Zoopla

Rental Market Report 2020 Q1

Powered by hometrack

Impact of COVID-19 on the rental market

30%

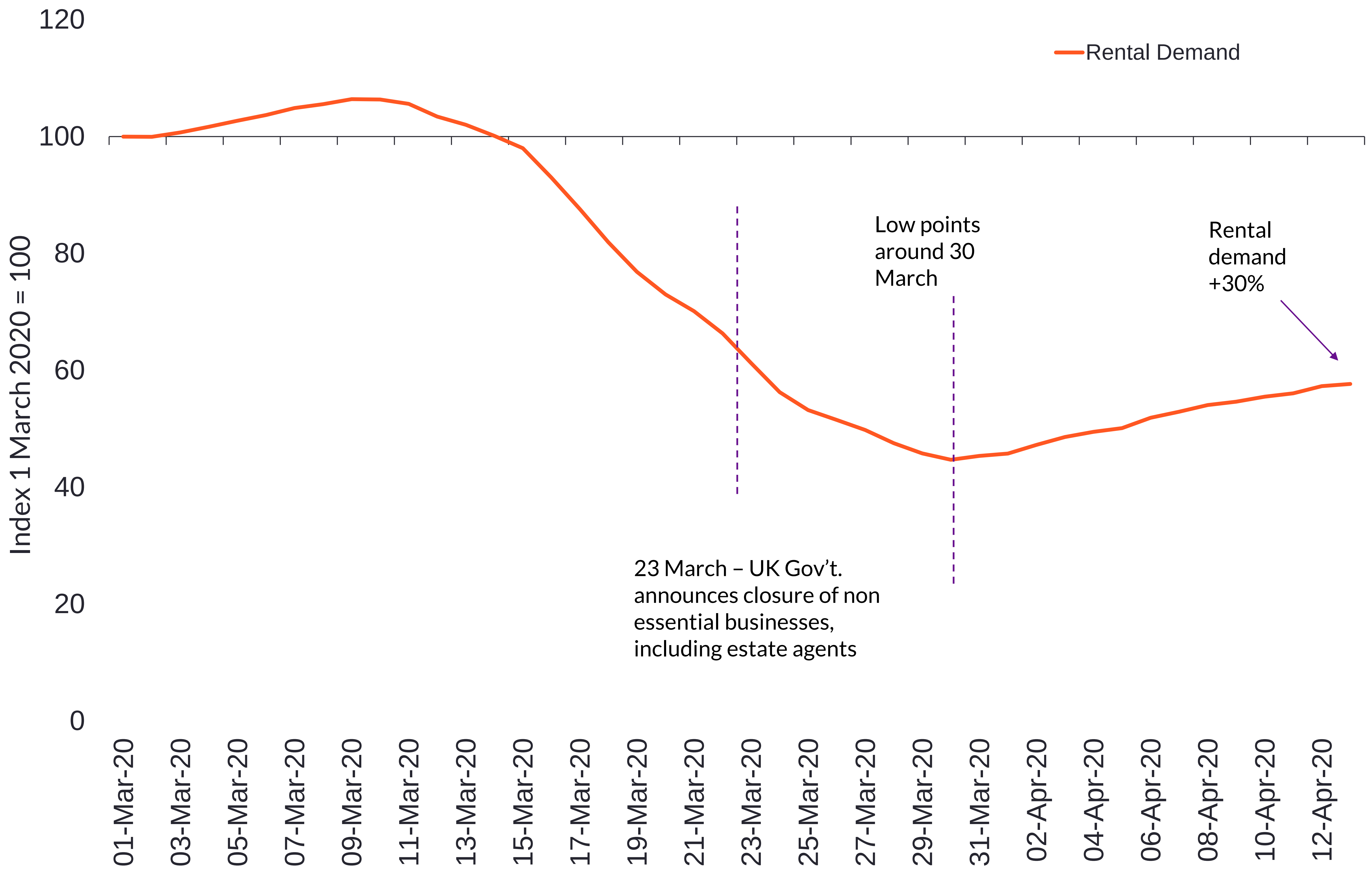
Rise in tenant demand in first two weeks in April

Summary of key findings and current trends

- The change in activity levels in the rental market due to COVID-19 have not yet filtered through to any notable adjustment in rents, according to the Zoopla rental index, which shows rental growth at 2.4% in March, slightly down from 2.5% in February, and up from 1.5% in March last year. Any change in rents as activity in the rental market starts to pick up will likely be captured more fully in Q2 data.
- The impact of COVID-19 on activity in the rental market was clear during March. Demand in the rental market fell 57% between March 7th and March 30th, although the impact was greater in the sales market, where there was a 70% decline in buyer demand.
- The decline in rental market demand has now bottomed out, demand rose by 30% off a low base in the two weeks to April 14th. This tallies with the flexible nature of the rental market, with activity falling less severely and rebounding more quickly than in the sales market after financial or economic shocks. However rental demand remains 42% lower than early March and 21% lower compared to the same period (mid-April) in 2019 and 2018.
- The total number of properties available to rent remains broadly unchanged as there has been no large-scale withdrawal of listings, however the rate of new listings coming to the market has slowed. Indeed, there was a surge in new rental supply before the lockdown as landlords in some cities moved homes from the short-let market to the long- let market.
- Once the lockdown restrictions ease, activity levels will likely rise, possibly to levels in line with the usual busier seasonal periods in Q3 and Q4. This would mean that total moves within the rental sector in 2020 would be around 25% lower than in 2019.
- We do not expect any material change in rental growth in the near term although the likelihood is that the rate of growth will moderate slightly over the remainder of 2020. Rental growth has been rising steadily for the last 3 years but it is unlikely to rise further despite the increase in demand.

Impact of COVID-19 on rental market demand

Fig. 1 – Index of rental demand from March to Mid-April



Source: Zoopla Research

- Overall activity in the rental market has felt the impact of COVID-19, although to a lesser degree than the sales market . Tenant demand fell by 57% between March 7th and March 30th, a more modest decline than the 70% fall in buyer demand.
- Since then, rental demand has risen by 30% to April 14th.
- The additional flexibility in the lettings market, which has allowed agents to agree rental deals with delayed start dates, and agree terms based on online viewings, means that activity has continued during the lockdown, albeit at a significantly lower rate.
- Likewise, activity levels are likely to rise more quickly in the rental market than the sales market once the lockdown eases, given that in usual market conditions the average 'time to let' – time from listing a rental property to letting it out – is less than three weeks.
- The total number of properties listed for rent has remained broadly stable although the number of new properties listed has declined since the lockdown began.

