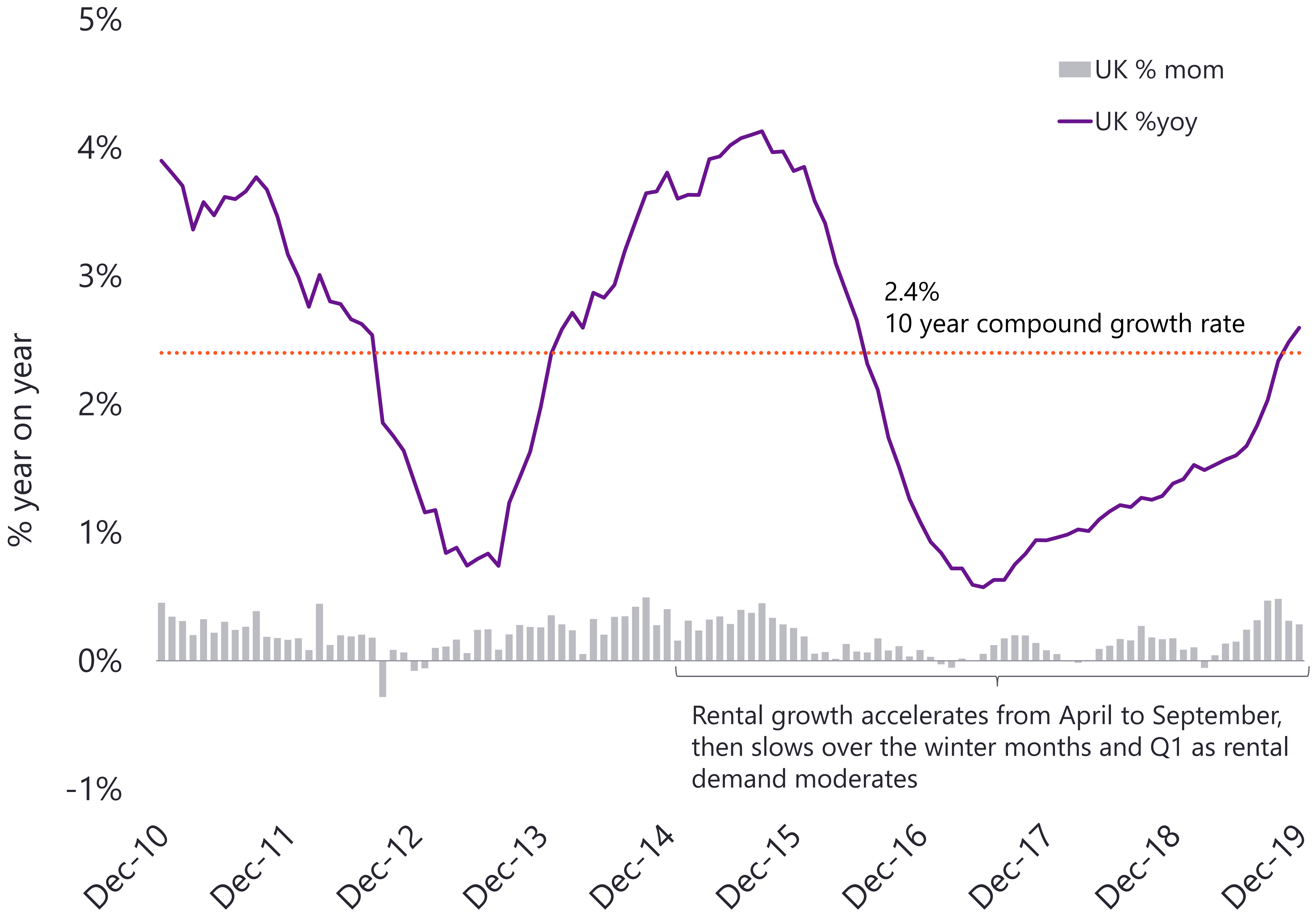
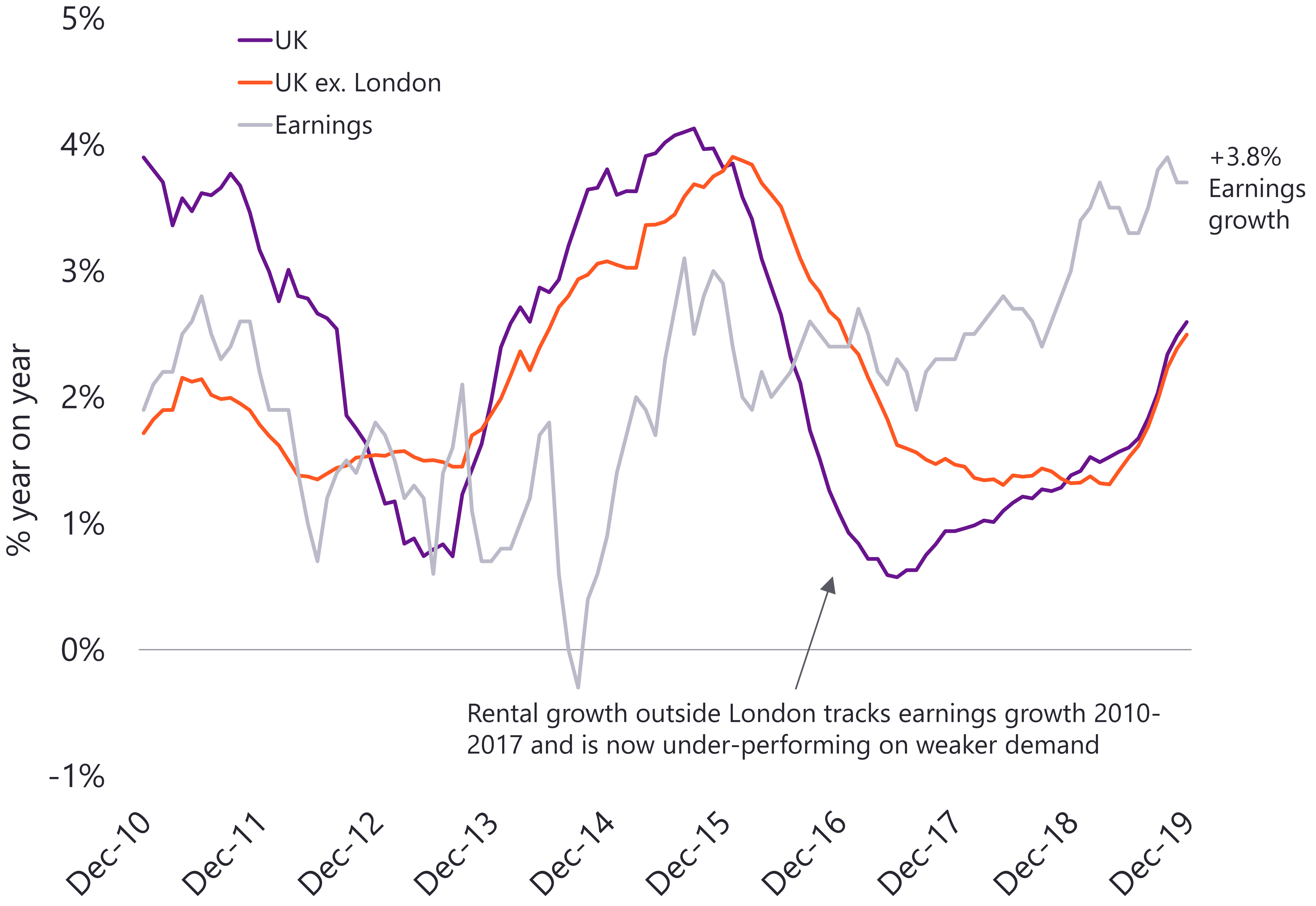


