Rental report Q2 2020 - pre and post COVID-19

Every month we are bombarded with a host of rental reports which cover what's happening in the market, both nationally and regionally.

Some reports are produced monthly and others quarterly. Some cover the UK, while others cover just England and Wales. From working with rental indices, we know there are three levels of rental inflation:

- **New lets** – these purely look at rents for new properties on the rental market and show the highest rental inflation. They may include new builds or newly refurbished properties.
- **Advertised rents** – these are a mix of existing and brand new properties and give an indication of the latest trends in rents.
- **Existing rents** – these are renewed lets of properties to existing tenants and have the lowest increases.

The rental reports give us an insight into what is happening in the market and we comment on whether this is a general trend, something which is an anomaly or 'one-off' and particularly highlight the enormous regional differences.

We take a lot of time and effort to understand the strengths and weaknesses of the different indices and to make sure that when they give conflicting information or abnormally high increases and decreases, we attempt to explain why these large changes exist. For example:

Rental data from the North East
Having studied rents for many years not just via the indices but also by talking to local letting agents, we know rents for the region of the North East can fluctuate dramatically as monthly rents vary from just £300 per month to in excess of £3,000 a month. In addition, there is a large student influx, so a large proportion are HMOs, raising the average rents at different times of the year. As such, we tend to report, where possible, on individual areas and take large month-on-month fluctuations with a pinch of salt.

Large rises and falls
We also know rents don't tend to fluctuate much from one month to the next and are typically capped by wage growth. As such, we always seek to explain large fluctuations which don't tend to happen 'at a local level' even though they may be reported by the statistics as they tend to be anomalies.

Impact of Covid-19 on rental statistics
The property market was locked down at the end of March and re-opened on the 13th May, although most offices didn't open until the end of June.

As such, we were missing around six weeks of 'real' rental data while moves had been restricted.

However, unlike the property price market, rental stats are pretty 'immediate' so there hasn't been the delay in understanding what's happening to the rental market.

Summary of rental reports

Report headlines

Belvoir Lettings	*"In England, Wales and Scotland for all offices which have been trading consistently for over eight years, the average rent for Q2 2020 is £746 per month - a decrease of around -3.5% versus Q2 2019. When comparing Q2 2020 to the 2019 annual average of £755 per month, this also shows a small, almost insignificant fall of around -1%.*
Rightmove	*"Record rents outside London, though landlord shift from holiday lets sees capital's rents fall"*
Hamptons Int	*"Inner London leads rent falls, while Northern markets outperform"*
Savills	*"New priorities shape rental demand"*
ARLA Propertymark	*"Demand from tenants and rental supply highest on record for June"*
Hometrack	*"Rental growth outside London to halve to +1% by the end of the year"*

Different property markets faired differently during Coronavirus

We all often refer to the 'rental market' as if it's one market, just tenants and landlords. However, if there was ever a time to appreciate the huge differences in the rental market, it's now.

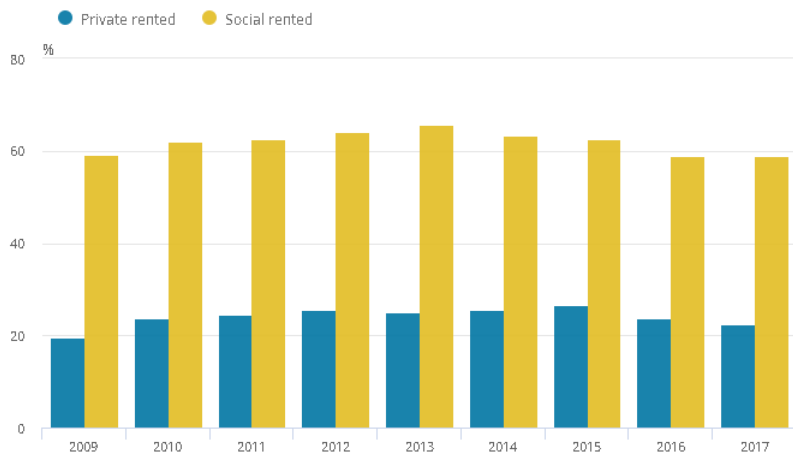
Firstly the one that suffered the most was of course, short stay lets. This market pretty much collapsed and hasn't really recovered, nor is it likely to until at least 2021 or a vaccine is found to allow travel to 'get back to normal' – whatever that might be!

As you will see later in the report, this is impacting on rents in the professional market, which, to date, has held up pretty well as renters have stayed in their homes or decided to move to a leafier location with a garden and office space if they can post lockdown.

And despite the issues in the student rental market, (which accounts for just under 10% of the market in England), this market too appears to have held up, especially as current reports suggest students are keen to get back to uni!

And finally, despite the accusations that landlords and letting agents 'discriminate' against tenants on benefits by Shelter, those in the PRS in receipt of benefits accounts for over 20% of the market.