Rental demand by price band

- The charts below compare the distribution of renter demand by price band for the week commencing February 24th relative to the week commencing April 6th.
- In London, there has been a small but noticeable shift in demand, with the largest proportion of interest in properties rented out for between £1,200-£1,300 in April, compared to February, when the greatest interest was for properties priced between £1,400-£1,500. This could possibly be related to more challenging financial circumstances among some tenants, but it is too early to say if this trend will persist. Outside London, where affordability pressures are less severe, we have yet to see a comparable step down.

Fig. 2 – Distribution of rental demand by price: London

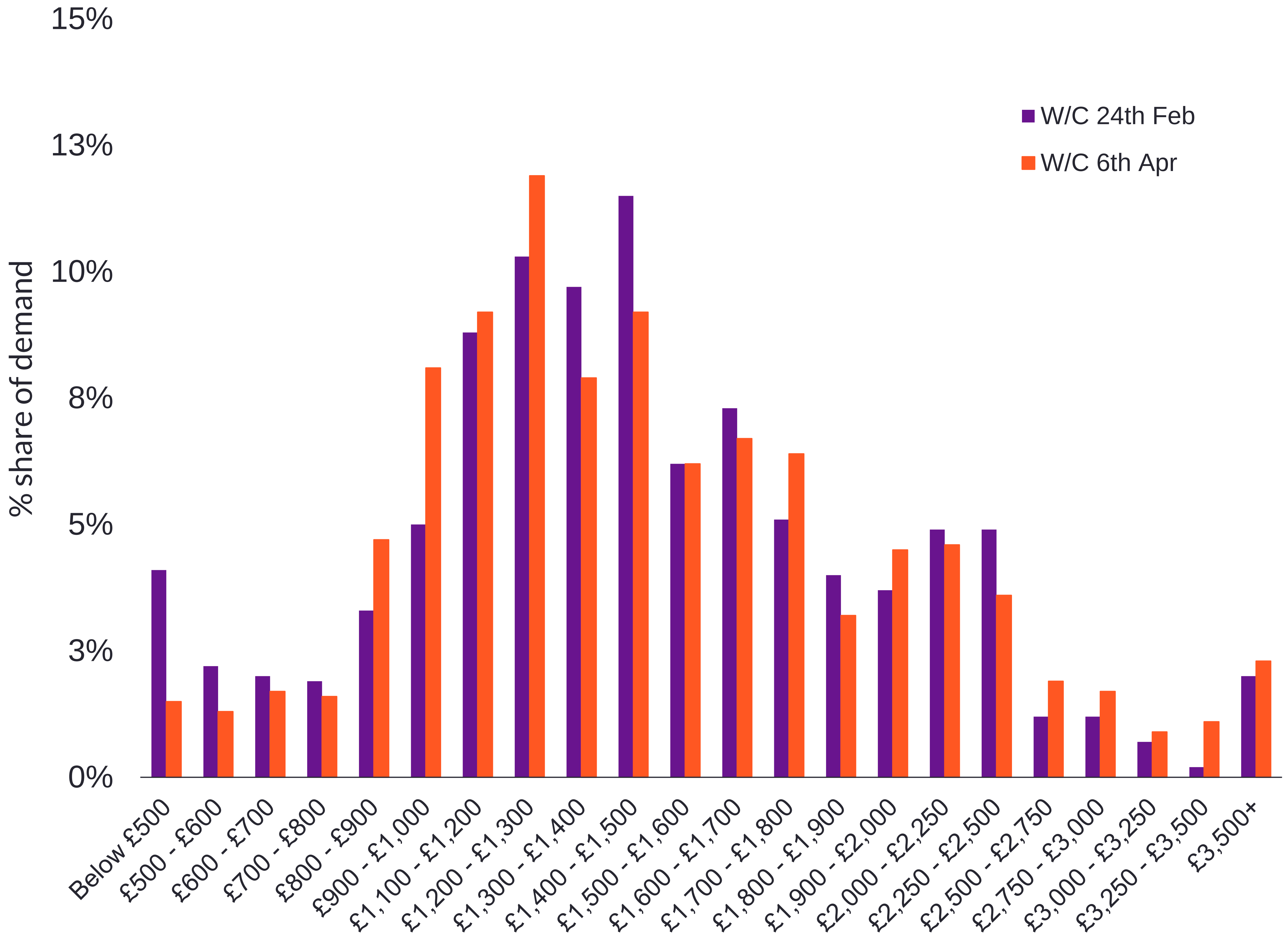
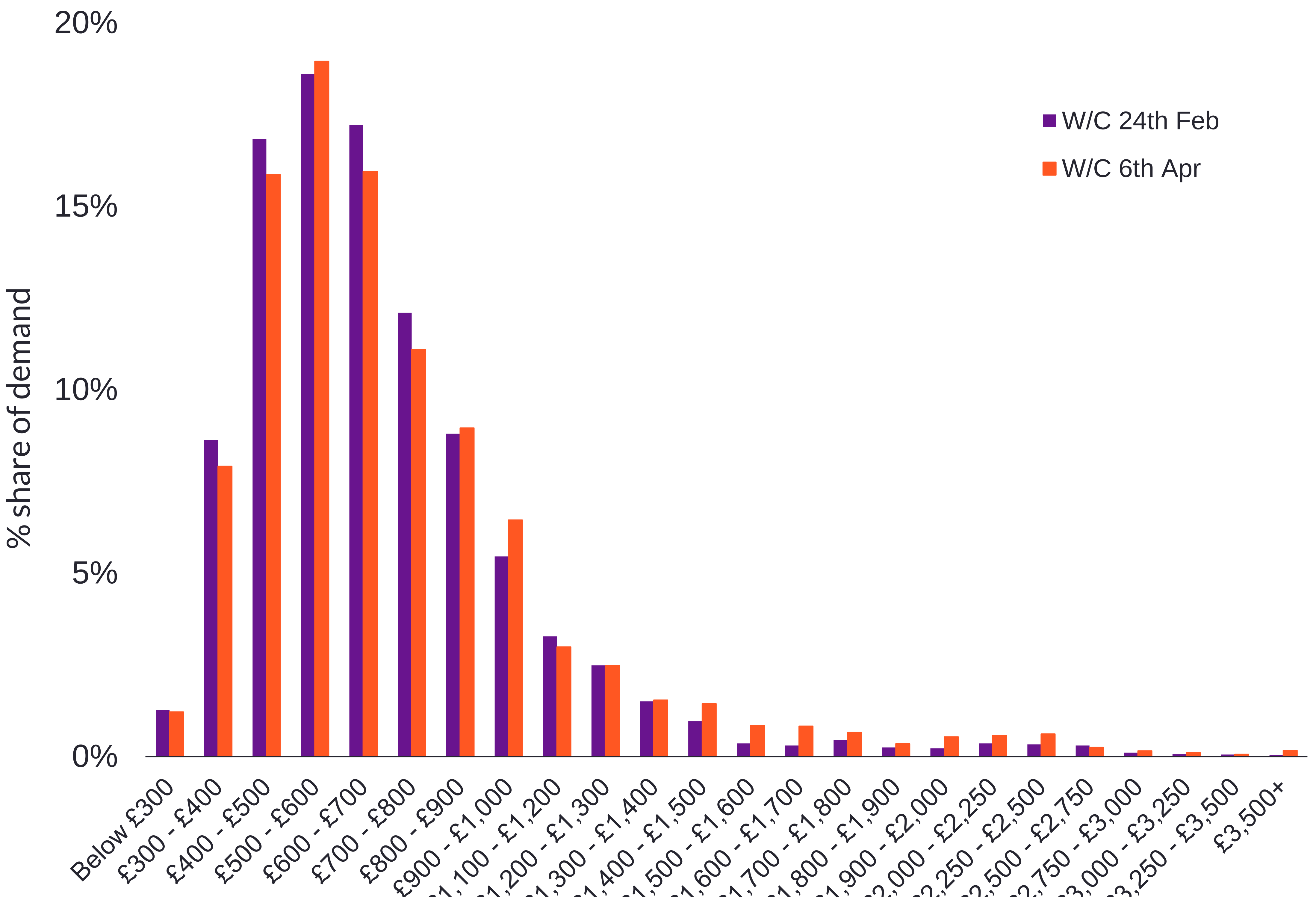