Fig.2 - Rental growth - London and UK ex. London – compared to earnings (%yoy)



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

Rental growth and available supply - London region

- Rental growth in London (+2.8%) is at its highest level for almost 4 years after a period of rental price falls over 2017 and 2018.
- The available supply of homes for rent, per estate agency branch (Fig 4), has declined by 20% in London over the last two years - a result of much lower new investment by landlords and disinvestment by others, together with renters staying longer in their home. This in contrast to the overall UK figures where rental supply per agency branch has remained steady.
- The drop in availability is supporting higher rental growth. However, stretched rental affordability in London is limiting the pace at which rents can increase when compared to other cities, where there is headroom in rental affordability to allow for higher rents over 2020.

Fig.3 – Rental growth – London region and UK ex. London

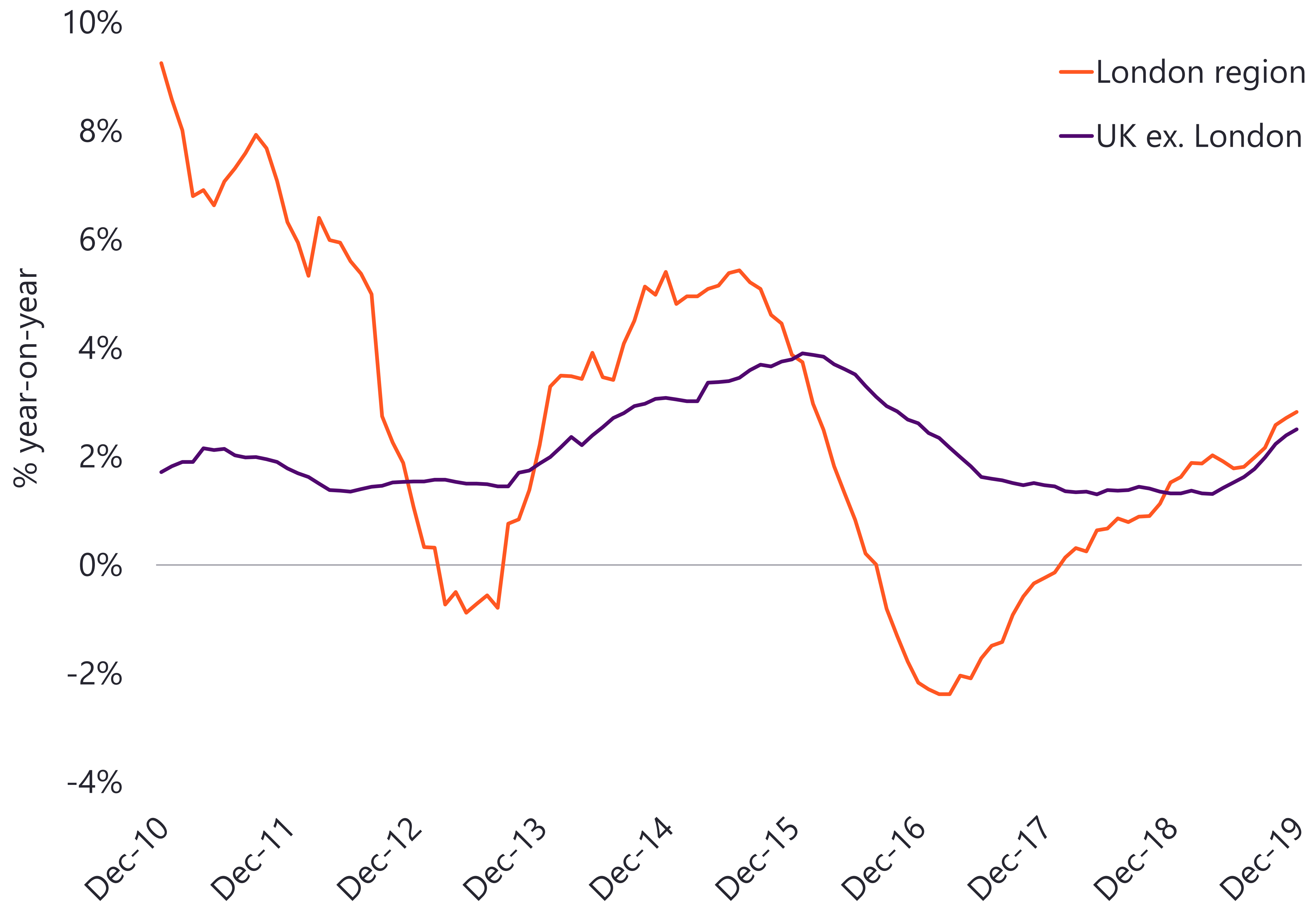
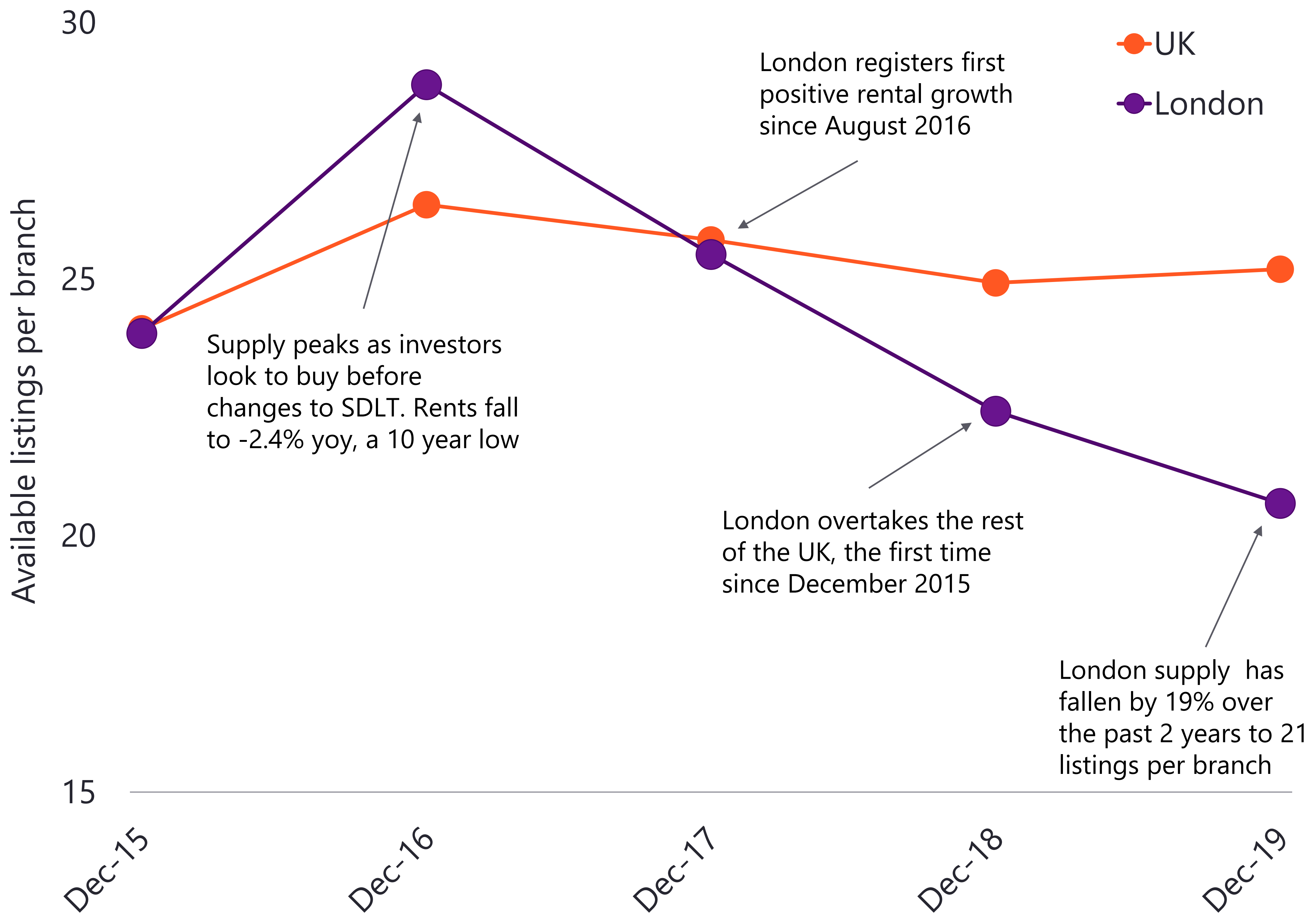


