



Labour are not being 'honest' when they say rents are 'extortionate'

Rental Market Analysis – September 2015

We analyse property market information from a consumer and industry perspective. Our private rental sector analysis studies recent rental reports and surveys. We use the data to consider emerging trends from studying the statistics but also talking to agents, landlords and tenants. Rather than just producing stats, we look at the implications this has for agents, landlords, property investors and tenants.

Consumer Rental Market Report Index

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For more commentary on what's happening in the rental market and advice for tenants and landlords, contact **Kate Faulkner** on **07974 750562**.

What's happening Nationally? Are rents really 'extortionate' as Labour claim?

Unlike the rhetoric by Labour this week, rents are certainly not 'extortionate' when it comes to comparing them to house prices. Rents, on average, overtime, according to the Office of National Statistics rise around 2% a year. That's lower than inflation and many other tenant increased costs such as utilities.

We look at the key agent indices which tend to show similar trends from one month to the next, unlike house price indices.

The main indices we track monthly are, [LSL](#), [Countrywide](#) and [Belvoir](#). [Belvoir](#) and [Countrywide](#) are national (ie include Northern Ireland, Wales and Scotland), while [LSL's](#) Buy to Let index covers England and Wales.

Reviewing the Belvoir Rental Index, which measures new rents, there were some increases from December through to February, rents dropping back during March and then recovering through to August. The LSL figures which look at actual rents, and have more offices in London than Belvoir show a slightly different trend with a slight fall in January, followed by increases through to August. The Countrywide figures, which are for new lets, show a decline in January and February, followed by increases.

| Rental Indices | Aug-14 | Sep-14 | Oct-14 | Nov-14 | Dec-14 | Jan-15 | Feb-15 | Mar-15 | Apr-15 | May-15 | Jun-15 | Jul-15 | Aug-15 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| LSL | £761 | £768 | £770 | £766 | £767 | £763 | £766 | £768 | £774 | £778 | £789 | £804 | £803 |
| Belvoir | £693 | £697 | £702 | £707 | £714 | £715 | £712 | £703 | £704 | £706 | £715 | £722 | £731 |
| Countrywide | £911 | £916 | £895 | £889 | £890 | £883 | £876 | £900 | £914 | £927 | £927 | £937 | £946 |

Adrian Gill, director of estate agents **Reeds Rains** and **Your Move**, comments: August saw a slowdown in rent rises after seeing growth since February, *"yet this mild correction comes on the back of a whole year of acceleration. Rents are rising on an annual basis, underpinned by an improving economic picture for many potential tenants."*

"There is also no major change to the fundamentals of supply and demand. This means that in the longer-term, faster rent rises may become a semi-permanent feature of the British property market. Alongside purchase prices, rents will continue to rise rapidly until something happens to address a drastic shortage of homes in the UK."

Johnny Morris, Research Director, **Countrywide plc**, said: *"Falling numbers of homes available to rent and increasing demand from tenants have been the defining features of rental market so far in 2015. Competition for rented homes has intensified and led to accelerating rent growth. Nine tenants are now registered for every home available to rent, up from 7.5 in August last year."*

"With pressure on rents and increased competition for homes on the market, the proportion of renewing tenancies seeing an increase in rent has grown. Faced with the choice of staying put or moving in a market with more competition and increasing rents, more tenants are choosing to accept a smaller increase in rent to extend their existing tenancy."

"Rental price growth in the South of England, outside of London is being fuelled by an increase in the number of Londoners leaving the capital, looking for more affordable markets in the commuter belt. With the number of over 30s and families renting steadily increasing, more renters are now making life stage moves out of the capital, which have in the past, mostly been associated with home owners."

What's happening to Regional Rental Trends?

Much the same as national property prices versus regional ones, rental trends vary for each area, even to postcode level, but not as much as property prices. For example, you might have 10 different prices for a two bed flats vs four for rent.