Fig.3 – Distribution of rental demand by price: UK excluding London



Source: Zoopla Research

01. **Headline results**

Executive Summary Rental Index - 2020 Q1

Headline trends

Rental growth – UK (% yoy)	+2.4% (+1.5% a year ago)
Average rental value (£pcm)	£886 (+£23 from a year ago)
Rental affordability - UK – single earner	31.6% (32.1% 10-year average)
Average days on market	17.7 days (19.4 days a year ago)
Highest rental growth - country/region	+3.8% - East Midlands
Lowest rental growth – country/region	+1.4% - West Midlands
Highest rental growth - city	+5.9% - Nottingham
Lowest rental growth - city	-2.1% - Aberdeen

Summary of key findings

- The Zoopla rental index shows the annual rate of UK rental growth has flattened in March, up 2.4% on the year, compared to 2.5% in February and 2.3% annual growth in December. This compares to 1.5% growth in March 2019.
- At a city level, the spread of rental growth ranges from 5.9% in Nottingham and -2.1% in Aberdeen.
- Annual rental growth in London is at 1.7%, down from 2.3% in the last quarter but broadly in line with this time last year (1.8%).
- At a national level, a single average earner is spending 31.6% of earnings on rent, according to the most recent ONS earnings data.

Headline UK rental growth

- The annual rate of UK rental growth for new lets is +2.4% in March, down from +2.5% in February, and just above the 10-year annual average of +2.3%.
- Month-on-month, rental growth slowed in January and February, before posting a small fall in March. This is broadly in line with seasonal trends and not directly attributable to the Government measures introduced to combat the current COVID-19 crisis.
- Average earnings (+3.1%) continue to outpace rental growth according to the latest ONS earnings data. If the economic outcomes from COVID-19 prompt a decline in average earnings, the gap between these measures will start to narrow.

Fig. 4 - Headline UK rental growth (%yoy and %mom)