Fig.4 – Rental listings per agency London vs UK



Source: Zoopla Rental Index, powered by Hometrack, Zoopla Research

Rental growth and rent levels – regions and countries

- Rental growth at a country level is: +2.7% in Wales, +1.9% in Northern Ireland, +2.5% in England and +3.6% in Scotland.
- Growth across English regions range from +0.5% in the North East to +3.6% in the East Midlands. The North East, Yorkshire and Northern Ireland have recorded a slower annual growth compared to the last quarter.
- Rents in the West Midlands have risen off a low base but are still below average, explained by an increase in available rental supply.
- Average 1-4 bed property rents in London are £1,641 pcm but there is a wide variation around this average from up to £3,000 pcm in central London boroughs to £1,100 in the London Borough of Bexley.
- Rental values across all other regions are less than half of those in London with rents the lowest in the North east at £514pcm.

Fig.5 - Rental growth – 2019 Q4 vs 2019 Q3

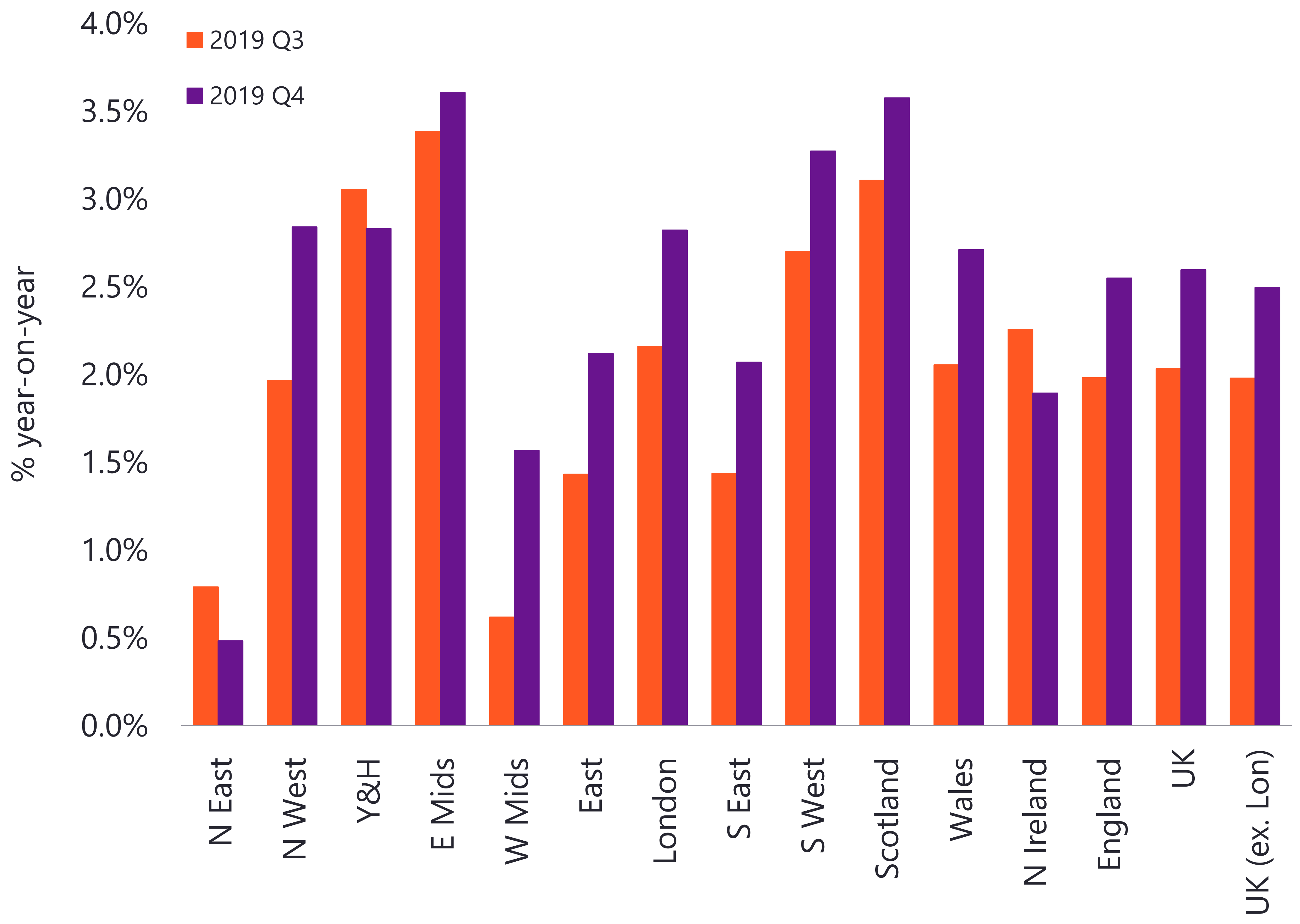
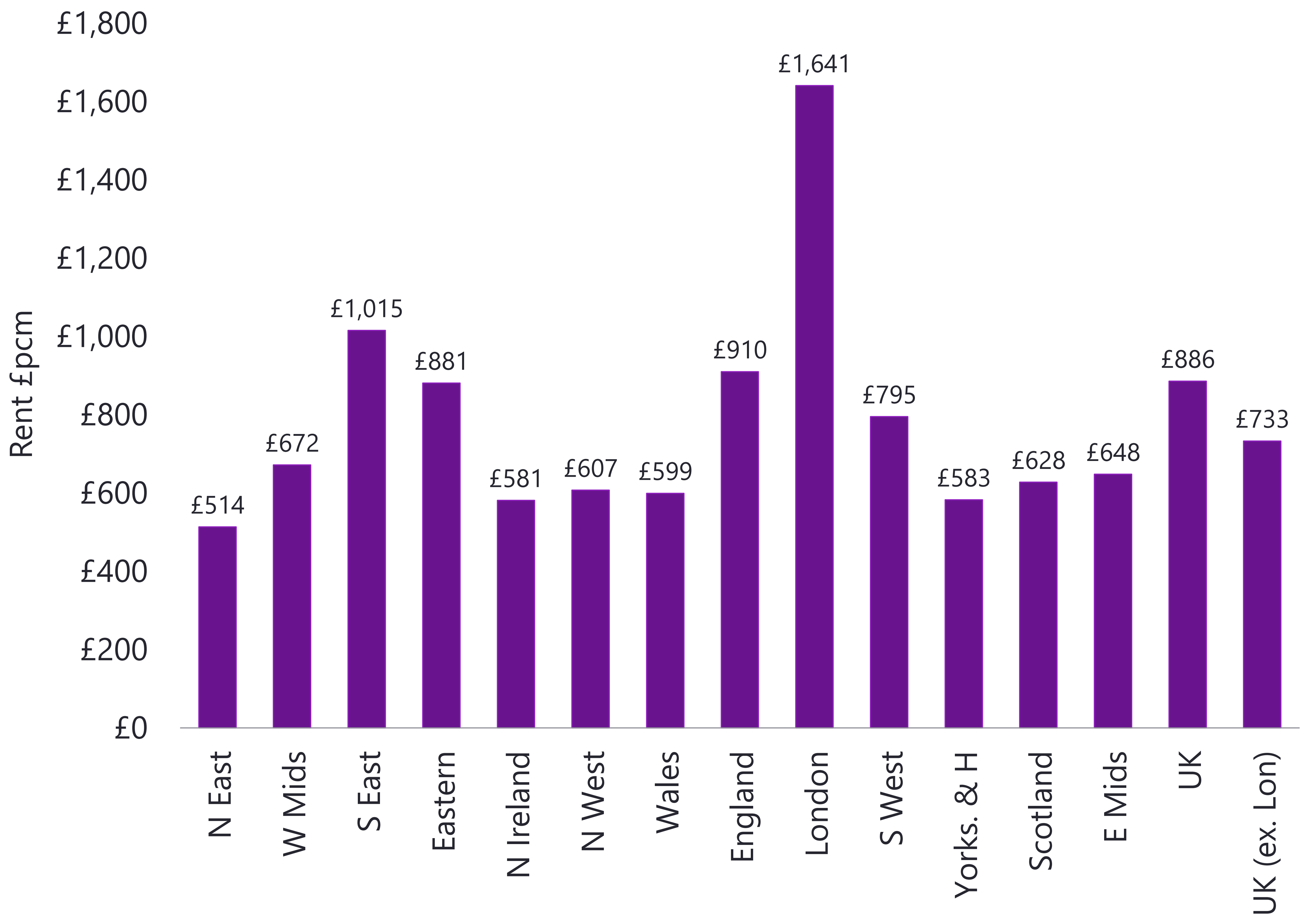


Fig.6 - Average rent £pcm 2019 Q4 (stock weighted average 1-4 beds)



Source: Zoopla Rental Index, powered by Hometrack, ONS Subnational dwelling stock by tenure estimates

Headlines trends in rental affordability

- Rental affordability is defined 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 equate to 31.9% of average earnings, just under the 10-year average of 32.1% – Fig.7.
- Rental affordability is most attractive in the North East region (22%) and least affordable in London Region (46% for a single person).
- Higher levels of occupancy in London Region i.e. multiple earners per rented home explain the elevated level of affordability which has improved over the last three years as a result of falling rents over 2017-2018. Two average earners sharing a property in London will have a rental affordability of 23%.

