



YOUNG GROUP®

Property Portfolio Managers

LONDON RESIDENTIAL RENTAL UPDATE

Landlords Buoyed by Supply Shortage

SUMMARY

Latest property market data shows that a continuing reduction of rental property supply, coupled with increasing numbers of tenants looking to rent is good news for UK landlords, particularly those with property in London.

The rate of reduction in supply of rental property continues to increase; demand from tenants is still on the rise; void periods are falling; rental levels are increasing and yields are strengthening. The market has firmly shifted in favour of the landlord.

Neil Young
CEO – Young Group
June 2010



YOUNG GROUP®

Property Portfolio Managers

SUMMARY

Latest property market data shows that a continuing reduction of rental property supply, coupled with increasing numbers of tenants looking to rent is good news for UK landlords, particularly those with property in London.

The rate of reduction in supply of rental property continues to increase; demand from tenants is still on the rise; void periods are falling; rental levels are increasing and yields are strengthening. The market has firmly shifted in favour of the landlord.

Neil Young
CEO – Young Group

RENTAL INCOME

Latest rental figures show that during the first 4 months of 2010, asking rents across the UK rose by 2.7%; from £804pcm in January to £826pcm in April, meaning that average rental values are now 0.9% higher than a year ago.

However, these national figures mask strong regional variations with London continuing to outperform the UK as a whole. The average asking rent in London now stands at £1,696pcm, which is 4.5% higher than a year ago and is continuing to increase. Latest data from findaproperty show that monthly asking rents in London increased by almost 1% during the month of April alone.

Latest figures from the Royal Institution of Chartered Surveyors (RICS) mirror this increase in rental income; nationally, approximately 30% more agents saw rents increase during the three months to the end of April, rather than decrease.

This is a huge swing from the same period in 2009, when 58% more agents saw rental rates falling, rather than rising.

SUPPLY DECREASES...

The buoyancy in the rental market is being driven by an imbalance between supply and demand. Since the beginning of 2010, the available stock of all rental property has fallen consistently month on month and is now 16% below January's level.

The rate of fall in rental property supply continues to accelerate. Between March and April, the volume of property available for rent fell by 9% compared to falls of 4.2% in March and 3.6% in February.



YOUNG GROUP®

Property Portfolio Managers

The RICS reports that during the three months to April 2010, 12% more surveyors said they had seen a fall in instructions from landlords than those who saw a rise. The institution attributes this to so called 'accidental' or 'reluctant' landlords, who had rented property rather than selling, now being enticed to sell by rising property prices.

The proportion of landlords selling properties at the end of a lease rose to 5.2%, the first time that the statistic has risen above the long term average of 5.0% since Q1 2008.

This picture of falling supply is true both of apartments and houses. According to findaproperty, the number of apartments available to rent across the UK fell by 13% from January to April and now stands at the lowest level since November 2008. This has pushed the UK average rental for an apartment up to £767pcm, the highest level since February last year.

AS DEMAND INCREASES...

The falling supply of rental property comes at a time when demand is increasing; the RICS states that 30% more surveyors report an increase in tenant demand rather than a fall, the highest net balance of increased tenant demand for more than 12 months.

Similarly, the Association of Residential Letting Agents (ARLA) reports that during Q1 2010 59% of its members had more tenants looking for property than they had properties available to rent. This represents a rise of 18% over the previous three month period.

Again, the national picture disguises stark regional variations. Landlords in London are still reaping the rewards of the highest demand for rental properties in the country. ARLA maintains that 65.7% of members in London report that there are currently more tenants than there are properties available for them.

Inward investment body, Think London, attributes this growing demand to an increase in the number of businesses and individuals opting to relocate to the Capital.

This imbalance between demand and supply of property means that tenants are increasingly competing to secure the best properties and have lost the bargaining position that they held last year when the market was inundated with property available to let.

Indeed, anecdotal evidence from one of the UK's largest national lettings chains suggests that up to 5 tenants may currently be competing for each available property.

Increasingly tenants recognise that, if priced appropriately, they need to meet the asking rent to secure the property that they want. ARLA figures show that during the past six months the number of members reporting that tenants are seeking to negotiate on the asking rent has fallen by 17%.



YOUNG GROUP®

Property Portfolio Managers

VOID PERIODS

Given the prevailing imbalance between supply and demand in the rental sector, it is unsurprising that void periods are reducing.

During the first three months of 2010, the average length of time, throughout the UK, that a rental property remained empty was 3.6 weeks (25 days), a fall of two days from the previous quarter. This represents a stark contrast to May 2009 when the average void period was 4.3 weeks (30 days), a time when the rental market became swamped with stock from 'accidental' landlords.

The average void period for property rented through Young London currently stands at just 5 days. Across the entire portfolio of hundreds of properties under management throughout London, Young London's occupancy rate has remained greater than 97% in 2010.

RENTAL YIELD

Nationally, rental yields as a whole dipped at the end of 2009, falling to 4.52% in December. This trend continued into January 2010 when national average yield dropped to 4.45%. However, over the first four months of 2010, yield has regained ground and now stands at 4.54%.

Once more, London outperforms the national average with yields across the Capital averaging 4.6%.

OUTLOOK

Mortgage finance remains in limited supply and first time buyers, although beginning to return to the market, are still experiencing difficulty in getting onto the property ladder. The majority of ARLA's members (54%) believe that tenants are being forced to rent rather than buy; continuing to rent property whilst saving for a deposit.

The National Landlords Association (NLA) however is unconvinced that this is the principal reason for the current strength of the rental market believing instead that increasing numbers are attracted to renting as "a simpler, more flexible alternative to homeownership."

Irrespective of the reasons for the rude health of the market, surveyors are more optimistic than ever with regards to the rental sector. According to the RICS, 36% more surveyors expect rents to continue to rise than expect them to fall – the highest positive balance since the survey began in 1998.