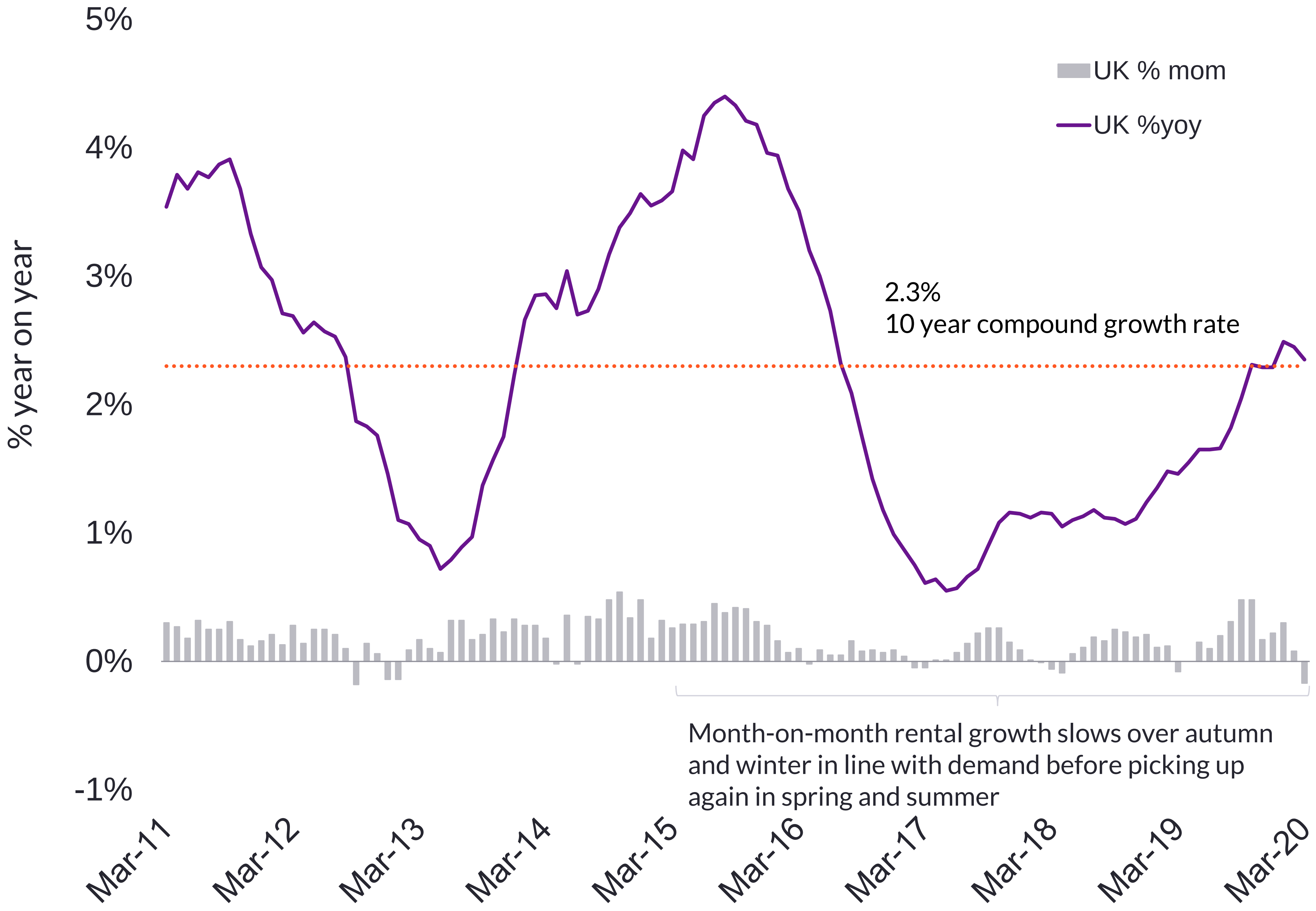
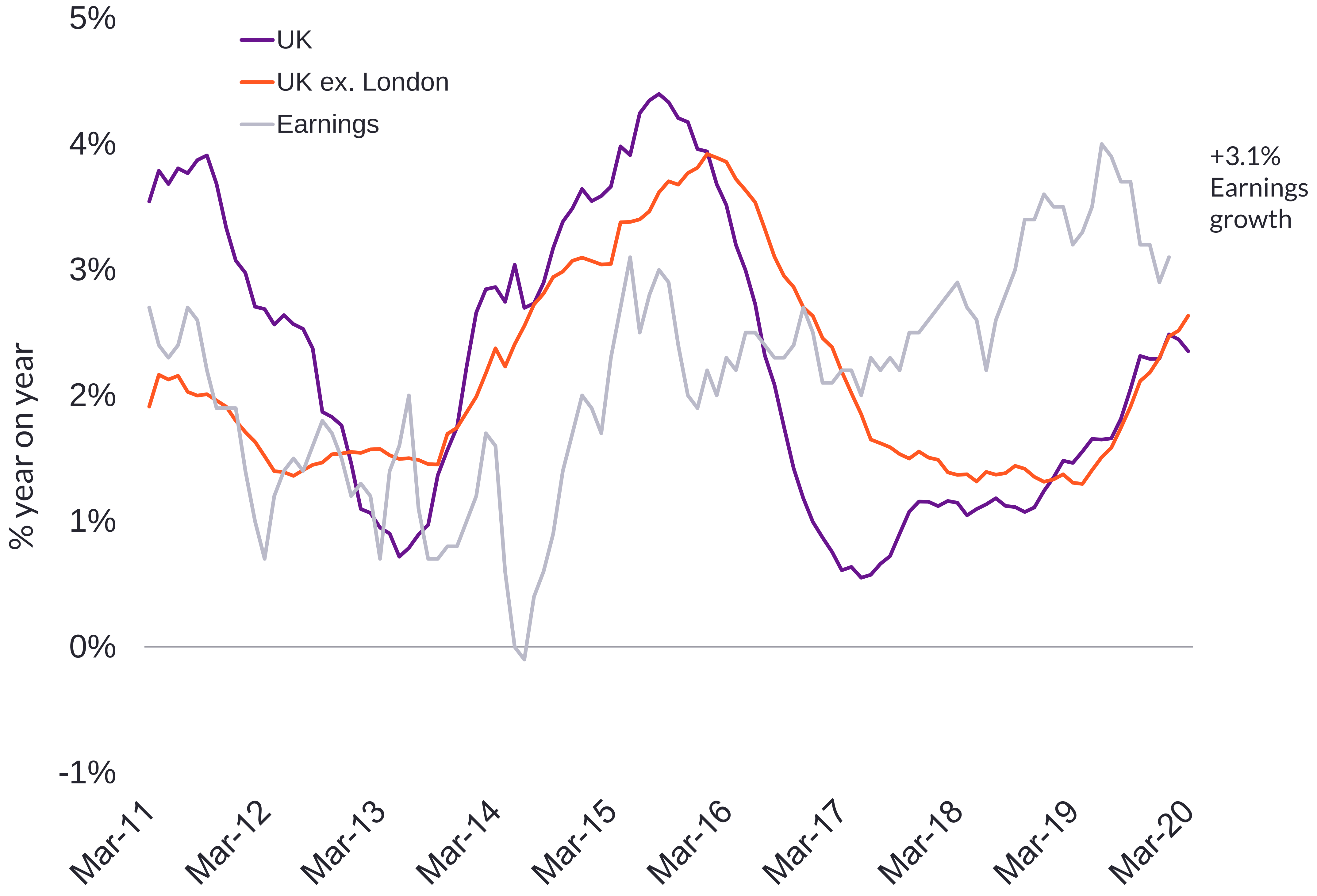


Fig.5 - Rental growth - London and UK ex. London – compared to earnings (%yoy)



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

Rental growth and affordability

- Rental growth in London (+1.7%) has dipped below our index for the UK excluding London for the first time in over a year.
- This may partially reflect a slight easing in demand given the post-election bounce in the sales market, and while a lack of supply and slower new investment has supported the uplift in rental growth over the last 2 years, a sustained delivery of new supply from new build schemes is likely to be adding to availability for renters and keeping rental growth in check.
- Stretched rental affordability in London (46%) has also been limiting the pace at which rents can increase when compared to the rest of UK.

