

Summary and Analysis of Rental Reports – July 2015

There are a number of regular monthly and quarterly rental sector reports. Some cover the UK and some cover just England and Wales. Some measure advertised rents, some new lets and others, existing rents, which is why they might fluctuate.

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](#) *“The average rent for offices across the UK which have traded consistently over the last seven years is £707 per month – an increase of 2.8% year on year. (May 15 – England, Wales & Scotland)”*

[LSL](#) *“Rents driven to new all-time record by divergent south eastern regions. (May 15 – England & Wales, index started in 2009)”*

[Homelet](#) *“In the three months to May, average rental values for new tenancies were 10.7% higher than the same period last year. (May 15 – England, Wales & Scotland)”*

Average National Rents

Rental Indices	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Homelet	£846	£862	£900	£921	£918	£878	£874	£867	£889	£889	£902	£935	£960
LSL	£745	£747	£753	£761	£768	£770	£766	£767	£763	£766	£768	£774	£778
Belvoir	£688	£691	£690	£693	£697	£702	£707	£714	£715	£712	£703	£704	£707

Kate Faulkner comments on Rental Report Headlines:

“The rental changes can be misleading, so it is worth understanding how rent rises work in the PRS. There are typically three different types of rent rises. Firstly, rental changes from landlords who rent to existing tenants. This is typically close to zero and why the likes of LSL and Belvoir tend to show lower rates of inflation than Homelet. The next increase is those properties which were let to existing tenants and are now ‘new to the market’, these tend to have a higher inflation, and finally, there are brand new properties coming into the PRS via developers and also those that have been newly renovated. It’s the latter inflation that Homelet tends to pick up, hence their rates are a lot higher than the likes of LSL, Belvoir, Countrywide and ONS.”

Regional Rental Price Variations

LSL

“Annual rent rises in London, the East of England and the South East deviate significantly from the rest of England & Wales. On an annual basis, rents rose by 13.0% in the East of England. This is the largest annual rise seen in any region since records began in 2008. London comes in second with a 7.4% annual increase in rents, followed by the South East, where rents grew by 3.6% year-on-year. By contrast, rental growth in the other regions of the UK was relatively subdued. The next largest increase was in Yorkshire with more modest 1.6% annual rent rises, followed by the South West with 1.4%, and annual rent rises of just 0.9% in both the West Midlands and the North West. In three regions rents are actually lower than a year ago, led by Wales with a 2.8% fall in average rents since May 2014. Rents in the East Midlands are down by 0.8% while in the North East rents have fallen 0.4% annually. (May 15)”

Homelet

“All regions saw an increase in average rental values in the three months to May, compared to last year. For the first time in six months, Wales has seen an increase in average rental values, compared to last year. Greater London, South East, South West, East Anglia, West Midlands, Yorkshire & Humberside and East Midlands have seen continuing increase in rental values over the last 10 months. (May 15)”

HSBC

“Property investors are looking north, as the top three cities with the best rental returns are Manchester, Kingston upon Hull and Blackpool. Last year’s top spot, Southampton, dropped to sixth place after a decrease of 18.30% in rental yield. Annual rents in Manchester have risen 4% from £8,316 in 2014 to £8,628. It has one of the largest student populations in Europe; and more than a quarter of housing stock is privately rented (26.85%), the largest proportion of all locations. Both Kingston upon Hull and Blackpool have entered the top three for the first time thanks to low average property prices and strong rental demand. With typical house prices of £69,135 and £79,654 respectively, Hull and Blackpool require the lowest initial investment of all locations researched.

