March 2014 Summary and Analysis of Rental Reports

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:-

Move with Us — *"Average advertised rents increased in nine out of 11 regions in Great Britain in February." (Feb 14 – England, Wales & Scotland)"*

Belvoir Lettings — *"Average rents for all offices trading over the last five years in February 2014 were £686 - only a £1 increase on January 2014. (Feb 14 – England, Wales & Scotland)"*

Acadata/LSL — *"Rent rises accelerate in February. (Feb 14 – England & Wales)"*

Homelet — *"Rising rents in Capital drive up national average. (Feb 14 – England, Wales & Scotland)"*

SpareRoom — *"On average, rents have risen 5% in the last year across the UK. (Feb 14 – 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	Jan-14	Feb-14
Homelet	£782	£777	£777	£774	£793	£787	£811	£826	£851	£854	£815	£806	£813	£800	£818
LSL	£734	£732	£731	£735	£736	£737	£737	£738	£743	£757	£758	£753	£745	£742	£743
Belvoir	£684	£687	£686	£690	£689	£687	£685	£687	£687	£689	£686	£685	£683	£685	£686

Kate Faulkner comments on Rental Report Headlines:
"With latest figures showing inflation is running at around 2% but wage increases are still lower – at 1.4%, it's still proving to be tough to increase rents. This is despite the recovery in the property sales market, which means many properties previously being rented are now being sold as we recover from the credit crunch. It doesn't seem however much demand exceeds supply, private rents are restricted by wage growth."

 Dated: 25.03.2014

Regional Rental Price Variations

Move with Us

"Scotland benefitted from a rise in average advertising rents in February. The region was the best performing in Britain with the biggest percentage increases in advertised rents in both a monthly and yearly comparison reaching £695 per month, a growth of £20 (2.84%) from January and £28 (3.96%) when compared to the same time last year. Greater London once again performed well as average advertised rents in the capital grew by £29 (1.31%) in February. This second successive month of growth contributed to the Greater London market outstripping the previous 12 months with asking rents up by £56 (2.54%) since February 2013. However, the North East saw rents decline in February. The region saw average asking rents fall by £24 (3.50%) to a more sustainable figure of £673 per month despite an increase of nearly £100 at the end of 2013. (Feb 14)"

Belvoir Lettings

"Feedback from the offices suggests that the East Midlands, East Anglia, North East and North West are the regions still recovering to the 2008 rental heights. Yorkshire remains level at 1% above the height of 2008 and in the West Midlands, South East, South West and London rents have risen and continue to remain above the 2008 heights. In contrast to Home.co.uk, Scotland rents outside the main areas of Edinburgh and Aberdeen are not rising fast, but stable and have been for some years now. (Feb 14)"

Acadata/LSL

"Seven out of ten regions saw rents rise on a monthly basis between January and February, in line with the monthly increase across England and Wales as a whole. The sharpest monthly rises were seen in Yorkshire & the Humber and the West Midlands, where in both regions rents rose by 1.2% on a monthly basis. The next fastest monthly rise was in Wales, with a 1.0% increase, while the East Midlands saw rents rise 0.6% between January and February. Of the three regions to see a monthly fall in rents, the fastest drop was in the South East, down by 1.5% since January. Meanwhile rents fell by 0.6% on a monthly basis in the East of England, and by 0.1% in the North West. (Feb 14)"

Homelet

"Although seven of the 12 regions were home to monthly increases, most of these were by a minimal amount. Apart from Greater London's 4.5% increase, Yorkshire and Humberside saw the next highest rise of 2.2% and the South East followed with a 1.1% increase. Therefore it appears the increase in rents in the capital has driven up the national average. East Midlands' 0.7% increase in its average rental amount to £574 per month is the first since August 2013. Since then, average rental amounts in the region have decreased consecutively. Apart from Greater London, Northern Ireland is the only region to see a second consecutive monthly increase in average rental amounts. After rising by 0.5%, it now costs an average of £572 to rent a home in Northern Ireland. (Feb 14)"

Room Rents

SpareRoom

"This month's SpareRoom Rental Index reveals some interesting rental fluctuations in individual locations. For example, average rents in Northern Ireland fell by 7% since last month, and have dropped 12% since last February's report. Wales saw a 1% drop in rents since last month's index, but overall has seen a 14% rise this year, the largest of anywhere in the UK. (Feb 14)"

Kate Faulkner comments on Regional Rent Variations:
"Regional rents continue to vary - but are also doing so at a very localised level. Scotland for example, has some major cities like Aberdeen and its 'capital' Edinburgh, where rents can rise due to successful local economies, but it's misleading to say all rents in Scotland are rising. Many outside of these areas have stayed the same for some years. And I know from running the Belvoir rental index for some years, longer than other indices, most rents are still below their height achieved in 2008, so although it appears rents are 'rising', the reality is they are recovering. Local letting agents are essential sources of knowledge to anyone looking to rent or let a property."

