UK Rental Market Report

+6.6%
Annual rental inflation for new lets, UK

15
Enquiries per rented home - more than double pre pandemic

5.4m
Stock of private rented homes has been static since 2016

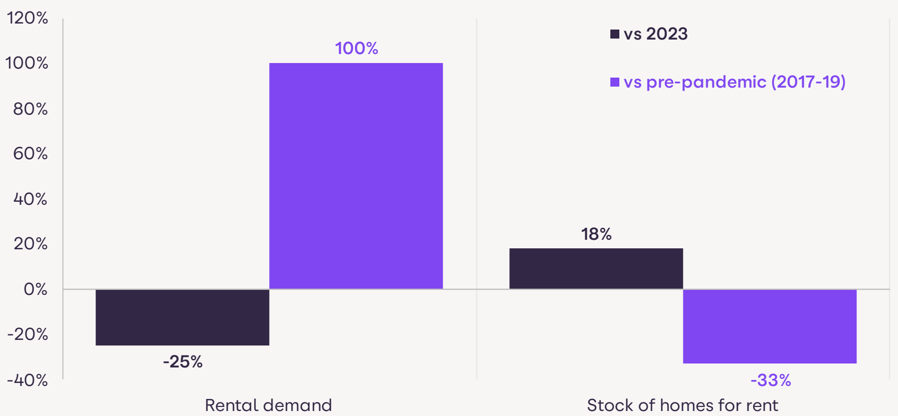
Executive summary

- UK rental inflation slows to +6.6% - the lowest rate for 30 months
- London leads the slowdown with rents up 3.7% over last 12 months
- Rental demand is down 25% but still >2x pre-pandemic
- Supply of homes for rent up 18% but still 1/3 below pre-pandemic
- Rents have fallen in some cities over last quarter as market dynamics start to shift
- Headroom for rental growth in most affordable areas
- Supply/demand imbalance will continue to narrow slowly
- Essential for political parties to put forward specific policies to grow the size of the private rented sector

"The supply-demand imbalance is starting to narrow, easing the level of rental inflation. Demand remains more than 2x pre-pandemic levels which will keep an upward pressure on rents. Stretched affordability will start to limit rental inflation in more local markets"

Richard Donnell
Executive Director

Supply-demand imbalance starts to narrow



Source: Zoopla Research

% change - 4 weeks to 28 May 2024 compared to the same period in 2023 and between 2017 & 2019

-25%

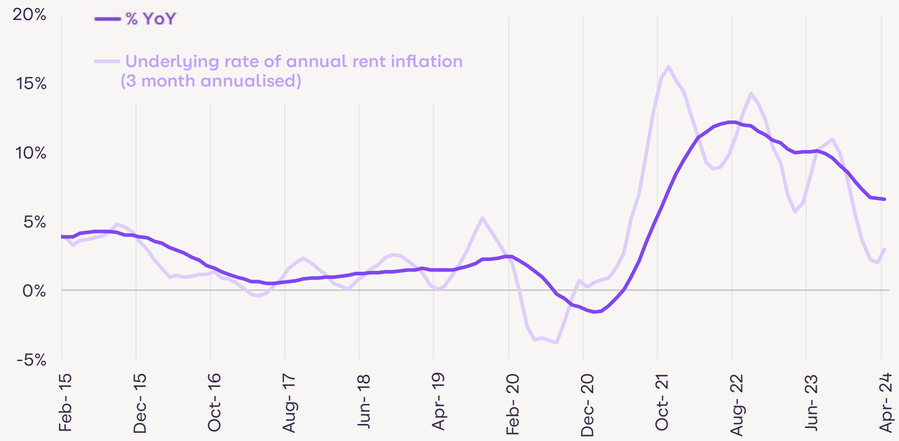
Demand for rented homes per estate agency branch

UK rental inflation lowest for 30 months

Annual rental inflation for new lets has slowed to 6.6% in April 2024, down from 10% a year ago. The average monthly UK rent is £1,226, up £80 over the last year. This is the lowest rate of annual rental price inflation for 30 months (Oct 2021) as demand weakens off a high base and affordability constraints drag on rental inflation.

