Zoopla

Research and Insight
June 2020

UK Rental Market Report

Latest insight on the UK Rental Market based on Zoopla's Rental Index

+1.1%
Annual change in rents, UK

-1.4%
Annual change in rents, London

+33%
Change in tenant demand vs early March , UK

30%
Affordability: % of salary to cover rent, single earner, UK

18 days
Average time to let a property, UK average

£888
Monthly rent, UK average

Executive Summary

- Average residential rents fell by -0.3% in June, taking the annual growth rate to +1.1%, down from +1.7% a year ago.
- A two-speed market is emerging between London and the rest of the country. A supply/demand imbalance is supporting positive rental growth across all regions and major cities outside London.
- In contrast, rental growth has turned negative in the capital. Average rents are 1.4% lower year-on-year as a result of a rising supply of homes for rent in the face of weaker demand resulting from office closures and reduced levels of tourism and international travel.
- We expect rental growth outside London to slow to around +1% by the end of the year, while current trends suggest average rents in London could decline by up to 5% this year, largely driven by the inner London market.

"A two-speed rental market is emerging between London and the rest of the UK, with a demand/supply imbalance supporting rental growth in many cities, while greater supply in London is putting downward pressure on rents."

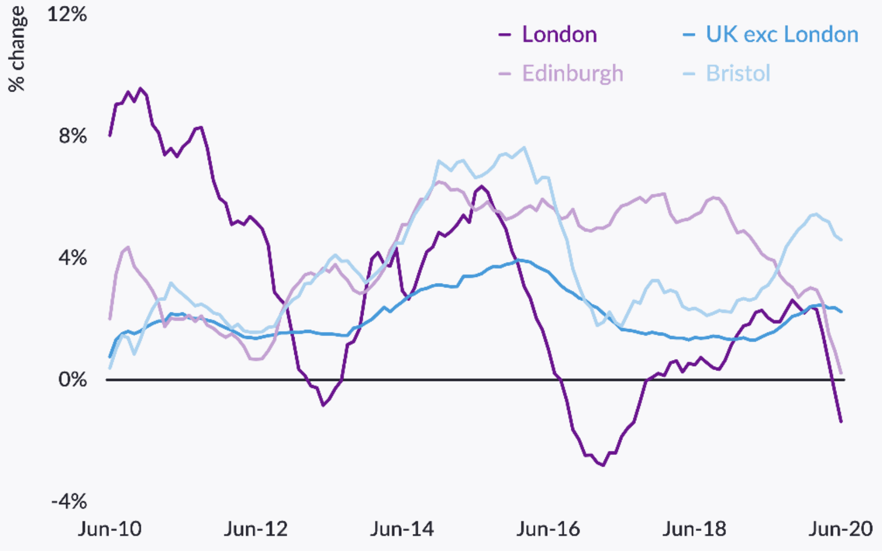
Gráinne Gilmore
Head of Research
Zoopla

Rental growth slows, mixed picture

Average UK rents fell by -0.3% in June, and by -0.8% in Q2, taking the annual growth in rents to +1.1%, down from +1.7% a year ago. However, a two-speed market has emerged between London and the rest of the market. Rental growth in the UK excluding London is at +2.2% as demand continues to outstrip supply in many markets. In contrast, rising supply in London and weaker demand, especially in inner London, is resulting in negative rental growth. Rental growth in Edinburgh has also slowed dramatically over the last year as a result of lower tourism and policy changes impacting landlords.

Only six of the 64 towns and cities tracked by the rental index are showing rental declines in the year to June (Swindon, Coventry, Middlesbrough, Northampton, London and Aberdeen), with a further six registering growth over 4% (Rochdale, Sunderland, Bristol, Preston, York, Leicester).

Annual rental change



Source: Zoopla Rental Market Report

Demand strong, but supply gap narrowing

Rental demand bounced back strongly during lockdown, due to the flexibility and relative speed with which households could move into vacant rental accommodation.

