

London Tenant Barometer

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Kinleigh Folkard & Hayward

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COMPLETELY LONDON



Executive summary

The ever increasing reliance on the Capital's private rented sector (PRS) is being driven primarily by the high cost of entering the sales market, although this has been eased somewhat by last autumn's reduction in stamp duty for first time buyers.

However, ongoing low wage growth and savings rates are impacting people's ability to save deposits. In addition, uncertainty around Brexit is likely to be contributing to the demand for rented accommodation as would-be buyers hold back from making a commitment to purchase.

Indeed, PWC has forecast that the proportion of rented households in London will rise to 60% by 2025, with 40% of households renting privately.

Despite the growing importance of PRS, there has been a lack of market data and information to draw from for those organisations operating in the sector. Market trend analysis has tended to focus on quarterly snapshots of asking rents and tenant applicant figures. These have helped form some view of the market's direction of travel, but, to-date, there has been little information or data related to tenant sentiment, particularly in London, the UK's largest individual PRS market.

KFH is in a unique position to be able to offer operators in the sector a clear view of tenant sentiment in the Capital. Our lettings agency branches, property management teams, portfolio managers and block and estate management division deal with tenants every day and understand what is important to them; from prices and locations to tenancy lengths and maintenance issues. Together our teams can provide PRS operators a powerful, menu based service within the sector.

In order to drill down further on tenant attitudes and expectations we have launched our first annual London Tenant Barometer. We surveyed over 2,000 PRS tenants in London on their views of the market, their priorities when choosing property, and their expectations for the future.

We're confident this research will give PRS operators a unique insight into the demands and expectations of private tenants across London and welcome the opportunity to discuss any bespoke reporting, statistics or business needs on a case by case basis.



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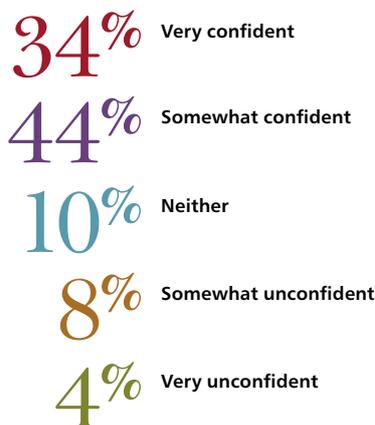
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Overall findings

While the majority of tenants (71%) are happy living in a rented home and 78% feel confident they won't be suddenly served notice by their landlord, the prevailing sentiment among tenants is that they are renting through necessity rather than choice.

“A quarter of tenants would rather live in long term rented property than buy their own home.”

Proportion of tenants who feel confident they won't suddenly be served notice by their landlord



The predominant feeling among tenants is that they would rather live in a home that they owned with two thirds agreeing (64%). However, tenants feel less optimistic about the prospect of being able to buy in the Capital. More than half of tenants (52%) feel the possibility of buying in London has decreased over the last year.

While the majority of tenants across all age groups would rather live in a home they own rather than rent, it is the youngest renters (18 to 24 year olds) who are the most keen to buy. More than two thirds of these tenants (68%) said they'd rather buy than rent – the highest proportion of any age group.

A quarter of tenants (25%) say they would prefer to live in long term rented property rather than buy their own home. Of those who would prefer to rent, half (54%) said they wanted to do so because they want the flexibility of tenancy length that renting offers. Just under half (45%) said renting meant they could live in an area that they could not otherwise afford. More than a third (35%) said they would prefer to rent so they don't have to worry about maintenance or upkeep costs of a property. And 17% said that renting meant they could invest disposable income elsewhere rather than saving for a deposit.

On average, PRS households in London are home to 2.1 rent paying tenants with each tenant paying £775 per calendar month. This equates to an average monthly property rent in London of over £1,600. The average age of a PRS tenant in London is 37 and nearly a third of tenants (32%) have non-rent paying dependents living in their household.

64%

Of tenants would rather live in a home that they owned

25%

Of tenants would rather live in long term rented property than buy

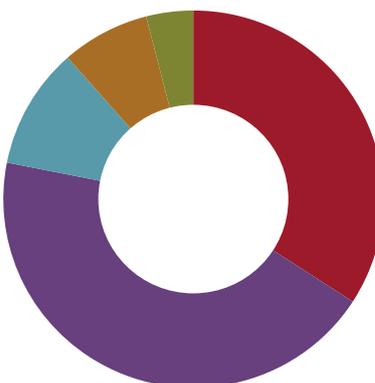
37 years

The average age of a PRS tenant in London

£1,600

The average monthly rent per PRS household

Source: KFH tenant research December 2017



Source: KFH tenant research December 2017

Regional variance

It is unwise to analyse the London rental market purely in overview. Trends vary from area to area, therefore, up to date information on sentiment at borough level is vital when assessing the market.