Figure 17: Percentage of private and social renters in receipt of housing benefit from FYE 2009 to FYE 2017, England



Source: English Housing Survey, Ministry of Housing, Communities, and Local Government

Source: ONS

Different property markets faired differently during Coronavirus – cont'd

And this market has perhaps faired the best during the crisis, with the government squeeze on Local Housing Allowance ending (giving an extra £250 per month in some areas to tenants/landlords, see the Resolution Foundation article for more details), and an extra £1,000 a year. Interestingly, this didn't though stop some on benefits asking for a rent holiday though!

In the last recession, the private rented sector increased from just over 13% of households to the current 20%, and it's quite possible that this next recession will reverse the gains made in home ownership through initiatives such as Help to Buy, back into reverse.

No doubt 'greedy landlords' and 'evil' letting agents will be blamed, but it's pure economics. During times of uncertainty people prefer to rent rather than buy!

Country rental market performance

Rightmove's asking rents (rather than actually agreed) show a healthy increase year on year for rents, but this doesn't always translate into reality as this is for new lets as opposed to those let on a continued basis year on year.

National average asking rent for all property types (excluding Greater London)			
Quarter	Avg. asking rent per month	Quarterly change	Annual change
Q2 2020	£845	3.7%	3.4%
Q1 2020	£815	-0.2%	+2.4%

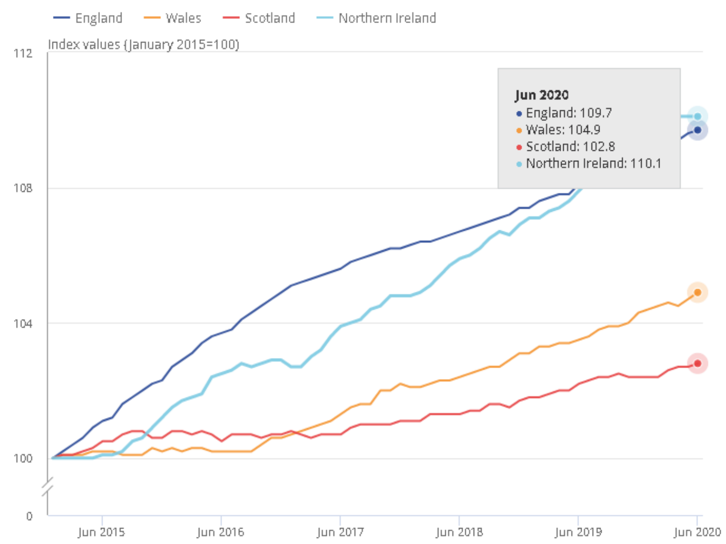
Source: Rightmove

The government's own ONS data shows how rents react very differently to property price growth, with Northern Ireland surprisingly 'topping' rental increases over the last five years, with rents rising on average by 3% in Scotland through to 10% in Northern Ireland.

Despite constant media and MP accusations of rents 'sky rocketing' and being 'extortionate' the government stats show how wrong these accusations are, with rents rising at less than average inflation.

Figure 4: Rental prices have increased more in England and Northern Ireland than in Wales and Scotland since 2015

Indices of Private Housing Rental Prices for countries of the UK, January 2015 to June 2020

