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Research and Insight
Q3 2022
(published 13 September 2022)

UK Rental Market Report

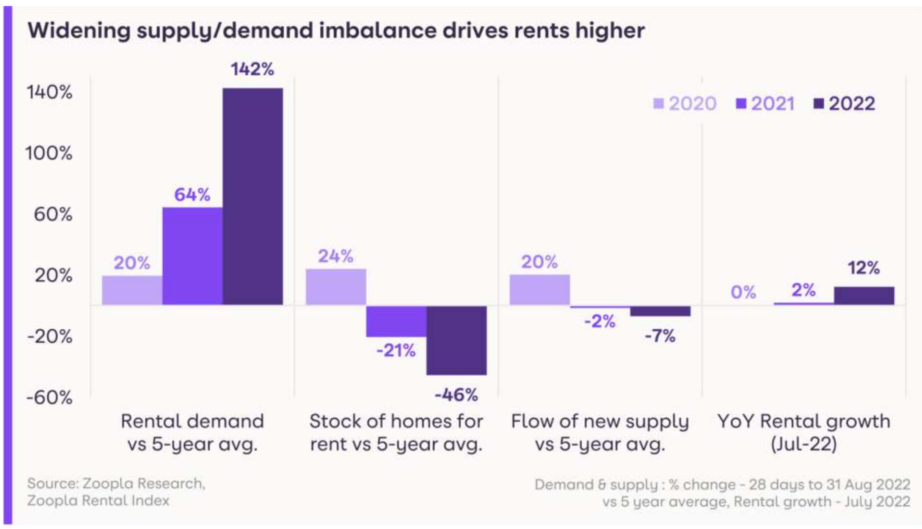
+12.3%	36%	-46%
Annual change in rents, UK	Share of rental demand for 2-bed flats	Stock of homes to rent vs the 5-year average

Executive summary

- Rental growth is close to peaking at 12.3% per annum. Average rents have risen by £115 per month over the last year to £1,051
- London's rental growth, at 17.8%, is unsustainable and reflects a rebound in rents after a double-digit decline over the pandemic
- Rising rents are adding to cost-of-living pressures, pushing renters to look for smaller homes – demand for 2-bed flats has increased
- The shift to smaller homes is being re-enforced by rising energy costs, with the gas needed to heat a purpose-built flat 40% lower than that for a 3-bed house
- The chronic undersupply of rental homes shows no sign of changing, which means that rents will continue to post above average growth rates into 2023 despite cost-of-living headwinds

"The chronic shortage of homes for rent and strong demand is pushing rents higher. Renters are adapting their strategies and starting to seek out smaller homes at lower rents and running costs"

Richard Donnell
Executive Director - Research



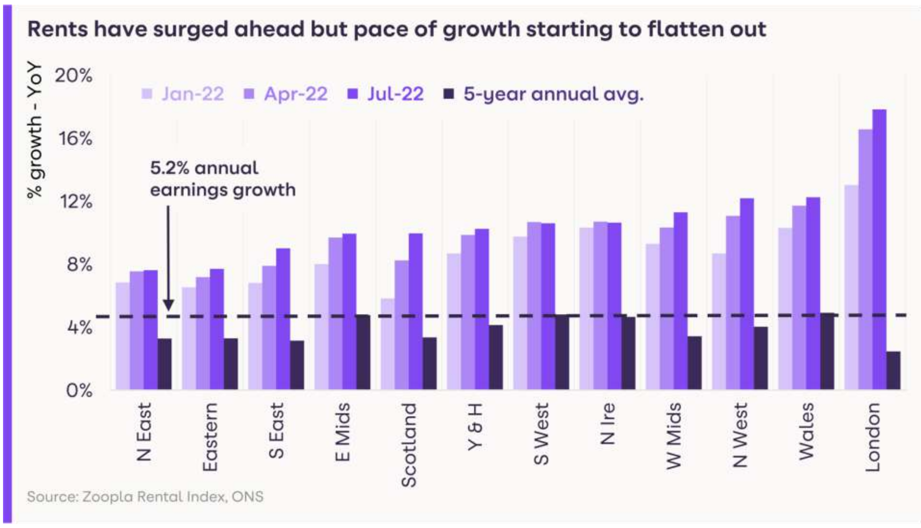
£115

Increase in average monthly rent over last 12 months

Rents accelerate in face of chronic supply shortage

Rental growth has accelerated over the last 12 months from an annual rate of less than 2% in July 2021 to 12.3% today. Average rent increased by £115 per month since last year, to stand at £1,051 per calendar month. Rental growth is out-pacing earnings growth in all regions and countries of the UK.