The underlying rate of inflation - the increase in rents over the last 3 months shown on an annualised basis - is 3%. This is the lowest for the month of April since 2021 and points to a continued slowdown in the headline rate of rent inflation over the rest of 2024.

Rental inflation slows to a 30-month low



Source: Zoopla Rental Index

Demand weakens off a high base but supply low

The chronic imbalance between rental supply and demand is starting to narrow but remains well out of kilter.

Demand for rented homes is slowing off a very high base as one-off pandemic factors start to recede and mortgage rates fall below 5%. Rental demand is down 25% over the last year[1] but competition for remains high with 15 households chasing every rental home, more than double the pre-pandemic average of six (2017-20).

The average number of homes for rent per estate agent has increased by almost a fifth (18%) on this time last year[1] boosting choice. However, the supply of homes for rent remains a third lower than the pre-pandemic period as low investment in rented homes keeps the overall stock of private rented homes broadly flat.

The national picture of lower rental demand and modest increase in supply is replicated across all regions and countries of the UK. Demand is down by up to 30% across the East of England, followed by London (-28%), the South East (-27%) and Scotland (-27%). Available supply is up the most in London (23%) and Scotland (24%) as seasonal factors result in more homes for rent at the start of the upturn in demand that runs between May and September each year.

1 Comparing a 4 weeks to 28 May 2024 vs same period in 2023

-0.3%

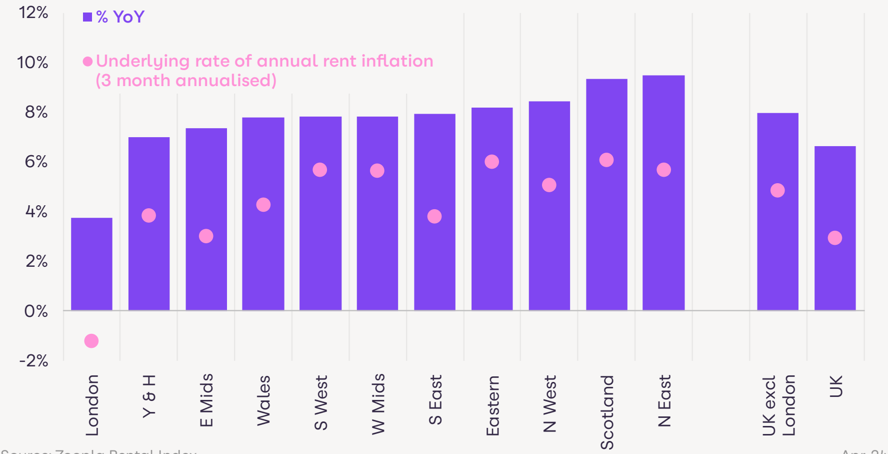
Rental inflation in London over 3 months to April 2024

London leads the slowdown in rent inflation

The headline rate of rental inflation has slowed modestly across most areas of Great Britain over the last year. London has led the slowdown with average rents rising by just 3.7%, down from over 13% this time last year. The average growth in rents across the rest of the UK, outside of London, is currently 8%. The highest increases in rents are being recorded in the North East (9.5%) and Scotland (9.3%).

The underlying level of rental inflation - 3-month growth expressed on an annual basis – is lower than the annual rate of growth across all areas, pointing to a slowdown in momentum in rental growth. In London, the underlying rate of rental inflation is negative (-1.3%) as average rents have fallen by 0.3% over the last 3 months.

Slowdown in rental inflation led by London



Source: Zoopla Rental Index Apr-24

Rental growth stalls across several cities

Rents have fallen over the last quarter across a small number of cities. This is down to rent levels for new lets adjusting to localised changes in available supply and more price-sensitive demand.