Fig.6 – Rental growth – London region and UK ex. London

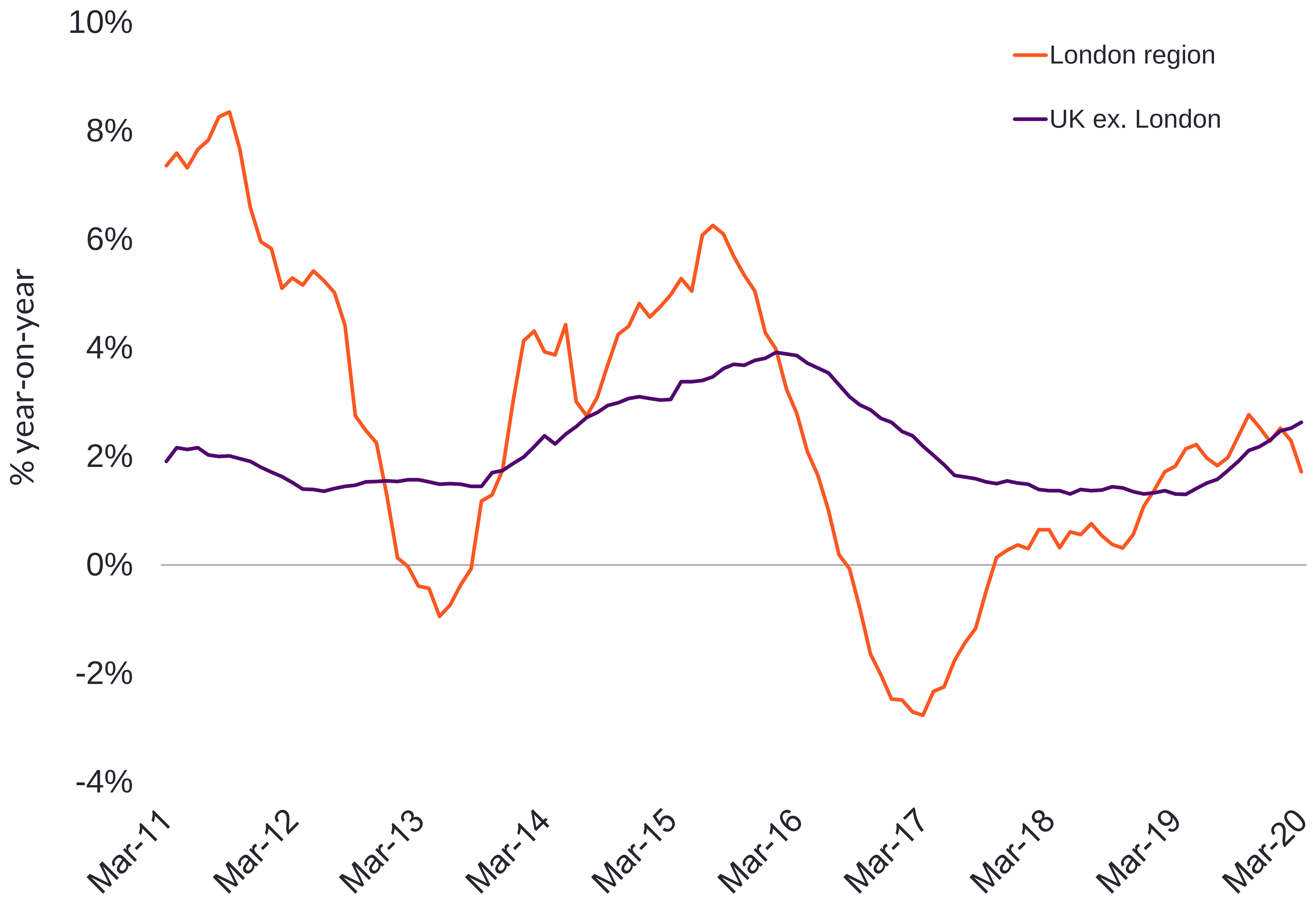
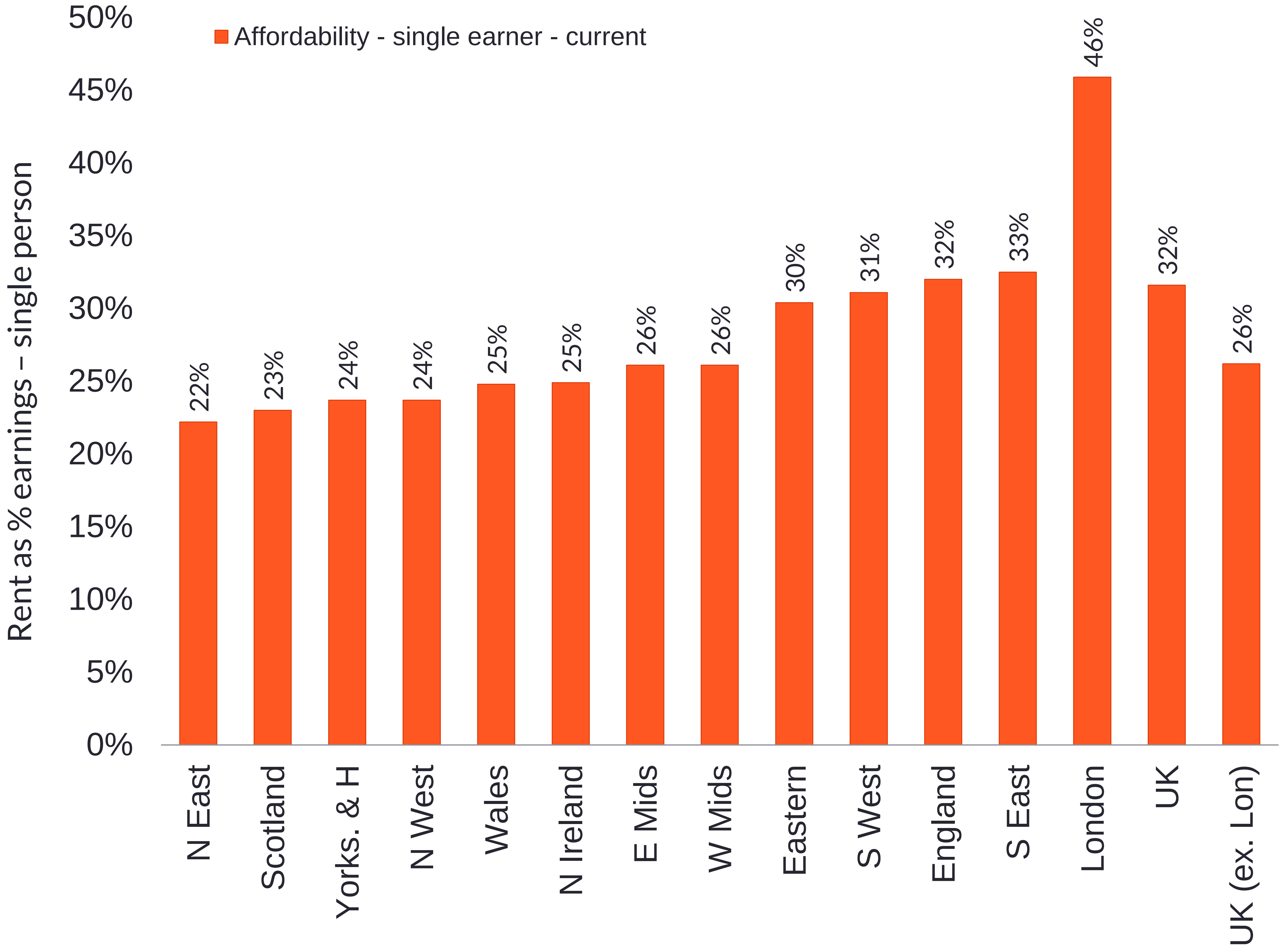


Fig.7 – Rental affordability



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

Rental growth and rent levels – regions and countries

- The annual rate of rental growth at a country level for March 2020, is: +3.1% in Wales, +2.0% in Northern Ireland, +2.3% in England and +3.5% in Scotland.
- Growth across English regions range from +1.4% in the West Midlands to +3.8% in the East Midlands. Only the North West and London have seen a small fall in annual growth compared to the previous quarter.
- Average rents (averaged across 1 to 4 bedroomed properties) in London are £1,631 pcm but there is a wide variation around this average. Average rents in the North East are at £517 a month.