The rental market faces a chronic imbalance of supply and demand that has led to a surge in rents. The stock of homes for rent remains almost half the average compared to the last 5 years. The average letting agent has just 8 homes available to rent - half that of the summers 2017-2019. The flow of new homes to rent is running 7% below the long-term average, as renters stay put to avoid rent increases. At the same time, private landlords continue to sell homes to rationalise their portfolios in the face of tax and regulatory change.



Signs that annual rental growth is close to peaking

Rents are rising quickly across all parts of the UK, ranging from 7.6% in the North East to almost 18% in London. While the annual growth rate has accelerated in the last year, it is starting to plateau.

In London, the rental growth pace is simply not sustainable. Current growth figures reflect the rents rebounding off a low base, after 10% fall during lockdowns. Average rents in London are currently 7.8% higher than before the pandemic, compared to the UK-wide average of nearly 13%.

Another important trend is rental growth in urban areas across England (10.5%) - which is outpacing that of rural markets (8.5%) as strong employment growth drives demand in cities. Higher levels of new-build supply concentrated around city centres is also becoming more appealing to renters looking for smaller homes with lower running costs.

75%

Private renters find rental payments very or fairly easy (English Housing Survey 2020 to 2021)

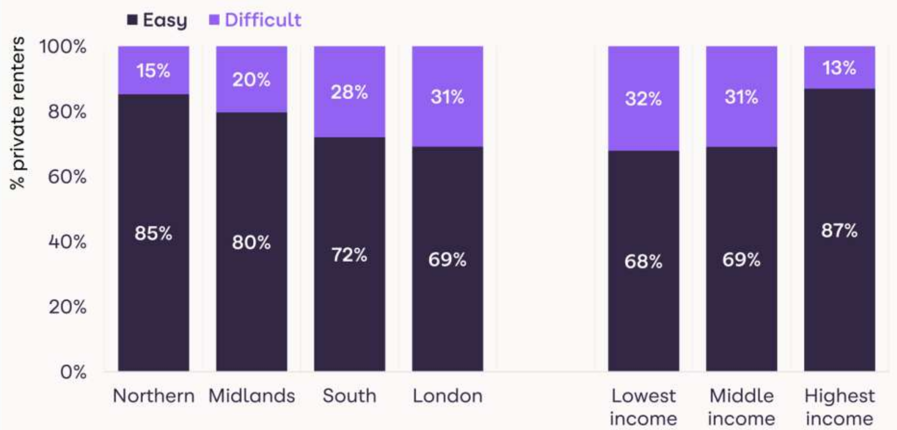
Rising rents add to cost-of-living squeeze

While the pace of rent increases is starting to plateau, the question remains: How much higher can rents go? This depends on how much headroom renters have to pay higher rents when they move home. And this can vary drastically, given the private rental market caters to a wide range of households on low and high incomes. A quarter of private renters receive housing benefit and our recent report[1] with Crisis examines the particular challenges for low-income renters who rely on this to help meet housing costs.

The typical pattern of rental affordability varies by location and income level. The latest English Housing Survey (2020-21)[2] asked renters how easy or difficult they find rental costs. Three quarters of private renters said they found rental payments very or fairly easy while 25% found them fairly or very difficult to pay.

Private renters living in the Midlands and northern regions found rental costs easier to pay than those in the South. In addition, a higher proportion of renters on lower and middle incomes were finding rents difficult to pay in 2021. Together with our own data on rental affordability, we believe rents have further headroom for above-average growth in the less expensive areas of the UK.

% private renters reporting rental payments as easy or difficult



Source: Zoopla Research analysis of English Housing Survey 2020-21

Rents rising faster at top end of market

Another important consideration for rental affordability is whether rental growth is being driven at the top or bottom end of the market. Asking rents for 2-bed flats are rising faster in the top 25% of the market, with growth lagging across the bottom 25% of the market (where demand is more price sensitive). For 3-bed houses, there is less of a difference, but in many regions, the asking rents in the more affordable segments are rising faster. And as rented family homes become less attainable, demand for 2-bed flats continues to climb (with renters looking for better value for money).

