

RENTAL BRITAINS

The Private Rented Sector's Many Sub-Markets

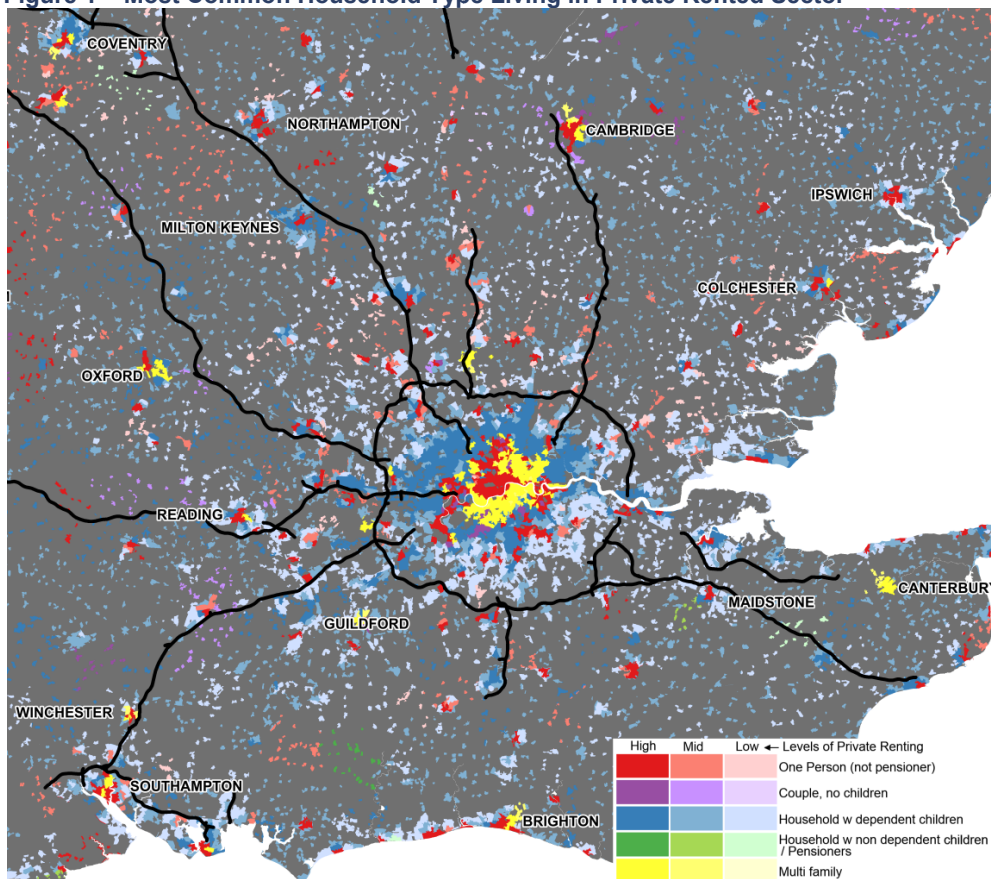
The growth of the private rented sector has been a defining feature of the housing market since the early 2000s. From housing 10% of households in 2000, it has grown to house 19% of households according to the latest English Housing Survey. It has also played an important role in absorbing much of the pressure on our supply-constrained housing market.

While national figures are useful for overall market trends, they do not account for the many different sub-markets in the private rented sector. The sector has expanded beyond its perceived traditional student and young professional market and now houses a wide range of people. Tenants in the sector come from a range of backgrounds, affluence levels, household type, age, and jobs. The sector now houses wealthy foreign students and income-rich expatriates, young professional sharers and couples, families with children, migrant workers, pensioners and many others. All these groups have both different and overlapping motivations for renting, issues with the current market and desires for their future.

Whether approaching the private rented sector as a developer, investor, policy maker or other interested party, it is important to keep all these sub-markets in mind. A development, investment or policy that works for one sub-market may not be appropriate for another. Developers and investors need to ensure they understand the potential size and type of sub-market demand for their homes as this will affect rental levels, rental growth, letting rates, and void periods. Meanwhile policy makers need to ensure they do not fall foul of unintended consequences by designing regulation for one part of the market that negatively disrupts another part.