This demand has now moderated, but is still running 33% higher than pre-lockdown, and some 25% above 2019 levels . Renters, like homeowners, may have used lockdown as a chance to reassess how and where they are living, prompting a further boost to activity in the market. At the same time, some renters may have relocated to live with family or friends to save on rental costs – bringing more homes back to the market. The number of homes for rent has increased, slightly ahead of usual seasonal trends, with homes for rent 7% higher than this time last year at a national level.

Rental Highlights

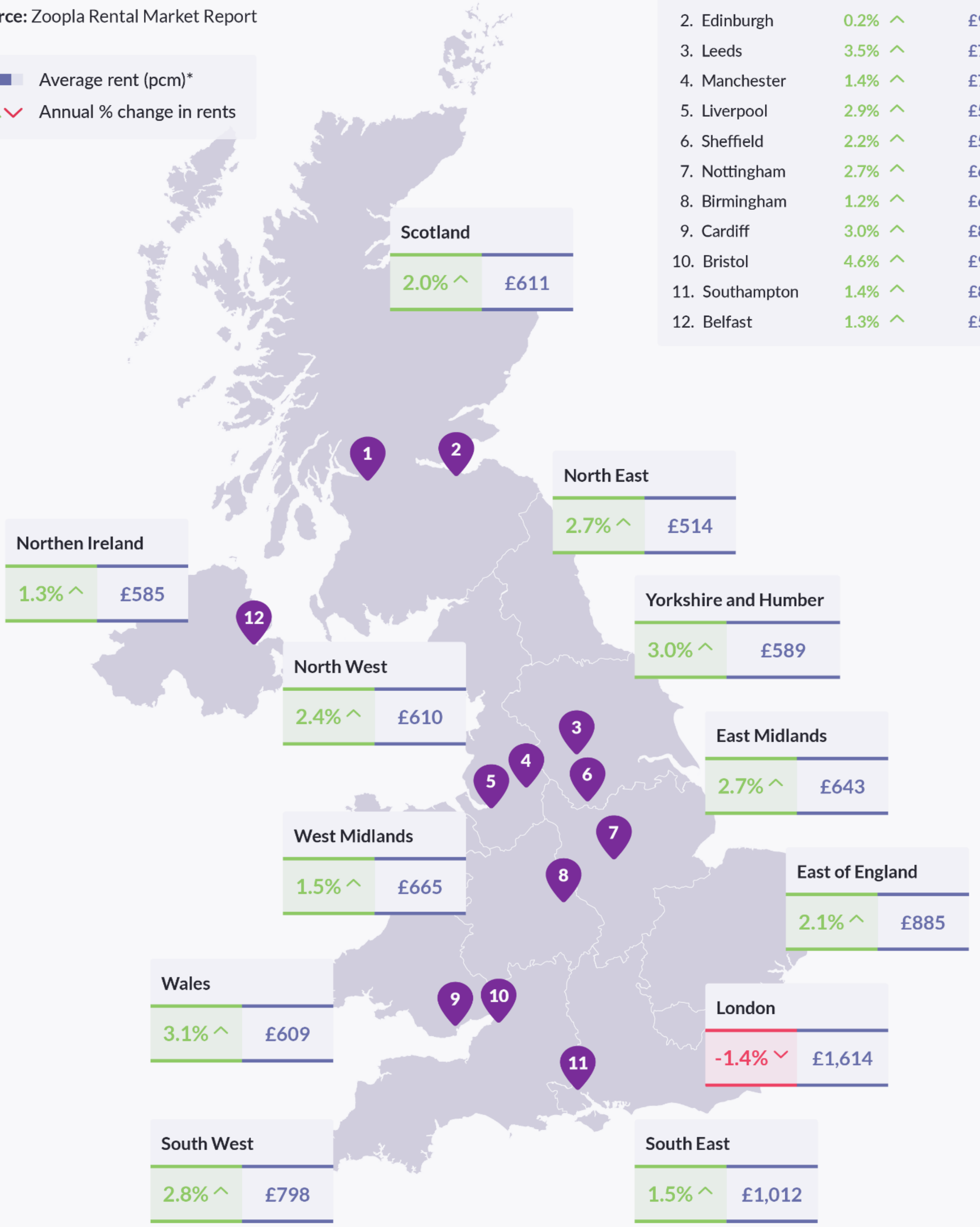
Zoopla

June Index 2020
(Published August 2020)

Source: Zoopla Rental Market Report

Average rent (pcm)*
Annual % change in rents

City	Annual % change in rents	Average rent (pcm)*
1. Glasgow	2.2% ^	£636
2. Edinburgh	0.2% ^	£913
3. Leeds	3.5% ^	£727
4. Manchester	1.4% ^	£743
5. Liverpool	2.9% ^	£587
6. Sheffield	2.2% ^	£589
7. Nottingham	2.7% ^	£679
8. Birmingham	1.2% ^	£668
9. Cardiff	3.0% ^	£805
10. Bristol	4.6% ^	£996
11. Southampton	1.4% ^	£874
12. Belfast	1.3% ^	£597

