

Private rented sector report – Q3 2022

The UK's most comprehensive rental market report

Introduction to the rental market

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 typically 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.

However, 2022 has seen this change. Newly let rents have been rising at double digits. Partly due to wage rises of 6.4% YoY (ONS data) and partly due to comparing them to reduced rents during Covid, so partly rents are 'catching up' with where they should be. In contrast, rents for existing lets are increasing at a much lower rate – 3.8% according to Zoopla.

The key problem from now on is that successive anti landlord policies have led to a huge sell off by landlords – or they have moved into the self-service accommodation market as it's more lucrative.

For the first time in the housing market, we are seeing demand versus stock levels tighter in the rental market than the sales market, hence higher rents are being offered by those desperate to secure a home.

Summary of rental reports

Rightmove

Rents hit new record & city tenants down-size to studio flats

“National average asking rents outside London have hit a new record, now £1,162 per calendar month (pcm). Asking rents jump by more than 3% this quarter (+3.2%) for only the third time on record.”

Hometrack

Is the rental market now slowing down?

“Rental inflation is 12.1% per annum, well ahead of earnings (6%).”

DPS

No let-up in UK rent rises DPS Rent Index Q3 2022

“Following last quarter’s record-breaking rise, UK rents continue to trend upwards according to the latest DPS Rent Index. For the second quarter in succession, average rents in the UK rose by over 2%, now standing at £889.”

Homelet

The last month of 2022 saw the first drop in the average UK rental price for over a year

“The average rent in the UK has dropped for the first time in over a year - down 0.1 since November to £1,174 pcm.”

Goodlord

A modest drop in rental costs reflects a slightly cool December

“Average rental costs are now at their lowest since June 2022. However, 2022 ended with average rents up by 8.7% across England, compared to 2021.”

Propertymark

Pressure continues to come down on rents

“The rise in supply over demand has reduced pressure on rents, with the number of agents reporting month-on-month rent price rises falling below 50 per cent for the first time since February 2021.”

ONS

“Private rental prices paid by tenants in the UK rose by 4.0% in the 12 months to November 2022, up from 3.8% in the 12 months to October 2022.” (Includes existing and new tenancies)

National rental prices

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Annual Change		
Rightmove	£982	£1,007	£1,047	£1,068	£1,088	£1,126	£1,162	11.0%	Asking rents (<i>excl Gtr London</i>)	E W & S
Hometrack/Zoopla	£923	£943	£968	£969	£995	£1,051	£1,078	12.1%	Asking and agreed rents	UK
DPS	£800	£804	£818	£834	£849	£870	£889	8.7%	Asking rents	UK
Homelet	£992	£1,007	£1,061	£1,060	£1,078	£1,113	£1,174	10.8%	Agreed rents	UK
Goodlord	£916	£960	£1,104	£985	£1,006	£1,050	£1,071	8.7%	Agreed rents	E

What a change over time. I have tracked the rental market in depth across the country since 2007 and have never seen rises at this level, for so long in all these years.

Sadly, this is a 'government policy' led problem, all driven by a lack a stock due to successive government initiatives to hold back investment in the rental sector. Why any MPs think the rise in the PRS is a cause of the housing crisis and preventing properties from being rented would 'magically' solve the housing shortage I don't know, perhaps it was more 'wishful' thinking!

But with 25% of tenants on benefits renting in the PRS due to failure to build social homes people are eligible for, many renting rooms in HMOs and many people living at home to save for a deposit, the sale of a BTL property does not mean there is one less person in the rental sector who now becomes a home owner - as appears to be the simplified belief of MPs and government.

The shocking figures for tenants are not just the rise in rents as a result of the failed government anti landlord policies, what is worse are the figures of those tenants now in temporary accommodation and the rise in those on housing waiting lists as a result of the lack of stock in the sector. This was always inevitable, but the government did not believe the industry.

Perhaps if governments and local authorities had focused on working with landlords to help house people in need rather than cap Local Housing Allowance and reduce the stock levels; if they had implemented ROPA – Regulation of Property Agents – and introduced Property MOTs so no property can be advertised legally without being fit for purpose, and if they had created innovative initiatives to encourage private landlords to build new homes rather than buy existing ones, a kind of individual investor 'build to rent' programme, we could be celebrating success rather than facing the disaster we are now seeing.

Until government and MPs realise that PRS landlords and regulated agents are the solution to solving the housing crisis, sadly, in my view, their policies will continue to fail tenants.

