
London's rental market

An evolving market



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The private rental sector is the fastest growing tenure in the UK with over 1.8 million renters in London alone. The huge demand for quality stock means new build stock is particularly popular with discerning renters.

The Private Rented Sector (PRS) is the fastest growing tenure in the UK. It has more than doubled in size over the last 20 years, equating to more than 150,000 households entering the sector each year. Currently there are well over 5 million households living in private rental homes. According to PricewaterhouseCoopers there will be an additional 1.8 million private rented households by 2025. This would take the total to almost 7.2 million and would mean that almost one out of every four households in the UK would be privately rented.

Number of private renters in London

1.8m

In London alone there are over 1.8 million renters (according to the English Housing Survey). This equates to 28% of all households. A number of factors have driven the rise in renters. These include mortgage constraints and lack of affordability, demographic change and lifestyle shifts.

CBRE's recent **'Millennials: Myths and Realities'** report, 63% of millennials who don't live at home, are currently in rented property. This reflects a combination of financial circumstances (according to 75% of those surveyed) and the short-term convenience of being in their own property (29% of respondents). 12% of millennials

decided that renting was for them because they didn't want the commitment of owning their own home or apartment, and 17% didn't want to move from a certain area.

Number of private renters who earn over £50,000 in London (Experian)

318,000

But it is not just millennials who are renting; there has been a marked change in the profile of renters, this is reflected in data from the English Housing Survey). In particular, older age groups have become more prevalent with renters aged between 35 and 54 now accounting for almost 40% of the sector, up from a quarter in 1994/95. Also, PRS households are also getting larger; the number of 3 or more person rental homes is now 41% compared with 29% twenty years ago. This is partly driven by more families now residing in the sector.

A natural consequence of more mature households living in private rented accommodation is that household earnings have also increased. There are now ten times as many households earning between £500 and £1,000 per week compared with 20 years ago; 1.8 million private rented households now fall into this earnings bracket, up from just 176,000 in 1994/95.



Composition of the Private Rented Sector



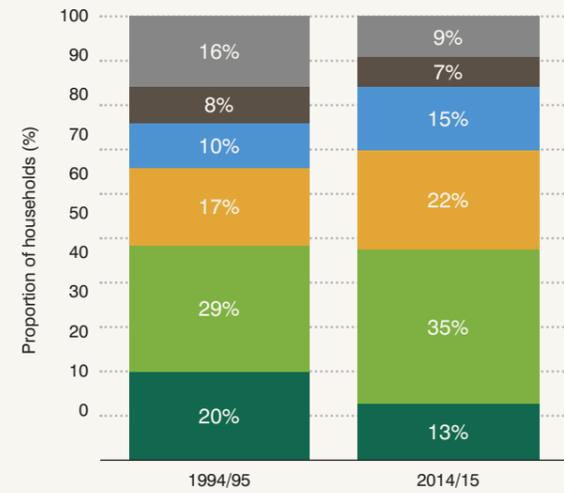
Age profile

The young professional cohort of 25–34 year olds commonly referred to as 'generation rent' accounts for the bulk of the Private Rented Sector. But older age groups have also become more prevalent: renters aged between 35 and 54 now account for almost 40% of the sector, up from a quarter in 1994/95.

Age profile

- 16 to 24
- 25 to 34
- 35 to 44
- 45 to 54
- 55 to 64
- 65+

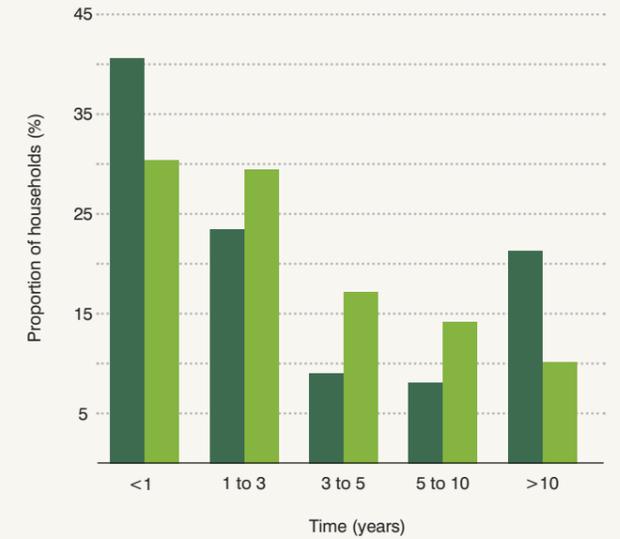
Chart 1: Age profile of the PRS



Length of residency

People are now living in private rented accommodation for longer. The proportion of people living in the sector for 2–5 years has doubled and now accounts for almost a third of residents.