The regional chart below summarises what the different indices say, we include average monthly rents from [LSL](#), [Countrywide](#), [Homelet](#) and [Belvoir](#) for August 15 vs August 14. Some of these show higher changes than others, which tends to be dependent on whether they take monthly data or smooth this out over time.

| August 2015 | LSL Average Monthly Rent Aug-14 | LSL Average Monthly Rent Aug-15 | LSL % Change YoY | Homelet Average Monthly Rent Aug-14 | Homelet Average Monthly Rent Aug-15 | Homelet % Change YoY | Belvoir Average Monthly Rent Aug-14 | Belvoir Average Monthly Rent Aug-15 | Belvoir % Change YoY | Countrywide Average Monthly Rent Aug-14 | Countrywide Average Monthly Rent Aug-15 | Countrywide % Change YoY |
|------------------------|---|---|---------------------------|---|---|-------------------------------|---|---|-------------------------------|---|---|-----------------------------------|
| Scotland | £ 537 | £ 546 | 1.7% | £ 614 | £ 670 | 9.1% | n/a | n/a | n/a | £ 671 | £ 696 | 3.7% |
| Wales | £ 561 | £ 543 | -3.2% | £ 607 | £ 621 | 2.3% | £ 607 | £ 648 | 6.8% | £ 659 | £ 672 | 2.0% |
| North East | £ 515 | £ 517 | 0.4% | £ 515 | £ 554 | 7.6% | n/a | n/a | n/a | £ 638 | £ 646 | 1.3% |
| North West | £ 601 | £ 601 | 0.0% | £ 677 | £ 657 | -3.0% | £ 597 | £ 620 | 3.9% | £ 651 | £ 667 | 2.5% |
| Yorkshire & The Humber | £ 545 | £ 549 | 0.7% | £ 607 | £ 635 | 4.6% | £ 600 | £ 653 | 8.8% | £ 671 | £ 700 | 4.3% |
| East Midlands | £ 563 | £ 596 | 5.9% | £ 589 | £ 628 | 6.6% | £ 565 | £ 609 | 7.8% | £ 624 | £ 659 | 5.6% |
| West Midlands | £ 560 | £ 586 | 4.6% | £ 637 | £ 665 | 4.4% | £ 660 | £ 713 | 8.0% | £ 706 | £ 754 | 6.8% |
| South West | £ 651 | £ 680 | 4.5% | £ 838 | £ 924 | 10.3% | £ 740 | £ 723 | -2.3% | £ 797 | £ 853 | 7.0% |
| East Anglia | £ 756 | £ 843 | 11.5% | £ 820 | £ 823 | 0.4% | £ 704 | £ 708 | 0.6% | £ 906 | £ 912 | 0.7% |
| South East | £ 788 | £ 793 | 0.6% | £ 899 | £ 962 | 7.0% | £ 903 | £ 962 | 6.5% | £ 1,154 | £ 1,206 | 4.5% |
| Greater London | £ 1,160 | £ 1,278 | 10.2% | £ 1,440 | £ 1,558 | 8.2% | £ 1,493 | £ 1,498 | 0.3% | £ 1,226 | £ 1,288 | 5.1% |

It's unlikely that any indices can be directly compared as they all cover different postcodes within regions. What we can do though is see how the trends compare, ie going up or down, so we can get a feel for what's actually happening in the market from a variety of measures.

The North East is the cheapest place to rent with rents ranging from £500 per month to £650, while no surprise that London is the most expensive, ranging from £1,200 to £1,500 ie two to three times higher, depending on which index is used.

The breakdown for **Scotland and Wales** regions show:-

- In **Wales**, the [LSL](#) index show falls of -3.2%, whilst [Countrywide](#) and [Homelet](#) show small rises of 2% and 2.3%, and the [Belvoir](#) indices showing a larger increase of 6.8%, year on year, which is mainly due to very strong demand and a shortage of properties in the Cardiff area.
- For **Scotland**, the [LSL](#) index is showing a slight year on year increase of 1.7%, year on year, with [Countrywide](#) indicating an increase of 3.7% and [Homelet](#) showing a much larger rental increase of 9.1%, but the latter index tends to show much larger gains/losses each month than the other indices as they compare rents each month rather than over time.