Rental prices by country

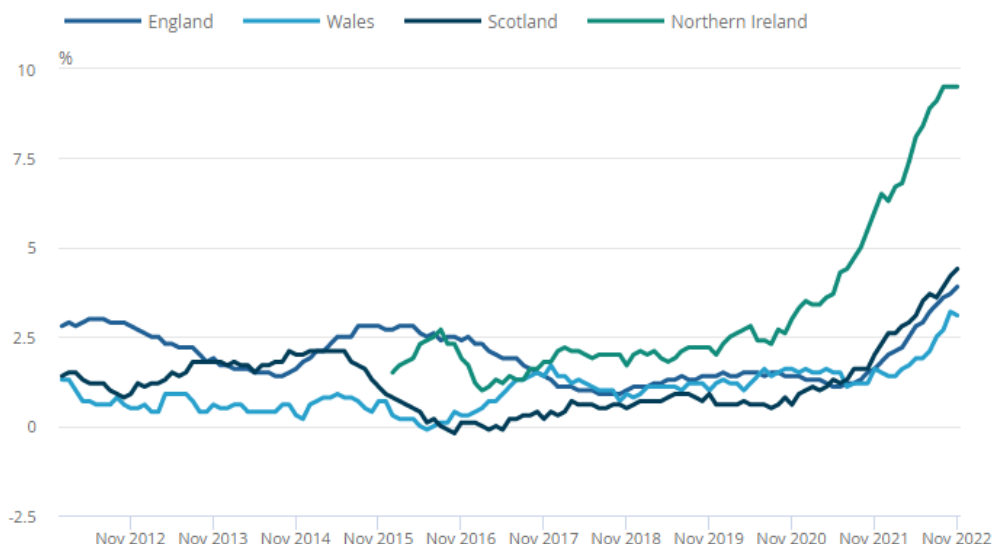
The Office of National Statistics produces some fab long-term data, but it only gives 'percentage' changes, not rental averages and these tend to be lower than most rental indices as they include existing rents, not just new lets.

What we can learn from the ONS is two things:

1. The difference between the countries, with Scotland and Northern Ireland seeing such dramatic year on year increases, even when existing rents are included. Some of the harshest rent rises are being seen in Scotland where rises are much higher than England and Wales – perhaps due to tougher rules and regulations and of course the threat of rent freezes, which have now been turned into rent rise caps.
2. The difference between new let rises from other indices versus the much lower inflationary rises when existing rents are included. We are seeing double digit rises for many new lets, but for existing rents to be rising at a third of the level of new lets, which is well below the 6.5% increase in wages, the accusation that private landlords are 'fleecing tenants' or are causing rents to 'sky rocket' is clearly unfair and wrong.

Figure 3: Annual rental percentage change in Scotland continues to surpass England and Wales

Index of Private Housing Rental Prices percentage change over 12 months for countries of the UK, January 2012 to November 2022



Source: [ONS](#)

1. In England, private rental prices increased by 3.9% in the 12 months to November 2022. When London is excluded from England, private rental prices increased by 4.1% in the 12 months to November 2022. Both of these figures reflect the highest annual percentage change since this data series began in January 2006.
2. Private rental prices in Wales increased by 3.1% in the 12 months to November 2022. This is down from an increase of 3.2% in October 2022.
3. Private rental prices in Scotland increased by 4.4% in the 12 months to November 2022. This is up from an increase of 4.2% in October 2022, and is the highest annual percentage change since this data series began in 2012.
4. The annual percentage change for Northern Ireland in November 2022 was 9.5%. This was higher than for the other countries of the UK. Northern Ireland data have been carried forward since September 2022. Northern Ireland data will be updated in our Index of Private Housing Rental Prices, UK bulletin to be published on 18 January 2023.

Regional rental prices

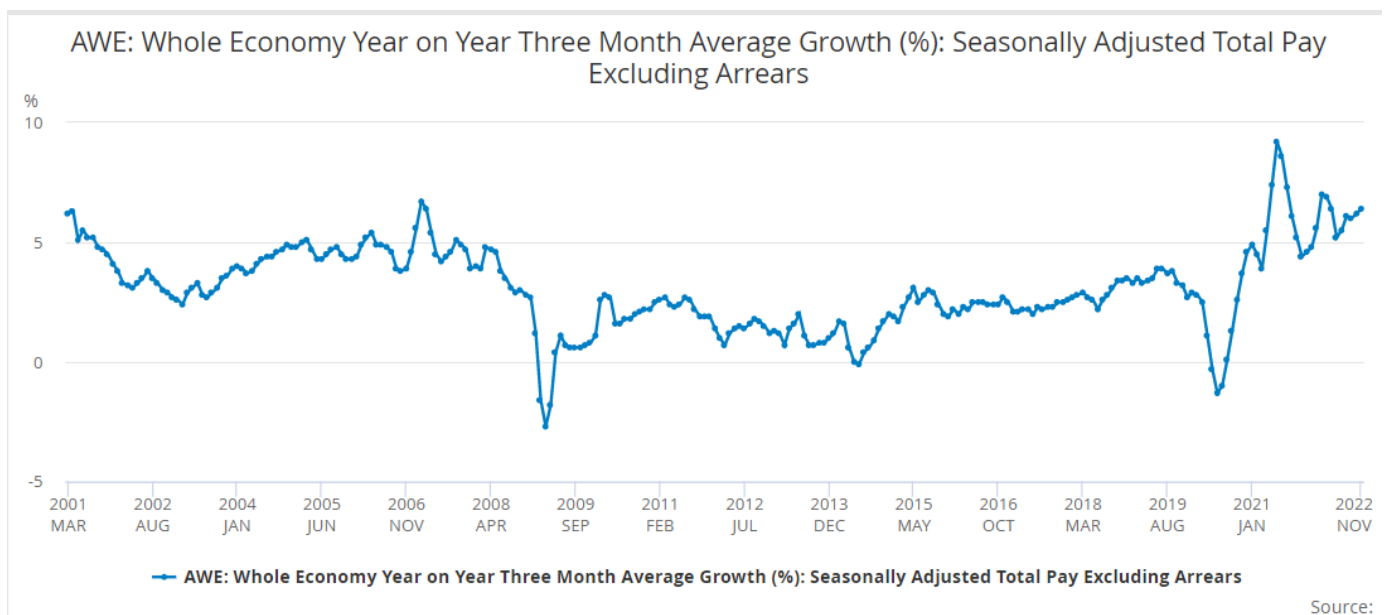
For property prices, there are often 30-40% differences between the indices, but for rents it's a different story – they are actually pretty similar across the three indices we track on a regional basis. London of course has the biggest difference, but that's because it's such a wide ranging market of properties, but the rest of the rent comparisons are pretty much in line with each other.

