The impact of rising deposits and rents on renter's incomes

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Cebr

Contents

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Executive summary

- This research, undertaken by the Centre for Economics and Business Research (Cebr) on behalf of money.co.uk aims to understand recent trends in the UK's private rental market, and the implication of continued rising deposits and rents on the incomes of the UK's growing generation of renters.
- With average property prices in the UK rising at a forecast annual rate of 4% in 2015 - and 9.3% in London - homeownership has become a distant dream for many, and high property prices are forcing people to stay in the private rental market for longer than they would like.
- Between 2001 and 2014, the homeownership rate in Great Britain dropped from a high of 70% to 63%. By comparison over the same time period, the share of private renting households grew by 9 percentage points to represent almost one fifth (19%) of households, suggesting that the current UK population is moving towards being a generation of renters.
- In many parts of the UK, people are increasingly viewing renting as a permanent form of tenure – even though the shorthold tenancy agreements through which most properties are let, provides minimal security of tenure.
- At the same time, average rents have been growing alongside average house prices, further squeezing the ability of renters to afford to purchase a house. The average size of rental deposits required by many landlords (in terms of number of weeks' rent) has also increased. This has meant that average deposits across the UK have been growing at an even faster rate than average rents.
- Cebr estimates that by 2025 roughly 7 million households in England and Wales will be renting, compared with 4.4 million households in 2014. That is, by 2025, we estimate private renting households will represent almost one third (29%) of all households in England and Wales – a rise of 9 percentage points relative to 2014.

Executive summary

- A growing UK population and the ongoing shortfall in suitable affordable homes will continue to push up average rents. Cebr projects that between 2015 and 2025, the average monthly rent in the UK will increase by around 19%.
- With the persistence of a *"seller's market"* which favours landlords, we project that the trend towards *"lengthening"* of deposits will persist into the future. Cebr estimates that by 2016-17 the majority of individuals wanting to rent will need to put down the equivalent of six weeks' rent for a deposit.
- Higher rent prices and larger deposits imply that renters will need to set aside an increasingly large share of their income to be able to afford to move in to a rented property. In London, the average deposit is projected to be 6% greater than the median monthly income by 2025.
- The research presented in this report highlights the growing trend of people renting homes, rather than owning, and the impacts of a combination of rising rents and rental deposits on renters' incomes.
- We find that, due to rising demand for rental properties rental prices and deposits are projected to increase substantially over the next ten years, placing increasing pressure on renting household's incomes over the medium term.

Introduction

- This study, undertaken by the Centre for Economics and Business Research (Cebr) on behalf of money.co.uk explores the growing trend of people renting homes rather than owning, the implication of continued rising deposits and rents on the incomes of the UK's growing generation of renters.
- This study comes in the context of a resilient property market where average house prices in the UK are projected to rise at an annual rate of 4% in 2015 - and 9.3% in London. This is on top of consecutive years of robust price growth that have priced many first time buyers out of the market, making homeownership a distant dream for many. A knock-on effect has been to maintain households in the private rental market for longer than they prefer.
- In many parts of the UK, people are increasingly viewing renting as a permanent form of tenure. In the UK, renting has traditionally been a stepping stone towards becoming a homeowner – unlike in countries such as Germany where it is more common for households to rent throughout their lives. Between 2001 and 2014 the homeownership rate in Great Britain fell from 70% to 63%, with an increasing proportion of households living permanently in rented accommodation.
- At the same time, growing demand for private rented properties has driven up average rents. Many tenants have also experienced a knock-on impact through higher rental deposits required by many landlords.
- This combination of a growing number of households living permanently in private rented accommodation, strong growth in average rents and larger deposits mean that there is a need for greater protection for renters, and their deposits.
- With these recent trends in mind, this study aims to understand recent developments in the private rental market with a particular focus on tenancy deposits, and what these trends mean for today's renters.
- The study specifically considers the following areas:
    - Recent trends in rental prices and what this means for the future of renters;
    - The characteristics of Generation Rent;
    - The impact of the incomes of renters from the combined rise in rental prices and deposits.
- The research draws on data sources such as the ONS, DCLG, Scottish Government, and StatsWales, in addition to published statistics from deposit protection scheme providers, and Cebr's in-house forecasts to provide a comprehensive picture of the private rental market.