“Year-on-year growth in rental yield is 38.7% in Forest Heath, Suffolk, where the average house price increased from £158,925 in 2014 to £171,322. Average annual rents rose 49% over the same period. Typical annual rents in Forest Heath have increased from £8,316 to £12,432: a rise of £4,116. Thanet has the second-greatest yield increase of 19.70%, while Hastings (7.90%) is in third place. Tower Hamlets is the only London location in the top BTL Hotspots for annual yield growth. The area covers much of the redeveloped Docklands area including Canary Wharf, and is the only London area that has seen positive growth in average rental yields (1.20%). Annual rents in this area have increased by 18% or £3,072, just outpacing a 16% rise in house prices over the same period (from 414,461 to 481,745). (May 15)”

Kate Faulkner comments on Regional Rent Variations:

“The rental market is clearly starting to mirror the house price market, in that rises are starting to be common place around the UK. However, they are not increasing at the same rate, nor do the increases last as long. Wages are a clear ‘natural cap’ on rental prices. Basically, people are securing money from the ‘bank of mum and dad’ to help them with a deposit for a house, but little help tends to come from parents for those moving into the rental market. In areas where demand is not outstripping supply, we are seeing rents not rising, even to cover inflation, meaning landlords there are effectively getting a pay cut in real terms. So it’s a mixed picture regionally, making it difficult for government to pursue policies such as ‘rent controls’ on a national basis.”

Demand & Supply

RICS *“Tenant demand continues to rise, but at a more moderate pace, with the headline demand net balance coming in at 28. New instructions to let remain broadly unchanged at -3. This marks the 18th consecutive month that demand has outpaced supply, pushing the three month rent expectations net balance to 38%. (May 15)”*

Paragon Group *“Paragon Mortgages highlight the continued growth in tenant demand in the second quarter, with 43% of landlords believing demand is either growing or booming. The level of growth is expected to continue over the next 12 months with more than half of landlords (51%) believing they will continue to see a rise in demand. The research also identified the tenant groups that landlords are most frequently letting to with almost half of landlords (47%) renting to young couples, young singles (43%) of which 42% were families with children. (Jun 15)”*

Capital Growth & Yields for Landlords

Acadata/LSL *“The gross rental yield on a typical rental property in England and Wales, before taking into account factors such as void periods, remains stable as of May 2015. Gross yields of 5.1% in May are unchanged from both April 2015 and May 2014. Total annual returns, on the other hand, have continued to cool. Across England and Wales, returns came to 9.5% in May 2015 – down from 9.8% in April and 11.8% in January. This means that the average landlord in England and Wales has seen a return of £16,727 in absolute terms, before deductions such as mortgage payments and maintenance. Of this, the average capital gain contributed £8,453 while rental income made up £8,274. (May 15)”*

RICS *“Respondents, on average, expect rental values to rise by 3% over the coming year and by an average of 4.8% per year over the next five years. (Jun 15)”*

HSBC Latest top five yield changes by area:-

Location	% of Housing Stock Privately Rented	Average House Price	Average Rent (Monthly)	Average Rent (Annual)	Rental Yield 2015 (Gross)	% Year-on-Year Yield Growth
Forest Heath	21.80%	£171,322	£1,036	£12,432	7.26%	38.70%
Thanet	21.96%	£209,472	£694	£8,328	3.98%	19.70%
Hastings	27.19%	£197,560	£600	£7,200	3.64%	7.90%
Cardiff	20.32%	£150,892	£802	£9,624	6.38%	6.80%
Norwich	20.10%	£158,102	£700	£8,400	5.31%	5.40%

Kate Faulkner comments on Capital Growth & Yields:

“Most landlords appear to think that rents are likely to rise in line with the long term annual inflation rate of 3% each year. However, we should remember that this is after rents recovering in many areas to heights seen back in September 2008. What it does imply though is with LSL suggesting yields are not increasing, that despite the fact that rents may be rising for tenants, they are only increasing at the same rate that landlords are having to increase their investment (in some areas) of buying and investing in buy to let.”

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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 has written six property books including four for the consumer organisation Which? – Buy, Sell and Move House; Renting and Letting; Develop your Property and Property Investment Handbook. Kate presents at a seminar almost every week to landlords, investors, first time buyers and is often asked to present at industry conferences and chair debates.

From a media perspective, Kate's appearances include BBC Breakfast News, Your Money, GMTV, ITN/ITV, Radio 4 You and Yours, The Big Questions and 5Live. In the last 12 months, Kate has carried out over 20 TV and radio interviews, has been quoted every month in major newspapers and magazines and being featured in many local newspapers.

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