

January 2014 Summary and Analysis of Rental Reports

Lack of Wage Growth Holding Rents Back

There are a number of regular monthly rental sector reports. Some cover the UK and some cover just England and Wales. This is a summary of the report headlines and latest data together with Kate Faulkner's commentary on the implications for landlords and tenants:-

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Report Headlines:-

[Belvoir Lettings](#) *"Average rents for all offices trading over the last five years in December 2013 were £683, which is £2 less than November 2013. (Dec 13 – England, Wales & Scotland)"*

[Acadata/LSL](#) *"Rent rises slow by half over course of 2013. (Dec 13 – England & Wales)"*

[Paragon Group](#) *"Landlords look to the New Year with optimism. (Dec 13)"*

[Homelet](#) *"Lowering London rents still 2.5 times more expensive than North East's. (Dec 13 – England, Wales & Scotland)"*

[SpareRoom](#) *"On average, rents have remained stable across the UK since last quarter, though they're up 4% since last year. (Dec 13 – England, Wales, Scotland & NI)"*

Average National Rents

Rental Indices	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Homelet	£782	£777	£777	£774	£793	£787	£811	£826	£851	£854	£815	£806	£813
LSL	£734	£732	£731	£735	£736	£737	£737	£738	£743	£757	£758	£753	£745
Belvoir	£684	£687	£686	£690	£689	£687	£685	£687	£687	£689	£686	£685	£683

Kate Faulkner comments on Rental Report Headlines:

"Wow – how nice, for once we have all the rental indices pretty much agreeing with each other! The good news is, for tenants strapped for cash due to cost of living rises and little wage growth, their rents are pretty much static – even in London. This proves rents move in line with wage growth – even when demand is higher than supply."

Regional Rental Price Variations

Belvoir Lettings

“Feedback from the offices suggests that rents remain fairly static in the South East, South West and North West. In East Anglia and the East Midlands, average rents are recovering and in Yorkshire and the West Midlands rents have recovered. In London, the average monthly rent for December was £1,337, which is slightly down on the year to date average of £1,404 per month. (Dec 13)”

Acadata/LSL

“Seven out of ten regions saw rents fall on a monthly basis between November and December, in line with a monthly fall across England and Wales as a whole. The sharpest monthly drop was found in the South East, with rents down 2.0% since November. This was followed by a fall of 1.9% in both London and Wales. However, the North East and West Midlands experienced rent rises on a monthly basis – up by 1.5% and 1.4% respectively. Rents in the South West also rose slightly on a monthly basis, up by 0.7% between November and December. (Dec 13)”

Homelet

“The North East was home to the largest monthly and annual decreases in average rents of 3.1% and 4.4% respectively. It now costs an average of £501 per month to rent a home in this region. Greater London’s average monthly rental amount lowered for a third consecutive month by 1.5% to £1,244. Average rental amounts in the North West are currently the highest on record after increasing by 2.7% during December. This region was also home to the largest annual increase in average rents of 8.9%. The East Midlands saw its average rental amount decrease for a fourth consecutive month. The West Midlands is home to record rental amounts too after the average cost of renting a home in the region increased by 4.7% during December to £628 per month. (Dec 13)”

Room Rents

SpareRoom

“Room rents have on the whole remained stable this quarter, although the UK average rise of just 0.27% masks greater fluctuations amongst the regions. In the East Midlands, room rents have dropped slightly (-0.40%) but Scotland saw a more marked drop of -3.76%, with Aberdeen rents driving that change (down 16% since last quarter), whilst Edinburgh and Glasgow rents rose. Contrast that with substantial rent rises in Inner London (over 4%) and in Northern Ireland, which has seen room rents rise by more than 10% in a quarter, boosted by rises in Belfast rents. Room rents in the rest of the country have been fairly stable. (Dec 13)”

Kate Faulkner comments on Regional Rent Variations:

“As with the national picture, all reports are pretty much suggesting a slow down across the regions, although room rents seem to be performing regionally better than full lets. The data suggests December is a great time for tenants to rent, but not so good for landlords as they lock in lower than average rents for the year. Claims of great or poor rental performance for the North East need to be read with caution – I find the figures fluctuate too much and average rents, as a measure for the region, aren’t valid.”

