

Analytics Report

Rental Market Report

10 Dec 2014

Rental Market Summary

This report provides analysis of the rental market in the SW12 Postcode District using data on rental listings and other information held by Hometrack. This information is correct as at December 2014.

Market classification:

- > SW12 is classified as a mature rental market by Hometrack's unique rental market typology.
- > SW12 is ranked 66 out of 2,806 Postcode Districts in Great Britain (excludes Northern Ireland) for rental market activity.
- > There are sufficient numbers of listings in SW12 to provide a large enough sample size for the analysis in this report.

Current rental values:

- > The median rent across all property types in SW12 is £1,810 per calendar month (pcm).
- > The median rent for 1, 2 and 3 bedroom properties is £1386pcm, £1734pcm and £2241pcm respectively.
- > Rents for 2 bedroom properties range from £1599pcm to £1907pcm.

Market Trends:

- > Median rents for all types of property have risen by 7.8% over the last 6 months.
- > They have risen by 8.4% over the past 12 months.

Rental property mix:

- > The largest group of listings in SW12 over the last 12 months was 2 bedroom properties (45%), followed by 1 bedroom properties (24%).
- > Flats account for 82% of listings and houses make up the remaining 18%.

Capital values and yields:

- > The average yield for a 2 bedroom property is currently 3.8%.
- > House price inflation over 2014 was 20.9%.
- > The total gross return in 2014 for an average 2 bed rented property was 24.6%.

Affordability:

- > The gross household income required to buy a 2 bedroom property in SW12 is £112,661, compared to £81,683 for renting a similar property.
- > Renting is cheaper than buying for all property types.

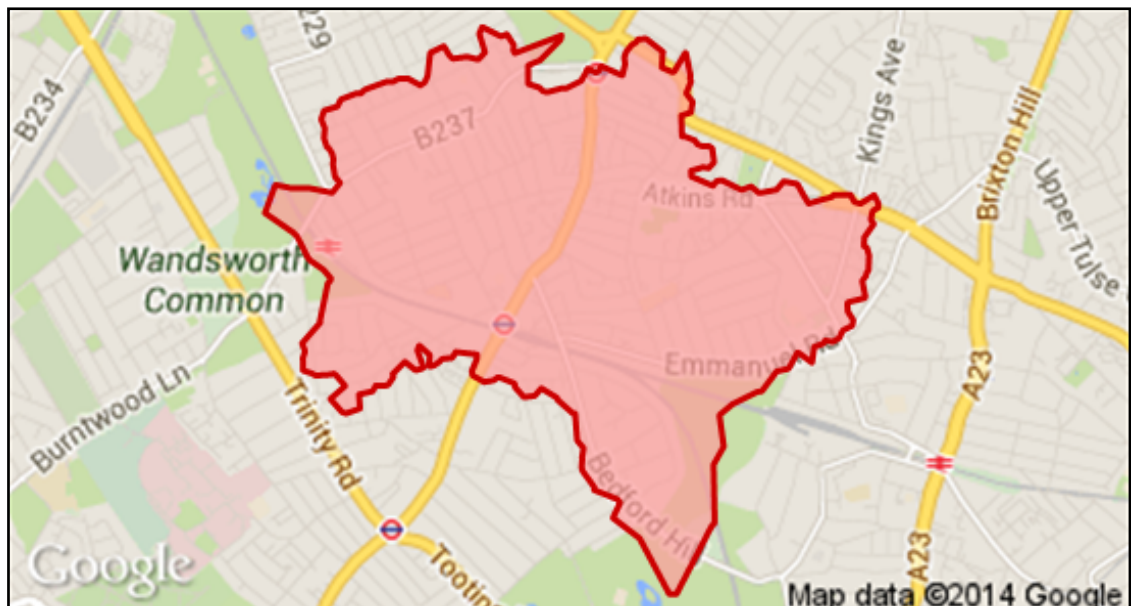
Report Background

This report provides an analysis of the residential rental market in SW12 Postcode District, as shown in Figure 1. It uses property listings data and other market information to provide a detailed analysis of rental levels, market performance, the mix of properties for rent and the affordability of renting or buying.