Fig.8 - Rental growth – 2020 Q1 vs 2019 Q4

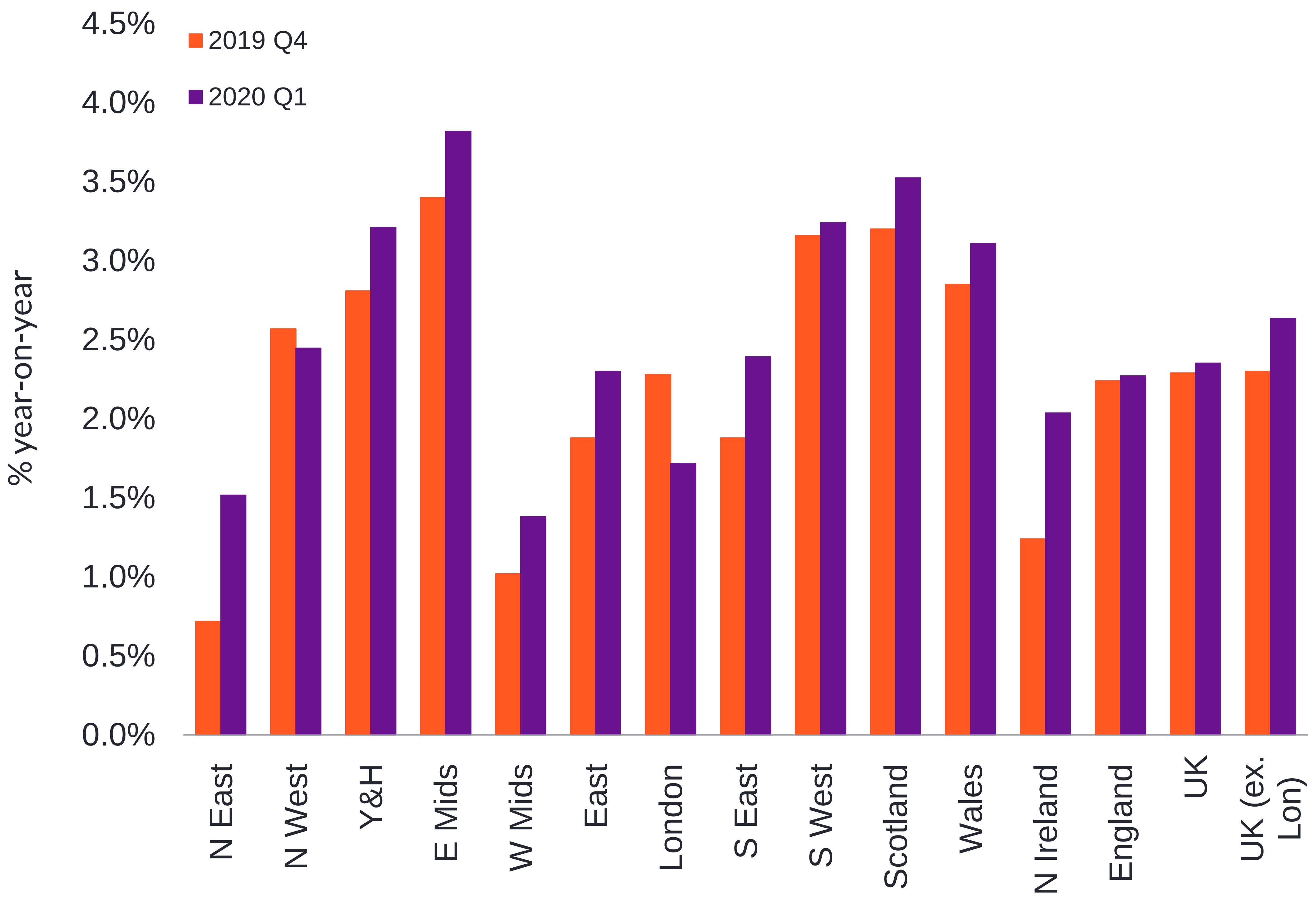
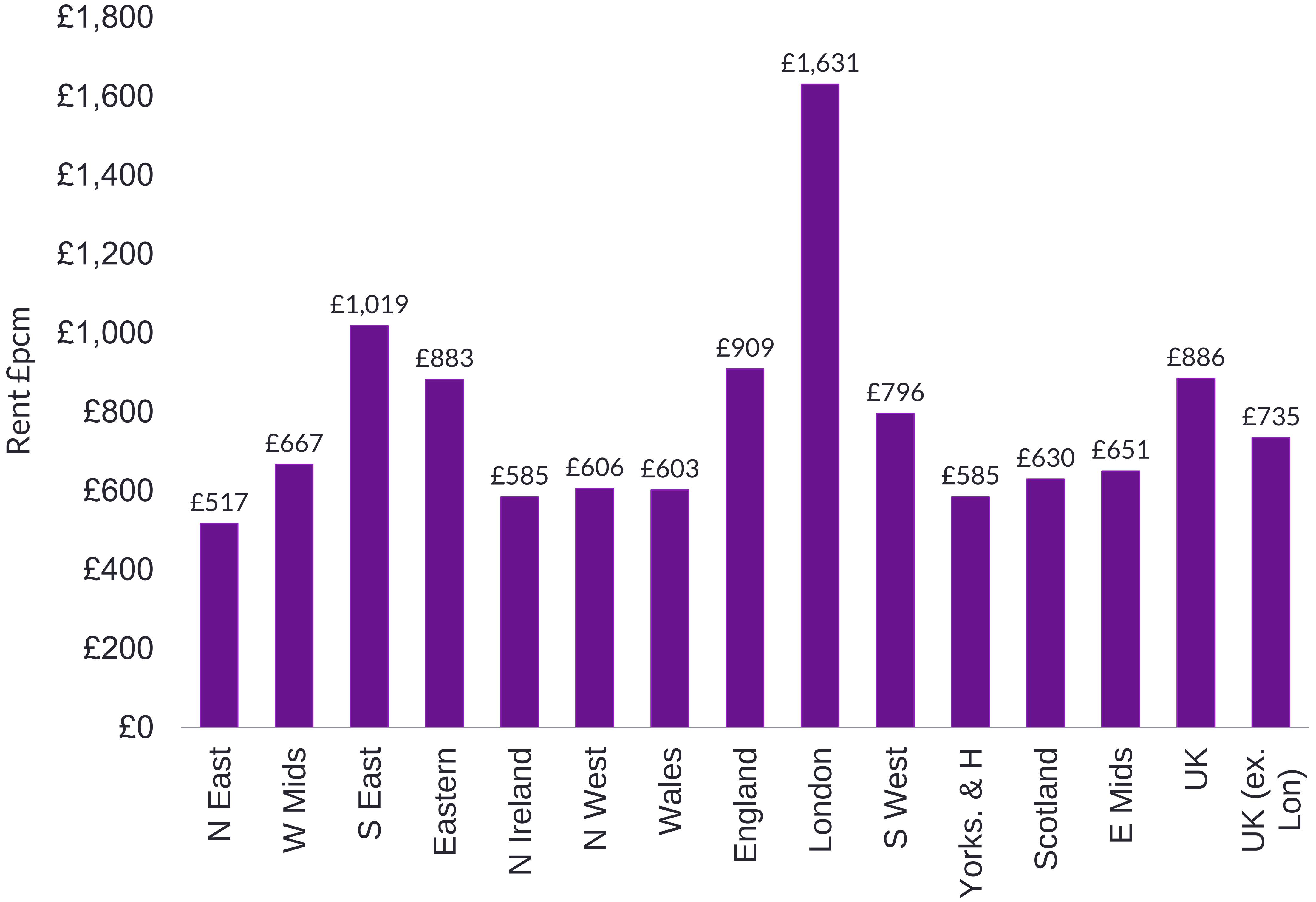