“Outer boroughs have much higher proportions of households with dependents and tenants expect to rent for longer.”

More central boroughs have a dominance of young professionals living in shared accommodation. As expected, these locations tend to have the highest average monthly rents per tenant with Kensington and Chelsea, Camden and Westminster tenants paying the most per month (£1,103, £926 and £918 per tenant respectively).

Unsurprisingly, tenants in the outer boroughs pay the lowest average monthly rents with Barking and Dagenham, Croydon and Greenwich tenants paying the least (£602, £621 and £666 per tenant per month respectively).

Tenants in Waltham Forest have the lowest rent to income ratio in London (Table 1), with average monthly rents accounting for just 25% of the average tenant’s take home pay in the borough. Bromley has the highest rent to income ratio with tenants there spending more than two fifths (41%) of their monthly net income on rent.

The outer boroughs have much higher proportions of households with dependents and tenants expect to continue renting in London for longer (Table 2). Perhaps because the outer boroughs see lower average earnings and therefore less propensity to buy, but also because the higher dependency rate means families are likely to require more security and longer tenancies.

Rental tenure is expected to be the shortest in a varied mix of boroughs. Renters in the City of London are likely doing so as a result of short term work commitments. In Richmond, higher average incomes may mean renters expect to soon move into the sales market. While Bexley, Havering and Redbridge have some of the lowest average access to public transport scores in the Capital (GLA) leading to lower tenant demand.

Table 1. Average monthly rent as a proportion of net tenant income

	Top 5 Boroughs		Bottom 5 Boroughs
Bromley	41%	Waltham Forest	25%
Brent	39%	City of London	25%
Kingston upon Thames	39%	Islington	27%
Merton	38%	Tower Hamlets	28%
Newham	38%	Bexley	28%

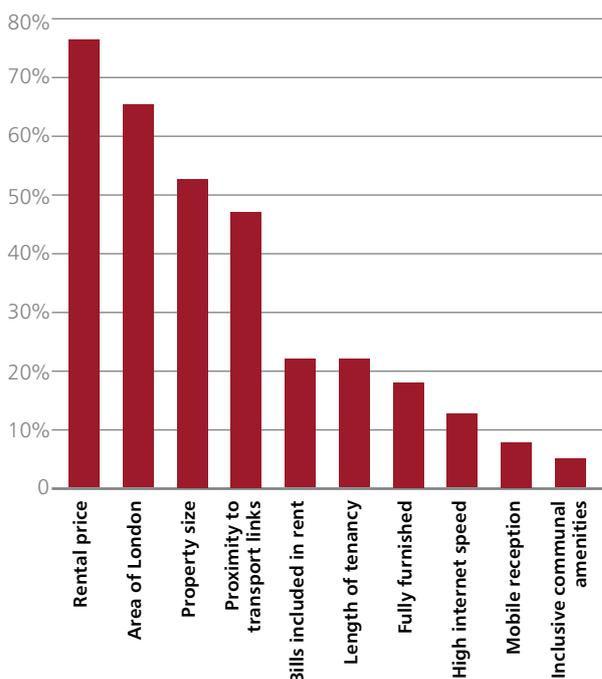
Table 2. Expected time to continue renting in London (years)

	Top 5 Boroughs		Bottom 5 Boroughs
Bromley	5.6 years	Bexley	3.2 years
Hillingdon	5.4 years	Havering	3.2 years
Haringey	5.3 years	City of London	3.5 years
Kingston upon Thames	5.2 years	Redbridge	3.7 years
Lambeth	5.1 years	Richmond upon Thames	3.7 years

Tenant priorities

Given the sentiment of tenants regarding their prospects of ownership and the amount of time they expect to continue renting in London, it's important to understand their priorities when choosing a rental property.

Overall tenant priorities when choosing their current rental home



What are tenant priorities?

In recent years we have seen a rise in the number of new developments offering features such as high-speed internet and communal or shared facilities such as gyms, entertainment areas and cinema rooms. These have been offered as a way of attracting tenants and making developments stand out from the competition. However, our research shows that these features are a low priority for tenants.

Perhaps unsurprisingly, the highest priority is rental price. Nearly four in five tenants (77%) felt this was important to them when considering their current property. The area of London in which they live was the next highest priority at 65%. Property size and proximity to transport links were also some of the highest priorities (51% and 47% respectively). Bills inclusive of rent and length of tenancy were seen as equally important with 21% of tenants saying these factors were a priority for them.

Somewhat surprisingly, some of the lowest priorities for tenants were shared inclusive amenities such as gym, cinema rooms and entertaining areas (5%), good quality mobile phone reception (7%) and high internet speed (12%). Because of London's good overall mobile phone coverage and internet connections, having access to these features may now be taken as a given among tenants rather than something they need to actively prioritise.