Capital Growth & Yields for Landlords

Acadata/LSL

“Gross yields on a typical rental property remained steady at 5.3% in December, consistent with the past three months. However, taking into account capital accumulation and void periods between tenants, total annual returns on an average rental property rose to 8.8% in December. This compares to 8.3% in November – with the increase due to accelerating house price rises. In absolute terms this represents an average return of £14,372, with rental income of £8,189 and capital gain of £6,183. If rental property prices continue to rise at the same pace as over the last three months, the average buy-to-let investor in England and Wales could expect to make a total annual return of 6.6% over the next 12 months, equivalent to £11,234 per property. (Dec 13)”

Kate Faulkner comments on Capital Growth & Yields:

“In the main, property as an investment delivers better than other financial investments because of capital growth. Many landlords are in real trouble, as anyone buying outside of London who just bought ‘any property on any street’ has probably lost around 20-25% real value off their property (including inflation). This is a disaster, so the fact that property prices have stopped falling and are now rising is great news for existing investors. However, as rents aren’t rising – it means new investors are likely to secure lower yields and need to be very sure buy to let investment is right for them.”

Demand for Rented Property

Belvoir Lettings

Feedback from the offices suggests there was a ‘seasonal’ slowdown in demand for rented properties during December in a number of regions, including the North East, Scotland and Northern Ireland. However, demand remained strong in other areas, such as Cambridge. (Dec 13)

Acadata/LSL

“Despite a winter slowdown, December witnessed annual growth in lettings activity. The number of new tenancies agreed across England and Wales increased by 7.7% compared to December 2012. However, on a monthly basis there were 12.7% fewer new lettings than in November. (Dec 13)”

RICS

“The increased interest in the sales market appears to be resulting in a flatter trend in the lettings sector. The RICS tenant demand indicator showed little change (on a non-seasonally adjusted basis) compared with November with new instructions to let property showing a broadly similar picture. However, the London numbers seem increasingly at odds with the rest of the country with negative trends emerging in both tenant demand and rent expectations. (Dec 13)”

Kate Faulkner comments on Demand:

“With everyone’s focus on Christmas rather than moving home, it’s no surprise tenant demand and activity has slowed. Interestingly though, there seems to be a trend in London of falling rents and negative trends (RICS), in terms of demand. But if people can’t afford the rent, they can’t afford it, unlike buying when they can borrow money and are desperate to get on the ladder before prices go up any further, so are happier to stretch themselves.”

Supply of Rented Property

Belvoir Lettings

Feedback from the offices would indicate that property investor landlords will be looking to increase their portfolios over the next couple of months. (Dec 13)

Acadata/LSL

“Steadier rent rises, and the usual seasonal dip over the winter shouldn’t put off anyone considering a buy-to-let investment. Returns have picked up considerably over the last six months, underpinned by solid rental yields and boosted by rejuvenated chances of capital appreciation. Rents will keep rising on an annual basis for the foreseeable future, while buy-to-let mortgages are still becoming more available and at more affordable rates. Supply of housing is still seriously restricted in the UK, so much-needed investment looks set to be handsomely rewarded as demand is driven further by an economic pick-up in 2014. (Dec 13)”

Paragon Group

“Just over a fifth of landlords are planning to invest in further buy-to-let property in the first quarter of 2014. Of those landlords looking to buy, large-scale landlords were more likely to expect to purchase property (25%) than small-scale landlords (8%). 2013 has been a good year for buy-to-let and landlords certainly seem to be more active in the market. We have seen a steady increase in the levels of optimism among our landlord customers, and this looks set to stay in the New Year. We expect buy-to-let lending market wide in 2013 to be in the region of £20 billion and whilst this would represent a material level of growth over 2012 we should keep things in perspective. This only takes us back to the level of buy-to-let lending that we had ten years ago and over that period the private rented sector has increased by 80%. Any talk of boom conditions in the buy-to-let market would appear to be premature indeed. (Dec 13)”

Kate Faulkner comments on Supply of Property:

“This is a kind of ‘good news, bad news’ time for buy to let investors. Rising prices is great news, as capital growth is where property beats other financial investments, but if you are buying in a rising market, it is tough to get a bargain. As rents aren’t rising in line with property prices, the result is yields fall – so for those trying to generate income from returns, you have to look at a 50% gearing, and this is not the time to overstretch yourself as an investor.”

What to do next?

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If you need Kate to appear on TV, radio or for general comment, please contact directly:-

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About Kate Faulkner

Kate carries out over 50 speaking engagements every year, highlighting property market issues to the industry and consumers. She has written six property books including four for Which?, is a featured property expert on the 4Homes website, regularly presents market issues for BBC Radio Nottingham and has a column in the Nottingham Evening Post and is currently the Telegraph's property club Q&A person.

She has appeared on BBC Breakfast News, Daybreak, 'Your Money', Radio 2's Jeremy Vine Show, Radio 4's You and Yours, Radio 5 Live, ITV/ITN News and The Big Questions.

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