Seasonal influences are also a factor with Q1 a quieter period before the usual seasonal upturn in rental demand between May and September, which is linked to the jobs market and end/start of the academic year.

Our index shows average rents have fallen slightly over the last quarter in Nottingham (-1.4%), Brighton (-1.1%), York (-0.4%), Glasgow (-0.4%), Cambridge (-0.3%) and London (-0.3%).

These are modest falls in the context of the recent rapid growth in rents, but this is clear evidence that rental market dynamics are starting to turn in some markets.

Rents have continued to increase across other UK cities over the last 3 months where there is affordability headroom for rents to rise. Rents in regional towns and cities such as Gloucester, Sunderland and Northampton have risen by up to 3% over the last 3 months.

2.5yrs

Length of time that rents have risen faster than earnings

Growth in rents and average earnings narrowing

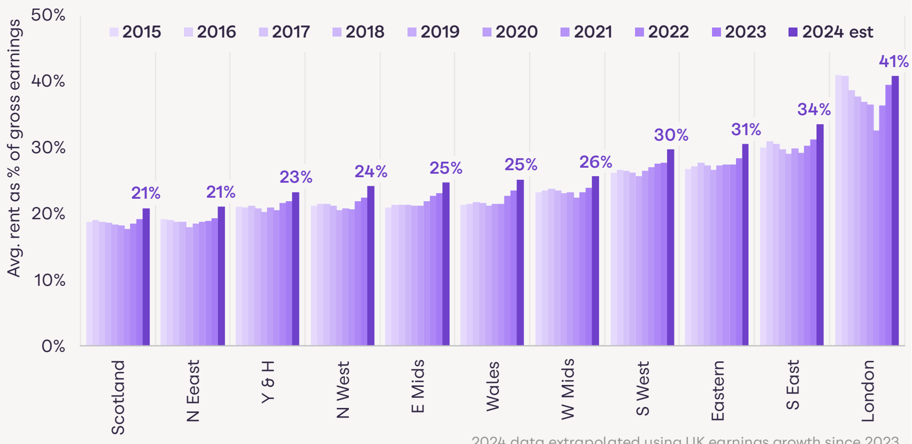
Rents for new lets have been rising faster than average earnings for over 2.5 years, since October 2021. As rental inflation slows the gap to earnings growth, currently at 6%, is starting to narrow.

The growing unaffordability of renting should start to act as a drag on rental inflation. However, rent levels are being supported by continued strong demand-side pressures and low levels of new investment in private rented housing. The picture varies across the country and much depends on how affordable rents are relative to earnings and the scale of the headroom for rents to rise further.

At a region and country level, the proportion of gross earnings spent on rent is the highest for a decade. The rapid rise in rents over the last 3 years has worsened rental affordability. However, there is a wide variation in how much of average earnings are spent on rent.

It is not surprising that rents are currently rising fastest in the North East and Scotland where rental costs account for the lowest proportion of gross earnings. In contrast, London has the highest rents which account for a higher proportion of average earnings – these are now back to 2015 levels having fallen over the pandemic.

Rents account for growing share of earnings



Source: Zoopla Research & ONS earnings data

2024 data extrapolated using UK earnings growth since 2023. Assumes 1.25 earners per rented home and 1.5 earners in London

Wide divergence in rent inflation across London

London is a complex and highly segmented rental market, making regional averages potentially misleading. Rents are the highest in inner London where there is strong corporate demand and more sharing compared to outer London. Rental inflation has slowed the most in inner London areas with rents in Westminster and Tower Hamlets up by less than 2.5% over the last year and posting modest quarter-on-quarter declines. In contrast, rents are up by over 10% in outer London areas such as Barking & Dagenham, Redbridge and Havering where average rents are 20% below the London average.