Trends in the rental market

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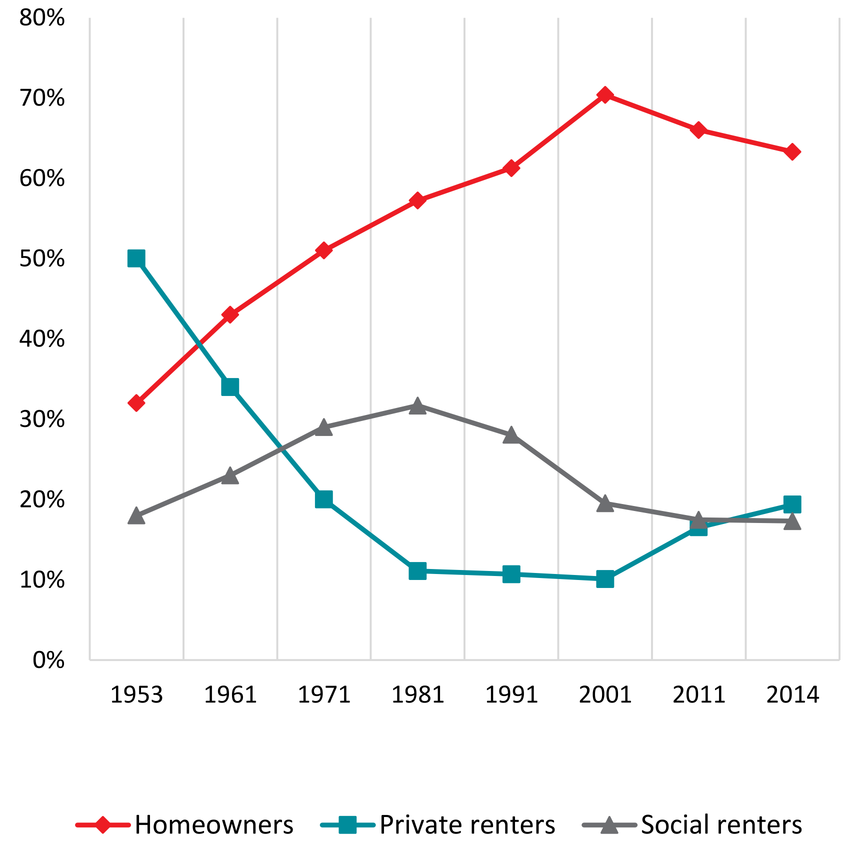
Since 2001, homeownership rate falling as private renting grows

- Although home ownership remains the most common form of tenure, since the early 2000s the share of homeowners in has been consistently falling.
- Between 2001 and 2014, the proportion of owner occupied homes in England & Wales (E&W) dropped from a peak of 70% down to 63%.
- This trend is set to continue as homeownership becomes more and more unaffordable for the average household.
- The graph opposite illustrates that this decline in homeownership has corresponded with the growth in the proportion of private renting households.
- From 2001, the share of private renting households increased by 9 percentage points to represent almost one fifth (19%) of E&W households in 2014.
- The share of social renting households* has also fallen in recent years but at a slower rate, declining by 2 percentage points between 2011 and 2014.

Trends in housing tenure, proportion of households between 1953 and 2014, England and Wales



Source: DCLG, Cebr analysis

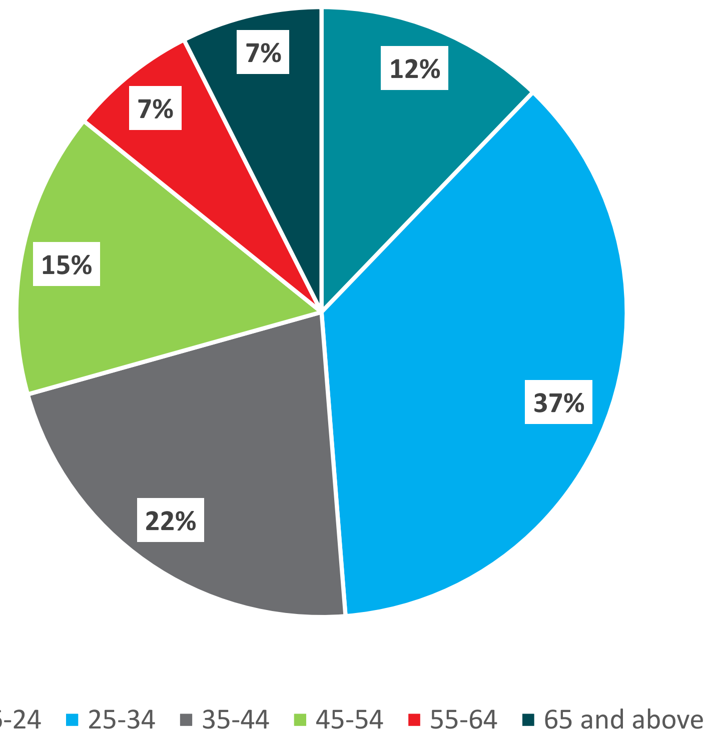
* Households renting through local authorities and housing associations

