Cost of Renting

Association of Residential Letting Agents
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## Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. Cebr delivers economic analysis and forecasts to a wide array of retained private and public sector clients, and provides bespoke economic impact analysis of different policies and regulations at whole economy, sector and individual company levels.

The report was authored by Nina Skero, Cebr Economist with supervision from Scott Corfe, Associate Director. The views expressed herein are those of the authors only and are based upon independent research by them.
Rents in the UK to keep rising

• In the UK, residential rental prices are higher in London and the South East than elsewhere, as shown in the graph on the right. While the UK average weekly rent in 2014 stood at £134, the figures for London and the South East were £227 and £144 respectively.

• Many of the regions that have higher house price levels also witness higher average rents. This is partly because high property prices prevent many prospective buyers from getting on the property ladder, which creates demand for rental properties.

• As house price affordability worsens in the medium term home ownership will remain out of reach for many. This effect will be further intensified when interest rates start rising, most likely at some point in 2016. Hence, we expect average weekly rent in the UK to increase in the coming years.

Source: Office for National Statistics, Cebr analysis
Rents becoming less affordable across the country

- As is shown in the graph on the right, due to the high level of property values and concentration of economic activity in the capital and neighbouring regions which pushes up demand, rent payments are least affordable in London.

- At the opposite end of the spectrum, average rent payments account for just 9.5% of disposable income in the North East.

- In the 2006-2013 period, Yorkshire and the Humber suffered the greatest worsening of rent payment affordability. In 2006, average rent accounted for 8.3% of disposable income which more than doubled to 15.6% by 2013. However, this is only marginally above the 15.4% UK average for 2013. In the same time period, rent payments became less affordable across all regions. This is largely a result of rising house prices and stagnating wages, which have led to an increase in demand for rented accommodation.

- For the UK as a whole, the average weekly household net expenditure on rent stood at £92 – 15.4% of the average £599 disposable weekly household income.

NB: The figure for London may be higher in reality as the disposable income of renters is likely to be lower than the overall average.

Source: Living Costs and Food Survey, Cebr analysis

Net rent as a share of disposable income, by region, 2013
London rents are least affordable in the country

- Given the persistent obstacles to getting on the property ladder, and the increasing age of a typical first time buyer rent payment affordability is becoming an increasingly important indicator of the housing market.
- In 2015, Londoners on average spent nearly a third of their disposable income on rent payments.
- Worsening rent affordability may push some residents of the capital to nearby region such as the South East, where earnings are slightly lower, but rent is notably cheaper.
- In 2015, East of England enjoyed the most affordable rents due to relatively high earnings in the region.

Source: ONS Family Spending, Cebr analysis
North-South divide in rents

• The latest data from the Office for National Statistics (ONS) show a clear North-South divide in rents, with price growth much stronger in the South than in the North of England.

• Furthermore, price growth has accelerated strongly in London, the East and South East of England compared with a year ago.

• This may reflect the difficulty of getting on the property ladder in these regions, with high house prices and deposit requirements for purchasing property. This is pushing individuals into the private rental sector.

• With the exception of the East Midlands, rental price growth has accelerated over the past year in all regions of Great Britain.

Source: ONS, Cebr analysis
A person buying their first home in England has spent an average of £52,900 on rent

- An average first time buyer in England purchasing a property at the end of 2015 would have already spent £52,900 on rent.*
- This figure varies drastically by region. In the North East an average first time buyer would have spent £31,300 on rent before they are able to purchase a home. In London, the average amount spent is more than twice that at £68,300.
- Other than London, South East is the only region where the total amount spent on rent is above the England average.

*Assumes most people move out of their family home at the age of 18 and takes into account the average first time buyer age of 31.
Rental spending represents 16.4% of total earnings

- An average first time buyer in England purchasing a property at the end of 2015 would have spent 16.4% of their earnings on rent for all the years that they were a tenant, combined.
- Again, London is among the most unaffordable regions for English renters. In the capital, first time buyers would have spent 16.5% of their earnings on rent.
- This is followed by the South East and South West at 16.5% and 16.0% respectively.
- On the other end of the spectrum, first time buyers in the North East would have spent just 11.1% of their earning on rent while they were tenants.

Source: ONS, Cebr analysis
Londoners just starting to rent should be prepared to spend over £90,000 on rent

- An 18 year old who is just starting to live independently in England will spend an average of £64,400 on rent before they are able to buy their first property*.
- This is 1/5 more than current first time buyers spent on rent.
- Residents of the capital are in the worst position. They will have to spend an average of £91,500 on rent before they can buy their first home - £23,100 more than first time buyers in 2015.
- The total rental bill will also grow in the South East as London becomes too expensive for some and people decide to relocate.
- The region with the lowest total rental bill is the North East. Residents of this region can expect to spend just £36,400 on rent before they purchase their first home.