Capital Growth & Yields for Landlords

Move with Us	*"2014 is shaping up to be a good year for landlords with rents increasing in most regions. The Council of Mortgage Lenders (CML) recently announced that gross mortgage lending was an estimated £15.5 billion in January 2014, a third higher than the same time last year when it was £11.6 billion. It's likely that many of these mortgages have been granted to buy-to-let investors as we have seen a growing trend for people investing in property instead of using low performing savings accounts. The best places for investors however, aren't necessarily where average rents are the highest but rather, the places with the highest rental yields. This means that, for example, the high rents in Greater London may be deceiving from an investment point of view. Rental yields actually tend to be better in places where property prices are lower like the North East, and the Midlands. Any aspiring buy-to-let landlords looking to invest in property should follow the golden rules of finding a place with a good rental yield that is in a nice area and is close to local amenities and transport links. (Feb 14)"*
Acadata/LSL	*"Gross yields on a typical rental property remained steady on a monthly basis, standing at 5.2% in February, the same as in January 2014. However, yields have fallen slightly on an annual basis compared to February 2013, when the average gross yield on a rental property in England and Wales stood at 5.3%. This annual fall in yields is due to higher property values. However, taking into account the same strengthening capital accumulation, plus slightly improved void periods between tenants, total annual returns on an average rental property rose to 9.7% in the year to February. This compares to 9.0% in January, and just 5.4% in February 2013, with the difference due to much faster house price increases. In absolute terms this represents an average return of £16,029, with rental income of £7,921 and capital gain of £8,108.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 15.3% over the next 12 months, equivalent to £26,400 per property. (Feb 14)"*
ARLA	*"Compared with three months ago, the average return for houses is up from 5.0% to 5.1% and the average return for flats is up from 5.2% to 5.3%. These changes do no more than partially reverse the changes seen three months ago. On balance ARLA members report increased achievable rent levels over the last six months on all types of rented property and the average proportion of respondents across all property types who say they think achievable rent levels have increased over the last six months has risen from 39% to 45%,. The overall average capital asset value of rented houses has fallen by 1.6% over the last three months. This fall has come as a result of a substantial decrease in the average value of rented houses for those in the Rest of the UK (down by 12.4%). For those managing properties in Prime Central London and those in the Rest of the South East, average values rose a little (up by 0.7% and 0.4% respectively). Over the same period, the overall average value of rented flats fell by 3.2%. This fall has come as a result of decreases in the average values of rented flats for those managing properties in Prime Central London (down by 2.1%), for those in the Rest of the South East (down by 3.6%) and for those in the Rest of the UK (down by 6.3%). (Q1 14)"*

Kate Faulkner comments on Capital Growth & Yields:
"The dynamics of buy to let are always interesting. As prices rise, rents rarely 'keep up' so this means yields decline and it's capital growth that takes over. And it's a timely reminder as people look to see what property can deliver in retirement. It's not typically the rental income which drives the returns, but the capital growth. So for those looking to invest in property instead of a pension, they seriously need to check it is the right thing. Buy to Let income is high risk, volatile and can be zero if tenants don't pay or if the property is empty, so anyone investing for pension income needs to think about how to maximise the capital growth to draw down rather than relying on rental income."

Demand for Rented Property

Belvoir Lettings — *"Feedback from the offices suggests demand remained stable in a number of regions during February, however, strong demand was reported in Bangor, Belfast, Newtownards and Peterborough. (Feb 14)"*

Acadata/LSL — *"Property to rent remains in high demand. Despite great improvements in the prospects of many first-time buyers, there are still millions of households who rely on a healthy private rented sector for their homes. Landlords have invested heavily in expanding their portfolios and need to continue to do so to keep pace with demand from tenants. (Feb 14)"*

Homelet — *"We can see a wider variety of people, such as families and professionals, are deciding to become a tenant, rather than buy - and prefer the flexibility offered from living in a rented home. (Feb 14)"*

ARLA — *"Since the last survey three months ago, demand in the rented residential property sector has strengthened considerably in terms of the overall proportion of respondents saying that there are more tenants than there are properties available for them, with the figure rising quite sharply from 46% to 54%, more than reversing the declines seen in the last two quarters. This overall increase was reflected in the figures for all the broad geographic areas. (Q1 14)"*

RICS — *"Rent expectations increased only marginally over the month as tenant demand grew at a slightly greater pace (on a non-seasonally adjusted basis) than in January. (Feb 14)"*

Kate Faulkner comments on Demand:
"Rental demand is still pretty robust despite the Help to Buy Scheme encouraging previous renters to buy. There are areas where demand is outstripping supply, but also many areas where demand and supply are matching quite well. What will be interesting this year is to see the impact of the new 'Build to Rent' schemes, which will start to come to the market following government investment."

Supply of Rented Property

Belvoir Lettings — *"Feedback from the offices would indicate that the supply of properties is continuing to come from buy to let investor landlords, both new and existing. (Feb 14)"*

ARLA — *"The proportion of ARLA members who think landlords are currently increasing their net investment in residential property by buying properties declined a little this quarter, falling from 43% to 42%, but remains at an historically high level. However, the proportion of respondents who think landlords are currently decreasing their net investment by selling properties is up quite sharply, from 15% to 20%. As a result of these changes, the margin between the proportion saying landlords are buying and the proportion saying they are selling has reduced but is still one of the widest we have seen. The proportion of ARLA members' offices who believe that they are seeing an increase in rental property coming onto the market because it cannot be sold has fallen yet again over the last three months, this time from 18% to 12%, taking the figure to its lowest level since this question was first asked nearly 6 years ago, when it stood at 93%. (Q1 14)"*

RICS — *"New landlord instructions were broadly unchanged again. (Feb 14)"*

Kate Faulkner comments on Supply of Property:
"New supply in the market place is still coming from individual rather than institutional landlords – for now. Something like 86,000 new buy to let mortgages were taken up in 2013 (CML) and it's a shame we can't find a way to make these into 'Build to Let' which would generate better capital growth and yields."

What to do next?

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- Why join a Landlord Association
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- Selling a Property

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For Media Professionals

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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