

October Summary and Analysis of Rental Reports

Has Help to Buy and a recovering sales market impacted adversely on the buoyant Rental Market?

There are over five 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:-

Report Headlines:-

Move with Us	<i>"Help to buy scheme suppresses rent rises. (Q3 13 - England, Wales & Scotland)"</i>
Belvoir Lettings	<i>"Average rents for September 2013 were £689 per month for offices which have traded consistently over the last five years. Although this is a slight increase on the previous month, rents overall remain fairly stable. (Sept 13 – England)"</i>
Acadametrics/LSL	<i>"Rents reach record high in September. (Sept 13 – England & Wales)"</i>
Homelet	<i>"Monthly rents dip, but annual costs rise more than income. (Sept 13 – England, Wales & Scotland)"</i>
Paragon Group	<i>"Optimism increases among landlords. (Q3 13 - England, Wales & Scotland)"</i>

Average National Rents

Rental Indices	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Homelet	£808	£795	£773	£782	£777	£777	£774	£793	£787	£811	£826	£851	£854
LSL	£741	£744	£741	£734	£732	£731	£735	£736	£737	£737	£738	£743	£757
Belvoir	£680	£680	£681	£684	£687	£686	£690	£689	£687	£685	£687	£687	£689

Kate Faulkner comments on Rental Report Headlines:

"The rental report headlines continue to mislead tenants and policy makers by claiming 'record highs' when their data only goes back a few years, and doesn't take into account drops in rents during 2008/9. Rents overall across the reports are fairly stable to growing as opposed to growing astronomically. For rents to deliver to landlords and provide money for upgrades, ideally they need to rise in line with the average 3% inflation. Most rents are growing at below this level, albeit they are increasing slightly over rises in wages."

Regional Rental Price Variations

Move with Us

"Average advertised rents fell in every region except Greater London and the West Midlands. Reductions in most regions tying in with the launch of Help to Buy, indicates the scheme may be starting to impact the rental market. Greater London is the anomaly of the last quarter as the only region to have seen significant rises in average asking rents, further proof that it operates in its own bubble versus the rest of the UK. Rents in the capital have increased by £55 over Q3, the strongest period of prolonged growth for over 12 months. (Q3 13)"

Acadametrics/LSL

"Nine out of ten regions across England and Wales saw rents rise between August and September. The fastest monthly rise was in the South East, where rents are 3.3% higher than a month ago. Meanwhile the North West saw a 2.7% monthly rise, closely followed by the West Midlands at 2.6%. The only region to see lower rents in September was the East of England – after a 0.8% monthly drop. (Sept 13)"

Belvoir Lettings

"In England the Q3 13 average rent for offices trading consistently in the last five years is £688, which is just £1 more than in Q2 13. The average rents in Scotland for Q3 13 were £584 per month versus £580 in Q2 13. In Wales, average rents for Q3 13 were £622 which is unchanged vs Q3 12. Areas still to recover to 2008 heights in Q3 13 are the North East, East Midlands and North West. The area recovering to 2008 heights is East Anglia. Areas where rents have exceeded the 2008 heights include the South East, South West, Yorkshire, West Midlands and London. London monthly rents for Q3 13 show an average of £1,483. (Q3 13)"

Homelet

"Wales saw the largest monthly and annual increases in average rents of 4.1% and 7.2% respectively. The average cost of renting a home in Wales is now £614, and the highest amount recorded in the region. The North East saw the largest monthly and annual decreases in average rental amounts of 3.2% and 2.5% respectively. It is also the second consecutive month the North East has seen the most significant monthly drop in average rents. It is currently 27.8% more expensive to rent a home in the North West than in the North East. Despite seeing a 2.3% drop in average rents, it is still 5.5% more expensive to rent a home in the South East than the South West. After rising by 1.6% during September to £1,337 per month, rents in the Capital are once again the highest on record. (Sept 13)"

Kate Faulkner comments on Regional Rent Variations:

"As with property prices, regional differences continue to exist in the rental market. The volatility of rents referred to in the North East is likely to be due to huge regional variations, so should be taken lightly and individual property types in each postcode investigated instead. In the main, rents although they may be rising are just doing so at small levels and continue to increase slightly above static disposable income while being under inflation."