However, this doesn't disguise the huge increases year on year, with the lowest rise from Homelet in the North East of 6.6% year on year, and the highest rise reported in the South West by Rightmove of 12.1%.

How does this compare to the past? Having tracked rents for many years via the Belvoir Rental Index, alarm bells used to sound if rises or falls were higher than 4%, so for rents to hit these levels is pretty much unheard of.

Why is it happening? It's not just down to lack of stock as that doesn't always mean rents will rise, typically rents are very tied to wages. However, with wages rising at their fastest rate and pensioners and those on benefits being given inflation busting rises, this is allowing rents to continue to rise, when normally they would have stagnated.

As the ONS chart shows below, wages fell during the credit crunch and barely rose above a few percent from 2010 to 2021, the jump from this time has enabled rents to rise at a prolonged and higher level than I've ever seen since 2007.



Source: [ONS](#)

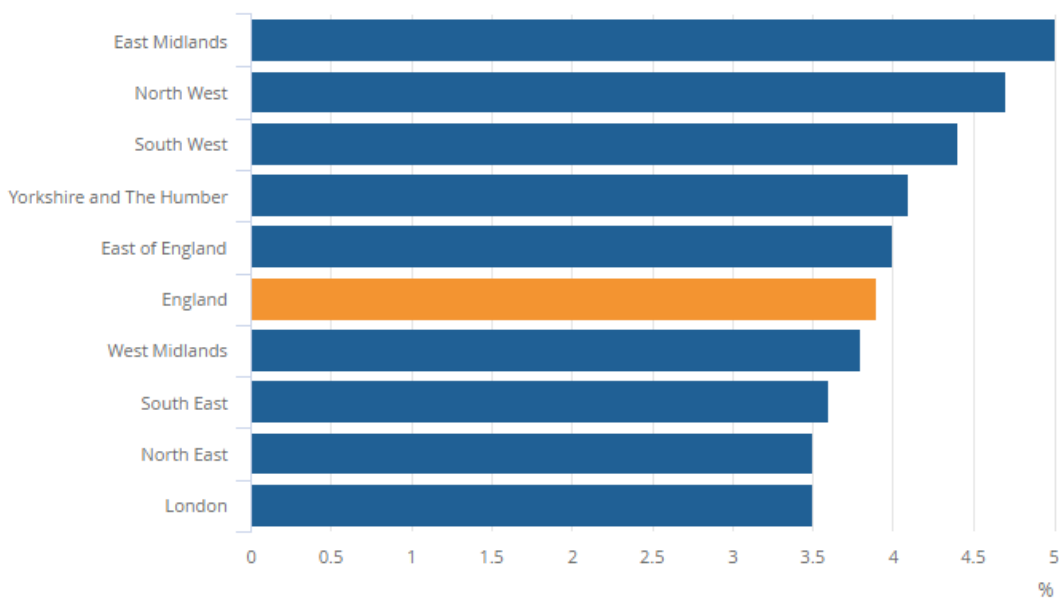
Rental prices - regions	Rightmove rents pcm Q3 2022	Rightmove Year on year change in rents Q3 2022	Hometrack rents pcm Q3 2022	Hometrack Year on year change in rents Q3 2022	Homelet rents pcm Dec-22	Homelet Year on year change in rents Dec-22
North East	£779	11.5%	£612	9.1%	£618	6.6%
North West	£987	9.7%	£748	12.2%	£938	11.1%
Yorkshire & The Humber	£908	11.8%	£718	10.2%	£790	7.2%
East Midlands	£1,012	9.5%	£774	10.0%	£797	7.4%
West Midlands	£1,020	11.0%	£801	10.6%	£872	10.9%
South West	£1,294	12.1%	£983	9.7%	£1,081	10.0%
East	£1,408	9.3%	£1,051	8.4%	£1,108	7.5%
South East	£1,655	11.2%	£1,189	9.4%	£1,235	10.0%
London	£2,343	16.1%	£1,879	17.0%	£2,007	14.6%

The largest annual rental price increase in the 12 months to November 2022 was in the East Midlands at 5.1%, closely followed by the North West at 4.7% and the South West at 4.4%.

It's good to see and compare the increases from the indices for new lets above and compare these to the much lower figures for existing rents shows how fair landlords are to their existing tenants, rather than being accused of being 'greedy'. Rents for existing lets (and some new) from the ONS in comparison are rising between 3.5 and 5%, a third or half the rises we are seeing for new lets.