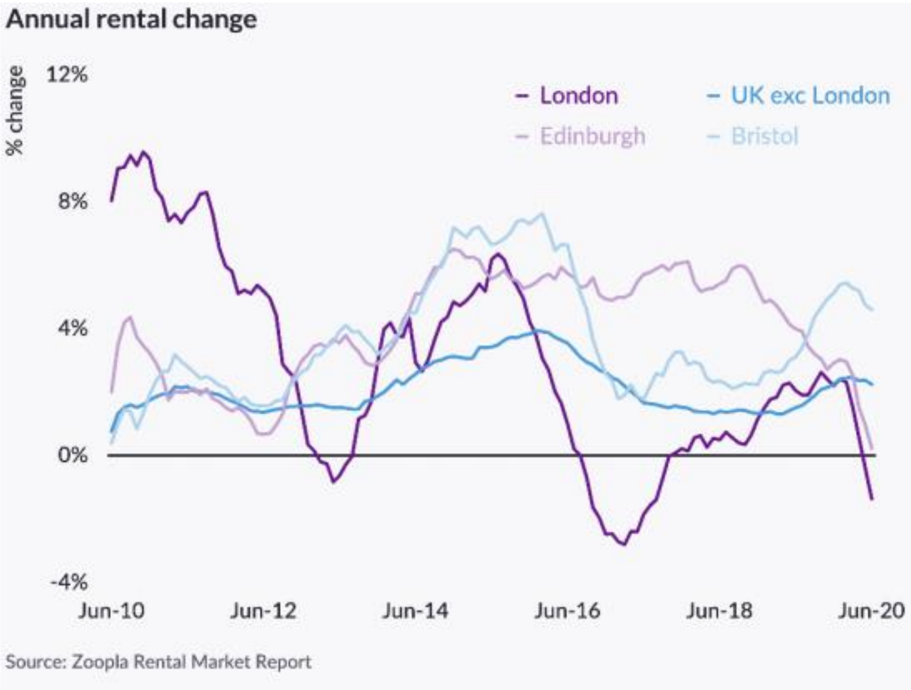


Source: Office for National Statistics – Index of Private Housing Rental Prices

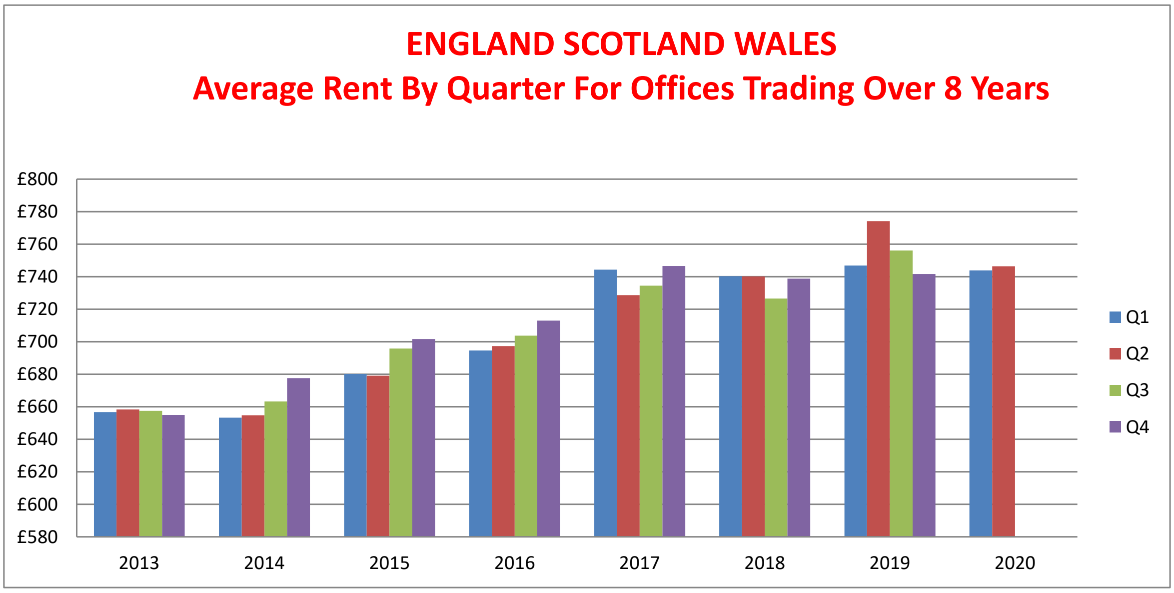
Source: ONS

Country rental market performance – cont'd

The Zoopla data shows that going back to 2010, rents have risen higher than inflation in the past, but this ignores the fact that rents fell during the recession for some period of time before they started to recover, hence seeing increases slightly above inflation on some occasions during the period of time studied.



This is probably best shown by the Belvoir data which actually goes back to 2008. In their quarterly survey, we can see that average rents were fairly static up until 2013, for offices that had continued to trade during the last 12 years, giving a more true 'like for like' comparison.

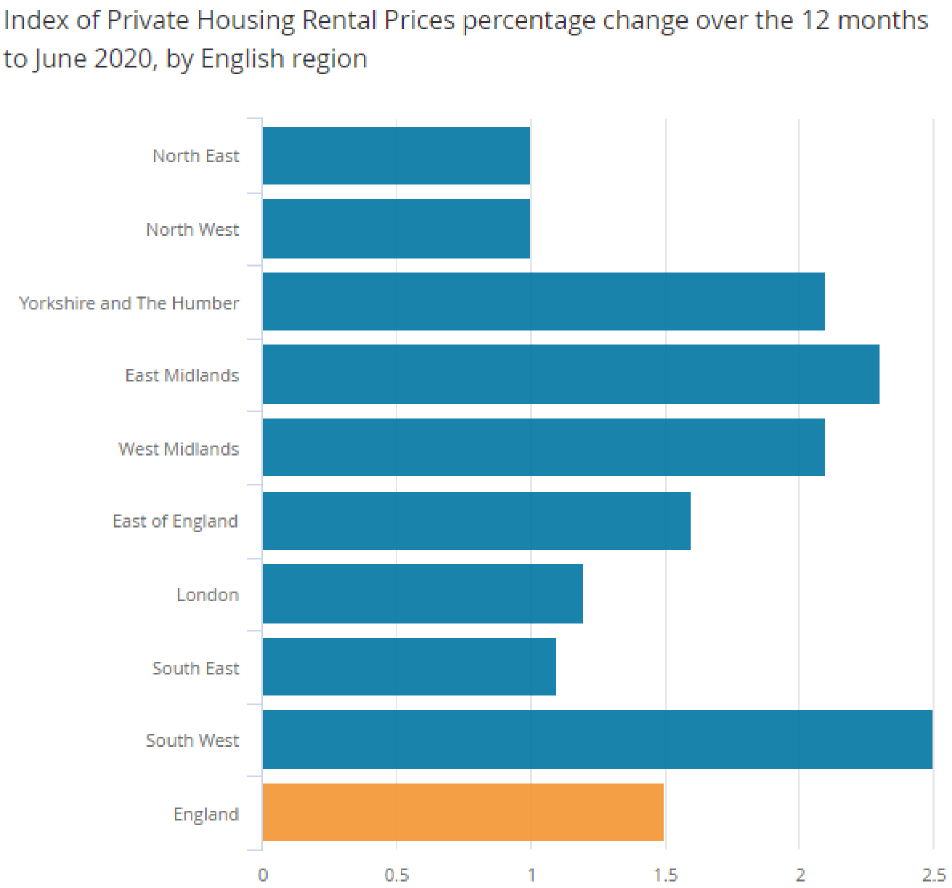


Source: Belvoir Lettings

In summary, rents have remained pretty steady throughout the lockdown and as with house prices, since the market has opened, in the main rents have held up pretty well and for some properties and areas, especially houses, are seeing rises.

