Briefing notes

How resilient are UK residential rental markets to Covid-19?

Issue 4 | August 2020

In August 2020, the Covid-19 pandemic continues to present significant challenges in nations across the world. Five months since the nationwide lockdown was introduced in the UK, the economic impact is all too evident in retail closures, falling employment and the eventual confirmation that the UK had slipped into recession in Q2. While many commentators still argue for a V-shaped recovery, none can deny the short term shocks and most expect a long term legacy of social change in the way we live and work.

For investors in residential rental property, questions remain about continuity of rental income, volatility of demand and stability of pricing.

In previous **Briefing notes** we analysed exposure to lease expiries (Briefing note 1); affordability pressures (Briefing note 2) and dependence on overseas students (Briefing note 3). In this note, we have looked at what happened to open market rental values in London during the most restrictive period of lockdown.

Drawing on Dataloft Rental Market Analytics (DRMA), our rent paid and tenant demographic dataset, we have analysed rents paid for newly granted leases, between April and June 2020, Quarter 2. Although this analysis is focused on London, the same exercise is possible for all UK cities.

Open market rental values –

what happened to values in London at the height of lockdown?

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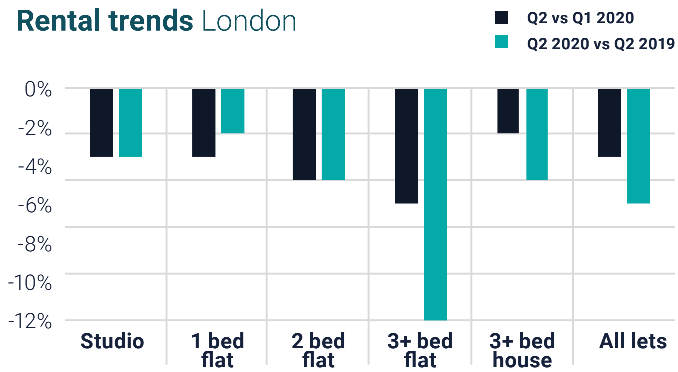
dRMA Dataloft Rental Market Analytics

Dataloft Rental Market Analytics (DRMA) is the largest and most comprehensive single source of residential rents achieved for the UK market. The dataset holds rent paid transactions from individual tenants and tenancies. It contains over 2.3 million aggregated references rigorously recorded by tenant referencing companies. It covers five years of historic data with a monthly addition of c30,000 new tenancies and c50,000 new tenants.

What does the **evidence** say?

- Rents agreed on new leases granted in Q2 2020 were -3% lower than in Q1 2020 and -5% below the same quarter a year earlier. Given the circumstances, that was a relatively modest adjustment. In some parts of London, rents rose during this period.
- Supply levels rose during lockdown, particularly in more central areas where short term lettings are more prevalent. Properties normally used for holiday or corporate lettings lost their usual demand base and much of that stock was diverted into the mainstream market to compete for 12 month tenancies.
- The number of new leases agreed in Q2 2020 was 21% lower than in Q1. Take-up of new leases is always seasonal and generally drops in Q4. Demand fell in Q2 as all but essential home moves were discouraged or prohibited. Notably there was a higher volume of properties relisted, presumably for various Covid-related reasons.
- In April, the first month entirely in lockdown, the number of lease starts fell by -40% compared to March. In May, the number fell by another -13% on the April level. In June, the first full month after lockdown was lifted, the number bounced back +87% from its low base.
- In general, central boroughs suffered the steepest falls in rental values while rents rose in several outer London boroughs, particularly in West and North West London.

Rental trends London



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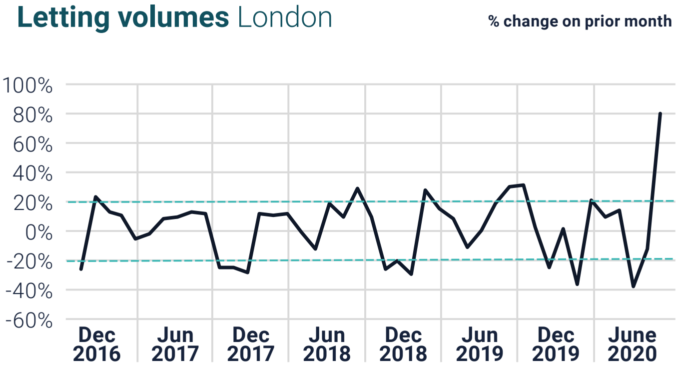
Letting volumes London



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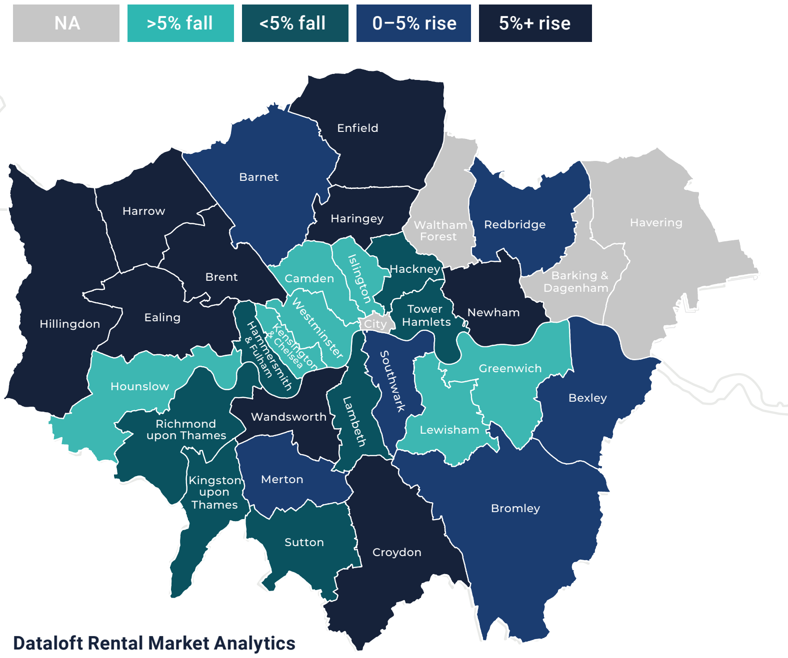
Change in rental values by London borough

Q2 2019 vs Q2 2020



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What does it mean?

The autumn is typically the busiest time in the London rental calendar. Whilst the fall in average rental values in Q2 has been modest, Q3 will be more telling for assessing the full economic impact on the rental market.

There are important parts of the market severely curtailed, including high end corporate relocations and short term holiday lets. Fewer overseas students are likely to take up places and graduate job starts may dip. Importantly too, whilst furlough has helped to maintain employment levels, we are now in the period for redundancy consultations ahead of the planned end to the scheme in October.

The rental market can respond quickly to fluctuations in supply and demand. Renters are rarely expected to commit beyond 12 months and if a landlord concedes on a headline rent, there is every chance it can be adjusted in 12 months' time. In the US multi-family sector, daily pricing is commonplace. Landlords may value income security over headline rent levels, especially during economic uncertainty.

For these reasons, further falls in rents seem likely in the autumn and that demand will focus on properties which can satisfy the lifestyle needs that have risen in importance during the pandemic. Rents will be most robust for properties with proximity to public open space; access to private open space (balconies, roof terraces); suitable places to work from home and in locations that reduce dependence on public transport and enable walking and cycling.

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