Figure 5: Weakest annual rental price growth is in London and the North East

Index of Private Housing Rental Prices percentage change over the 12 months to November 2022, by English region



Source: [ONS](#)

This is shown even more starkly by the latest Hometrack data:-

[Hometrack](#)

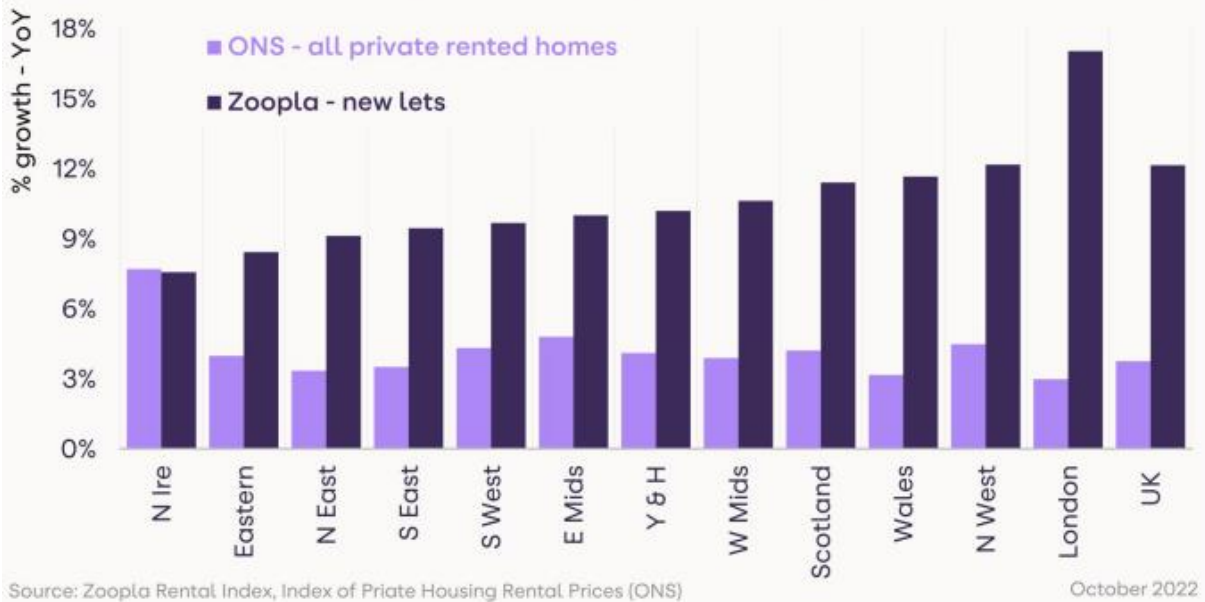
No sign of rent inflation slowing in the short term

"Rising demand and a lack of supply mean rents are increasing quickly, up 12.1% over the last 12 months to October 2022. This is an increase of £117 per month or £1,400 a year. The underlying data shows no sign of any immediate slowdown, with rental inflation in the 3 months to October 2022 (3.6%) being the highest quarterly gain since December 2021.

"It is important to draw a distinction between rental inflation for new lettings i.e. when the property becomes vacant and its rent is adjusted in line with the market, and rental inflation for all private rented homes. 1 in 4 renters move home each year and this group will experience rental inflation in line with new lettings.

"For the 75% of renters that do not move each year, rental increases are much lower at 3.8% in the year to October 2022 1 - slower than the growth in average earnings. The chart compares the rental inflation rate for new lettings versus all private rented homes based on the ONS Index of Private Housing Rental Prices. This variance is why more renters are staying put, to avoid higher rental payments when they move, and further compounding supply problems."

Rents on new lets rise faster than for existing tenancies



DPS

Regional growth remains strong

“Though the pace of rental growth slowed slightly in most regions outside of London last quarter, rents have continued to push new heights. Five regions saw rents increase of 2% or more in the three month period. Annually, all regions have seen significant rental growth. Surprisingly, rising by a comparatively modest £34 (5.07%) to £705, the West Midlands has seen the lowest growth over the last 12 months, both by value and by percentage. Most regions outside of London have seen rents grow by over 7% since Q3 2021, with Scotland (up 8.91% to £721) and North West (up 8.98% to £692) both outpacing the national percentage rise.”

City and town rents

There isn't a huge amount of rental information on local data for towns and cities, except from Hometrack and the truly fantastic data provided in Scotland by Citylets – if only we had this kind of detail for England, Wales and Northern Ireland!

Hometrack

Big cities register the highest levels of rental inflation

“Rents are increasing fastest in the largest UK cities, led by London where rents are up 17% or £273 per month over the last 12 months. Our index is recording above-average rental inflation in other big regional cities, including Manchester (+15.6%), Birmingham (+12.3%), Glasgow (+14.1%), Bristol (+12.9%) and Sheffield (+12.4%). These cities are seeing demand exceed supply over the last year, being major employment centres with large student populations. Not all cities are registering rapid gains, with Hull, York, Oxford and Leicester recording slower growth of less than 8% - although still higher than the rate of earnings growth (6% to September 2022).”