5.4m

Stock of private rented homes in GB has been static since 2016

Supply-demand imbalance unlikely to improve

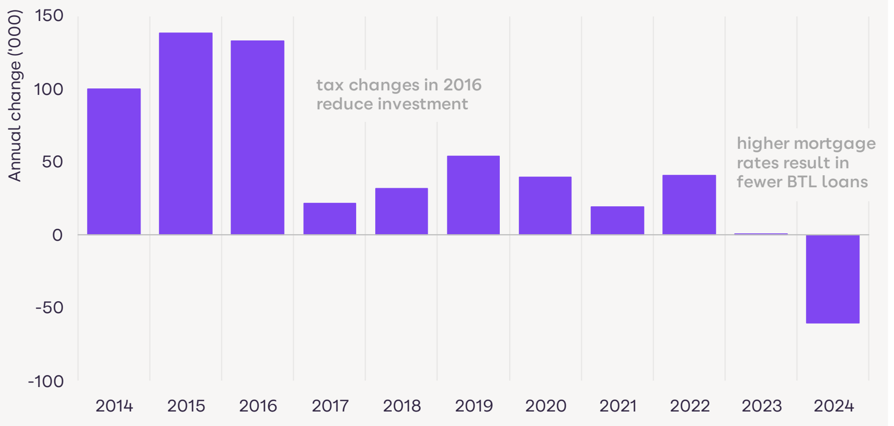
Looking ahead, we do no believe that the imbalance between rental supply and demand will improve materially over the next 12 months. Levels of new investment in the private rented sector remain low while demand is set to remain above-average. This means rents will continue to increase at a slowing rate.

Low new investment as private landlords keep selling

The stock of homes in the private rented sector across Great Britain has been broadly static since 2016 at c 5.4m. There hasn't been an exodus of landlords but levels of net new investment have been low, which has stalled any growth in supply to meet higher demand.

2016 tax changes rapidly slowed new investment by private landlords. Data on changes in the number of outstanding buy-to-let mortgages shows rapid growth until 2016 followed by much lower levels of new investment until 2022 when the stock of buy-to-let mortgages started to decline as interest rates increased. At the same time, there has been increase in investment from corporate landlords which has offset lower investment by private landlords.

Stock of buy-to-let loans starts to decline as mortgage rates increase



Source: Zoopla analysis of UK Finance data

Annual change to Q1 each year

Our data on private landlords selling shows a continued steady flow of homes for sale on Zoopla that were previously rented. This averages c.31,000 a quarter, a level that has remained broadly constant for the last 4 years. Two-fifths of these homes stay in the rental market with just over half returning to home ownership.

Current trends are expected to continue with low new investment by private landlords meaning the stock of rented homes will remain broadly unchanged. Corporate landlords will continue to invest but it will take some years for this group to grow ownership levels enough to impact on supply at a macro level.

-22%

Decline in first-time buyer numbers in 2023 – adds to demand for rented homes

Rental demand shows little sign of moderating

The demand drivers of rented housing show little sign of moderating significantly in the near term. The labour market is the primary driver alongside the demand for student homes and the relative ease of becoming a first-time buyer (FTB). Additional pressure comes from lack of affordable homes for households in acute housing need.

The labour market has softened in recent months but a reduction in economic activity rates by British workers[2] means there is a continued reliance on immigration to fill gaps in the jobs market[3]. The number of overseas students studying at British universities has also expanded[3], adding to rental demand across most UK cities.

Three-quarters of FTBs comes from the private rented sector. Higher mortgage rates since 2022 have made it harder for FTBs to buy a home and this has kept more households in the rented sector. There were a fifth fewer purchases by FTBs in 2023[4]. The decline in mortgage rates over 2024 is leading to a recovery in FTBs but there is continued demand for rented homes from would-be buyers waiting for mortgage rates to fall further.

We expect demand for rented homes to continue to moderate slowly as one-off pandemic factors recede, but the higher cost of home ownership and a lack of affordable homes means the rented sector will continue to see continued demand on multiple fronts.