Regional rental market performance

On a year on year basis, we can see from the ONS data that the maximum increase has been in the South West shortly followed by the East Midlands, with the North, London and the South East seeing the lowest increases, pretty insignificant at 1% or less.

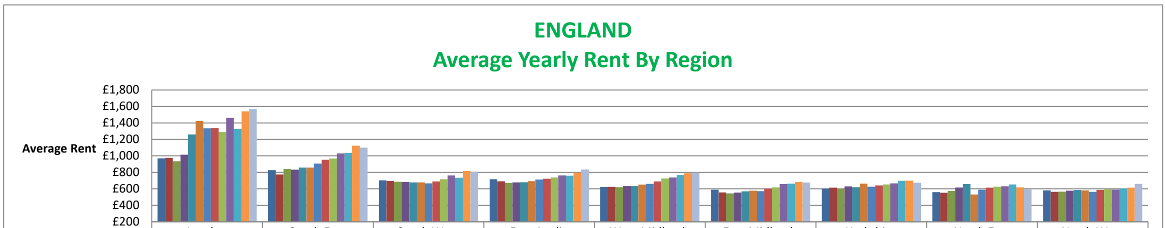


Source: ONS

Historically, the Belvoir Index tracks back to 2008 and shows that although rents have in the main risen over time, but generally, these increases have been less than inflation.

Year on year, rents in the South, Midlands and North, in the main show they are static to seeing slight falls while East Anglia, the West Midlands and the North West are seeing rises. However, Belvoir goes one better and tracks rents by individual office and area, so its rental review is a must see if you want to find out what's happening at a local level.

For example, individual areas covered in the last review are: Devizes, Newark on Trent, Leamington Spa, Harrogate, Tunbridge Wells, Tynedale, Chester, Stoke on Trent, Stafford and Stone and Dundee.



	London	South East	South West	East Anglia	West Midlands	East Midlands	Yorkshire	North East	North West
2008	£969	£826	£704	£717	£621	£589	£603	£560	£581
2009	£977	£775	£696	£692	£624	£556	£613	£552	£564
2010	£935	£841	£686	£673	£619	£545	£603	£574	£566
2011	£1,015	£832	£684	£678	£632	£555	£629	£617	£578
2012	£1,260	£857	£678	£680	£634	£570	£619	£659	£586
2013	£1,424	£857	£678	£693	£652	£578	£662	£532	£581
2014	£1,335	£906	£666	£713	£660	£571	£625	£589	£563
2015	£1,338	£952	£690	£723	£690	£603	£640	£615	£587
2016	£1,290	£969	£717	£738	£726	£618	£653	£625	£597
2017	£1,461	£1,030	£763	£763	£739	£658	£665	£631	£591
2018	£1,328	£1,036	£733	£759	£767	£662	£697	£652	£605
2019	£1,540	£1,124	£818	£796	£789	£683	£699	£618	£615
2020	£1,567	£1,100	£808	£834	£798	£675	£675	£593	£660

Source: Belvoir Lettings

Regional rental market performance – cont'd

Hamptons have done a cracking report recently looking at the changes in the rental market, showing what's happened to existing rents, and indeed, those that are newly let which we've summarised below, basically showing that although some areas are seeing some growth, others have seen rents held back by Covid. Realistically this is likely to continue into 2021 as the economy slides into its real recession, post furlough.

Hamptons Int

"In June we found that average rents on newly let properties across Great Britain fell by 0.7%, marking the first fall since February 2014. June also represented a deceleration in rental growth from the period pre-lockdown when rents were rising at an annual rate of 1.2% in February 2020.

"London was hardest hit. Year-on-year rents in the capital were down 4.5% last month, the biggest fall since our index began in 2014. Inner London, with a 7.4% year-on-year drop, was responsible for driving the fall. This was the biggest decrease on record and all but wiped out last year's rental growth of 7.5%. Outer London rents fared slightly better, registering a -3.6% year-on-year fall.

"But it wasn't all bad news. Outside of London rents continued to rise by an average of 1.3% year-on-year in June. Increasing rental growth in the Midlands (2.9%) and North (3.0%) outweighed rent falls in the South East (-2.2%), the North East (-0.7%) and the East of England (-0.2%). The North West recorded the strongest rental growth of 5.2% - the highest rate of growth recorded in the region since November 2016."

