Briefing notes

Addressing topical issues in UK rental markets

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Who rents single family housing?

Comparing renter age and income in houses versus flats

The vast majority of the UK's 27 million dwellings are houses not flats. While most Brits live in houses, the majority of institutional investment into the residential market has been in flats. There are good reasons for this. Young, relatively affluent renters tend to live in urban areas where flats are the established norm and operational efficiencies are easier to capture at higher densities.

Recent research estimated that institutional investors own fewer than 10,000 built houses, with a further 10,000 in the pipeline, compared to 80,000 built flats and another 140,000 under construction or in planning.

But the balance could be about to shift as the recent slowdown in the housing market has opened a door for BTR investors to acquire substantial quantities of new-build houses from developers, achieving optimal operational efficiencies through concentrated holdings.

In this note, we consider the implications for investors of an increased allocation to houses in terms of the renter profile. We ask, are the characteristics of house renters more or less attractive than those for flats?

To explore the differing renter characteristics of flats and houses, we analysed age and income profile, drawing on our vast dataset of renter demographics which covers age, income, household type, employment sector, workplace location and previous address.

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What does the **evidence** say?

Renters in flats are generally younger than in houses. Across the UK, over half of flat renters are aged under 30, compared to 36% of house renters.

There is a more even age distribution in houses. 15% of house renters are aged over 50, whereas in flats, less than 10% are in this age band.

The skew to a younger demographic is most pronounced in London for both houses and flats. Here, 57% of flat renters and 43% of house renters are under 30.

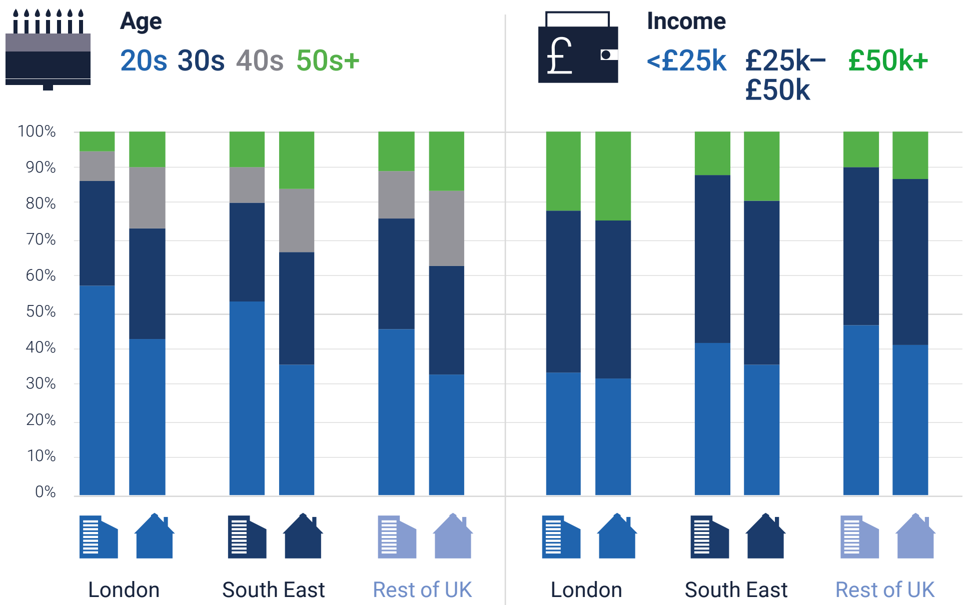
In contrast, over 50s make up only 5% of flat renters and 10% of house renters in London. Outside the capital, over 50s represent a higher proportion of house renters (16% and 17%).

Incomes are higher for renters in houses than flats but not by a wide margin. In London, around 25% of house renters earn over £50k, compared to around 22% of flat renters.

In the rest of the UK the differential was similar, albeit with fewer high earners, at around 13% of house renter versus around 10% of flat renters earning over £50k.

Overall, there is very little difference in affordability (rent as a proportion of income) between houses and flats. In London, the household rental affordability is just over 33% for houses and 32% for flats. In both the South East and the rest of UK, house affordability is marginally better than flats.

Renter profile flats versus houses



Renter affordability ratios

Rent as a % of gross income per renter

Flat	House
London 32.0%	London 33.3%
South East 29.7%	South East 29.4%
Rest of UK 26.9%	Rest of UK 26.4%

Dataloft Rental Market Analytics, by PriceHubble

What does it **mean**?

The institutional private rented sector (PRS) is heavily allocated to flats relative to houses. This allocation will impact investment performance if flats exhibit different rent and value characteristics to houses.

The data clearly shows that renters in houses tend to be older and have a higher income than those in flats. They do not spend significantly more of their income on rent and are therefore no more stretched in terms of affordability. These characteristics make them an attractive target renter population because of the other associated behaviours of older renters.

Older renters are more likely to seek stable and long-term housing solutions. Once settled, they are more likely to stay in a property for an extended period, reducing vacancy rates, turnover and associated costs.

They more often have an established rental history and can provide reliable references from previous landlords – reducing the risk of acquiring a rogue renter. Older renters generally lead quieter lifestyles, minimising the risk of disruptive behaviour or excessive noise complaints.

They are generally considered to be more responsible about maintenance, reducing the likelihood of damage and minimising maintenance costs. They may even improve the property to suit their needs, enhancing the property's value.

Older renters also tend to have steady incomes which ensures consistent and reliable rent payments, reducing the risk of missed or delayed payments.

In summary, a switch to houses by institutions has the potential to improve net operating income.

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