Almost half of all private renters are aged under 35 years

- Private renting is most common among people aged between 25 and 34. Almost two fifths (37%) of private renting households fit into the 25-34 age bracket.
- This implies that almost half (49%) of all private renters were under the age of 35* in 2014. By contrast, in 2003 over half (51%) of private renting households were aged between 25 and 34.
- This suggests a small decline in the proportion of private renters under the age 35 between 2003 and 2014.
- This fall was in part driven by the fall in the proportion of 16-24 year olds renting properties between 2003 and 2014.
- By contrast, between 2003 and 2014 the proportion of private renters aged between 25 to 54 years old increased by 5 percentage points, to 15% in 2014. This suggests that more people are private renting later in life, and supports the trend of declining home-ownership.

* But aged above 16 years old.

Proportion of private renters by age in 2014, England and Wales

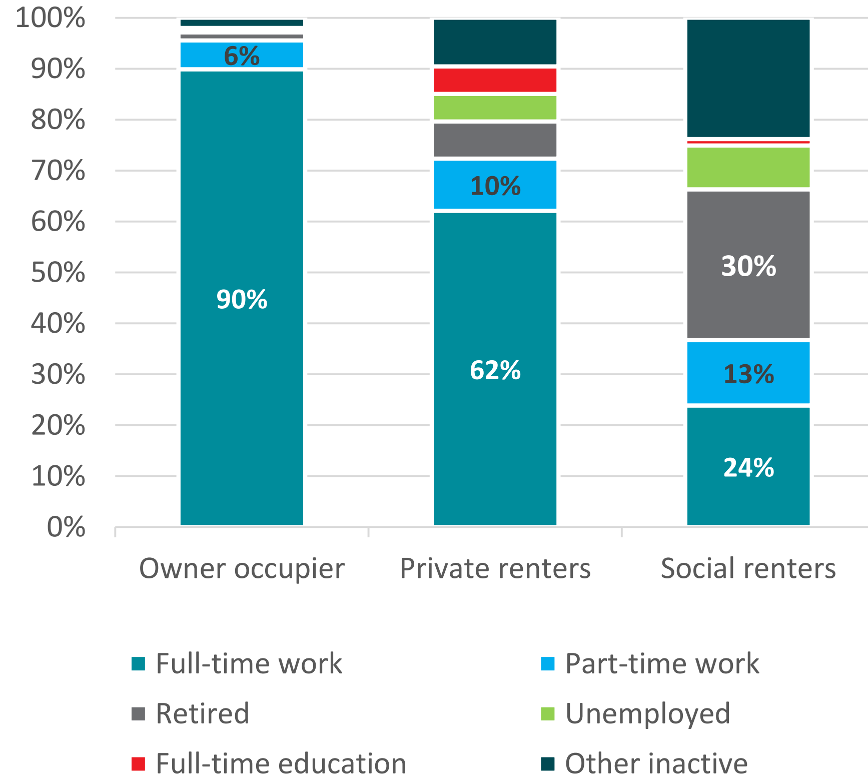


Source: DCLG, Cebr analysis

One in three private renters are out of work

- Over one quarter (28%) of private renters are out work - either unemployed, retired, in full time education, or another form of economic inactivity.
- By contrast, only 4% of owner occupiers do not work.
- Full time workers are most likely to be owner occupiers or private renters, whereas social renters are most likely to be retired (30%).
- While 90% of owner occupiers are in full time work, among private renters, the proportion of those in full time work drops to almost two thirds (62%).
- However proportionally more private renters are in part time work (10%), relative to owner occupied households (6%).

Tenure by employment status in 2014, proportion of all households, England and Wales