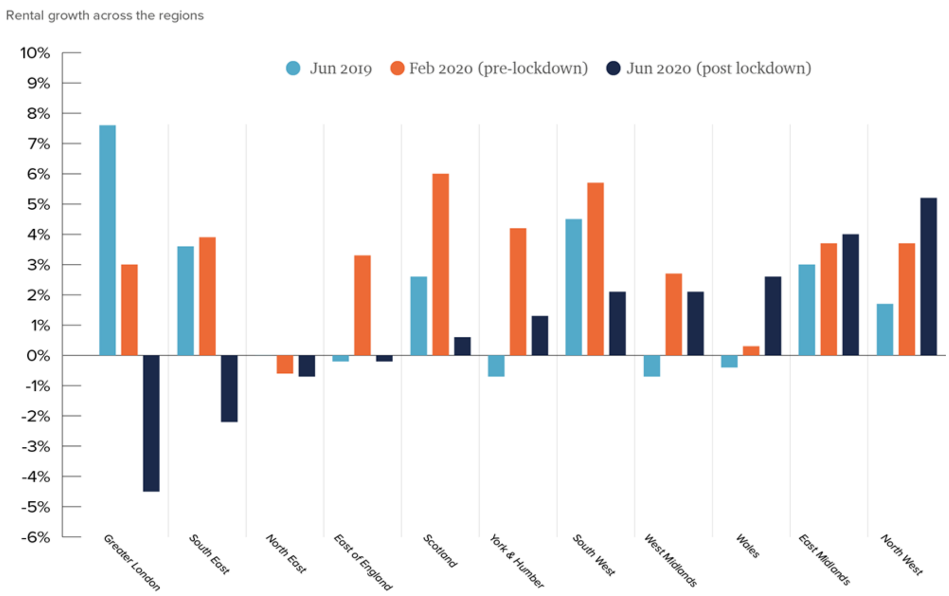


Table 1 – Average rent of newly let tenancies (pcm)

Region	Jun-19	Jun-20	YoY
Greater London	£1,792	£1,711	-4.5%
Inner London	£2,790	£2,584	-7.4%
Outer London	£1,602	£1,545	-3.6%
East of England	£950	£948	-0.2%
South East	£1,078	£1,054	-2.2%
South West	£821	£838	2.1%
Midlands	£685	£705	2.9%
East Midlands	£646	£672	4.0%
West Midlands	£718	£733	2.1%
North	£631	£650	3.0%
North East	£584	£580	-0.7%
North West	£629	£662	5.2%
Yorkshire & the Humber	£654	£662	1.3%
Wales	£668	£686	2.6%
Scotland	£655	£659	0.6%
Great Britain	£992	£986	-0.7%
Great Britain (Excluding London)	£787	£797	1.3%

Source: Hamptons International

Regional commentary from individual indices

Belvoir Lettings	*"The latest statistics recorded show monthly rents range from £593 in the North East, £675 in Yorkshire, £798 in the West Midlands, through to £1,100 in the South East and £1,567 in London."*
Rightmove	*"The average rental asking price is at an all-time high outside London, as seven weeks of lockdown limited activity in the rental market has boosted demand to record levels. In contrast, the capital's asking rents started to fall across April and May. London asking rents are now lower than this time last year, and also £60 cheaper than Q1."*
ARLA Propertymark	*"The number of tenants experiencing rent increases rose in June, with 29 per cent of agents witnessing landlords increasing rent compared to 14 per cent in May. This is still the lowest percentage of rent increases for June since 2016."*
RICS	*"Rental growth expectations for the next three months also recovered during July, with the net balance picking up to +20% from -35% previously. For the coming twelve months, contributors continue to project rents will rise by just over 1% at the national level. That said, while rents are expected to rise across virtually all parts of the UK over the year ahead, London stands out as the only region in which projections are still negative, at -1%."*

Analysis of rents in towns/cities

As always, London is a completely different market to the rest of the UK, so we've split the commentary into two parts, UK towns and London itself. This is particularly the case in London where supply is being dramatically increased by short term lets being transferred into the long term rental market.

On an individual city/town basis, according to Hometrack:-

"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)."

Hometrack	*"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.*

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

Source: Hometrack

Analysis of rents in towns/cities – cont'd

Thanks to individual commentary from Belvoir franchise owners, you can see that when it comes to property type, houses are doing incredibly well, flats less so (on average) and for those in the HMO market, or looking to move into it, caution needs to be applied due to supply vs demand which, in the main, is keeping rents static or driving them down.

Individual commentary from Belvoir offices

Westminster

According to Tom Wang, rents for flats decreased during Q2 2020, whilst house rents remained unchanged. Tenant demand was static for houses but increased for flats and HMOs. Rents are expected to remain static during Q3 2020, with demand increasing across the board. Tom confirmed a shortage of one and two bed flats due to their high demand whilst there is an oversupply of four and five beds houses as the demand for such properties is not high.

Stratford

Zain Mahal confirmed static rents and demand for all properties for Q2 2020. All rents are expected to decrease over the next quarter, due to Covid-19 which has financially impacted tenants, with demand also expected to decline due to tenants moving abroad.

Rochester

For Q2 2020, Peter Huane confirmed static rents with demand increasing for flats and houses. Rents are likely to increase over the next quarter whilst demand remains unchanged. Peter reported that the rental market is buoyant as has been throughout lockdown.