According to the Scottish Buy to Let Index from [LSL](#), "Average rents in Scotland dropped 0.5% in the month of August, in the first monthly fall since January 2015. This means the average monthly rent in Scotland has dropped £3 from its summer peak of £549 in July to stand at £546 in August 2015.

Rent growth has also seen an about-turn on an annual basis. After an acceleration of annual rent rises throughout the first half of 2015, Scottish rents are now just 1.7% higher than a year ago, marking a downturn since July, when the annual change stood at 2.8%."

Rental changes in English regions

The breakdown for rents in the **English** regions shows:-

- Rental averages in the **North East** have a tendency to be irregular due to property rents ranging from around £300 to in excess of £3,000 a month. [LSL](#) indicates an insignificant increase in rental averages of 0.4%, year on year, and [Countrywide](#) also indicate a slight increase of 1.3%, with the [LSL](#) registering more uplift in rents of 7.6%. Information directly from the [Belvoir](#) offices shows rents rising strongly in Newcastle upon Tyne, coupled with a shortage of properties. Sunderland report fairly stable rents.
- In the **North West**, the data from [Homelet](#) indicates a fall in average rents of -3%, with [LSL](#) showing no change to rents, year on year. [Countrywide](#) and [Belvoir](#) show year on year increases of 2.5% and 3.9% respectively.
- For **Yorkshire & The Humber** region, the [LSL](#) figures indicate an insignificant rental increase of 0.7%, whilst [Countrywide](#), [Homelet](#) and [Belvoir](#) show larger increases of between 4.3% and 8.8%, year on year. The larger percentage rental increase from [Belvoir](#) is mainly attributable to a number of offices recording a rise in rents, including Doncaster and Thirsk.
- Average rents in the **East Midlands** from the [Countrywide](#), [LSL](#), [Homelet](#) and [Belvoir](#) indices, all indicate year on year rental increases of 5.6%, 5.9%, 6.6% and 7.8% respectively. However, it is important to bear in mind rents in this region fell by 20% from 2008 to 2009, so although they have increased year on year, over time they are still lower for some tenants than they were back in 2008.
- In the **West Midlands**, [Homelet](#) and [LSL](#) show a similar increase in rents of 4.4% and 4.6%, with [Countrywide](#) and [Belvoir](#) indicating higher year on year increases of 6.8% and 8%.
- Rental averages in the **South West** region from [Belvoir](#) show small year on year falls of -2.3%, mainly due to a fall in rents in Christchurch and Weston-super-Mare. However, data from [LSL](#), [Countrywide](#) and [Homelet](#) recorded increases in year on year rents of 4.5%, 7% and 10.3% respectively.
- The data for **East Anglia** indicates very little change to rental levels via [Homelet](#), [Belvoir](#) and [Countrywide](#), year on year, at 0.4%, 0.6% and 0.7% respectively. However, the [LSL](#) index shows a significant increase in rents of 11.5%, pointing to a rapid take-off in the East of England, according to [LSL](#), with rents and purchase prices having been especially strong here for some time.
- In the **South East**, whilst the [LSL](#) figures show an insignificant increase of 0.6%, [Countrywide](#), [Belvoir](#) and [Homelet](#) are showing larger year on year increases of 4.5%, 6.5% and 7% respectively.
- The rental indices show a large variation in the **Greater London** data, with [Belvoir](#) showing an insignificant year on year increase of 0.3%, with [Countrywide](#) showing a larger increase of 5.1%, whilst [Homelet](#) and [LSL](#) indicate an uplift of 8.2% and 10.2% respectively. This is likely to be because Belvoir doesn't have a huge presence in London, while the other indices will monitor different postcodes, giving differing results.

