



STATE OF THE MARKET

Q2 | 2023



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This briefing summarises a selection of reports which provide insight into what is happening in the private rental market across the UK, particularly in relation to **affordability and supply pressures**.

Affordability

SUMMARY

The cost of renting has continued to increase across the UK. Reports indicate that rental inflation for advertised rents remains in the double digits. In Scotland, there has been particularly high rates of rental inflation on newly advertised properties. Because landlords tend to increase rent when tenancies change, existing rents are increasing at a slower rate. However, rental inflation across all properties remains high, particularly in Northern Ireland.

THE INDEX OF PRIVATE HOUSING RENTAL PRICES (IPHRP) DATA (JUNE 2023):

This data set covers both new and existing lets. It shows that the annual growth rate of private rental prices in the UK began to increase in the second half of 2023. In the 12 months leading up to June 2023:

- Rental prices for the UK (excluding London) increased by 5.1%. This is the largest annual percentage change since this UK series began in January 2016.
- Rental prices increased by 5.1% in England, up from March's figure of 4.6%.
- In Wales rental prices increased by 5.8%. In March it was 5.1%.
- In Scotland rental prices increased by 5.5% up from 5.1% in March.
- Private rental prices in London increased by 5.1%

Private rental prices in Northern Ireland increased by 9.6% in the 12 months to April 2023. This is higher than the other countries of the UK.



TDS CUSTODIAL SCHEME (JUNE 2023):

Tenancies protected within the TDS custodial schemes also provides an indication of the cost of rents for both existing and new tenancies. In the 12 months to June 2023:

- Rental prices for tenancies in England increased by 7%.
- In Northern Ireland, they increased by 6%.
- In Wales rental prices increased by 7%.
- In Scotland accurate data is available from August 2022. Between August 2022 and June 2023 rents increased by 3%.

PROPERTYMARK HOUSING INSIGHT REPORT (JUNE 2023):

This is based on a survey of a sample of member agents. Their data suggests that pressure on rents remains high but has eased slightly since the peak of last summer.

- In June 2023, 62% of responding agents reported that, on average, rent had increased month-on-month at their branch. This is higher than February 2022 when it was 50% but lower than June 2022 when it was 80%.

HOMELET RENTAL INDEX (JUNE 2023):

This report is based on new tenancies and agreed lets, rather than asking rents. The data shows that in June 2023:

- There was an annual increase of 9.7% across the UK (excluding London).
- In Wales the annual increase in prices on new lets was 10%.
- In Northern Ireland the annual increase in prices on new lets was 7.4%.
- In Scotland the annual increase on prices on new lets was 15.8%.

These figures are higher than the IPHRP data and TDS custodial data because they do not include existing tenancies. Landlords tend to increase rent when tenancies turn over.



ZOOPLA RENTAL MARKET REPORT (JUNE 2023):

This report is based on advertised new lets. In April 2023:

- The average cost of rent on a new let in the UK increased by 10.4%.
- In Wales rental inflation on new lets was 9.6% .
- In Northern Ireland rental inflation on new lets slowed to 3.7%.
- In Scotland the average increase on average new lets was 13%.

HOME TRACK UK RENTAL MARKET INDEX (JUNE 2023):

This dataset is also based on rents for new lets across the UK. The data suggests that in the last 12 months:

- Average rents for new-lets have increased by 10.4%.
- Rental inflation has slowed slightly from 12.3% in mid-2022 but still remains high.

RIGHTMOVE (Q1 2023):

Figures are based on newly listed properties. Average asking rents outside of London for new tenants are reported to have risen for 13 consecutive quarters.

IMPACT ON TENANTS (ENGLAND AND WALES):

Findings from a continuous survey carried out with a representative sample of over 2000 tenants in March/April 2023 (funded by the TDS Charitable Foundation), shows the impact of rental inflation on tenants' experiences:

- 52% of tenants who moved in the past six months said they faced difficulties finding an affordable property. 45% said they were struggling to afford the monthly rent.
- 53% of all tenants said they regularly cut down on household essentials such as food, heating and clothing in order to pay the rent.



WHY IS RENTAL INFLATION SO HIGH IN SCOTLAND DESPITE THE RENT CAP?