Fig.9 - Average rent £pcm 2020 Q1 (stock weighted average, 1-4 beds)



Source: Zoopla Rental Index, powered by Hometrack

Rental growth rates across UK cities

- Nottingham continues to lead the way in terms of rental growth, showing an annual rise of 5.9%. 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 (+5.9%), Bristol (+5.5%) and Leeds (+5.2%).
- A more detailed analysis of rental growth rates for all 40 cities can be found in the summary tables section starting on page 13.

Fig.10 – 20 cities registering highest annual rental growth

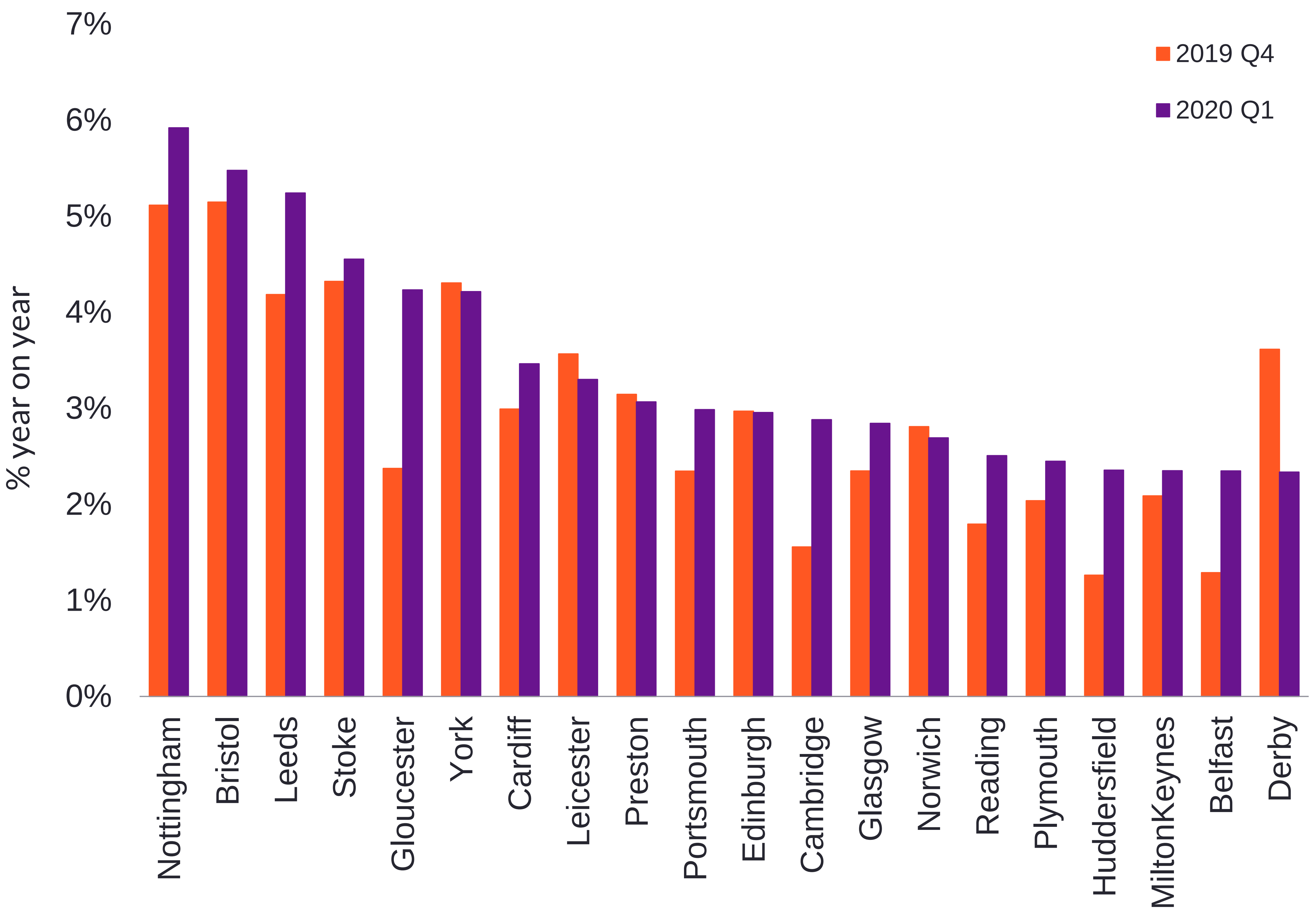


Fig.11 – 20 cities registering lowest annual rental growth

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

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**	**2.4%**	**1.5%**	**1.8%**	**Improving**	**31.6%**	**32.6%**	**17.7**
UK (ex. London)	£735	Higher	2.6%	1.3%	2.3%	Improving	26.2%	26.9%	19.6
England	£909	Higher	2.3%	1.4%	1.8%	Improving	32.0%	33.0%	19.6
Scotland	£630	Higher	3.5%	1.6%	1.9%	Improving	23.0%	24.1%	17.0
Wales	£603	Higher	3.1%	2.1%	2.6%	Static	24.8%	24.8%	22.6
N Ireland	£585	Lower	2.0%	1.5%	2.3%	Improving	24.9%	25.6%	14.6
North East	£517	Higher	1.5%	0.1%	0.9%	Improving	22.2%	22.7%	23.4
North West	£606	Higher	2.4%	1.5%	2.3%	Improving	23.7%	24.5%	20.0
Yorkshire and Humber	£585	Higher	3.2%	1.2%	2.3%	Improving	23.7%	23.9%	20.4
East Midlands	£651	Higher	3.8%	2.6%	3.2%	Tightening	26.1%	25.8%	19.7
West Midlands	£667	Higher	1.4%	1.2%	2.5%	Improving	26.1%	26.9%	20.7
Eastern	£883	Lower	2.3%	0.8%	2.5%	Improving	30.4%	30.9%	18.7
London	£1,631	Higher	1.7%	1.8%	0.8%	Improving	45.9%	48.3%	15.0
South East	£1,019	Higher	2.4%	0.9%	1.9%	Improving	32.5%	33.8%	21.0
South West	£796	Higher	3.2%	1.5%	2.6%	Tightening	31.1%	30.8%	17.0

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	£683	5.9%	4.1%	3.9%
Bristol	£991	5.5%	2.6%	4.0%
Leeds	£719	5.2%	-0.1%	3.5%
Stoke	£528	4.6%	2.4%	2.6%
Gloucester	£704	4.2%	2.0%	2.9%
York	£853	4.2%	4.4%	2.8%
Cardiff	£789	3.5%	1.7%	3.0%
Leicester	£736	3.3%	3.3%	3.8%
Preston	£580	3.1%	-0.8%	0.9%
Portsmouth	£872	3.0%	1.7%	2.4%
Edinburgh	£950	3.0%	4.7%	4.7%
Cambridge	£1,201	2.9%	1.7%	2.3%
Glasgow	£634	2.8%	2.9%	3.4%
Norwich	£768	2.7%	1.9%	3.0%
Reading	£1,070	2.5%	1.6%	1.3%
Plymouth	£671	2.4%	0.0%	1.3%
Huddersfield	£524	2.4%	1.8%	1.7%
Milton Keynes	£922	2.4%	-0.2%	2.3%
Belfast	£597	2.3%	1.6%	2.4%
Derby	£576	2.3%	1.6%	1.8%

Table 2b – 20 cities with lowest rental growth

Area	Average rent (£pcm)	% yoy current	% yoy 12m ago	5 year CAGR**
Ipswich	£677	2.3%	1.3%	2.8%