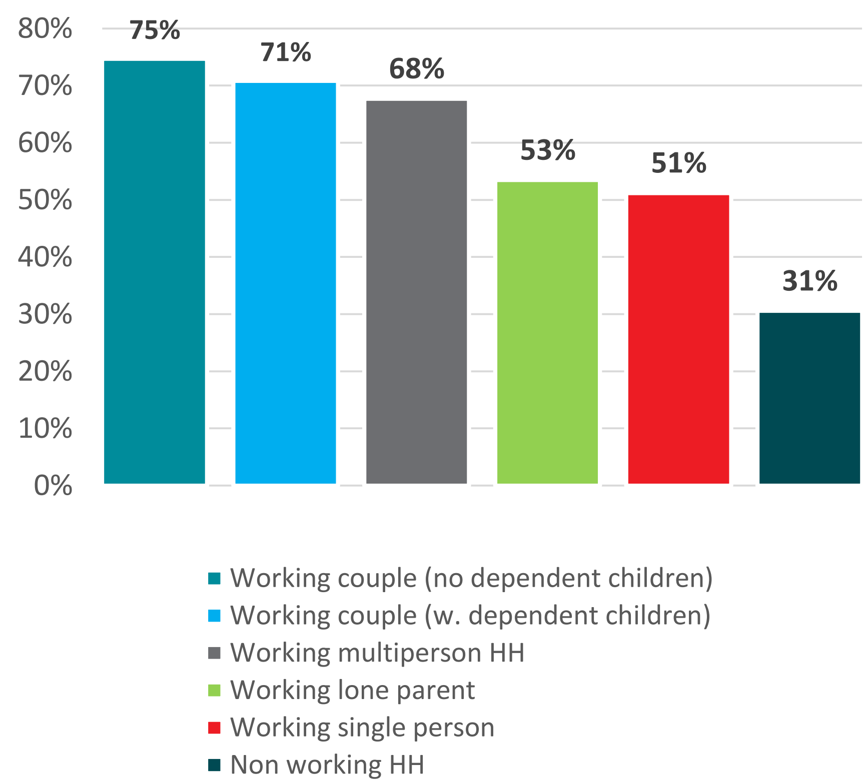


Source: DCLG, Cebr analysis

Majority of private renting households expect to buy a property in future

- On average, the majority of all private renters (56%) expect to buy a property in the future.
- Aspirations to buy a property are highest among couples and families respectively: 75% of all private renting working couples (without dependent children) expect to buy a property, while the same is true for 71% of those private renting working couples with dependent children).
- Besides the private renters outside of work, the aspiration to buy a property falls to 51% among single working individuals.
- The expectation of buying a property is only slightly higher among working single parents who are currently private renting.

Private renters expecting to buy property, as a proportion of all private renters in 2014, by type of household, England and Wales

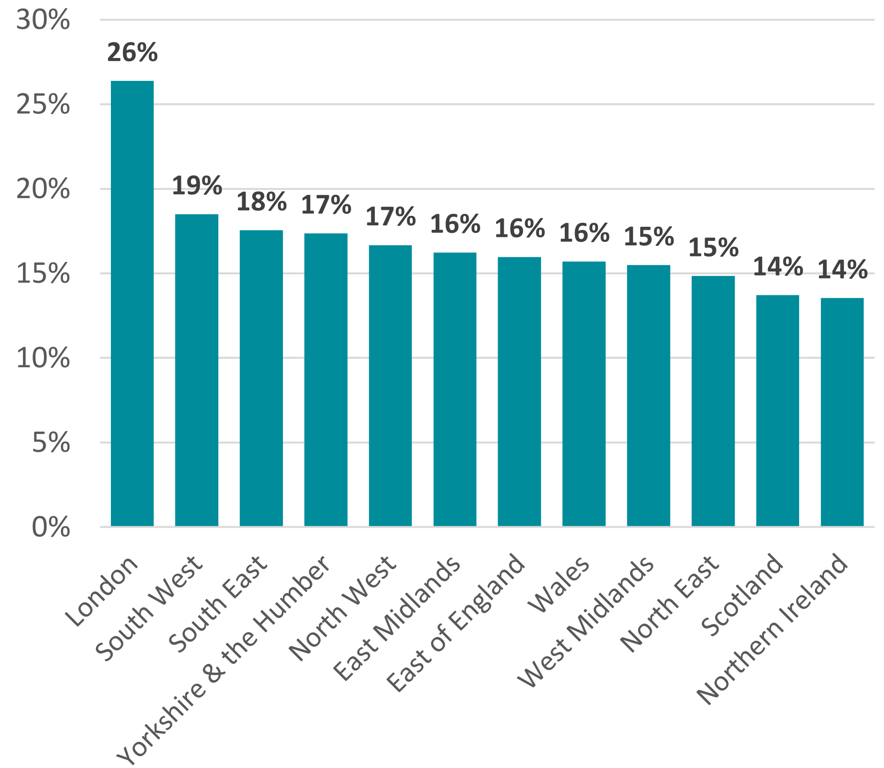


Source: DCLG, Cebr analysis

Private renting most common in London and Southern England

- According to the most recent National Census (2011), private renting is most common in London and the South of England.
- As illustrated by the graph opposite, over one quarter (26%) of all households in London are private renters – far greater than any other region in the UK.
- The South West and South East of England are also home to relatively large numbers of renters, with 19% and 18% of households, respectively renting their home in these regions.
- Overall, private renters represent almost one fifth (17%) of all households in the UK.