- The 2022 Cost of Living (Tenant Protection) Scotland Bill capped mid-tenancy rental price increases to 0% until 31 March 2023.
- On 1 April 2023, this rental price increase cap was increased to 3% (and up to 6% in certain circumstances).
- This rental price cap only applies to in-tenancy rent increases, with no restriction on rent increases for new lets.
- Most of the estimates for Scotland reported above, including a large proportion of those in the IPHRP, are from advertised rental data.
- There is a lack of research on how the rent cap is affecting landlords' behaviour, but the data suggests that many landlords in Scotland are increasing rents between tenancies.



Supply

SUMMARY

In the last briefing we reported on how, according to the most reliable data, the supply of privately rented properties appears to have remained largely static. Industry-based reports are beginning to acknowledge that claims of a mass exodus of private landlords are overstated. However, sources show that, overall, supply has not kept up with rising demand. Increased demand for rental properties and strong competition for properties against stagnant supply, will inevitably exert an upward pressure on rents.

NORTHERN IRELAND QUARTERLY HOUSE PRICE INDEX (Q1 2023):

The most recent report from Ulster University states that the 'one constant of the Northern Ireland housing market of recent years' is a lack of new supply'©. The acute supply shortage of quality private rental stock is reported to have resulted in significant price inflation within the private rented sector.

PROPERTYMARK REPORT (JUNE 2023):

Suggests demand remains high whilst supply is insufficient

- Members agencies reported that on average there are 13 prospective tenants registering for every available property.
- Figures of tenants registering per member branch in June were up on June 2023 figure by 27%.

RICS UK RESIDENTIAL MARKET SURVEY (JUNE 2023):

This is based on the feedback from surveyors. It is opinion based and does not quantify actual changes. Their report suggests demand remains high amidst weakening supply.

- In June 2023, 40% of respondents said demand increased.
- Reported landlord instructions sunk to -36% decline, the lowest amount since May 2020.



ZOOPLA RENTAL MARKET REPORT (JUNE 2023):

- Reports on 'No let up in supply/demand imbalance as we enter busier summer period when demand typically increases by up to 40%'©.
- Reports that we do not expect to see a worsening in supply and 'talk of an exodus of landlords is being somewhat overdone'.
- Reports that there has been a steady slow of PRS landlords selling up but this has not accelerated since 2018. There has been a continued investment mainly from investment and corporate landlords, which means no net change since 2016.
- 1 in 10 homes on Zoopla are privately rented. This figure has been largely consistent for the past 3 years.



WHAT FACTORS CONTRIBUTE TO HIGH DEMAND FOR RENTAL PROPERTIES?

Trends in supply and demand are the result of a complex interplay of factors. Here we discuss a few of the factors that contribute to high rates of demand for privately rented housing:

Persistent shortage of housing across all housing tenures and a failure to provide a sufficient level of affordable accommodation for those in the greatest need has contributed to a growing mismatch between supply and demand. In 2018 Professor Glen Bramley of Heriot-Watt University carried out research which showed a backlog of housing need of 4.75 million households across Great Britain.

Rising student demand: Research has shown that the expansion of the higher education sector has taken place with minimal attention given to housing the growing student population. One consequence is an increasing reliance on privately rented property.

Affordability of home ownership: The huge demand for rental properties in recent years has been widely linked to property prices being too high. Lack of mortgage affordability as associated with rising interest rates and steeper mortgage repayments may be deterring would be buyers. There may be a growing number of new entrants to the private rental market, for whom the private renting is not the first choice but who may be able to afford higher rents.

Immigration: Research from the University of Oxford shows that recent migrants are almost three times as likely to be renters compared to other migrants. Migrants who moved to the UK recently (that is, fewer than 5 years ago) are much more likely to live in privately rented housing (74%) compared to all those foreign born (37%). Many recent migrants are among vulnerable groups who currently living in the sector, and are often concentrated in poorer-quality and cheaper housing.



Government homelessness policy also has a direct impact on demand, as councils have been encouraged to discharge their homelessness duties through private lettings.

Local housing allowance restrictions Local housing allowance (LHA) rates which govern the maximum amount of support for their rent that low-income private renters can get have been frozen in cash terms since April 2020. The pool of affordable properties has shrunk, increasing competition in the affordable part of the market.





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