The Hometrack Rental Report provides local insight to answer the following questions:

1. What are pricing levels in the market?
2. How have rents performed over time?
3. What is the market type and rental activity?
4. What are yields in the area and how have house prices changed?
5. How affordable is renting?

Figure 1: Map showing report catchment area, shaded red



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The rental information in this report is based on advertised lettings, drawing on a database of over a million listings every year.

The differential between asking rents and achieved rents varies from area to area, but is relatively small, averaging just 1-3%. Table 2 on page 5 ('Rental Levels') shows the gap between asking and achieved rents at both regional and national level, using the Valuation Office Agency's private rental statistics as the basis for achieved rents.

The size of the rental market and its geographical concentration in urban areas means that many areas of the country will have limited coverage with a lack of comparable data available. This report is therefore only delivered for areas that exceed a minimum number of listings.

1. Rental Market Typology

The supply of rented housing is not spread uniformly across Great Britain. It tends to be focused in urban areas and those with high concentrations of employment. The risks associated with the rental market vary depending upon the size and characteristics of any given market.

Hometrack have developed a unique classification system for rental markets which ranks markets according to size and levels of activity. Generally, large markets with varied unit mix and high turnover are lower risk than smaller markets with poor coverage and low turnover.

While other sections of this report provide a detailed overview of the rental market in SW12, this typology puts SW12 into a national context.

SW12 is classified as a mature market, as shown below. It has a large proportion of private rented stock, high turnover and good coverage of rental properties available.

Figure 2: Rental market classification relative to markets across the rest of the UK



Source: Hometrack – listings and market characteristics database 2014

The Hometrack Rental Market Classification

Hometrack has assessed every postcode district in Great Britain on the characteristics of its local housing and rental market and ranked them against indices of activity and liquidity.

These rankings are grouped into three broad market classifications. Classifications are based on a complex set of variables, but on the whole rental markets can be described as:

- > Mature: Large markets with high turnover and a varied unit mix
- > Active: Moderate to large sized markets with less varied stock
- > Inactive: Smaller markets with poor coverage and low turnover

Some of the specific variables for SW12 are given above.

2. Market Rental Levels

The analysis in this section examines current rental levels in the SW12 Postcode District.

Table 2 shows both average rents and the distribution of rents in SW12 Postcode District, split by the number of bedrooms. Lower quartile and upper quartile rents are 25% and 75% of the overall rental distribution.

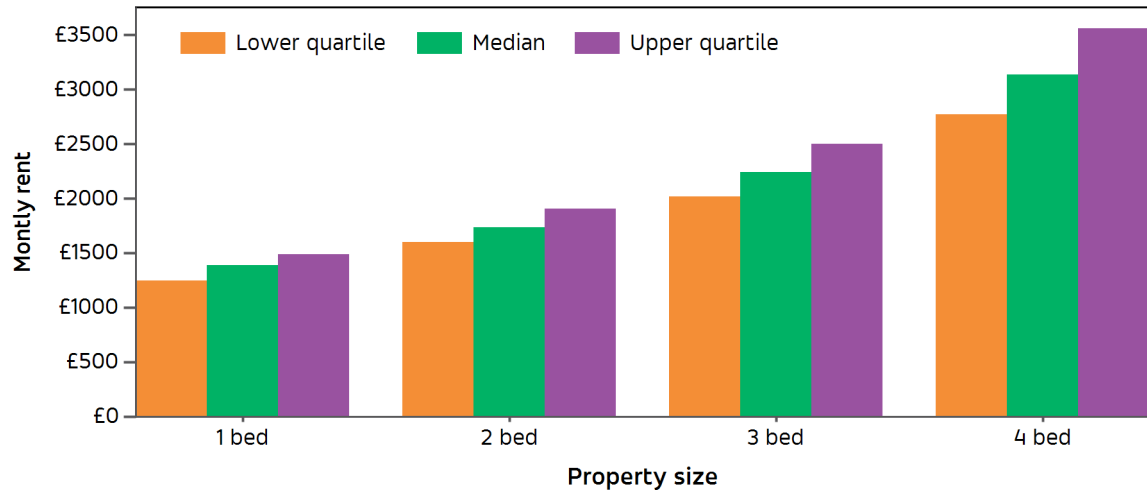
Table 1: Rents by size of property

Bedrooms	Average	Lower Quartile	Median	Upper Quartile	80% Median	Sample
1	£1,377	£1,248	£1,386	£1,485	£1,109	283
2	£1,811	£1,599	£1,734	£1,907	£1,387	501
3	£2,320	£2,015	£2,241	£2,501	£1,793	290
4	£3,116	£2,768	£3,137	£3,556	£2,510	126

Source: Hometrack - rental properties listed in the 6 months to November 2014

Figure 3 plots the distribution (by percentile) of rents in SW12. This indicates the range of rents across the market. More detail on the distribution of rents can be found on the following page.