[1] https://www.crisis.org.uk/get-involved/corporate-partnerships/crisis-and-zoopla-partnership/

[2] English Housing Survey 2020-21 – headline report, DLUHC

3.7%

Rental growth for all rented homes where people have moved or not

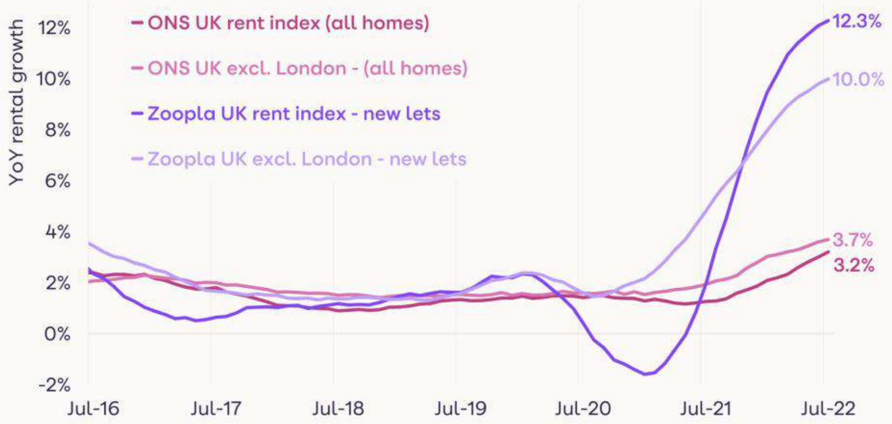
Rents rise far more slowly for non-movers

The average renter moves every 4 years so our new lets index shows the experience of 25% of renters moving and renting a new home.

The ONS rental index tracks rental growth across all rented homes – including data on households who are moving, as well as those remaining in their current property. It shows current rents across all rented homes are 3.7% higher compared to July 2021. But those moving to a new rented property will find the cost of renting 12.3% higher - as rents for new lets are set to reflect available supply and current levels of demand at any point in time.

This is an important factor given wider cost-of-living pressures, with higher rates of rental growth not hitting all renters equally. Faster rental growth for new lets means more renters are likely to stay put for longer. This will amplify the fierce supply squeeze and, in our view, keep the upward pressure on rents into 2023.

Rents on new lets rising faster than rents on stock of rental homes



Source: Zoopla Rental Index, ONS Rental Index

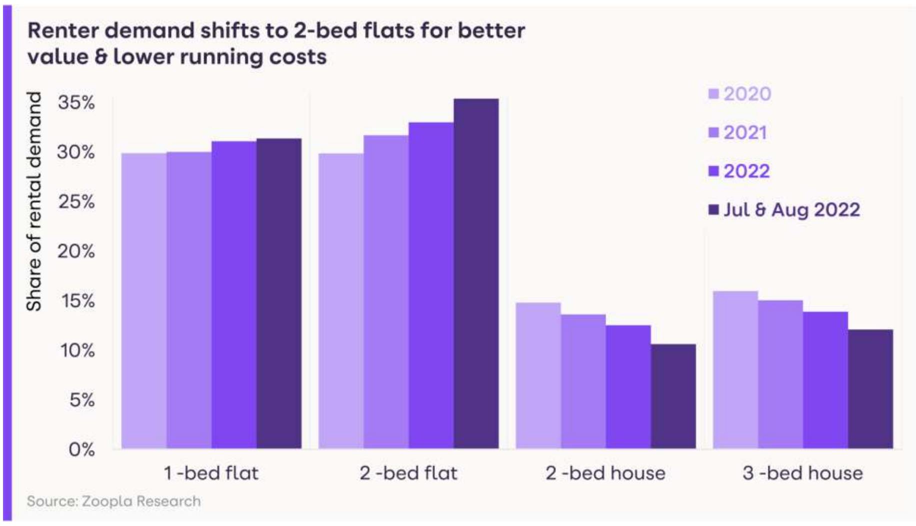
Renters seeking smaller homes and lower running costs

Our leading-edge data on rental demand shows that renters are responding to rising rents and cost-of-living pressures by shifting their focus onto smaller homes, primarily 2-bed flats. We have seen a steady reduction in the proportion of renters looking for 2- and 3-bed houses and an increase in demand for 1- and 2-bed flats over 2021 and 2022. This trend has been accelerating in recent weeks.