Rental inflation running well ahead of the 5-year average



“The key question is: ‘When will rental inflation start to slow to more sustainable levels?’ The current momentum in rental levels is a growing concern for all private renters, especially those on low incomes, as it exacerbates cost-of-living pressures. Rental inflation will only slow if demand weakens or supply increases significantly, or if we see a combination of the two.”

Scotland

Citylets

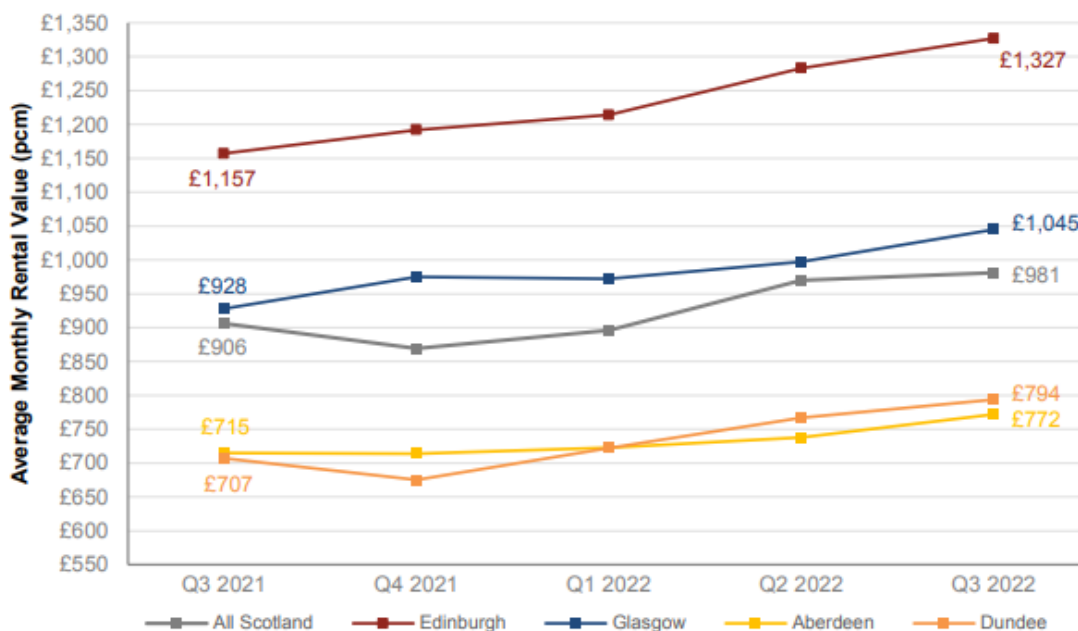
“The average property to let in Edinburgh now costs £1327 per month, up a significant 14.7% YOY. Many agents note they have never operated in a more competitive market.

“Glasgow rents continue their steep rise, now averaging over one thousand pounds per month for the first time, a new ATH at £1045, up 12.6% YOY but falling for the second quarter from the notable 16% annual rise recorded at Q1 2022.

“Aberdeen leasing is now firmly back in growth territory at 8% YOY with the average property commanding £772 per month and TTLs continuing to fall YOY, now at 30 days. It is entirely possible the supply constraints could also return to Aberdeen and see the Granite City make ground or indeed surpass the fast growing Dundee rental market.

“Rents in Dundee continue to push upwards to a new ATH of £794 on average, up 12.3% YOY.”

Scottish Monthly Rent Analysis (Q3 2021 - Q3 2022)



Source: [Citylets](#)

Rental demand and supply

There are almost no words for the huge amount of damage being done to tenants by reducing investment in the private rented sector. This is impacting terribly on the most vulnerable tenants – many who are likely to be eligible for a social home but are being punished twice. Firstly, they aren't being able to access a social home at half the rent, but secondly, because the amount they can pay in the PRS is now being restricted due to LHA caps.

Each of the indices below highlight the horrendous situation tenants are in and for the first time I can remember, it's tougher to find an affordable home to rent versus a home to buy.

Rightmove

“Demand is up by 20% compared with last year, while the total number of available properties to rent is down by 9%. This widening gap between supply and demand is creating ever fiercer competition between tenants looking for a home. In London, the number of new properties becoming available to rent is down by 24% on last year, while every other region and country in Great Britain has seen a jump in new properties to rent, most significantly in the South West (+19%), Yorkshire & The Humber (+12%) and Wales (+10%).”

“There is some way to go to narrow the gap between supply and demand enough to steady new asking rents, however it does at least give tenants in many areas some more choice compared with last year, though they are very likely to still be competing for the property with many other renters.”

Propertymark

“An average of 77 new applicants were registered per member branch in November. This number has continued the drop off since September's high of 147; however, it is still above the pre-pandemic average for November of 61. (2018–2019).”