Outlook and the politics of private rented housing

The market is still on track for a continued slowdown in rental inflation to 5% over 2024. Recent levels of rental growth have been unsustainable meaning a slowdown is inevitable. This is being driven more by changes in demand than any expansion in supply.

On the policy front, while the Rental Reform Bill failed to make it onto the statute books, it seems likely that rental reform will return in the next parliament whichever party forms the next Government.

While changing the protections for existing renters is important, the greatest imperative is to boost the stock of homes for rent – both private and affordable through greater housing delivery.

Only by boosting supply can we improve choice for renters and increase the chances that consumer demand will start to exert more influence over landlord decisions and the quality of rented homes.

While there has been more political focus on the challenges facing the private rented sector, true progress will only be demonstrated by political parties setting out specific plans and goals for the future of the private rented sector in manifestos. A healthy private rented sector is vital for economic growth and a more balanced housing market.

2 Unemployment: Who are the millions of Britons not working?- https://www.bbc.co.uk/news/business-52660591

3 ONS, Long-term international migration, provisional: year ending December 2023, published 23 May 2024

4 UK Finance

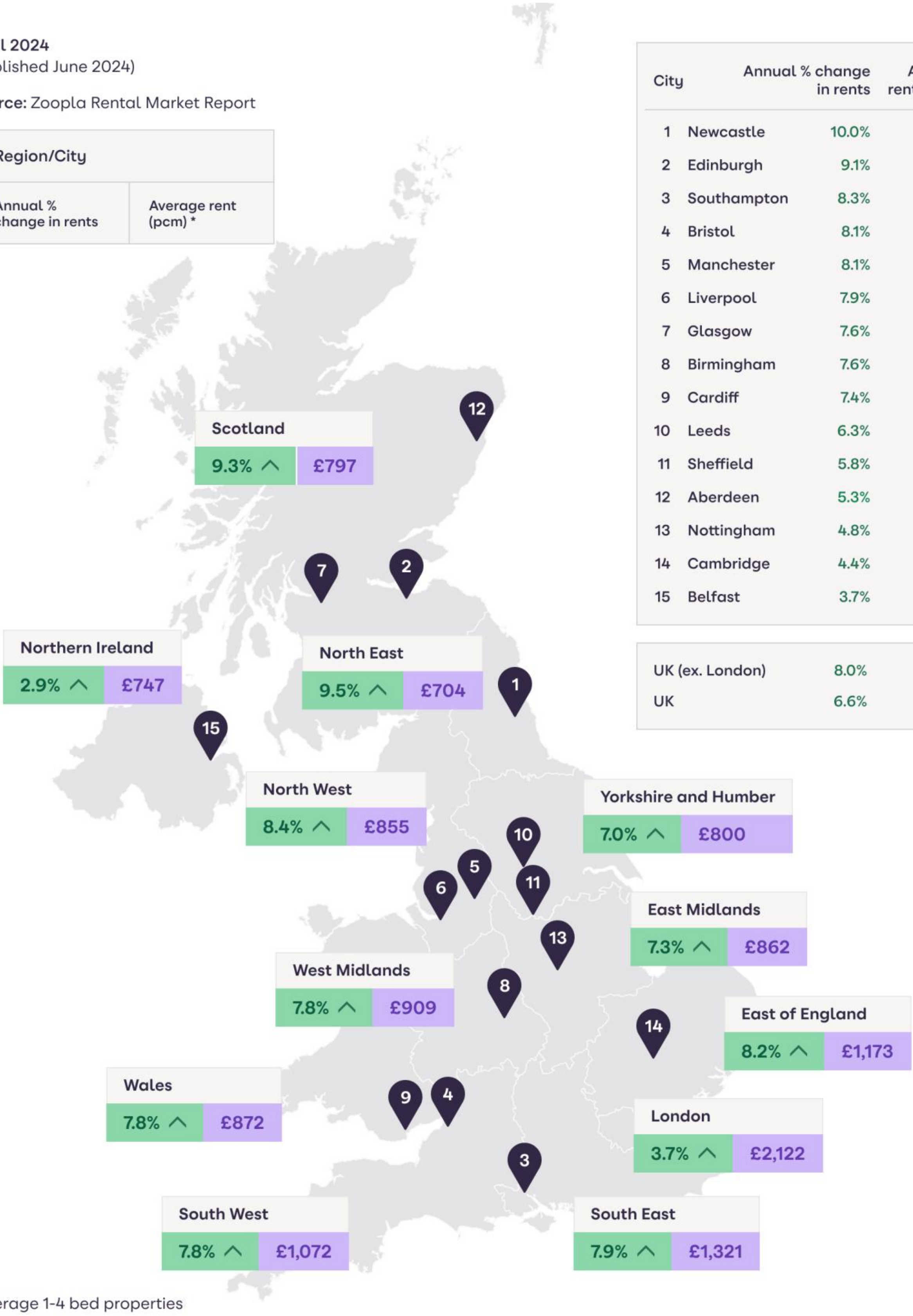
Rental Highlights

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.