Private renters as a proportion of all households in the UK, 2011

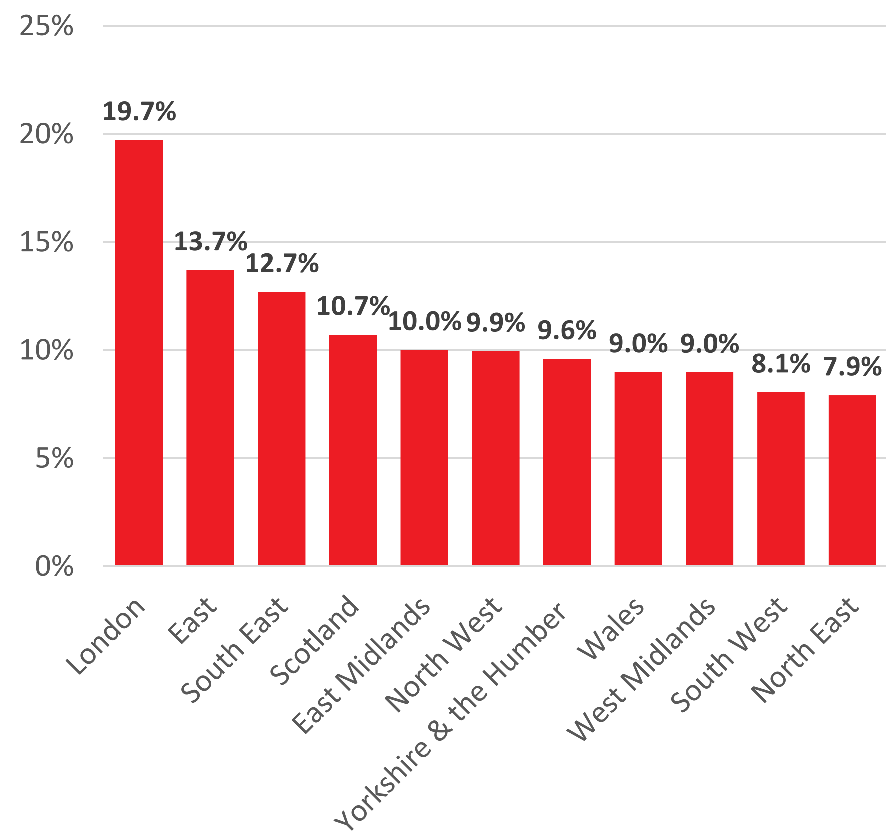


Source: ONS Census 2011 (England &Wales), National Records of Scotland Census 2011, NISRA Northern Ireland Census 2011, Cebr analysis

Strong house price growth has pushed more people into renting

- One factor that has driven the growing number of renting households has been the robust house price growth observed in many regions.
- In recent years, with property prices growing strongly, increasing numbers of people have been priced out of home ownership, which has driven demand for rental properties.
- Further, since the 2008 financial crisis, tightening lending criteria of mortgage lenders has made it more difficult for those looking to buy.
- The average value of a property bought by a typical First Time Buyer (FTB) grew by 12% across the UK, between 2011 and 2014.
- London's FTBs experienced largest rise with average prices rising 19.7% between 2011 and 2014
- With rising property values moving homeownership out of people's reach, the rental market has become the only option for many.