Manchester	£734	2.2%	2.5%	3.1%
Liverpool	£589	2.1%	2.2%	2.1%
Southampton	£846	2.1%	0.8%	1.5%
Oxford	£1,364	2.0%	2.2%	2.1%
Bournemouth	£952	2.0%	1.4%	2.1%
Hull	£470	1.9%	0.9%	1.7%
Newcastle	£592	1.8%	0.3%	1.4%
Brighton	£1,290	1.8%	2.4%	2.9%
London*	£1,586	1.7%	1.7%	0.8%
Southend	£893	1.7%	0.0%	2.2%
Sheffield	£581	1.6%	2.3%	1.8%
Swansea	£601	1.6%	-0.5%	1.6%
Birmingham	£667	1.3%	1.4%	2.5%
Bradford	£488	1.2%	0.8%	0.8%
Swindon	£731	1.0%	1.7%	2.5%
Northampton	£752	0.7%	1.8%	3.3%
Coventry	£807	-0.6%	0.1%	2.7%
Middlesbrough	£461	-2.0%	-0.4%	-0.6%
Aberdeen	£591	-2.1%	-3.3%	-8.2%

* This London city definition covers 46 local authorities - the 33 London boroughs, plus the surrounding commuter belt (13 local authorities).
** The 5-year compound annual growth rate (CAGR) is the change in price over five years expressed as an annual growth rate.

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*	£1,586	50.3%	47.0%	23.5%
Oxford	£1,364	43.8%	45.0%	22.5%
Brighton	£1,290	41.2%	41.9%	20.9%
Cambridge	£1,201	38.7%	41.9%	20.9%
Reading	£1,070	34.0%	35.6%	17.8%
Bristol	£991	31.6%	36.7%	18.4%
Bournemouth	£952	30.4%	37.0%	18.5%
Edinburgh	£950	30.2%	34.5%	17.2%
Milton Keynes	£922	29.5%	30.9%	15.4%
Southend	£893	28.5%	31.3%	15.6%
Portsmouth	£872	27.7%	28.3%	14.1%
Southampton	£846	26.9%	28.2%	14.1%
York	£853	26.9%	33.1%	16.6%
Coventry	£807	25.7%	32.7%	16.4%
Cardiff	£789	25.1%	31.9%	16.0%
Norwich	£768	24.5%	26.2%	13.1%
Northampton	£752	24.0%	30.3%	15.2%
Manchester	£734	23.4%	29.1%	14.5%
Leicester	£736	23.3%	28.4%	14.2%
Swindon	£731	23.3%	28.9%	14.5%

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	£719	23.1%	28.6%	14.3%
Gloucester	£704	22.6%	26.7%	13.4%
Nottingham	£683	21.9%	26.1%	13.0%
Ipswich	£677	21.6%	23.4%	11.7%
Plymouth	£671	21.4%	26.3%	13.1%
Birmingham	£667	21.2%	26.6%	13.3%
Glasgow	£634	20.3%	23.8%	11.9%
Belfast	£597	19.2%	25.9%	12.9%
Swansea	£601	19.1%	25.1%	12.6%
Aberdeen	£591	19.0%	27.2%	13.6%
Newcastle	£592	18.8%	25.2%	12.6%
Liverpool	£589	18.7%	23.3%	11.7%
Sheffield	£581	18.6%	23.9%	11.9%
Derby	£576	18.4%	23.4%	11.7%
Preston	£580	18.3%	23.5%	11.7%
Stoke	£528	16.9%	20.4%	10.2%
Huddersfield	£524	16.8%	21.4%	10.7%
Bradford	£488	15.5%	20.3%	10.2%
Hull	£470	15.0%	19.2%	9.6%
Middlesbrough	£461	14.6%	20.9%	10.5%

* This London city definition covers 46 local authorities - the 33 London boroughs, plus the surrounding commuter belt (13 local authorities)

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,
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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