Figure 3: Range of monthly rental values by size of property



Source: Hometrack - rental properties listed in the 6 months to November 2014

Table 2: Difference between asking and achieved rents by property size

Bedrooms	London	England
1	-5.0%	-1.7%
2	-7.4%	-3.3%
3	-8.0%	-4.1%

Source: Hometrack listings and VOA private rental market statistics

3. Distribution of Rents

The table below plots the volumes of properties listed at different monthly rental bands within the SW12 market over the last 12 months. This analysis can be used to gauge market size at each pricing level to help in identifying price ceilings and estimating landlord's potential void rates.

Table 3: Distribution of rents by bedroom

Value Range	1 Bed	2 Bed	3 Bed	4 Bed
Below £1000	29	1	2	1
£1000 to £1049	11	1	0	0
£1050 to £1099	19	0	0	0
£1100 to £1149	35	3	0	0
£1150 to £1199	49	0	0	0
£1200 to £1249	60	5	0	1
£1250 to £1299	38	9	0	1
£1300 to £1349	82	26	2	0
£1350 to £1399	67	35	4	0
£1400 to £1449	64	53	2	1
£1450 to £1499	55	71	0	0
£1500 to £1549	48	103	8	0
£1550 to £1599	36	122	4	1
£1600 to £1649	35	113	12	0
£1650 to £1699	9	94	14	0
£1700 to £1749	21	129	20	0
£1750 to £1799	5	65	13	0
£1800 to £1849	7	105	23	1
£1850 to £1899	0	55	10	0
£1900 to £1949	0	33	13	1
£1950 to £1999	1	76	48	3
£2000 to £2049	1	19	33	2
£2050 to £2099	0	44	31	2
£2100 to £2149	3	37	62	5
£2150 to £2199	1	16	35	7
£2200 to £2249	0	6	9	4
£2250 to £2299	0	12	35	4
£2300 to £2349	0	7	13	3
£2350 to £2399	0	13	26	8
£2400 to £2449	1	4	18	5
£2450 to £2499	0	12	21	5
Above £2500	0	21	162	227

Source: Hometrack – rental properties listed in the 12 months to November 2014

4. Market Rental Trends

This section sets out the trends in asking rents over time across the SW12 market.

Across Great Britain, rental growth has averaged 1.4% over the last 12 months. In London rental growth is 1.6% and across the rest of the country 1.4%.

Rental growth in SW12 has averaged 8.4% over the last 12 months for all types of property with growth of 8.7% over the last 2 years. Table 4 sets out a breakdown of rental growth in SW12 by property size.