Average First Time Buyer property price, percentage growth between 2011 and 2014



Source: ONS HPI tables, Cebr analysis

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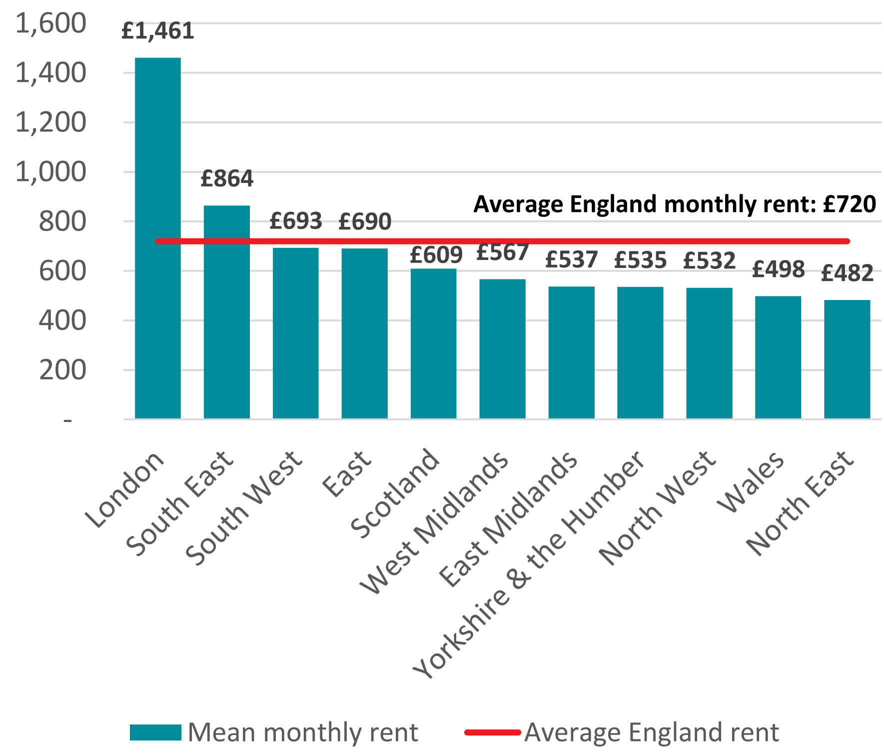
North- South divide evident in the private rental market

- Differences in the average rent paid across regions in the UK reflects the underlying value of property and rental incomes in each area.
- In 2014, at £1,461 per calendar month, the average monthly rent in London was more than twice the Great Britain average.
- The graph opposite illustrates that average rents tend to be higher in Southern England, relative to Northern England, Scotland and Wales.
- With average monthly rents growing faster in the South than in the North, we expect that the North – South divide in average rents will continue to expand over the medium term.

Mean monthly rent (£), 2014 by UK region (excluding Northern Ireland)



Source: ONS VOA, Scottish Government, StatsWales, Cebr analysis

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Impact of rising deposits and rents on renter's incomes

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By 2026, almost one third of households in England and Wales will be renting

- Measures that protect tenants, such as Tenancy Deposit Schemes (TDPs), will become increasingly important as the number of households renting their home rises substantially over the medium term.
- Based on current trends, Cebr projects that private renting households will represent almost one third (30%) of all households in England and Wales by 2026 – a rise of 10 percentage points from 2014 levels (see graph opposite).
- As a result, we estimate that by 2026 roughly 7.2 million households in England and Wales will be renting, compared with 4.4 million households in 2014.

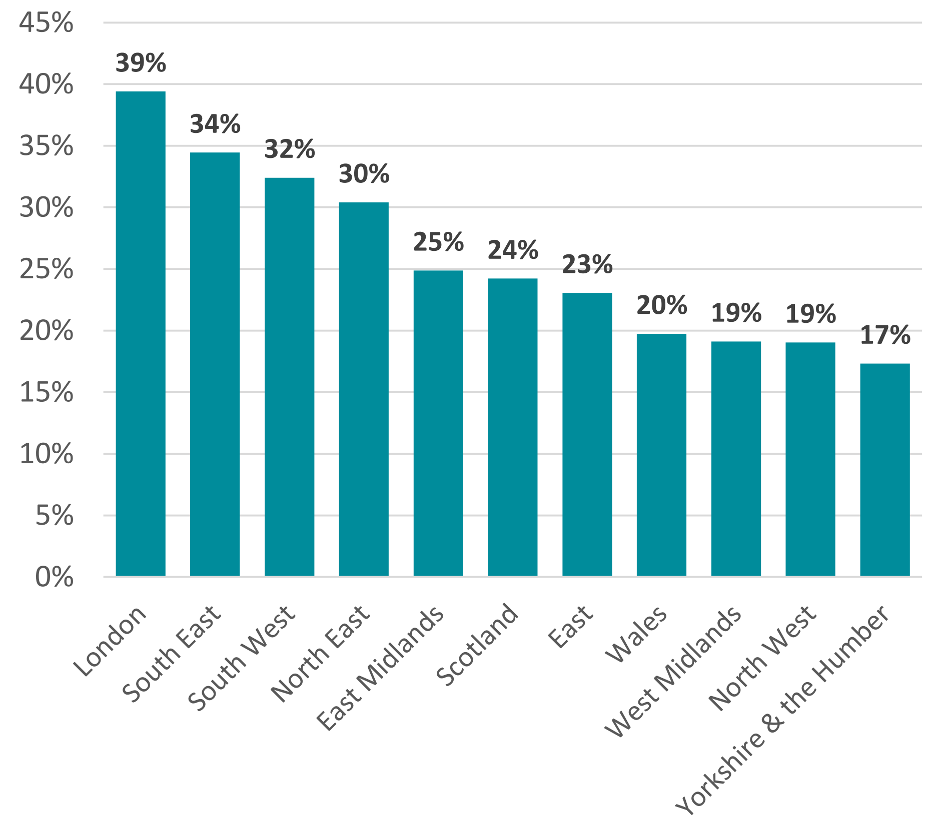
Proportion of private renting households (%), historic and projected (E&W) 1996 - 2026