Tunbridge Wells

Natalie Boardman confirmed increased rents across the board due to greater demand during Q2 2020. Tenant demand increased for flats and houses due to moves out of London, a change of personal or work situation as a result of Covid-19, plus people buying homes. Rents are expected to increase for flats and houses due to low stock and high demand but with existing tenants, rents are holding given the current situation. Tenant demand is unlikely to increase above the surge already seen.

Christchurch

According to Jeremy Clarke, rents for flats increased during Q2 2020, mainly down to lack of supply and also landlords feeling the pinch. House rents also increased due to much higher demand than usual and low levels of stock. Tenant demand for flats was unchanged but increased for houses. Over the coming quarter, it is predicted that flat rents are likely to decrease but increase for houses - the demand for outside space and lack of stock is bound to have an effect. Tenant demand is expected to fall for flats but increase for houses.

Ipswich

For Q2 2020, Lee Durrant confirmed flat rents fell, whilst house rents remained unchanged and tenant demand increased across the board. Rents are unlikely to change over the coming quarter, however, demand is likely to increase for both flats and houses. The Ipswich office has a shortage of three, four and five bed houses and an oversupply of two bed flats.

Nottingham

Lloyd Rumbold confirmed increased rents for all properties with demand also increasing for houses but remaining unchanged for flats and HMOs. Over the coming quarter, rents are likely to increase for all properties with demand increasing for houses but remaining stable for flats and room rents. They are currently experiencing a shortage of one/two bed flats and three bed houses.

Telford

For Q2 2020, Simon Bell reported that rents and demand across the board increased and this trend is likely to continue over the next quarter. They are currently experiencing a shortage of all types and size of property as there is high demand due to lack of mortgage deposits. Rental stock is the lowest the office has have seen in the last 10 years.

Individual commentary from Belvoir offices – cont’d

Skipton

For Q2 2020, Daniel Johnson reported rental rises for houses and flats due the increased demand, with the exception of HMOs, where demand fell. Over the coming quarter, rents and demand are expected to increase for flats and houses but remain unchanged for room rents. They currently have a shortage of one through to four bed properties.

Tynedale

John Redden has reported steady but small increase in rents across the board as properties have become available for rent during Q2 2020. A few landlords have increased rents on periodic tenancies between 2% and 4%. Demand increased for houses but they are small numbers, however there appears to be a trend building to look for property with some outside space. Demand fell for flats. Rents are expected to increase across the board during Q3 2020, whilst demand for houses is likely to increase but decrease for flats. For the full details, read the Index here.

Warrington

Gary Pemberton confirmed increased rents and demand for both flats and houses during Q2 2020 and this trend is predicted to continue into the next quarter. Warrington is experiencing a shortage of two and three bed houses and an oversupply of studio flats and room rents.

For the full Belvoir report, including all the individual office commentaries, read the Index here

London rental market

From a London market perspective, Savills report shows that rents, in the main, are heading downwards:-

“Rents across prime London fell by an average of 2.0% in the three months to June 2020, leaving them 0.3% below where they stood a year before, in a market which had witnessed a strong start to the year.

“North and East London and prime central London saw the largest rental falls over the past quarter of 3.6% and 2.8% respectively. Despite increasing levels of demand, the major challenge has been higher levels of stock coming to the market during lockdown, from both short lets entering the market and completing new build stock.”

Prime rental movements	Central London	North West London	South West London	West London	North and East London	London suburbs*	Inner commuter belt**	Outer commuter belt†
Quarterly growth	-2.8%	-1.7%	-0.6%	0.7%	-3.6%	0.4%	0.8%	1.0%
Annual growth	-2.2%	-0.4%	1.9%	2.9%	-1.5%	0.1%	1.0%	1.5%
5-year growth	-19.1%	-6.3%	-6.2%	-4.8%	1.2%	-5.4%	-3.3%	-0.6%

Source: Savills

London rental market commentary from the rental indices

Savills

"Elsewhere in London, rental values have been more robust. South West London saw only a modest fall of 0.6%, while West London saw prime rents increase by 0.7% in the second quarter. These markets have benefitted from a strong family house market in areas such as Chiswick and Wimbledon.