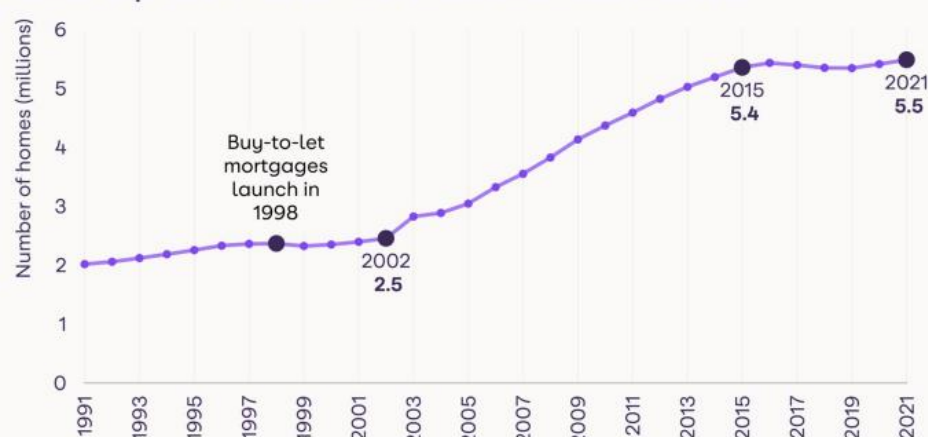
“Our members reported having 11 properties on average per member branch that were available to rent in November – up slightly from last month's figure of nine.”

Hometrack

Structural undersupply of private rented homes

“The quickest way to slow rental inflation is to boost rental supply. Unfortunately, we do not expect any major improvement over the next 12 months. The private rented sector has a structural supply problem stemming from economic and policy factors. The stock of homes for rent has not grown in size since 2016, holding steady at c.5.5m homes. Over the last 7 years, we have seen private landlords rationalising their portfolios, selling some assets in the face of higher taxes and facing greater regulation, while some have taken advantage of a strong sales market. This reduction in rented homes has been offset by new investment from cashflow-focused private landlords and corporate investors delivering 'build-to-rent' schemes.”

Number of private rented homes in Britain remains flat since 2015

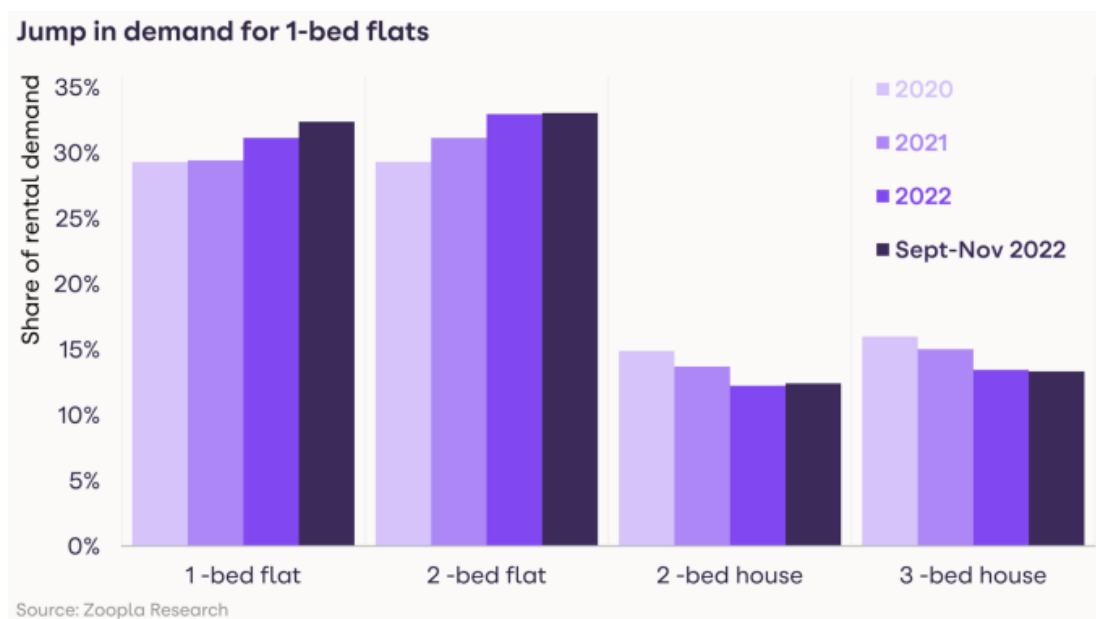


Source: Zoopla Research, using DLUHC, Welsh Govt, Scottish Govt data

Renters forced to look for smaller homes or share

“Faced with growing affordability pressures, renters have several options. One is to share to help spread the cost of renting for single person households and low earners. The latest English Housing Survey (2020/21) shows that there is an equal 50:50 split between private renters with multiple incomes (couples or multi-person households) and single earners (single person or lone parents). We expect more sharing in the face of high rents and a particular squeeze on single earner households.

“Our last report highlighted how renters are seeking smaller homes with an increase in demand for 1- and 2-bed flats and a reduction in demand for houses. Our latest data shows this trend is continuing with an acceleration in demand for 1-bed flats, which now accounts for 32% of rental enquiries and has been seen nationally. The affordability dynamics for a couple renting a 1-bed flat are much better than a 2-bed home and keeping a spare room or sub-letting.”