Source: DCLG, Cebr analysis

Average monthly rents estimated to increase by 28% across the UK, between 2015 and 2026

- Between 2015 and 2026, Cebr estimates average monthly rents in the UK (excluding Northern Ireland) are estimated to increase by 28%.
- Current projections show that the increase in housing stock is not keeping pace with population growth and housing demand, leading to a gap between supply and demand of rental properties. This is a key factor in pushing up average rents.
- The largest increase in rents between 2015 and 2026 is estimated to occur in the London, with close to 39% growth. Other regions with high projected growth in rents in the next 10 years are the South East and the South West, where rents are predicted to grow by 34% and 32% respectively over the period.
- The lowest increase in average rent is expected in Yorkshire and the Humber with a 17% price hike projected between 2015 and 2026.

Estimated projected percentage growth in average monthly rent between 2015 to 2026, by UK region (excluding Northern Ireland)

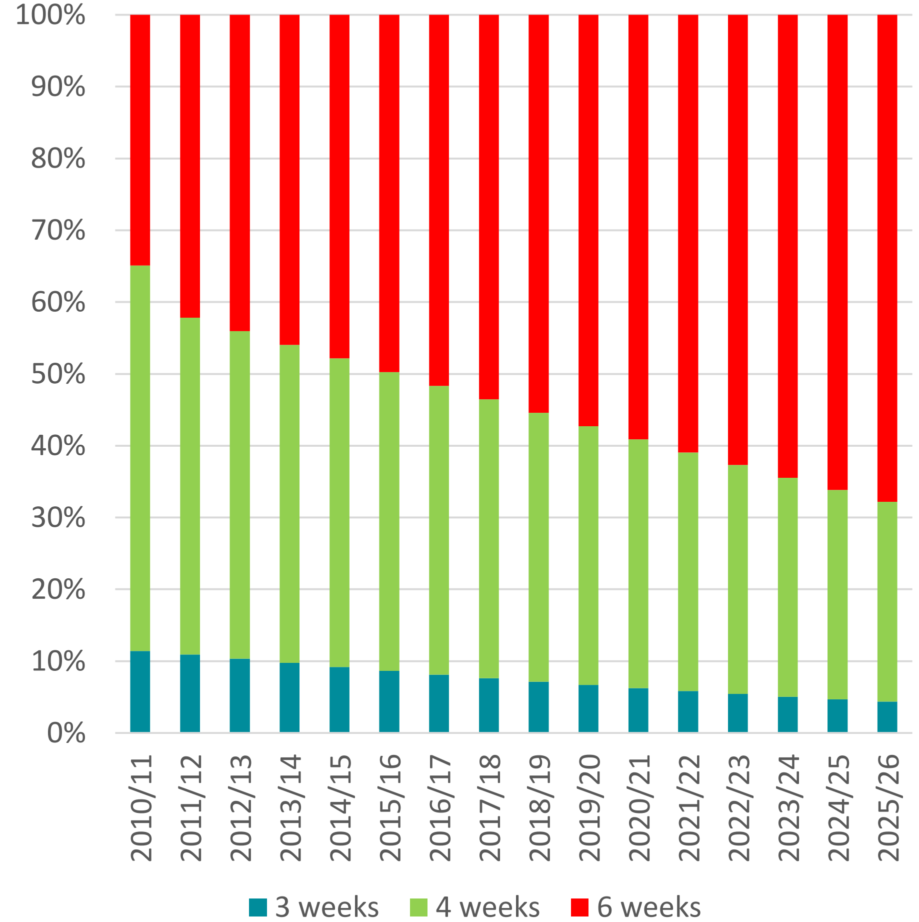


Source: ONS, ASHE, VOA, Cebr analysis

Within the next five years the majority of deposits will be equivalent to six weeks' rent

- The size of the average rental deposit is expected to increase even faster than average rents.
- This is due to the increasing size of deposits relative to weekly rent that are required by landlords.
- Deposits are typically calculated as a multiple of one week's rent. Latest trends have shown that not only are weekly rent prices increasing, but that landlords are also asking for larger deposits relative to weekly rent.
- Between 2014-15 the majority of landlords asked for 4 weeks of rent as a security holding.
- However based on existing trends, Cebr projects that as early as 2016-17 more than 50% of deposits will be in excess of 6 weeks of rent. Similarly, the share of deposits less than 4 weeks' worth of rent is expected to further decrease.