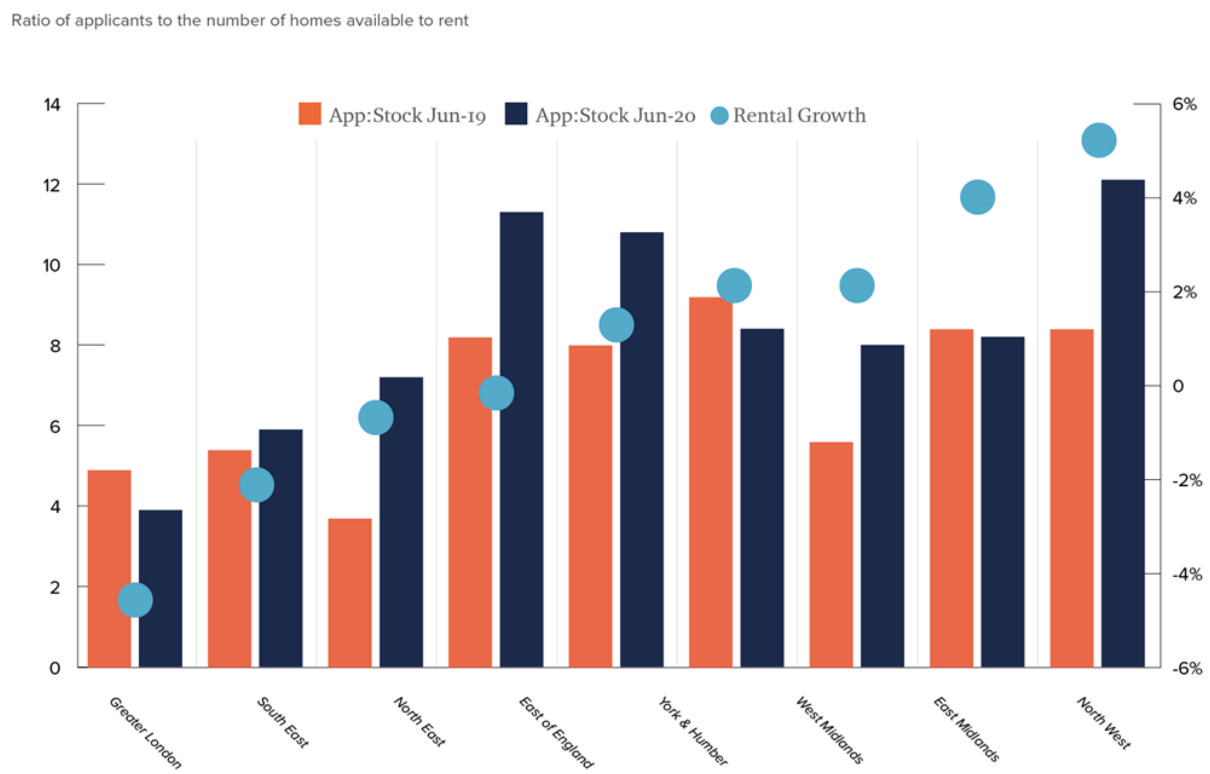
"Across prime London, a desire for more space following lockdown has seen houses hold up better than flats in the second quarter of 2020. As a result, rents for prime houses fell by 1.1% compared to a fall of 2.6% for flats over the past three months. This is a reversal of the trend seen over the past five years where the strength of demand from young professionals has seen flats outperform.

"But in the prime markets up to an hour out of London, rents increased by 0.8%, marking the second consecutive quarter of rental growth. This now leaves rents 0.9% higher than a year ago. This recent growth has been driven by an increase in demand from London-based tenants in particular. Indeed, 93% of our agents in the commuter belt reported they had seen an increase in London applicants over the past three months. Pent-up demand has, in turn, led to more competitive bidding, with half of our agents seeing multiple bids in the commuter belt.

"Areas furthest from London, including Farnham and Winchester, performed strongly over the past three months. With less emphasis on commuting daily to London for work, tenants are pushing beyond the traditional commuter markets in search of more countryside and village locations. Our agents also reported an increase in the number of 'try before you buy' tenants with many renting in a new area before committing to a purchase."

Rental demand and supply

Rental demand remains buoyant versus supply according to most of the feedback. However, there are some real regional differences, especially in areas where short lets were popular. As this market has suffered so badly, many landlords are returning their properties to the long term market – not such a bad thing – and this is, for tenants, happily reducing the cost of renting, especially in higher priced areas such as London.



Source: Hamptons International

Rental demand and supply from individual indices

Hamptons Int	*"An increase in stock levels - there were 14% more homes available to rent in the capital last month (26% more in Inner London) compared with the same period last year – combined with a fall in demand (-9%), explains much of the reason behind the falls.* *"Across Great Britain there were fewer applicants looking to rent in June compared with the same period last year, while the number of homes available to rent fell 10% year-on-year. As a result, there were 6.3 tenants looking for every home available to rent.* *"And in the North West, the region recording the strongest rental growth last month, demand heavily outweighed supply. Stock levels in the region fell 26% year-on-year while the number of people looking to rent increased 6%. As a result, there were 12.1 applicants looking for every property available to rent, the highest ratio in the country, and up from 8.4 in June last year."*
ARLA Propertymark	*"The average number of new prospective tenants registered per branch rose in June, with 79 tenants registered per branch compared to 70 in May. Year-on-year, this figure is at an all time high for the month of June. However, this is still down on pre-lockdown figures when there was an average of 82 new prospective tenants registered per branch in February.* *"The number of properties managed per letting agent branch fell in June to 200, from 208 in May. However, year-on-year this is an all time high for the month of June, topping last June's previous record of 199.* *"Regionally Yorkshire & Humberside saw the highest number of properties managed, with an average of 264 per branch, and Wales had the lowest number of properties, with an average of just 104 per branch."*
Rightmove	*"New rental listings dropped by an average of 50% during lockdown but are now up 1% on the same time last year. Total available stock is also up 1%. However, there are large variations at a local level, with total available stock currently up 41% in London and up 34% in Edinburgh, fuelled in-part by a surge in long-term rental supply from the curtailed holiday short-let market.* *"Overall rental demand is at a record high and so this may lead to further upwards price pressure except in areas of over-supply. Compared to this time last year demand is now 40% higher across Great Britain."*
Savills	*"Lockdown has affected the needs and wants of tenants, with interest increasing not only for more space, but also specific locations and property attributes.* *"With many people working from home during the lockdown period, a desire for more inside space has increased. Across prime London and the commuter zone, 79% of Savills agents reported an increase in demand for properties with a separate space to work from home. Similarly, a strong WiFi or internet connection is now higher on tenants' requirements, particularly in markets outside of London.* *"Larger properties have also seen an increase in demand in the outer commuter belt. Those with five or more bedrooms have outperformed over the past three months, with quarterly growth of 1.2% as opposed to only 0.6% growth for one- or two-bedroom properties. This is a reverse of the trend we have seen over the past five years on the back of increased demand for prime family housing.*