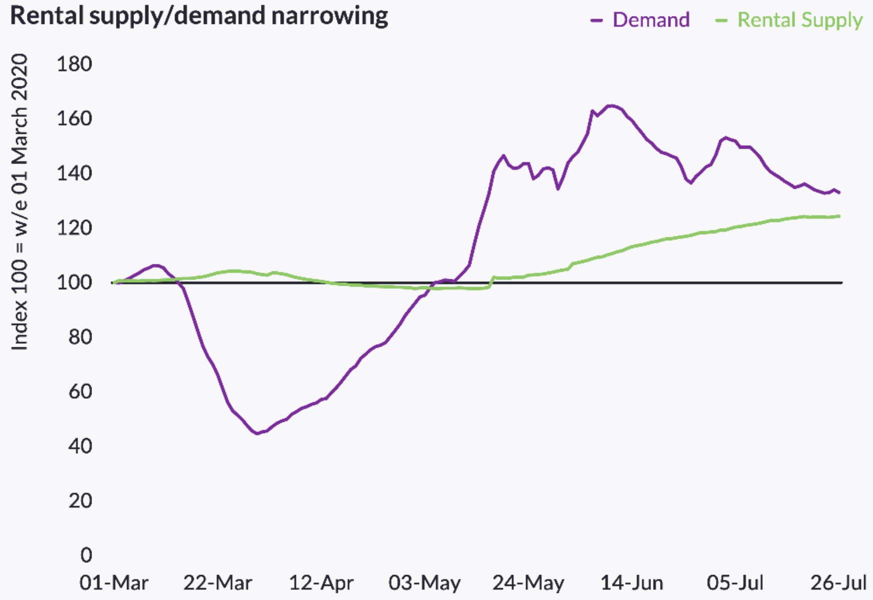


* Average 1-4 bed properties

+3.4%

Annual change in rents, Newcastle, year to June 2020

Rental supply/demand narrowing

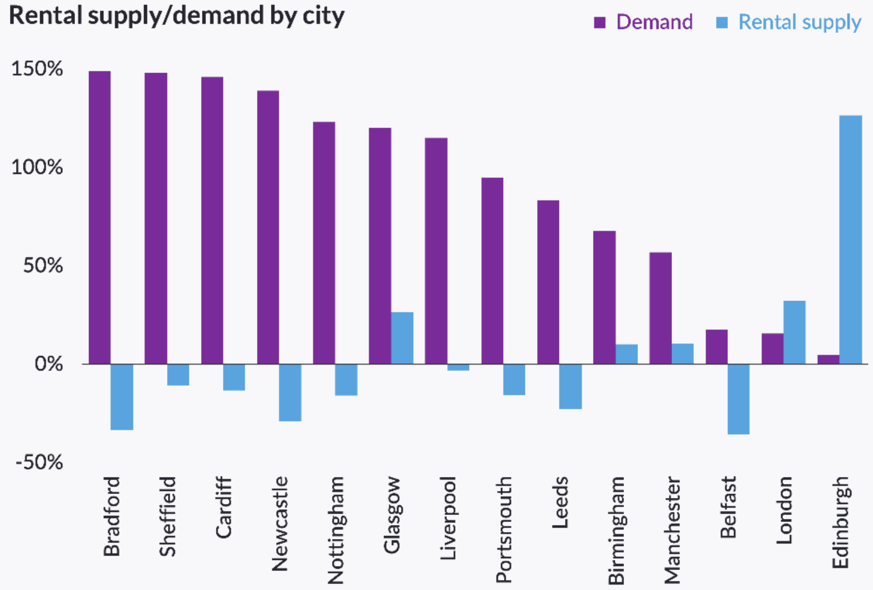


Source: Zoopla Rental Market Report

As the gap between demand and supply continues to narrow through Q3 and Q4, rental growth will start to slow as tenants have a wider array of rental properties to choose from. City level trends are more stark when comparing rental demand and available supply in July 2020 compared to the average level over the last 3 years.

In Cardiff and Newcastle, where the gap is among the largest, annual rental growth is at 3% and 3.4% respectively. In contrast the supply/ demand balance is leading to weaker rental growth in cities such as Edinburgh and London.

Rental supply/demand by city



Source: Zoopla Rental Market Report

July 2020 vs 3 year average (2017-2019)

▼ -1.4%

Annual change in rents, London, year to June 2020

Challenging market conditions in London and Edinburgh

The underlying drivers of the rental market in London and Edinburgh are noticeably different from most other cities, with a rise in supply in these markets increasing choice for tenants, but the weaker growth in demand putting downward pressure on the level of rents and rental growth.

In London, rising supply is the result of several factors, largely related to COVID, which are especially evident in central and inner zones. The first is the decline in international travel and tourism. Landlords in the capital, especially in central London are shifting away from short lets, thereby increasing supply in the long let market, and at higher average rents. Weaker demand means that as tenancies end they are being absorbed more slowly, compounding the growth in supply.

The rise of homeworking at many firms, with a slow return to offices over the rest of the year signal that demand for rental property is likely to remain subdued, especially if unemployment starts to rise. Commuting data shows that working patterns in London are still far from getting back to levels seen back in March. In addition, the student influx expected as part of the usual seasonal busy period in late summer may not be as large this year as universities start more online teaching.

There is not a one-size fits all picture in London however, the factors above are most pronounced in central and inner London where supply-side issues are putting the greatest downward pressure on rents. While rents across London are down 3% on average since January, some inner London boroughs are seeing steeper declines than this, while rents rose in some outer boroughs such as Havering, Bexley and Enfield in H1.

This is not the first time rents have fallen in London in recent years due to supply-side issues. In March 2017, rents in the capital were down 2.8% on the year on the back of rising supply in the wake of the surge of new investment ahead of the introduction of the additional 3% stamp duty charge in 2016.