Fig.7 - Rent as % single person earnings - UK

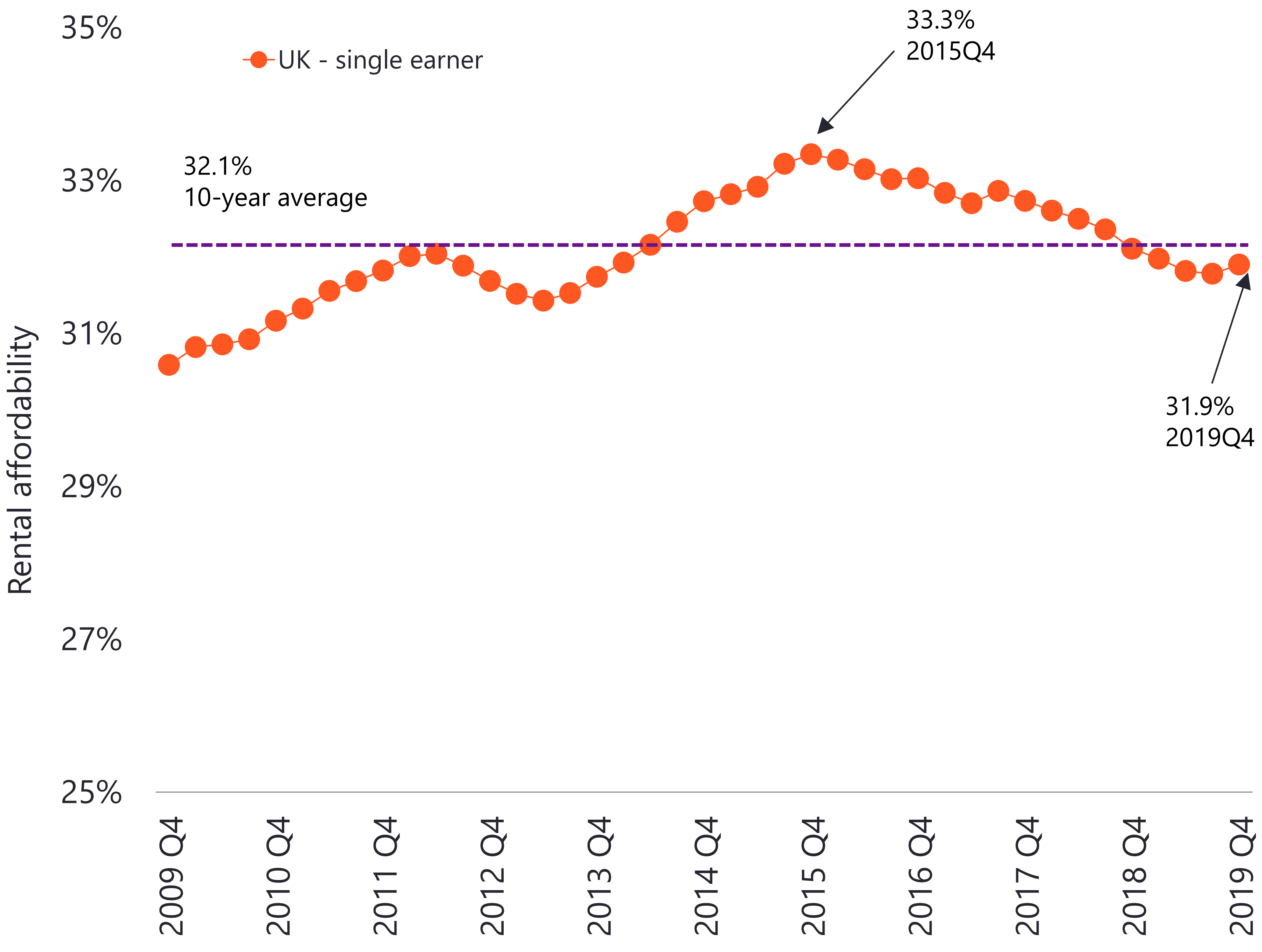
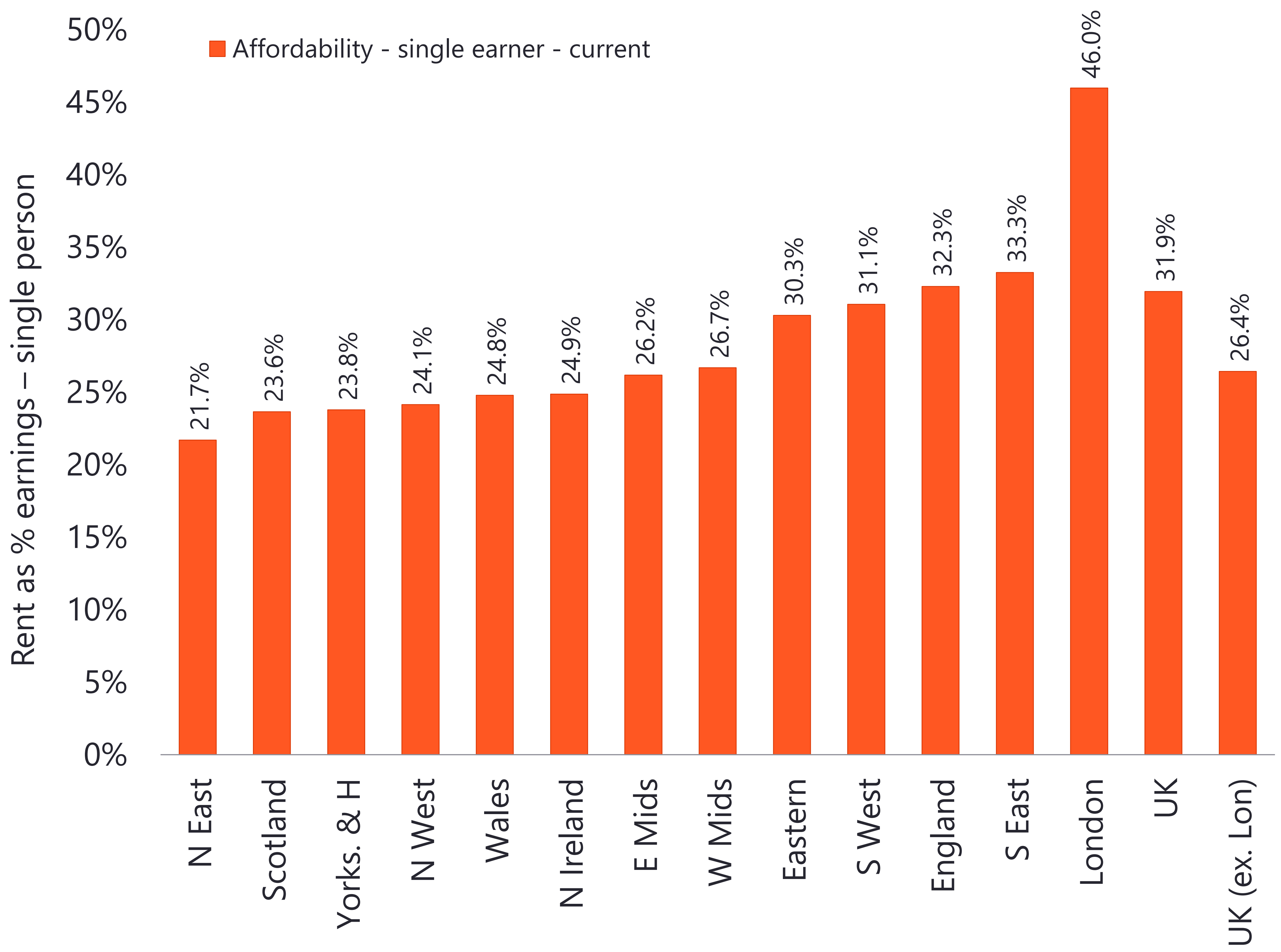


Fig.8 - Rental affordability by country/region – rent as % earnings – single earner



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

Rental growth rates across UK cities

- Nottingham continues to lead the way at +5.8%. Aberdeen (-2.9%) is still the weakest rental market of the 40 cities as it continues a slow price correction following the 2015 collapse in oil prices.
- There are three cities where rental growth is running in excess of 5% per annum - Nottingham (+5.8%), Bristol (+5.5%) and York (+5.0%).
- On closer examination, 10 cities have registered a slowdown in the annual rate of growth compared to the previous quarter. For the five cities in our top 20, these falls are relatively small, but as we move into the 20 cities with the lowest growth rates (Fig. 10), the margins widen with Sheffield growth halving and Newcastle slowing from +0.9% to +0.2%.
- A more detailed analysis of rental growth rates for all 40 cities can be found in the summary tables section starting on page 10.

