



UK Residential Market Outlook

Richard Donnell, Research and Insight Director, Hometrack

The residential sector has made a remarkable recovery from Covid, but the rental market has been left divided. Demand is generally strong, rental growth is positive and increasing in markets outside of London, but rents within the capital are falling.

Rental markets are highly localised, but they're ultimately driven by employment growth and labour mobility, so wherever that is disrupted, short or long-term, we see movement.

That said, times of economic uncertainty and reduced availability of high loan-to-value mortgages for first-time buyers, is driving rental demand predominantly in cities. Nearly 80% of first-time buyers come from the rental market, so if it's harder to buy, demand is upheld, and if the economic outlook is unclear, many prefer to keep on renting.

A city level skew

In London and other large regional cities, people working from home and a lack of labour mobility are starting to have an impact on the rental market. Tourism has stopped, hitting the short-term rental market, with many landlords transferring their properties to long lets. Rents are down 5% on last year in London because of this demand shock, resulting in a rising supply of rental stock, having been amplified by the BTR sector.

The outlook for London's residential rental market is contingent on when international travel and tourism returns, when offices reopen and people return to them, and when we commute again. However, there is no indication that the fundamentals of city centres will change materially, or that offices are dead.

Flexibility and a shift in the dynamic of offices and city centres are key;

however, young people will always want to be in city centres, even if they work flexibly – it just shifts what they want from where they live.

It certainly won't be a quick fix, particularly with more supply coming to the rental market in London, but the prospect of a vaccine in 2021 may limit how drawn out the recovery period is.

Saturation of traditional BTR schemes

BTR has been at the forefront of capital flows coming into the UK residential market, stimulating the emergence of many subsectors of the residential landscape, such as private affordable housing investment.

Creating a new type of supply, BTR has proliferated and the developers behind such schemes are competing from one pool of tenants in any city. The sector tends to be supply-side driven, but risks emerge when it's assumed that demand will materialise. While there is a cohort who will always want to rent a brand new property, every new scheme of renting needs to find its position in the market and there is still much to learn.

BTR players, whether in London, Liverpool or Milton Keynes need to be asking: what is my rental proposition? The higher returns are often found in nascent, more interesting property segments, but it can be difficult to execute quickly and at scale.

New build BTR schemes can soak up first-choice demand from being a better-quality product, but investors and their operators should avoid pushing rents too high. Landlords are rent takers not rent setters, and while it might not necessarily fit with their business models, schemes need to be priced

in line with demand and where that demand is.

Diversification in BTR segments

Affordable housing looks promising as an investment proposition. While Housing Associations once dominated this subsector, investors have recognised the underlying cash flows that these investments deliver. Whether it's a discounted or affordable rent, it's just a different type of structure.

There is an argument that investors should be diversifying away from the typically large, glossy, city centre, apartment-led schemes, which fail to serve the untapped market for lower-density, family homes. There is significant potential here, especially with the middle aged renter proving to be a growing trend in the UK.

The residential investment market will only get broader and more segmented - just as we've seen in commercial property. There are some attractive and profitable income streams emerging across the UK. The skill will be in packaging up the capital to deliver the supply, resulting investment and cash flow.

For more information, speak to a member of our team today to identify the best opportunities for future investments, and maximise those you already have with Hometrack's market-leading insight and valuation products.
Website: Hometrack for Investors

In association with