[LSL](#) *“Despite a slower picture across the board, three individual regions of England and Wales saw rents hit fresh records in August. In total, five out of ten regions have seen rents fall on a monthly basis.”*

[ARLA](#) *“The number of ARLA agents reporting rent increases has been rising since January, but this month shows the first slow-down in rent increases for tenants. The West Midlands saw the highest number of landlords increasing rent per calendar month, with over half (53%) of ARLA letting agents in this region reporting an increase. On the other hand, only 12% in the North West saw rents rise. In Wales, 36% letting agents saw rents increase for tenants, compared to just 11% in July.”*

[Belvoir](#) Overall, the increase in rents across the Belvoir group in England is due to the continued expansion of the Belvoir Group, with a number of offices being added during 2014 in areas with higher rental averages than the current average.

What's happening with Room Rents?

National room rent trends from [SpareRoom](#) show "The average room rent for August 2015 was £591, up 9% from £544 per month in August 2014."

Regional Room Rent Trends

[SpareRoom](#) "In the three months leading to August, 130,000 rooms were advertised in London, where average rents were £708 per month. Birmingham saw 8,632 rooms on offer at an average rent of £417 and Manchester followed at almost 4,000 rooms averaging £380 per month. Whilst these two big cities seem to have plenty of rooms on offer, 10 people are competing for every room in Birmingham and 16 in Manchester. Leeds and Bristol also have a fair number of rooms on offer but with 15 people competing for every room, it's a competitive market. Oxford and Cambridge both have average rents of £518, up 5% year on year.

"On England's South coast, rents were £473 in Poole (up 8% year on year), £437 (up 2%) in Bournemouth and £412 (up 4%) in Southampton. Over in Wales, average rents were £342 in Cardiff (up 6.5% year on year) and £343 (up 5%) in Newport. Up to the North East of England, the average was £368 in Durham (up 6%), £335 (up 2%) in Sunderland and £358 (up 9%) in Newcastle."

Rental Supply & Demand

[ARLA](#) "Two thirds of ARLA letting agents (66%) reported that they registered between 1 and 50 prospective tenants in August. Almost three in ten agents (28%) registered over 50. Demand is highest in the Scotland, where there were 43 prospective tenants registered per branch, on average.

"Three fifths (60%) of ARLA agents managed fewer than 200 properties per branch in August; a third (30%) said they managed 300 properties or more. The highest number of properties recorded per branch regionally was in Scotland with an average of 304 per branch - 70 per cent above national average. The lowest recorded number per branch was in London with 110 properties."

[Paragon](#) "Tenant demand is healthy with more than half of landlords describing demand as 'stable' and more than 40% saying that demand is either 'growing' or 'booming'. The prospects for expected demand are also positive, with more than half of landlords expecting demand to increase over the next 12 months, compared to 42% who expect it to remain stable. The survey also shows an increase in young families with children moving into the PRS, and a corresponding decrease in young couples and professionals. Despite this, demand for longer-term rental agreements remains relatively low.

"The data also reveals the changing demographic of those choosing to live in the PRS. This is reflected in the buying intentions of landlords which seem to be shifting slightly away from investing in multi-occupancy blocks, towards terraced housing - often more suited to young families."

Yields & Returns

[LSL](#) "The gross yield on a typical rental property in England and Wales (before taking into account factors such as void periods) stands at 5.1% in August 2015. This is steady compared to 5.1% in July and up marginally from 5.0% in August 2014. As purchase price growth stabilised in August, total annual returns incorporating both capital accumulation and rental yields, have also stabilised. On average, landlords in England and Wales have seen returns of 9.3% over the twelve months ending August 2015 - down from 13.4% in August 2014 but the same as 9.3% seen in the previous month of July. This means that the average landlord in England and Wales has seen a return of £16,856 in absolute terms, before deductions such as maintenance and mortgage payments. Of this, the average capital gain contributed £8,323 while rental income made up £8,533 over the twelve months to August."

[Paragon](#) "Average yields have grown over the last three months from 6.3% to 6.4%. This growth is in line with steady growth observed throughout 2015. When asked about expected growth over the next 12 months, landlords expressed confidence that yields will remain stable and maintain current levels."

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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, 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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