Fig.9 – Top 20 cities registering highest annual growth

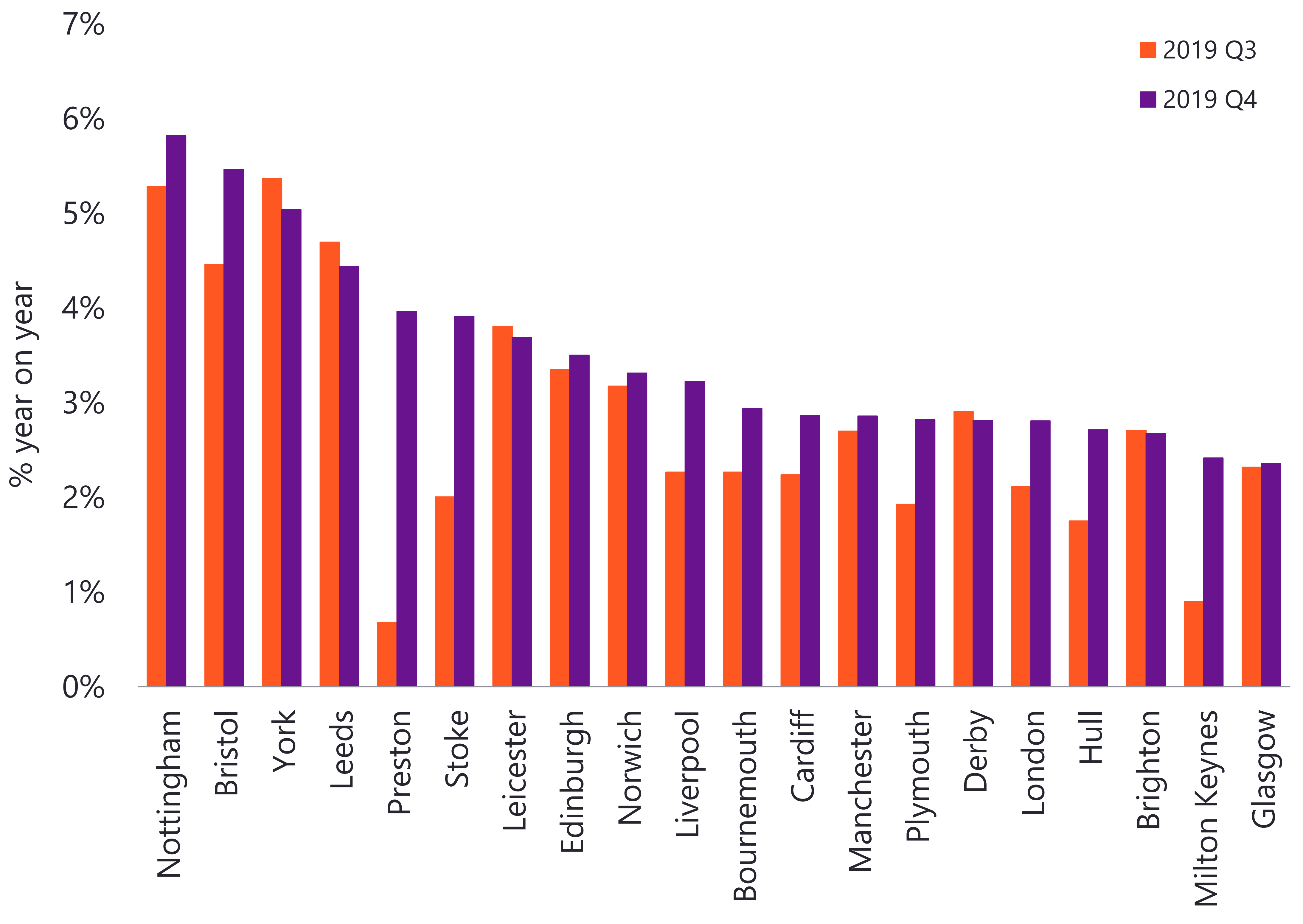


Fig.10 – Bottom 20 cities registering lowest annual growth

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

Long run trends of cities with weakest and strongest growth

- Figures 11 and 12 look at the long run trends in rental growth for the cities with the weakest and strongest growth rates. The primary driver of faster rental growth in York, Bristol and Nottingham is below average levels of rental supply coming to the market compared to the rest of UK. Higher costs of buying a home in Bristol and York, are sustaining rental demand and above average rates of rental growth.
- The cities with weaker growth have seen very different historic trends. In Aberdeen, rents fell on the back of the fall in the oil price, but the levels of falls has moderated to the lowest rate for almost five years as rental supply starts to tighten. Rental growth in Middlesbrough has remained flat over the last decade on the back of weaker employment growth and affordable home ownership keeping rental demand in check.
- Coventry experienced rapid growth in rents between 2014 and 2016, stretching rental affordability. The city has also registered above average growth in rental supply which is resulting in flat rental growth.