*Assumes that the average first time buyer age remains 31.

Source: ONS, Cebr analysis
What housing policy announcements were made in the Autumn Statement?

• When George Osborne delivered the latest Autumn Statement in November, one of the primary areas of policy focus was housing.

• Recognising the severity of the housing crisis, the Chancellor announced that the housing budget will be doubled to £2bn per year.

• Despite the 100% increase, the housing budget will still account for just 0.26% of public spending – much lower than for other key areas. For example, transport spending accounts for 3.6% of the total and spending on prisons is twice as high as the housing budget at £4bn.

• This money will go towards building 400,000 new affordable homes by 2020. This, combined with private sector building, will see the sector building close to 200,000 homes a year necessary to keep up with projected population growth.

• Another measure aimed at helping first time buyers get on the property ladder is a 3% increase in stamp duty on the purchase of a second home, such as Buy-to-Let. This will discourage people from buying multiple homes (often used as investment vehicles), leaving more stock available for first time buyers and alleviating some of the upward pressure on prices.
...and what do they mean for renters and landlords?

- The Autumn Statement also saw the launch of London Help-to-Buy. The scheme will help Londoners with a 5% deposit get an interest-free loan worth up to 40% of the value of a newly-built home, compared to the current 20%.

- However, for the 35% of UK residents that are renters the new housing policies could worsen the situation.

- Higher rates of stamp duty for Buy-to-Let properties come on top of reductions in Buy-to-Let tax relief that were announced in the July Budget. This will lead to a reduction in the supply of rental accommodation in the UK, as Buy-to-Let becomes a less attractive investment and may dampen price growth in London. The following few slides focus specifically on the Buy-to-Let sector.

- Additionally, as of November 26, tenants of five housing associations will be able to start the process of buying their own home – an extension of the Right-to-Buy scheme outlined in the Conservative Party’s manifesto.

- The sale of housing association properties through Right-to-Buy will further contract rental supply, potentially putting upward pressure on rent prices.

- For prospective landlords taxation changes mean that investing in a property for let will become less attractive, while many existing landlords will see their profits go down (assuming they do not increase rents accordingly) and the gap between their gross and net yields widen.

![Homeownership rate in England and Wales](image.png)

Source: OBR, Cebr analysis
Substantial increase in stamp duty makes B2L a much less attractive investment

<table>
<thead>
<tr>
<th>Value of second property/buy to let (£)</th>
<th>Current SDLT (£)</th>
<th>SDLT from 1 April 2016 (£)</th>
<th>Increase in tax (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>150,000</td>
<td>500</td>
<td>5,000</td>
<td>4,500</td>
</tr>
<tr>
<td>250,000</td>
<td>2,500</td>
<td>10,000</td>
<td>7,500</td>
</tr>
<tr>
<td>350,000</td>
<td>7,500</td>
<td>18,000</td>
<td>10,500</td>
</tr>
<tr>
<td>450,000</td>
<td>12,500</td>
<td>26,000</td>
<td>13,500</td>
</tr>
</tbody>
</table>
Rental yields have been falling back due to high purchasing costs

Source: LSL Property Services
NB the graph refers to gross yields
Could the B2L changes burst the London property market?

The geographical spread of owner-occupied and buy-to-let lending

Source: CML

November 2015
Rental yields already lower in London than most other parts of the country

<table>
<thead>
<tr>
<th>Region</th>
<th>Yield Nov 2015</th>
<th>Yields Nov 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>4.2%</td>
<td>4.3%</td>
</tr>
<tr>
<td>East of England</td>
<td>4.4%</td>
<td>4.4%</td>
</tr>
<tr>
<td>South West</td>
<td>3.6%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Yorkshire &amp; The Humber</td>
<td>6.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>North West</td>
<td>6.9%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Wales</td>
<td>4.1%</td>
<td>4.4%</td>
</tr>
<tr>
<td>South East</td>
<td>4.1%</td>
<td>4.6%</td>
</tr>
<tr>
<td>North East</td>
<td>5.0%</td>
<td>5.1%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>5.6%</td>
<td>5.6%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>England &amp; Wales</td>
<td>5.0%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

Source: LSL Property Services
NB the chart refers to gross yields
Contact

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