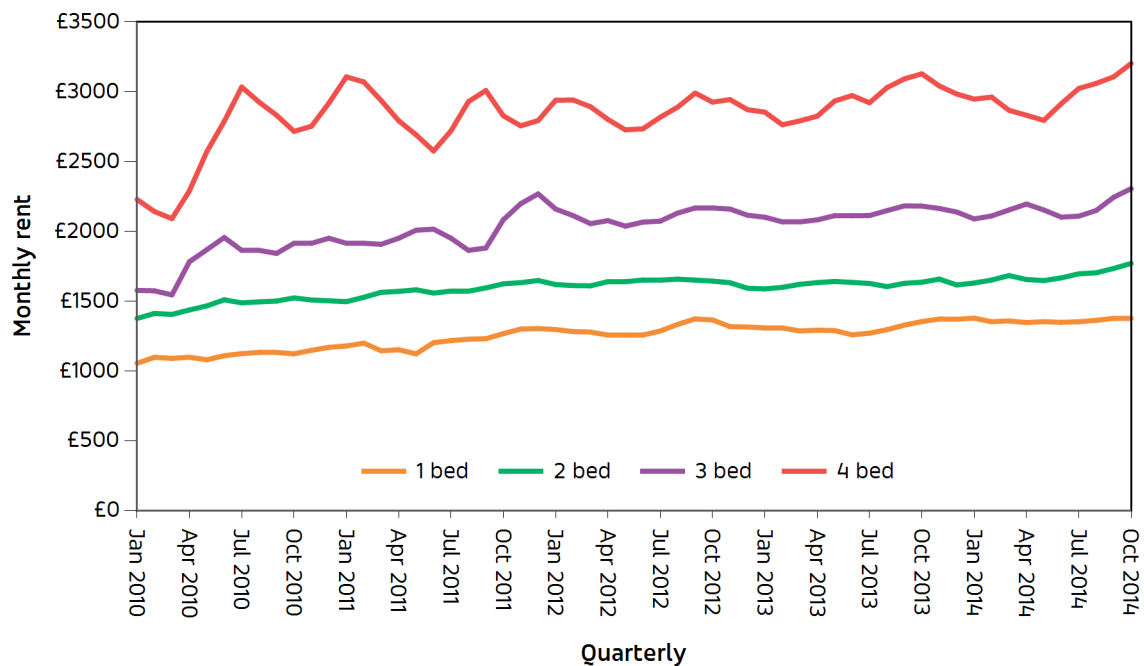
Table 4: Change in rents over time

Bedrooms	6 months	12 months	2 years
1	2.2%	1.7%	0.8%
2	7.0%	8.2%	7.7%
3	5.0%	5.7%	6.4%
All	7.8%	8.4%	8.7%

Source: Hometrack – inflation analysis based on time series of rolling average rents, no seasonal adjustment, all types series weighted November 2014

Figure 4 shows the performance of rental values across different property sizes from 2011 to the present quarter. Volumes tend to be lower for 4 bedroom properties than other sizes and can be volatile as a result.

Figure 4: Median monthly rents from 2011



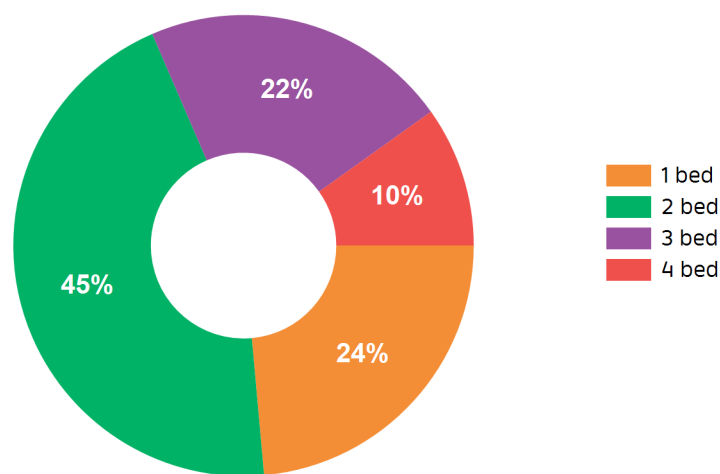
Source: Hometrack – rents rolling 3 months median average from 2011 to 2014

5. Rental Property Mix

The mix of property for rent in any market has an impact on letting periods and forms an important part of any market assessment.