Fig.11 – Weakest performing cities

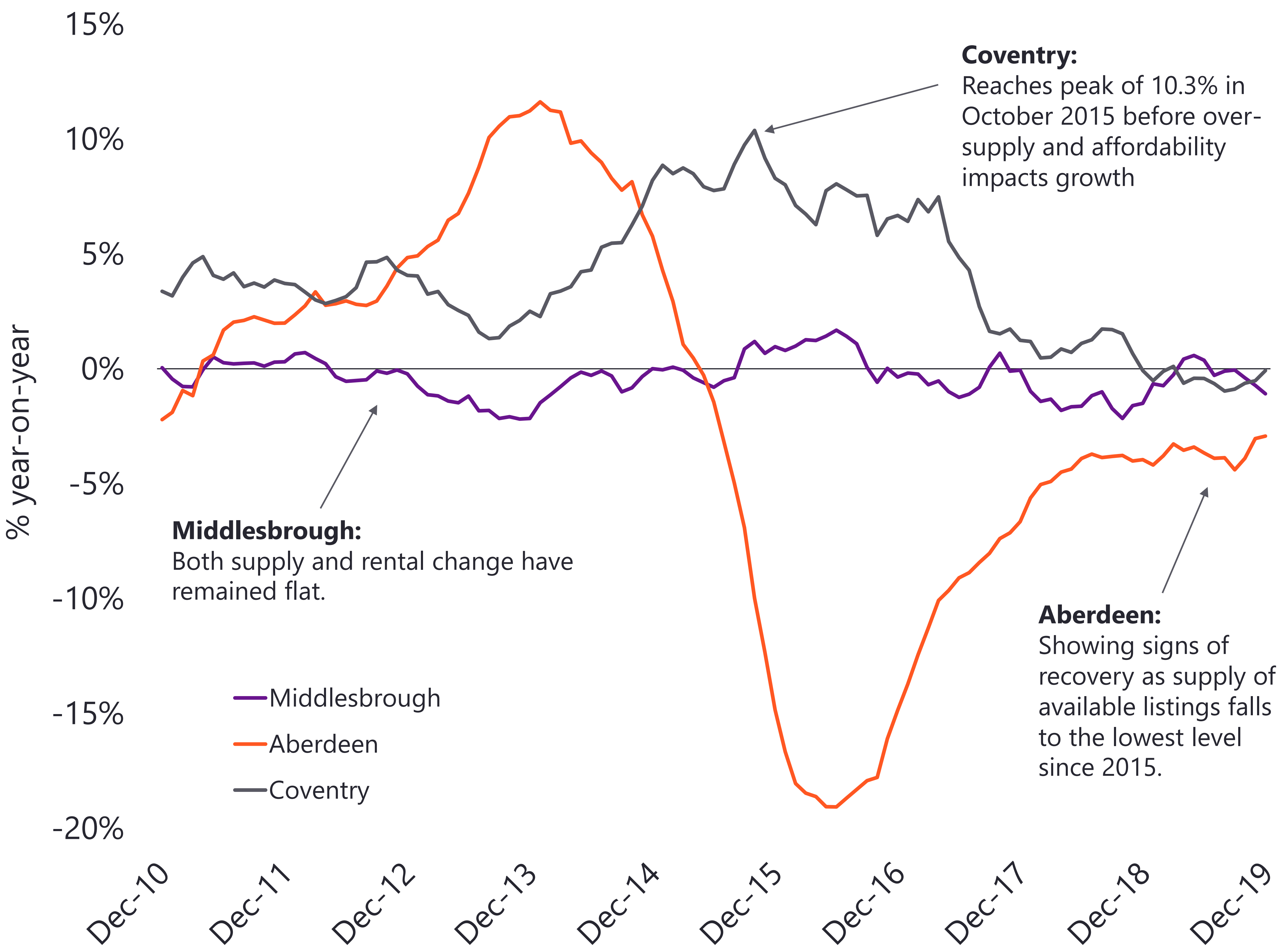
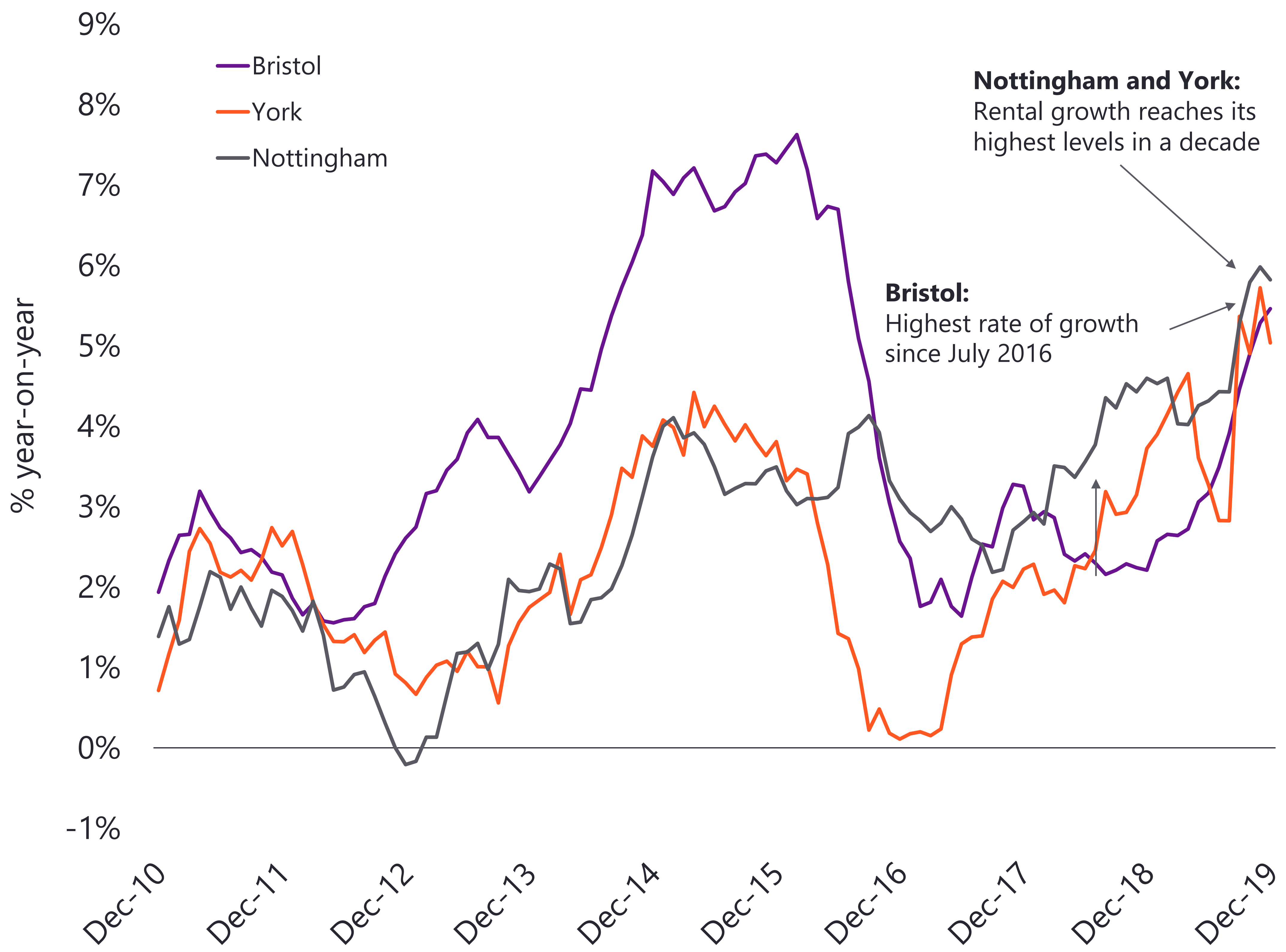