To highlight some of the spatial and demographic variations in the private rented sector, we have used the 2011 Census to create the map below. Although the data is now four years old, the Census continues to provide useful and detailed information on our housing market. The map shows the most common household type living in the private rented sector in each ward with the shading indicating the proportion of all households living in the private rented sector. A fully interactive version covering the whole of Britain is available at <http://sav.li/prsmap>

Figure 1 – Most Common Household Type Living in Private Rented Sector



Source: Savills using 2011 Census

(if the interactive map doesn't work for you, please try a newer web browser)

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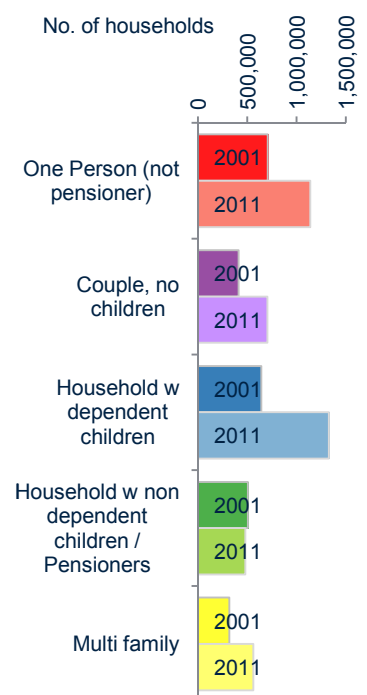
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Figure 2 – Change in Household Type 2001 to 2011

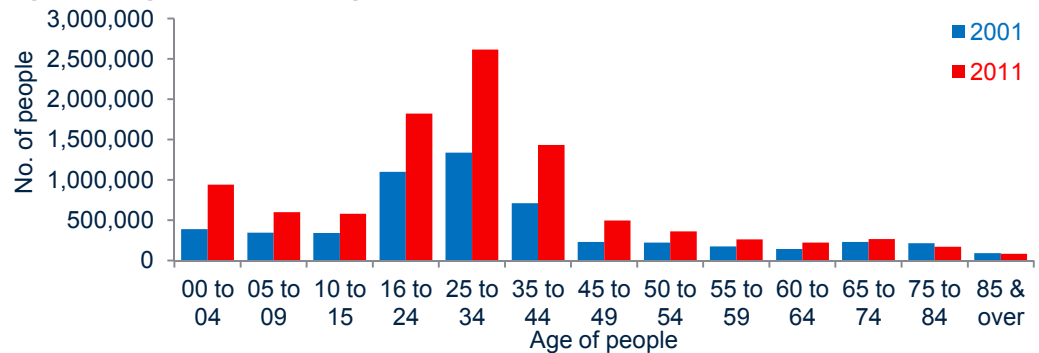


Source: 2001 & 2011 Census

There has been an increase in almost all age groups and household types living in the private rented sector with the exception of those aged 75 and over.

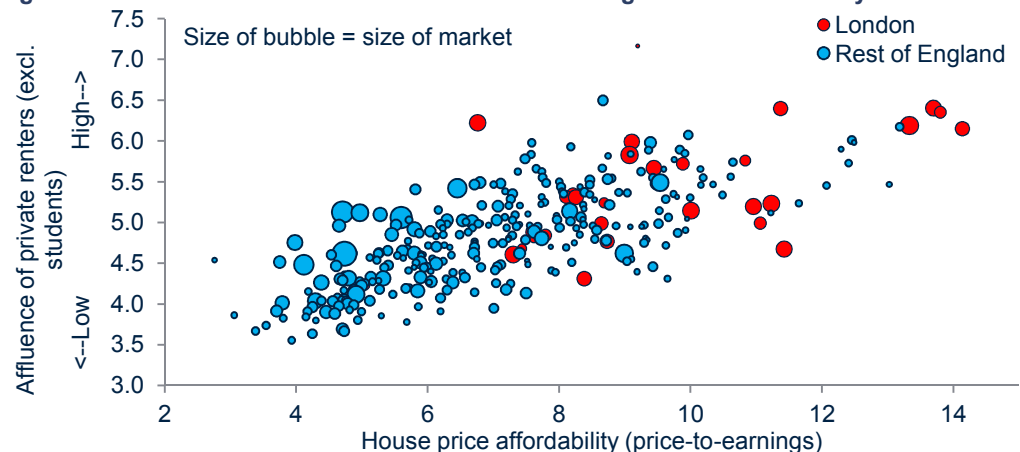
The largest household type within the sector is those with children. 1 in 4 households with children live in the sector while in 2001 it was just 1 in 10.