Estimated trends in the value of rental deposits, in terms of shares of 3, 4, and 6 weeks' rent, 2011 – 2026



Source: TDS, Cebr analysis

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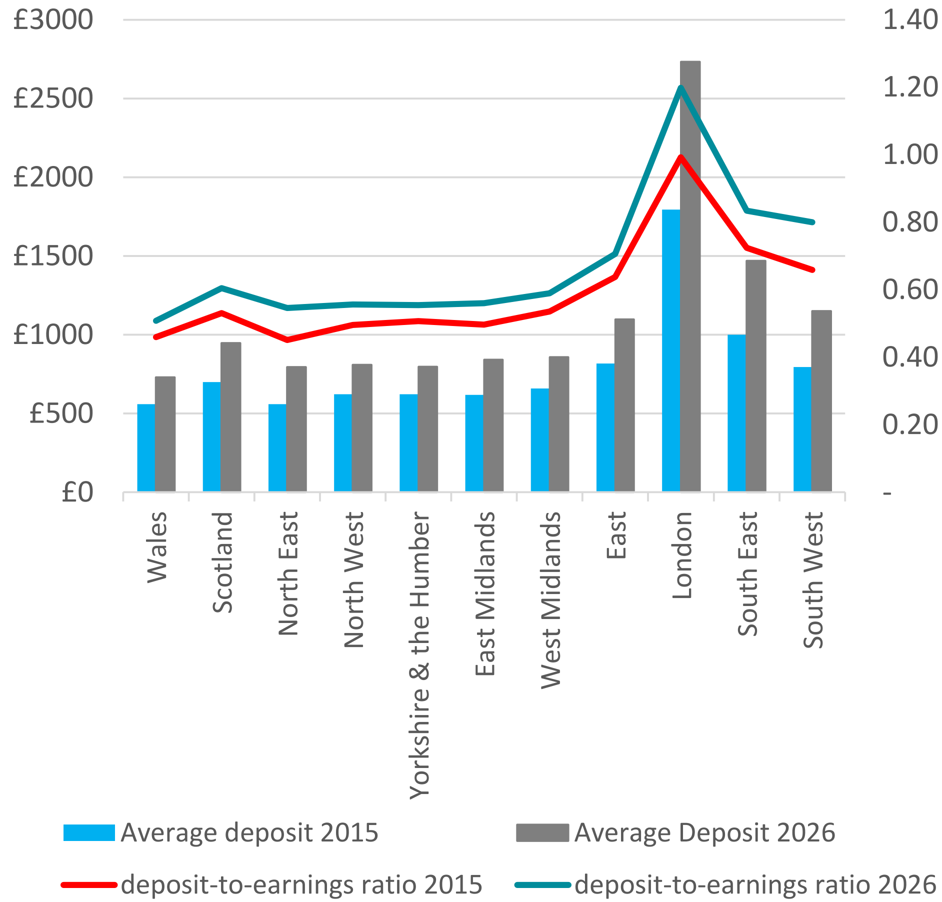
Average UK deposit projected to equate to 70% of typical monthly earnings by 2026

- The graph shows estimated projections for the average rental deposit in 2015 and 2026, as well as an implied deposit-to-earnings ratio for each region, in 2015 and 2026.
- Between 2015 and 2026, a rising rental deposit-to-income ratio for every region means that in the future renters will need to put aside a larger amount of their income for a deposit to rent.
- By 2026 the average rental deposit across the UK is estimated to amount to £1,111, which will equate to 70% of average gross monthly earnings.
- Deposits in London are projected to rise to £2,733 over the period, by far the highest in the UK. This means a deposit will be equivalent to well over one month's earnings of a Londoner.
- Although London will see some of the strongest increases in earnings, ever faster rising rental prices and deposit sizes will squeeze the incomes of renting households, further impacting their ability to get on the property ladder.

Average rental deposit in 2015 & 2026 (£, left axis), and deposit-to-earnings ratio in 2015 and 2026 (right axis)



Source: ONS, VOA, ASHE, TDS, Cebr analysis

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