Chart 3: Length of residency



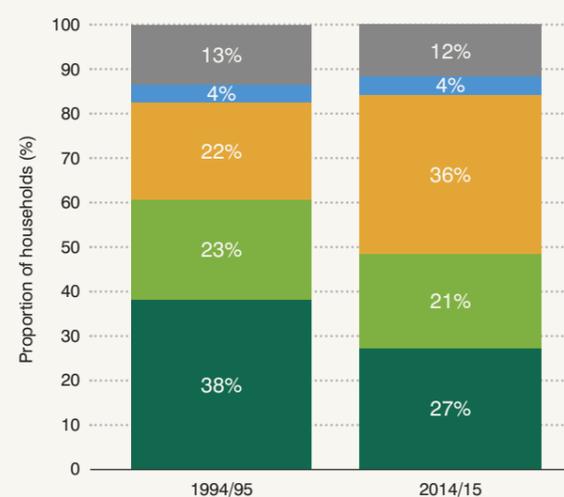
Household size and type

Private rented households are also getting larger, with more families now residing in the sector. Households with dependent children now account for more than a third of the sector. This means 1.4 million more families are now living in the sector compared with 20 years ago.

Household type

- One person
- Couple, no children
- Couple/one parent, dependent children
- Couple/one parent, independent children only
- Other

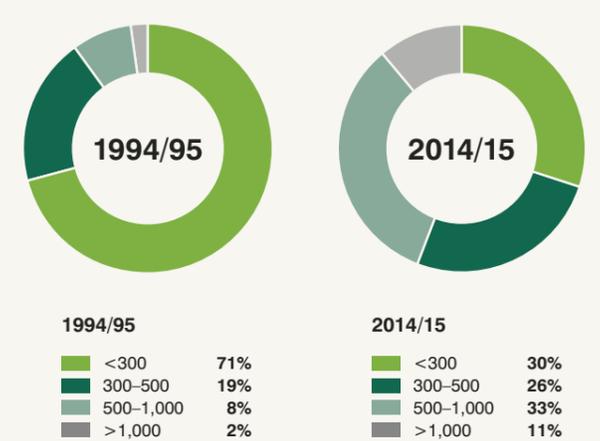
Chart 2: PRS household type



Earnings profile

The earnings profile of renters has shifted significantly over the last twenty years. 70% of renters earn over £300 per week, compared with 30% twenty years ago.

Chart 4: Earnings profile of PRS households (£ per week)



Rental performance

Rents have increased substantially in line with the growing rental market over the last decade with average rents in London now at £2,080 pcm. However, significantly higher rents can be achieved for new build schemes.

The rental market is currently buoyant. CBRE offices have had a 42% increase in tenant applications this month and a 22% increase in the number of tenancies agreed. Landlords are currently achieving rents at 98% of asking price. This compares with 96% this time last year.

Average rents in London are at £2,080 pcm. However, in the prime central boroughs upper quartile rents are nearer £4,000 pcm. Rental growth has been robust over the longer term, averaging 5.6% per annum over the last decade or so. Over the past year, rental growth for new build properties have outperformed this long term average; according to CBRE data, rents increased by 12% for new build stock.

It is unsurprising that the high quality and amenity offer of new build schemes means they attract a higher rent than the wider market. Our estimates suggest that new build schemes achieve an average rental premium of around 13%. However, our data suggests that in some cases premiums of around 40% were achieved last year.

Yields in London have been broadly stable over the last year averaging about 3.5% according to LSL. This compares with 1.1% for UK ten year government bonds, a base rate of 0.25% and an inflation rate of 2.3%.

In addition to rental income, capital growth is an important part of total returns for property investors; long term capital growth for London averages at around 10%. As is shown in Table 1, capital growth has outpaced all other assets over all time periods.

Table 1: A comparison of asset growth

| ££ | | | | |
|---|---|---|---|---|
|  Commodities S&P 500 |  Shares FTSE All Share |  Gold |  Brent Crude |  Property |
| Twenty years | | | | |
| 102% | 90% | 210% | 130% | 461% |
| Ten years | | | | |
| -17% | 22% | 80% | -7% | 70% |
| Five years | | | | |
| -41% | 18% | -25% | -49% | 63% |

Source: CBRE and Oxford Economics

What makes a good investment property?

A good investment property is one that will rent easily, because this will drive rents and minimise voids.

CBRE have recently undertaken a survey of buyers and tenants to examine the reasons that underpin people's choice of home. Being close to transport links scored very highly with 93% of respondents saying they it was important or very important in their choice of current home.

Storage space also scored highly at 90%. Londoners clearly value their time outdoors, with over 70 stating private outdoor space and being near to green space was important to them. A third of respondents valued unique architectural features and being close to water.

Table 2: Important factors that determine choice of home

| | | | |
|---|-------------------------------|---|--------------------------------------|
|  | Near to transport link 93% |  | Being near water 41% |
|  | Storage space 90% |  | Top of the range technology 36% |
|  | Near to green space 79% |  | Unique architectural features 36% |
|  | Private outdoor space 73% |  | Amenities 32% |
|  | Balcony 45% |  | Concierge 26% |

Source: CBRE

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Sources:

CBRE, Experian, Moliior, ONS, TFL, Land Registry

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