Rental demand and supply – cont'd

"Good schools have therefore become more of a driver of local demand in the commuter belt: 43% of agents have seen an increase in demand for property serviced by good educational facilities, as more families look to move out to the commuter zone and take advantage of the value and space on offer.

"But it's not only demand for inside space that has increased; 96% of agents reported an increase in demand for property with a garden or other outside space. In prime London particularly, properties with a private garden have been more robust over the past three months, in some cases attracting premiums. Properties closer to local parks have also seen an increase in demand, according to our London agents.

"As tenants reassess their requirements following lockdown, the ability to walk or cycle to work is now also higher on their list of requirements. Two-thirds of our London agents are seeing an increase in demand for property where this is possible, particularly in South West and West London."

RICS

"Respondents noted a firm recovery in tenant demand over the three months to July (seasonally adjusted quarterly time series). With regards to new landlord instructions respondents reported a pick-up over the survey period. Although only marginally positive, this is the first occasion since 2016 in which the flow of landlord instructions has reportedly improved."

Hometrack

"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.

"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."

Future outlook for the rental market

Overall, the rental market is likely to have a positive time over the next year or two while Covid continues to batter the economy. It's unlikely we'll see much of a rise in rent unless the property is a house with decent outside space.

However, the main trick to a successful rental market is avoiding voids and at least maintaining rental income.

Despite fears being stoked by tenant organisations over rental evictions, Wales and Scotland are both protected thanks to six month evictions, but also thanks to the loan packages they have put in place for landlords and tenants.

England would be pretty foolish not to follow suit – and you have to ask where the government is planning to house the millions of people expected to be hit by unemployment post the end of the furlough scheme if not in the homes they currently own or rent.

The failure to build social homes and rely instead on the PRS is really going to come home to roost in the next 12 months as there will either be a huge increase in homelessness or a realisation that the PRS is a much needed sector in the UK unless government is going to build at least a million social homes, quickly!

Mainstream rental forecasts

	2020	2021	2022	2023	2024	5-year
UK	-1.5%	5.5%	3.0%	3.0%	3.0%	13.6%
London	-1.0%	6.5%	4.0%	3.0%	3.0%	16.3%
UK ex. London	-2.5%	5.0%	4.0%	2.5%	2.5%	11.9%
Income growth	-1.6%	5.4%	3.1%	2.8%	3.1%	13.4%

Source: Savills

Savills

"Tenant demand has looked remarkably robust since the reopening of the market, with some potential buyers favouring the flexibility of the rental market as events around Covid-19 progress. But the experience of lockdown has meant that a property's attributes, more so than value, have become the driving factor.

"While stock has increased across London, this has, in most cases, been matched by an increase in tenant demand. For those markets particularly affected by an increase in supply, there is likely to be downward pressure on rental values in the short term.

"So the question remains as to how quickly the additional available stock will be absorbed by the market or, in some cases, returned to the short-let market. Both are going to be determined by how quickly the UK can recover from the effects of Covid-19 and progressively return to 'normal'.

"As the tourism industry begins to reopen, even just to domestic tourists, the amount of short-let stock across central London and in markets such as Shoreditch could move through the market fairly quickly.

"The return of international travel could also see the reappearance of students to the London market in the autumn, as well as more demand from corporate relocations as companies regain confidence in the economy.

Future outlook for the rental market – cont'd

"The strength of the economy going forward will be the driving factor for tenant demand. The furlough scheme has protected many jobs from redundancies, but when that comes to an end there is anticipated to be an increase in unemployment rates across the UK (though not to the same extent seen in the global financial crisis). This could have an impact on domestic and international corporate demand, and in markets underpinned by young professionals, it may create a ceiling to which rents can increase if wages do not see the same rate of growth.

"Covid-19 is expected to have a v-shaped impact on the UK economy, with a short sharp fall in GDP met with strong growth over 2021. There is likely to be a similar reaction in the prime rental market in London, with short-term pressure on pricing but more capacity for growth over the longer term as stock levels steady.

"For rental markets in the commuter belt, the current strength of demand for family housing should underpin more steady growth over the next few years."