The shift in demand partially reflects localised changes in supply, but, the overriding impact reflects affordability and-cost-of-living concerns. Outside London, the current difference in rents charged for a 2-bed flat and 3-bed house is £105 per month, which translates into £1260 per year in rental cost. It’s not just rental costs shaping demand - lower running costs of smaller homes will also have growing appeal.

40%

less gas needed a year to heat a purpose built flat than a 3-bed terrace



Rising energy costs adding to shift in rental demand

In addition to rental payments, running costs and energy bills are lower for flats than houses - especially new-build rented apartments, which will have much higher energy ratings. The amount of gas[3] it takes to heat and run a purpose-built flat over 12 months is 40% lower than the amount to heat and run a terraced house. And it's 25% lower for a converted flat. A 1-bed home requires less than half the gas that is needed for a 3-bed home, while D and E rated homes require 25% and 48% more gas, compared to a C rated home.

As cost-of-living pressures build, renters will be looking to balance the combined impact of rental and running costs as they make home-moving decisions. We expect the appeal of apartments and energy-efficient houses is set to rise further into 2023.

Calls for rent controls?

In periods of fast rental growth, the topic of controlling or moderating rents often comes to the fore. Some countries and city Governments have tools to control rent increases to help manage affordability. The Scottish Government has announced plans to control rents to ease the cost-of-living pressures. There are many formats for these controls - often with the rent set at a market rate up front and successive increases linked to the rate of consumer price inflation or wage growth

The focus of the UK government is the taxation of landlords and regulations to improve standards of rental housing, rather than controlling rents. UK landlords have some of the toughest tax treatments and the upcoming Rental Reform Bill in England will improve the standard of homes but will also increase costs further for landlords. Against this regulatory backdrop, talk of possible rent controls will simply push more landlords to exit the sector, worsening the supply issue and ultimately cause rents to increase.

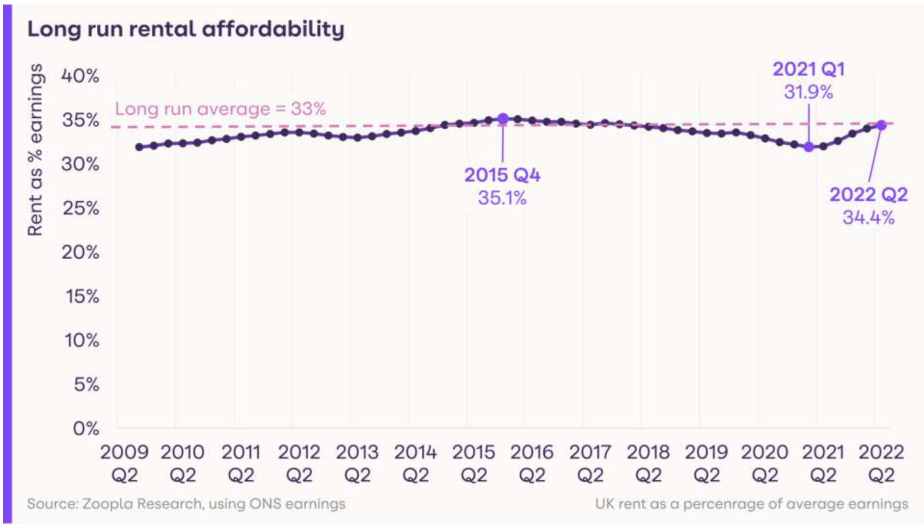
[3] National Energy Efficiency Data-Framework

34.4%

UK rent as a percentage of average earnings (Q3 2022)

Affordability in line with the long-run average

At a UK level, the affordability of renting is broadly in line with the long-run average. The chart below shows that rental affordability is still below the high of 2015. With rental growth looking to have plateaued, we expect this measure of affordability to flatten out over the next few quarters.