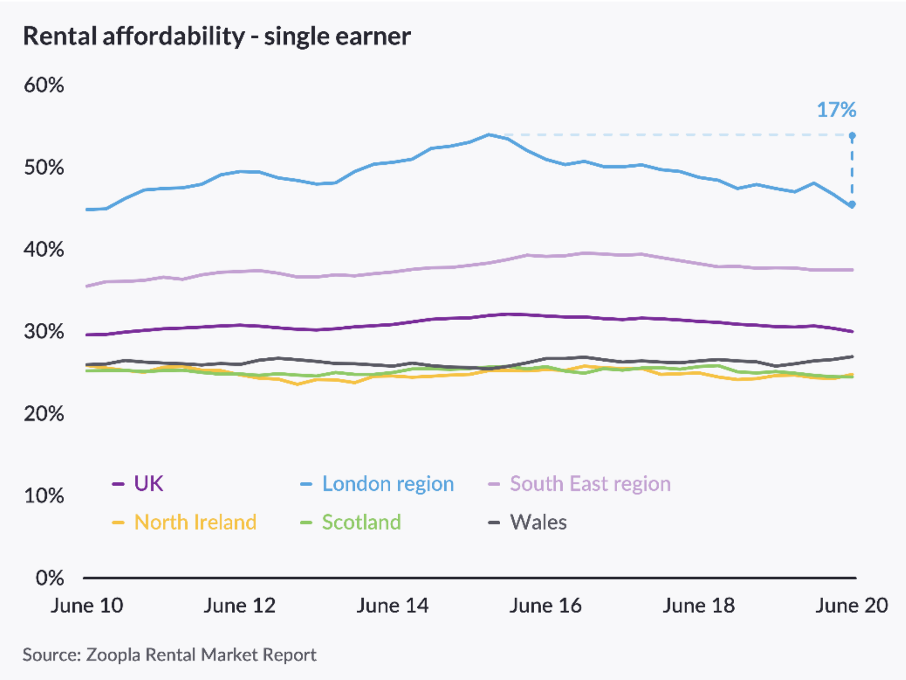
Tourism and policy changes impact Edinburgh

In Edinburgh, the sharp rise in rental supply compared to last year, has also been exacerbated from a shift from short lets into the long let market. The uncertain outlook for international tourism, as well as new legislation that may limit the types of home that can be used for short lets in the Scottish capital, is likely to have created a large movement in properties to mainstream rental . Rental growth in Edinburgh has fallen sharply over the last 12 months, declining from +4% last June to 0.2% now.

Affordability

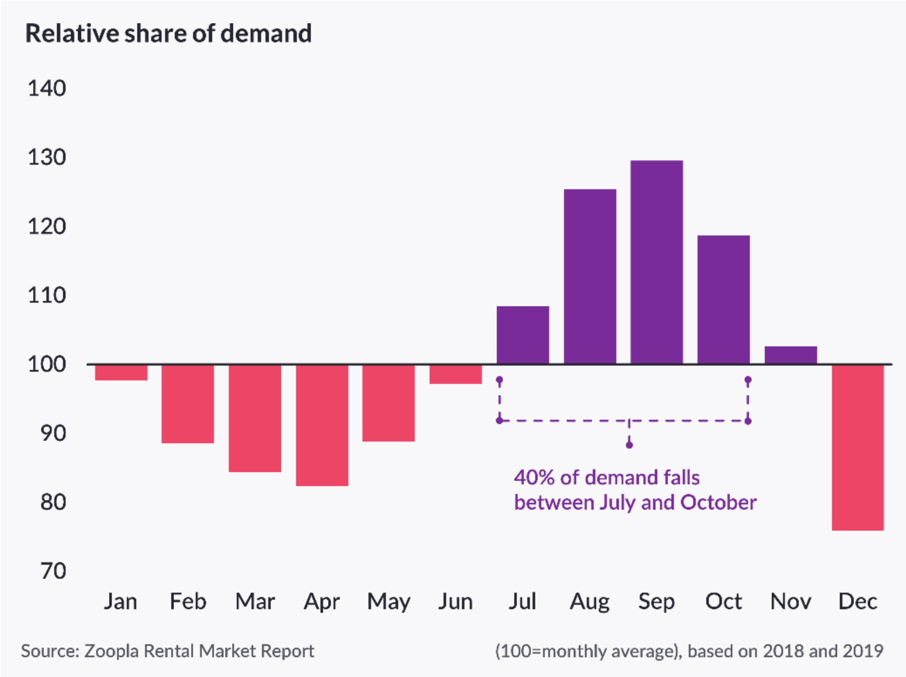
Working age people make up the majority of those living in the private rented sector, with a bias to younger workers. The employment outlook for this cohort, as well as the future direction of earnings growth will have an impact on the level of rental growth across the country over the next 6-12 months.