April 2024
(Published June 2024)

Source: Zoopla Rental Market Report

Region/City	
Annual % change in rents	Average rent (pcm) *



	City	Annual % change in rents	Average rent (pcm)*
1	Newcastle	10.0%	£840
2	Edinburgh	9.1%	£1,268
3	Southampton	8.3%	£1,130
4	Bristol	8.1%	£1,389
5	Manchester	8.1%	£1,073
6	Liverpool	7.9%	£808
7	Glasgow	7.6%	£949
8	Birmingham	7.6%	£946
9	Cardiff	7.4%	£1,086
10	Leeds	6.3%	£960
11	Sheffield	5.8%	£801
12	Aberdeen	5.3%	£686
13	Nottingham	4.8%	£935
14	Cambridge	4.4%	£1,518
15	Belfast	3.7%	£765

UK (ex. London)	8.0%	£1,195
UK	6.6%	£1,226

*Average 1-4 bed properties

Rental Market Snapshot: April 2024

	Average Rent (PCM)	% YOY (Apr 2024)	% YOY (Apr 2023)	3YR CAGR
UK	£1,226	6.6%	10.0%	9.4%
UK ex London	£1,195	8.0%	8.7%	8.6%
East Midlands	£862	7.3%	8.0%	8.2%
East of England	£1,173	8.2%	8.8%	8.0%
London	£2,122	3.7%	13.1%	11.1%
North East	£704	9.5%	7.9%	8.3%
North West	£855	8.4%	10.3%	9.9%
Northern Ireland	£747	2.9%	3.2%	5.7%
Scotland	£797	9.3%	13.4%	10.4%
South East	£1,321	7.9%	8.3%	8.1%
South West	£1,072	7.8%	6.9%	8.4%
Wales	£872	7.8%	9.0%	9.5%
West Midlands	£909	7.8%	8.9%	9.0%
Yorkshire and the Humber	£800	7.0%	7.7%	8.2%
Belfast	£765	3.7%	4.0%	6.3%
Birmingham	£946	7.6%	9.6%	9.9%
Bristol	£1,389	8.1%	8.8%	9.5%
Cardiff	£1,086	7.4%	9.8%	9.5%
Edinburgh	£1,268	9.1%	13.7%	11.6%
Glasgow	£949	7.6%	12.5%	11.3%
Leeds	£960	6.3%	7.7%	8.4%
Liverpool	£808	7.9%	7.9%	8.2%
Manchester	£1,073	8.1%	12.6%	11.5%
Nottingham	£935	4.8%	8.1%	8.3%
Sheffield	£801	5.8%	7.3%	7.6%
Southampton	£1,130	8.3%	10.0%	8.9%

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