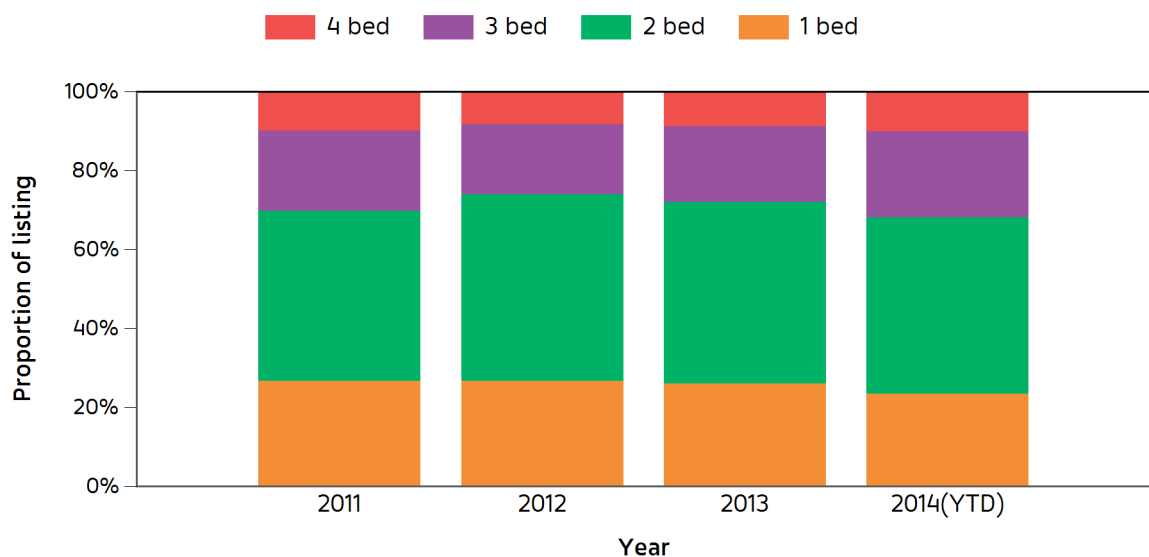
Figure 5 shows the mix of listings of different property sizes over the last 12 months and Figure 6 shows the mix of listing by year from 2011. The largest group of listings in SW12 over the last 12 months was 2 bedroom properties, followed by 1 bedroom properties. 1 and 2 bedroom properties make up 69% of listings.

Figure 5: Proportion of listings for different property sizes over the last 12 months



Source: Hometrack – rental properties listed over the 12 month period to November 2014

Figure 6: Mix of listings by year from 2011 to 2014 year to date



Source: Hometrack – rental properties listed over the 12 month period to November 2014

6. House Price and Implied Yields

Returns from property are made up of returns from rental income ('yield') and capital returns from house price inflation. This section provides analysis on yields and capital returns.

The gross yield is the overall return from rental income relative to the capital value of the property. 'Total returns' are the sum of the gross yield and the capital returns.

Table 5 shows the median capital value, monthly rent and gross yield split by number of bedrooms in the SW12 area.

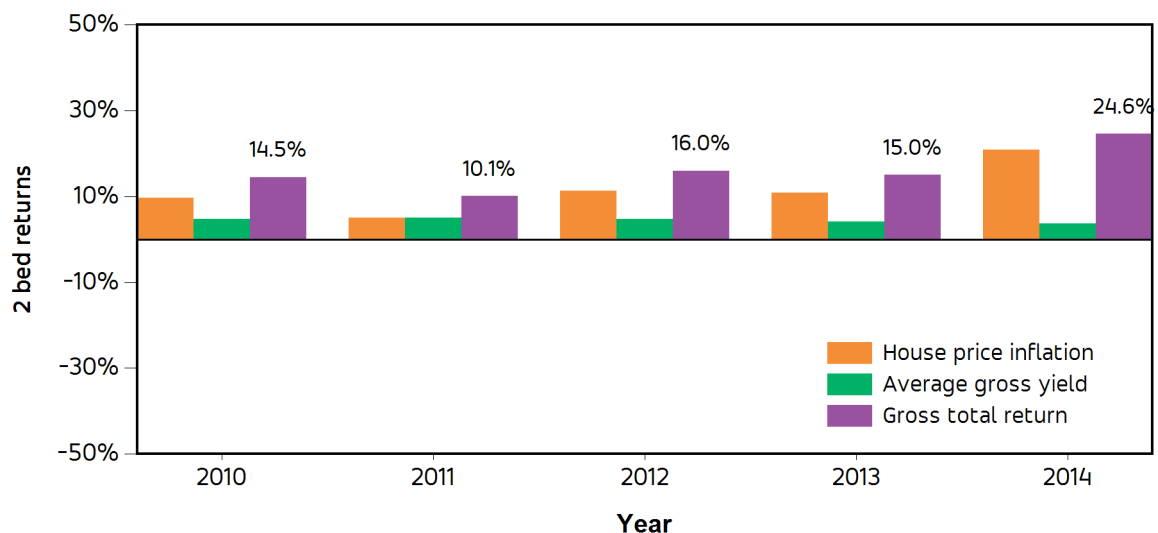
Table 5: Capital values, rental values and gross yields by beds

Bedrooms	Capital Value	Median Rent	Gross Yield
1	£402,466	£1,368	4.1%
2	£561,645	£1,763	3.8%
3	£791,093	£2,264	3.4%
4	£1,149,204	£3,001	3.1%

Source: Hometrack – average over six months to November 2014

Figure 7 shows annual house price inflation, gross yield and the total return over the last 4 years. In 2014 house price inflation in SW12 was 20.9% and the gross yield was 3.7%, which gives a total gross return of 24.6% for a typical 2 bedroom property over 2014.