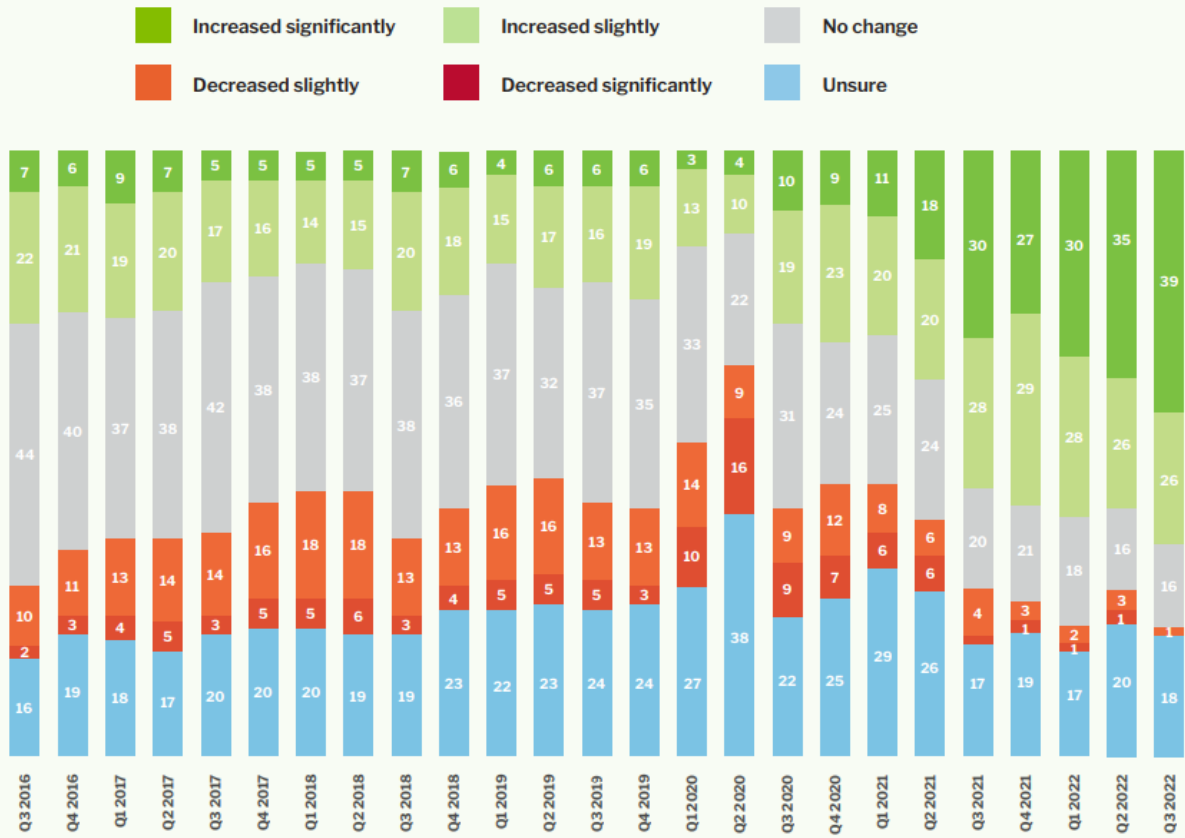


Paragon Bank

“The proportion of landlords reporting an increase in tenant demand hit an all-time high of 65% in Q3 2022. There was a large increase in the proportion recording a ‘significant increase’ in tenant demand, up four percentage points to 39%. Just 1% have seen a ‘slight decrease’ while no landlords reported a ‘significant decrease’, a survey first.

“A total of 79% of landlords with larger portfolios, that of 11 or more properties, are more optimistic this quarter due to their noticeable increase in tenant demand versus those landlords with one to 10 properties, averaging at 61%.”

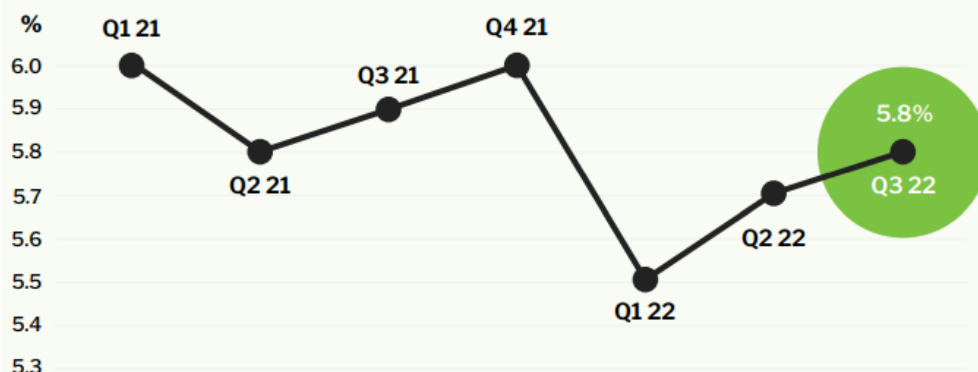
Tenant demand (%)