Affordability is a major challenge for many households - especially those on lower incomes. Our recent work with Crisis demonstrated a gap between housing benefit payments and market rents, outlining the case for re-rating benefit payments to support the supply of affordable private rented homes.

In addition to the level of rents, it is important that policymakers focus on the supply-side problems in the rented sector, as the two are inextricably linked. We need to ensure policies and regulations encourage as many decent landlords as possible to remain in the market, otherwise the market will start to decline in size, causing rents to increase.

Outlook for the rest of the year and into 2023

There is no real prospect of a significantly improved rental supply in the near term, as private landlords continue to sell off homes and renters stay put for longer. Higher mortgage rates will compound the pressure on demand, making it harder for would-be first-time buyers to stop renting and purchase a home. The imbalance in supply and demand is here to stay, and rents will continue to rise to above-average levels into 2023 across the more affordable markets. There is headroom for some renters to pay more - especially outside of London and the South East - where rental affordability will remain a drag on demand.

We expect rental growth to slow over Q4 and into 2023 but it's unlikely to happen quickly.

[3] National Energy Efficiency Data-Framework

Rental Highlights

Note: The Zoopla rental market index is a repeat transaction index, based on asking rents and adjusted to reflect achieved rents. The index is designed to accurately track the change in rental pricing for UK housing.

July 2022
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Source: Zoopla Rental Market Report

City	Annual % change in rents	Average rent (pcm)*
1. Manchester	15.5%	£893
2. Glasgow	14.4%	£777
3. Bristol	12.9%	£1,209
4. Birmingham	12.8%	£802
5. Edinburgh	12.3%	£1,021
6. Cardiff	12.2%	£945
7. Nottingham	12.2%	£827
8. Leeds	11.4%	£830
9. Sheffield	10.8%	£711
10. Liverpool	10.0%	£706
11. Belfast	9.9%	£672
12. Southampton	9.7%	£957
13. Cambridge	8.8%	£1,368
14. Newcastle	8.6%	£695
15. Aberdeen	7.8%	£607
UK (ex. London)	10.0%	£872
UK	12.3%	£1,051

* Average 1-4 bed properties

Rental Market Snapshot: July 2022

	Average Rent (PCM)	% YOY (Jul 2022)	% YOY (Jul 2021)	3YR CAGR	Affordability (Single earner)	Days to rent (Jul 2022)
UK	£1,051	12.3%	1.9%	4.7%	34.4%	13
UK ex London	£872	10.0%	4.8%	5.4%	28.5%	13
North East	£599	7.6%	6.2%	5.2%	23.1%	14
North West	£728	12.2%	4.0%	5.8%	26.4%	14
Yorkshire and the H	£697	10.2%	4.7%	5.7%	26.3%	14
East Midlands	£758	9.9%	6.3%	6.1%	27.6%	15
West Midlands	£786	11.3%	3.4%	4.9%	28.3%	14
East of England	£1,026	7.7%	5.0%	4.8%	32.4%	13
London	£1,818	17.8%	-4.4%	3.3%	47.5%	13
South East	£1,162	9.0%	4.1%	4.6%	34.0%	13
South West	£958	10.6%	7.6%	6.8%	33.3%	11
Northern Ireland	£659	10.6%	5.5%	6.1%	25.1%	18
Scotland	£671	10.0%	1.7%	4.2%	23.0%	12
Wales	£750	12.3%	6.0%	6.9%	27.5%	13
Belfast	£672	9.9%	5.6%	5.9%	25.5%	18
Birmingham	£802	12.8%	2.8%	5.1%	29.0%	14
Bristol	£1,209	12.9%	6.1%	7.5%	42.1%	9
Cardiff	£945	12.2%	4.3%	6.2%	34.7%	11
Edinburgh	£1,021	12.3%	0.3%	3.7%	35.1%	13
Glasgow	£777	14.4%	4.8%	6.7%	26.7%	10
Leeds	£830	11.4%	1.1%	4.7%	31.3%	14
Liverpool	£706	10.0%	5.4%	5.7%	25.6%	15
Nottingham	£827	12.2%	7.1%	6.9%	30.2%	14
Sheffield	£711	10.8%	6.2%	6.2%	26.7%	13
Southampton	£957	9.7%	4.1%	4.9%	27.9%	11

Contacts

If you have any questions about our research please do get in touch

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