Fig.12 – Strongest performing cities



Source: Zoopla Rental Index, powered by Hometrack

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 ave. growth rate	Affordability trend (current v 5 year)	Affordability - single earner - current	Affordability - single earner - 5 yr average	Time to rent (days)
UK	**£886**	**Higher**	**2.6%**	**1.4%**	**2.0%**	**Improving**	**31.9%**	**32.6%**	**17.7**
UK (ex. London)	£733	Higher	2.5%	1.3%	2.3%	Improving	26.4%	26.9%	19.1
England	£910	Higher	2.5%	1.3%	1.9%	Improving	32.3%	33.0%	18.9
Scotland	£628	Higher	3.6%	1.7%	1.8%	Improving	23.6%	24.2%	14.7
Wales	£599	Higher	2.7%	2.4%	2.6%	Static	24.8%	24.8%	18.4
N Ireland	£581	Higher	1.9%	1.7%	2.7%	Improving	24.9%	25.6%	21.9
East Midlands	£648	Higher	3.6%	2.9%	3.2%	Static	26.2%	25.8%	18.3
South West	£795	Higher	3.3%	1.2%	2.7%	Static	31.1%	30.7%	16.0
North West	£607	Higher	2.8%	0.9%	2.3%	Improving	24.1%	24.6%	20.3
Yorkshire and Humber	£583	Higher	2.8%	1.3%	2.2%	Improving	23.8%	24.0%	19.3
London	£1,641	Higher	2.8%	1.5%	1.1%	Improving	46.0%	48.5%	15.0
Eastern	£881	Higher	2.1%	0.7%	2.7%	Improving	30.3%	30.9%	18.7
South East	£1,015	Higher	2.1%	1.0%	2.0%	Improving	33.3%	33.8%	20.0
West Midlands	£672	Lower	1.6%	1.8%	2.7%	Static	26.7%	26.9%	20.7
North East	£514	Higher	0.5%	0.4%	0.8%	Improving	21.7%	22.7%	21.5

Headline results – City level

Table 2a – 20 cities with highest rental growth

Area	Average rent (£pcm)	% yoy current	% yoy 12m ago	5 year CAGR
Nottingham	£679	5.8%	4.6%	4.0%
Bristol	£983	5.5%	2.2%	4.1%
York	£844	5.0%	3.7%	3.0%
Leeds	£715	4.4%	0.0%	3.5%
Preston	£571	4.0%	-0.9%	1.1%
Stoke	£520	3.9%	1.7%	2.4%
Leicester	£727	3.7%	2.9%	3.7%
Edinburgh	£950	3.5%	5.1%	5.0%
Norwich	£765	3.3%	2.0%	3.2%
Liverpool	£586	3.2%	1.0%	2.2%
Bournemouth	£954	2.9%	1.2%	2.3%
Cardiff	£785	2.9%	2.6%	3.2%
Manchester	£732	2.9%	1.5%	3.2%
Plymouth	£670	2.8%	-0.1%	1.4%
Derby	£579	2.8%	1.0%	1.8%
London	£1,577	2.8%	1.5%	1.1%
Hull	£471	2.7%	1.8%	1.9%
Brighton	£1,292	2.7%	2.4%	2.9%
Milton Keynes	£926	2.4%	0.8%	2.5%
Glasgow	£636	2.4%	3.8%	3.3%

Table 2b – 20 cities with lowest rental growth

Area	Average rent (£pcm)	% yoy current	% yoy 12m ago	5 year CAGR
Portsmouth	£858	2.4%	1.4%	2.4%
Gloucester	£702	2.4%	2.5%	3.0%
Cambridge	£1,200	2.3%	2.3%	2.2%
Belfast	£599	2.2%	2.0%	2.9%
Oxford	£1,369	2.1%	2.1%	2.5%
Reading	£1,067	2.0%	1.8%	1.4%
Swansea	£600	2.0%	-0.5%	1.7%
Ipswich	£677	1.8%	2.4%	3.1%
Southampton	£843	1.7%	0.5%	1.5%
Birmingham	£668	1.6%	2.3%	2.8%
Northampton	£751	1.5%	2.5%	3.5%
Huddersfield	£519	1.4%	2.5%	1.6%
Sheffield	£583	1.3%	2.0%	1.6%
Swindon	£735	1.3%	0.8%	2.9%
Bradford	£489	1.2%	0.8%	1.0%
Southend	£887	0.9%	0.0%	2.6%
Newcastle	£584	0.2%	0.4%	1.2%
Coventry	£807	-0.1%	-0.1%	3.2%
Middlesbrough	£463	-1.1%	-1.5%	-0.4%
Aberdeen	£597	-2.9%	-4.0%	-8.8%

City level rental affordability

Table 3a – 20 cities with highest % earnings spent on rent

Area	Average rent (£pcm)	Current (single earner)	5 yr average (single)	Current (two earners)
London	£1,577	51.9%	47.3%	23.6%
Oxford	£1,369	45.0%	45.1%	22.6%
Brighton	£1,292	42.3%	41.9%	20.9%
Cambridge	£1,200	39.6%	41.9%	21.0%
Reading	£1,067	34.9%	35.6%	17.8%
Bristol	£983	32.3%	36.6%	18.3%
Bournemouth	£954	31.3%	37.0%	18.5%
Edinburgh	£950	31.2%	34.3%	17.2%
Milton Keynes	£926	30.4%	30.9%	15.4%
Southend	£887	28.9%	31.3%	15.7%
Portsmouth	£858	28.1%	28.2%	14.1%
York	£844	27.7%	33.2%	16.6%
Southampton	£843	27.6%	28.2%	14.1%
Coventry	£807	26.4%	32.7%	16.3%
Cardiff	£785	25.7%	31.9%	15.9%
Norwich	£765	25.1%	26.2%	13.1%
Northampton	£751	24.6%	30.3%	15.1%
Manchester	£732	24.0%	29.1%	14.5%
Swindon	£735	24.0%	28.9%	14.4%
Leicester	£727	23.8%	28.4%	14.2%

Table 3b – 20 cities with lowest % earnings spent on rent

Area	Average rent (£pcm)	Current (single earner)	5 yr average (single)	Current (two earners)
Leeds	£715	23.5%	28.6%	14.3%
Gloucester	£702	23.1%	26.7%	13.3%
Nottingham	£679	22.3%	26.1%	13.0%
Ipswich	£677	22.2%	23.4%	11.7%
Birmingham	£668	22.0%	26.6%	13.3%
Plymouth	£670	22.0%	26.3%	13.2%
Glasgow	£636	20.8%	23.7%	11.9%
Swansea	£600	19.7%	25.2%	12.6%
Belfast	£599	19.6%	25.9%	12.9%
Aberdeen	£597	19.4%	28.0%	14.0%
Liverpool	£586	19.3%	23.4%	11.7%
Newcastle	£584	19.1%	25.3%	12.6%
Preston	£571	19.0%	23.6%	11.8%
Sheffield	£583	18.9%	24.0%	12.0%
Derby	£579	18.8%	23.4%	11.7%
Stoke	£520	17.1%	20.5%	10.2%
Huddersfield	£519	17.0%	21.5%	10.7%
Bradford	£489	15.9%	20.4%	10.2%
Hull	£471	15.5%	19.3%	9.6%
Middlesbrough	£463	15.1%	21.1%	10.6%

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.

For more information contact Richard Donnell, richard.donnell@zoopla.co.uk

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