Does age affect priorities?

Across all age groups, the highest priority among tenants when choosing a property is rental price. The area of London in which they live is the second highest priority among all ages.

Property size and proximity to transport links are the next most important factors across all age groups, however, for those aged 18 to 44 property size is the more important of the two, while those above the age of 45 prioritise proximity to transport links.

For those aged 18 to 34, and potentially on lower average incomes, the fifth most important factor is having bills included in their rent. For those aged 35 and above, length of tenancy is regarded as more important.

Priorities by age

	18 - 24 year olds
Rental price	67.2%
Area of London	66.1%
Property size	53.5%
Proximity to transport links	43.7%
Bills included in rent	25.9%

	25 - 34 year olds
Rental price	78%
Area of London	63.3%
Property size	51.7%
Proximity to transport links	46%
Bills included in rent	24.1%

	35 - 44 year olds
Rental price	78.8%
Area of London	66.3%
Property size	52.4%
Proximity to transport links	47%
Length of tenancy	21%

	45 - 54 year olds
Rental price	77.9%
Area of London	69.7%
Proximity to transport links	51.2%
Property size	50.8%
Length of tenancy	29.5%

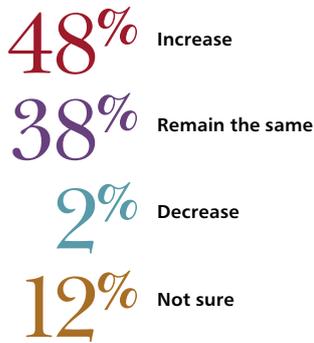
	55+ year olds
Rental price	72.5%
Area of London	60.7%
Proximity to transport links	47.2%
Property size	43.8%
Length of tenancy	28.1%

“While high speed internet and shared amenities have become popular selling points among developers, price and location remain the fundamental priorities for tenants.”

Looking ahead

The importance of PRS in London is growing despite the challenges presented by the rising costs of PRS portfolio ownership, particularly for small private landlords. Therefore, understanding how tenants view the future of the market and how sentiment is set to change is vital when portfolio planning.

Tenant expectations regarding their rent over the next year



Source: KFH tenant research December 2017

With rental price the top priority when searching for property and the expectation among tenants that they will continue to rent in London for another 4.2 years on average, what tenants feel will happen to rents in the future is important.

Over a third of tenants (38%) feel their rent will remain the same over the next year, while nearly half (48%) feel rents will rise. Just 2% feel their rent will fall over the next 12 months with 12% unsure.

On average tenants expect rents to increase by 1.1% over the next twelve months.

When choosing their next rental home, rental price, area of London, property size and proximity to transport links remain the most important factors (74%, 59%, 53% and 44% respectively).

However, in line with expectations around how long tenants plan to continue renting in London, length of tenancy will be more important to tenants when choosing their next property than it was in choosing their current home (up to 27% from 21%).

The final word

In order to cater to the increasing demands on the PRS, operators must not lose focus of the fundamentals – price and location. But it’s also clear that tenancy length is an increasingly important factor in tenant decision making, particularly given the length of time tenants expect to continue renting in London.

We will continue to monitor tenant attitudes and expectations in future reports. In the meantime, our PRS teams are on hand to provide local knowledge and insight as well as a comprehensive range of tailored property services to deliver successful letting and management of PRS and build to rent schemes across London.

48%

Nearly half of tenants feel rents will rise over the next year

1.1%

The average amount by which tenants expect rents to rise over the next year

4.2 years

The average number of years tenants expect to continue to rent in London

Source: KFH tenant research December 2017

“Length of tenancy will be more important to tenants when choosing their next property.”

About KFH PRS and build to rent

Our tailored service is designed to optimise the letting and management of your investments.

Whether you are a major house builder, portfolio investor, housing association or other non-profit organisation, achieving the best performance from your PRS or build to rent portfolios requires a flexible and agile team that is dedicated to meeting your goals.

Tailored services

We are uniquely positioned to do this in London, backed by our local knowledge, international reach and our comprehensive range of services that we can tailor to suit your needs.

Our 40 years' experience in the letting and management of residential and mixed use schemes in London makes us the first choice for many corporate property investors and developers. Our combined portfolio of let and managed properties exceeds 25,000 and, at any one time, we hold £70m of clients' funds.

Long term value

From securing tenants to block management and professional services, our tailored and measurable approach, backed by sound and pragmatic advice, means we really do add long term value to our clients' property assets and reduce exposure to risks and shortfalls.

Clients can use any combination of the services they need, which we support with integrated software and bespoke management reporting.

To discuss your requirements and how our tailored services can support your PRS portfolio or build to rent scheme, contact:

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Or you can contact our teams directly to discuss specific services.

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