Figure 3 – Age of People Living in Private Rented Sector



Source: 2011 Census

Figure 4 – Affluence of Private Renters & Local Housing Market Affordability



Source: 2011 Census, DCLG

With a wide range of sub-markets in the private rented sector, there are also a wide range of reasons for renting. Our survey of private renters via YouGov in late 2013 found that 24% of people were renting because they liked the flexibility offered by the sector. A further 8% stated that they were renting because they chose to invest their money elsewhere.

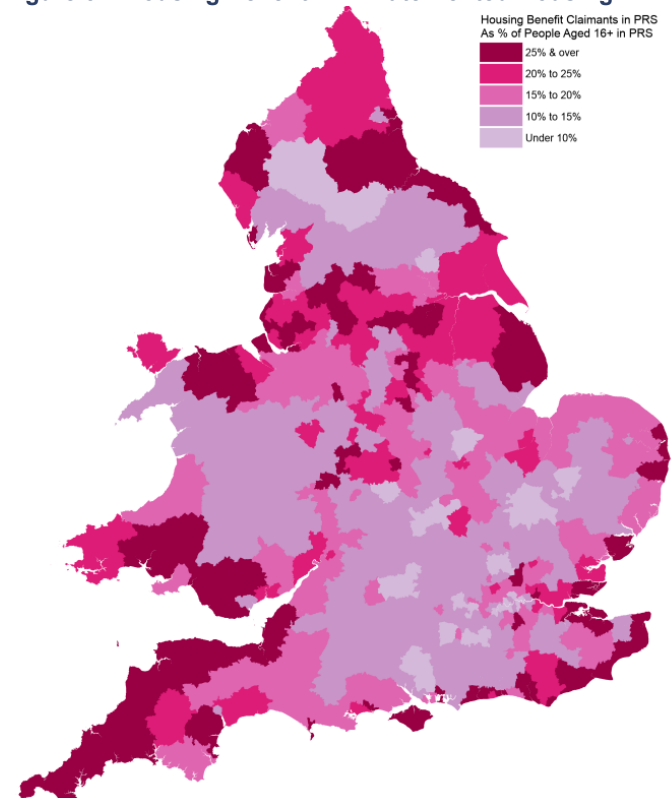
Flexibility was of greater importance to more affluent households but unsurprisingly (see my previous note) it was deposit affordability that was the biggest barrier to home ownership and reason for renting across all market segments. With house prices expected to remain high relative to incomes for some time, it is likely that we will continue to see the private rental market expand with people living in it for longer.

Meanwhile, homes in the private rented sector are more likely to be in poorer condition than other tenures. 30% are non-decent compared to 19% of owner-occupied and only 15% of social rented homes according to the English Housing Survey.

With the prospect of growing demand, there has been a welcome increase in interest in the sector from institutional investors and this should help improve the quality of the sector. Due to the greater capacity for rental growth and the potential to sell additional services, many will focus on the more affluent end of the sector. However, many households in private rented housing are reliant on Housing Benefit (19% of private renting adults in 2011) and in some areas this group is a significant part of the rental market as shown by the map opposite.

By far the most effective way to tackle unaffordable rents (and house prices) is by building more homes of all tenures. While doing so, we need to ensure that our collective approach to the private rented sector meets the needs of all its sub-markets.

Figure 5 – Housing Benefit in Private Rented Housing



Source: DWP, 2011 Census