Figure 7: Gross total return by year, made up of house price inflation and gross yield



Source: Hometrack – capital price index and listings by year

7. Affordability

This section sets out a comparison of the minimum gross annual income required for potential purchasers to rent or buy in SW12.

Table 6 shows rental values and house prices for properties in SW12, as well as the gross income required to buy and rent for different property sizes (at average price points).

The income required to buy in Table 6 is calculated assuming a repayment mortgage, with a 25 year term, a 4.24% mortgage rate and an 20% deposit. We assume that a maximum of 35% of net income can be spent on mortgage costs/renting and that net income is 74% of gross income (accounting for tax). The calculation method and assumptions are in line with guidance on calculating affordability issued by the UK Homes and Communities Agency.

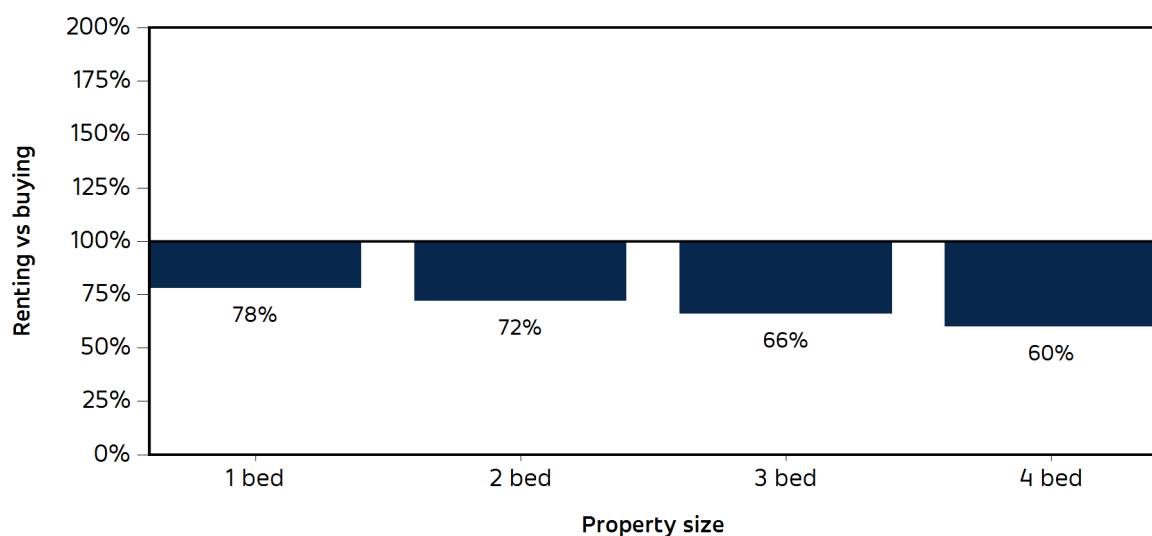
Table 6: Affordability by gross income for purchase and renting

Type	Average price	Gross income to buy	Median rent	Gross Income To Rent
1	£402,466	£80,731	£1,368	£63,382
2	£561,645	£112,661	£1,763	£81,683
3	£791,093	£158,686	£2,264	£104,896
4	£1,149,204	£230,520	£3,001	£139,042

Source: Hometrack – prices and rents over 12 months to November 2014

Calculating the cost of renting as a percentage of buying shows the relative position of the two tenures in affordability terms for a given market, as shown in Figure 8. If this measure is above 100% renting is more expensive than buying, if it is below 100% renting is cheaper than buying.

Figure 8: Renting as a percentage of buying by different property sizes



Source: Hometrack – prices and rents over 12 months to November 2014

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Hometrack delivers independent, specialist insight on residential property value, risk and opportunity.

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