As the chart below shows, overall affordability levels within the rental sector have remained largely unchanged in recent years, with the exception of London, where the decline in rents has improved headline affordability although renting in the capital remains relatively more expensive compared to elsewhere in the country.



The proportion of income for a single earner on an average salary needed to cover the average cost of rental accommodation in London has declined from 54% to 45% over the last five years.

Across the country, affordability levels remain broadly in line with averages over the last five years, a factor which will moderate the scale of downward pressure on rents.



Outlook to the end of 2020

We expect the current imbalances in supply and demand to remain a feature of the rental market over the remainder of the year. Employment levels and labour mobility are key drivers of demand in the rental market. This is important at this point of the year, as 40% of the demand for rental property is clustered between July and October each year as university leavers start new jobs and students move to university.

A slow reopening of city centres and businesses getting staff back into offices are likely to act as a drag on demand at what is usually a busy time of year. This will be compounded by any increase in unemployment. Yet alongside this, reduced availability of high loan to value mortgages – used by many first-time buyers - will support demand for rented housing.

We expect rental growth across the UK, outside of London, to slow from the current rate of +2.2% to +1% by the year end. In London, we expect rental growth to weaken further; rents could be down by up to -5% year on year by the end of 2020. Rents are already 3% lower over the first half of the year and a 5% decline would take average rents in the capital to levels last seen in late 2014.

Rental Market In Detail: June 2020

	Average rent £pcm**	Annual change	Annual change 12m ago	3-year average change	Affordability single earner*	Time to rent (days)
UK	**£888**	**1.1%**	**1.7%**	**1.3%**	**30%**	**18**
UK (ex. London)	£735	2.2%	1.5%	1.7%	30%	21
England	£910	1.0%	1.7%	1.2%	29%	21
Scotland	£611	2.0%	2.1%	2.0%	24%	17
Wales	£609	3.1%	1.5%	2.4%	27%	25
N Ireland	£585	1.3%	1.7%	2.1%	25%	16
North East	£514	2.7%	0.4%	1.1%	23%	23
North West	£610	2.4%	1.6%	1.8%	26%	21
York & Humber	£589	3.0%	2.1%	2.2%	25%	22
East Midlands	£643	2.7%	2.9%	2.7%	28%	21
West Midlands	£665	1.5%	0.5%	1.3%	29%	21
East of England	£885	2.1%	1.1%	1.4%	35%	21
London	£1,614	-1.4%	2.0%	0.4%	45%	16
South East	£1,012	1.5%	1.1%	1.1%	38%	22
South West	£798	2.8%	2.1%	2.1%	34%	19
Belfast	£597	1.3%	1.7%	2.2%	27%	16
Birmingham	£668	1.2%	0.4%	1.3%	28%	23
Bristol	£996	4.6%	3.1%	3.3%	42%	16
Cardiff	£805	3.0%	1.2%	2.3%	36%	25
Edinburgh	£913	0.2%	4.0%	3.2%	36%	17
Glasgow	£636	2.2%	2.3%	2.7%	25%	21
Leeds	£727	3.5%	3.0%	2.9%	30%	22
Liverpool	£587	2.9%	1.5%	2.1%	25%	18
Manchester	£743	1.4%	2.6%	1.7%	30%	20
Nottingham	£679	2.7%	4.4%	3.6%	27%	17
Sheffield	£589	2.2%	2.7%	1.7%	25%	23
Southampton	£874	1.4%	1.0%	0.9%	30%	25

*% of income for rent, based on average rent and average salary
** All properties

Contact

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