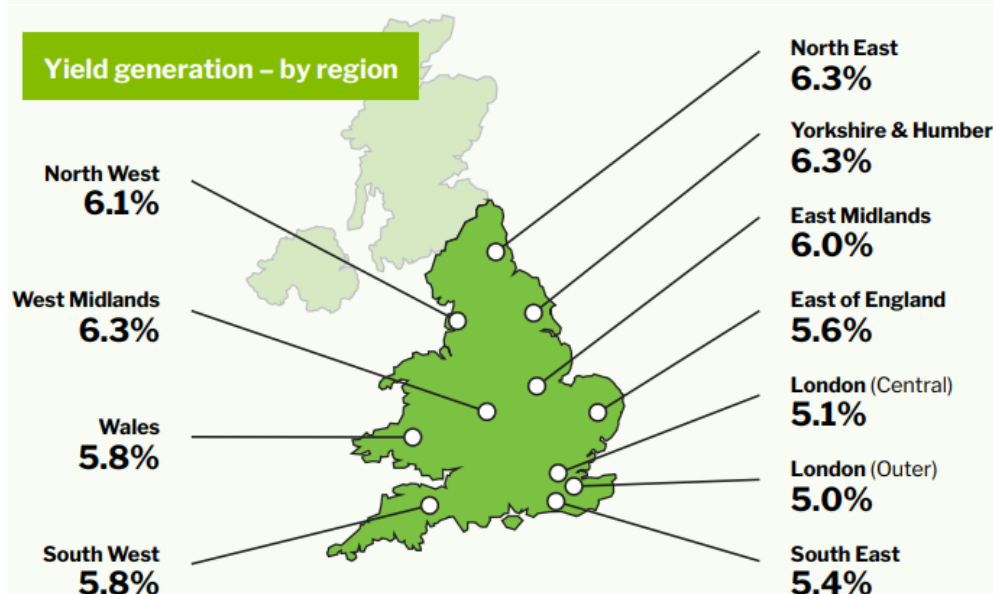
Source: Paragon Bank

Rental yields by England and regions – Q3 2022

Yield generation – historical



Yield generation – by region



Source: [Paragon Bank](#)

Region	Average Landlord yield Q3 2022	Annual change in yield
Great Britain	5.7%	+0.5%
North East	8.0%	+0.7%
Scotland	7.6%	+0.6%
Wales	7.0%	+1.2%
North West	6.8%	+0.3%
Yorkshire and The Humber	6.8%	+0.4%
West Midlands	6.1%	+0.3%
East Midlands	6.0%	+0.0%
South West	5.7%	+0.3%
East of England	5.4%	+0.1%
South East	5.3%	+0.4%
London	4.9%	+0.6%

Source: [Rightmove](#)

Where next for Rents?


Unlike property prices, eventually rents will stop rising at the levels they are now – because despite stock shortages, wages essentially ‘cap’ rent rises. And with property prices expected to fall this year, we are going to be in a strange situation where rents will rise higher than prices. Good news for landlords – bad news for tenants.

Knight Frank: revised rental forecasts (October 22)

“We have revised up our forecast for rental values, as low supply continues to push rents higher. We forecast 15% growth in PCL this year and 12% in POL. Next year, we have revised up our forecast to 6% from 3.5% in both areas.”

Rental market forecast						
2022-2026						
	2022	2023	2024	2025	2026	5 year cumulative
UK	5.0%	4.0%	4.0%	3.0%	3.0%	20.5
Greater London	7.0%	5.0%	3.0%	3.0%	3.0%	22.8
PCL	15.0%	6.0%	3.5%	3.0%	3.0%	33.9
POL	12.0%	6.0%	3.5%	3.0%	3.0%	30.4

Source: Knight Frank
Forecasts relate to average rents in the PRS. New build rents, such as those in the BTR sector, may not move at the same rate



“While new landlords may be proceeding with caution due to higher mortgage costs, we believe more accidental landlords may return to the lettings market as the sales market cools down. These are property owners who decide to let out their property after failing to sell for the asking price. This should help more balanced conditions to return in the medium term in PCL and POL.”

Source: [Knight Frank](#)

Hamptons: Autumn Forecasts 2022

“Last year we forecast that rental growth would slow in 2022 after a record-breaking 2021. However, rents rose more sharply than we expected.

“We now think that, while rising interest rates are set to dampen or even stifle house price growth, they are likely to have the opposite effect on rents. Landlords will be seeking to pass on higher borrowing and costs onto tenants.

“As a result, we are revising upwards our forecasts for rental growth in 2022 to 6% - and also pencilling in much higher rents in 2023, 2024 and 2025.”

























RENTAL GROWTH FORECAST

Source: Hamptons

	2022	2023	2024	2025
London	+10%	+6%	+5%	+5%
South	+7%	+6%	+5%	+5%
Midlands	+6%	+4%	+5%	+3%
North	+5%	+4%	+5%	+3%
GB	+6%	+5%	+5%	+4%

Source: [Hamptons](#)

Forecast residential rental values

	2022	2023	2024	2025	2026	2027	2022-26 compounded	2023-27 compounded
UK	 10.0%	 6.5%	 4.0%	 2.0%	 2.4%	 2.3%	 27.3%	 18.3%
London	 14.0%	 5.5%	 5.0%	 2.0%	 2.4%	 2.3%	 31.9%	 18.4%
UK excl. London	 9.0%	 6.5%	 4.0%	 2.0%	 2.4%	 2.3%	 26.1%	 18.3%

Source: Savills