Capital Growth & Yields for Landlords

Move with Us

"With the Help to Buy scheme providing tenants with a real alternative to renting a property, landlords should look to protect their rents and maximise yields by offering well-maintained properties with added benefits, such as a fast WIFI connection as part of their tenancy agreement. They should also ensure their properties are energy efficient to help keep bills down and ensure early compliance with 2016's regulation changes. (Q3 13)"

Acadametrics/LSL

"Gross yields on a typical rental property rose to 5.4% in September, compared to 5.3% in August. Taking into account capital accumulation and void periods between tenants, total annual returns on an average rental property rose to 7.4% in September, compared to 6.1% in August. In absolute terms, this represents an average return of £12,129, with rental income of £8,164 and capital gain of £3,965. 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 13.6% over the next 12 months, equivalent to £23,028 per property. (Sept 13)"

ARLA

"Compared with three months ago, the average weighted rental return for houses is up from 5.0% to 5.2% and the average weighted rental return for flats is up from 5.2% to 5.4%. The overall average capital asset value of rented houses has fallen by 2.9% over the last three months following two increases in succession. Over the same period, the average value of rented flats throughout the country rose by 2.8%, the third increase in succession. (Q3 13)"

Paragon Group

"Landlords reported an average yield of 6.4%, unchanged compared with Q2. The average yield for professional landlords was 6.6% and for private investor landlords was 5.7%. Landlords reported a 3.2% increase in the value of their property portfolios compared with Q2, taking the weighted average property portfolio value to £1.64 million. (Q3 13)"

Savills

"Based on deals since the start of 2013, gross initial yields for diverse UK wide rental portfolios are averaging 7%, increasing to 11% in some northern regions. Yields from investing in residential property are starting to look highly competitive against other asset classes fuelling higher equity allocation to the sector. (Autumn 13)"

Kate Faulkner comments on Capital Growth & Yields:

"Capital growth and yields are essential to landlords' success, and ideally, with the potential increase in mortgage rates over the coming years, landlords need to stress test their portfolios if mortgage rates hit 5% and 7%. Those looking to secure net income on a 75% loan to value, need to be aiming for a 7% plus yield, while those looking for capital growth are likely to secure 4-6% yields and may have to put money in for the short term if rents don't rise in line with inflation or landlord costs. The Move with Us idea of Help to Buy affecting rent levels is premature – the second scheme has yet to kick in and we've only sold around 15,000 new builds over the last six months."

Demand for Rented Properties

Acadameetrics/LSL

"The number of new tenancies across England and Wales increased by 6.5% compared to August, taking the number of new lettings in September to levels 9.2% above those seen in September 2012.(Sept 13)"

Belvoir Lettings

Feedback from the offices suggests there continues to be a strong demand for rented properties, with tenants particularly looking for good quality well maintained properties to be able to rent for some time.

ARLA

"Since the last survey three months ago, demand in the rented residential property sector has weakened a little in terms of the overall proportion of respondents saying that there are more tenants than properties available for them, with the figure falling from 54% to 52%, the second fall in succession. (Q3 13)"

Paragon Group

"Landlords' views on tenant demand have remained fairly consistent in the third quarter of the year, with 91% saying they would describe demand as stable or growing. Looking ahead over the next 12 months, 88% of landlords think tenant demand will grow or stabilise and just 4% think that it will decline. Professional landlords are slightly more optimistic than private investor landlords – with 90% of professional landlords expecting tenant demand to strengthen or stabilise compared with 84% of private investors. (Q3 13)"

Savills

"Savills expects the private rented sector to swell by about 200,000 households a year over the medium term. We estimate that by 2018, one in five households, a total of 5.7 million in England, will be renting in the private sector, despite recent Government measures to boost homeownership. (Autumn 13)"

Kate Faulkner comments on Demand:

"Even if the sales market takes off over the coming months, as we are only adding around 130,000 new homes while we need to be building 300,000 per year, the rental market is likely to remain buoyant. Although in theory the idea of buying is still what people say they want, many enjoy the flexibility and ease of not having to scrimp and save for a deposit rather than buying. As such, the future of the rental market in many places where there is a shortage of housing will continue to be buoyant."

Supply of Rented Property

Acadameetrics/LSL

"A new peak in tenant demand has driven rents to new heights, well above all previous records. Higher rents in almost every region show that, despite government schemes, buying a first home is still a difficult aspiration. This is not only down to low salary growth, but also a general shortage of supply – which is the underlying reason why homes are getting more expensive. The long term-trend to renting therefore looks unlikely to change significantly in the near future, despite the better availability of finance compared to previous years. (Sept 13)"

Belvoir Lettings

Feedback from the offices suggests there remains a lack of good quality properties coming into the market place, with some offices reporting that landlords are now looking to sell some of their properties as the market picks up.

Paragon Group

"Landlords average portfolio size increased to 14.7 properties – a substantial increase from 13.3 properties in Q2. In 12 months' time landlords expect to have 14.8 properties in their portfolios. (Q3 13)"

Kate Faulkner comments on Supply of Property:

"Although the supply of rental property from private landlords is increasing slowly, we need a huge injection of good quality, long term rental accommodation through schemes such as Build to Rent. These should be coming on stream over the next year or two and will hopefully help ease some of the supply shortages both now and in the future. "

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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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