the mortgage works

# The Mortgage Works Private Rented Sector Report

Summer 2024

# Helping build a stronger fairer private rented sector that works for all

Understanding the dynamics of the private rented sector continues to be important.

The private rented sector influences the lives of millions of people, and is essential for the economy to provide homes for those who can't or prefer not to own a home.

This report provides compelling insight into new emerging trends, highlighting:

- an unprecedented surge in private renting across England
- a dramatic shift in the number of people renting from their mid-fifties, and;
- a staggering 30% of households rent privately in London, nearly double the rest of England.

**But crucially, it's what we do armed with this new information that's so important.**

Access to housing remains of utmost importance to the UK. We acknowledge the challenges facing landlords, but given the surge in private renting, landlords are and will remain a vital part of the UK housing and economic landscape and must be supported.

As the age of renters continues to increase, we foresee a significant shift in the type of housing stock required in the private rented sector. We will continue to champion landlords and work in partnership with government to ensure the private rented sector delivers homes suitable for all, regardless of age or life stage, achieving a balance that considers the interests of landlords and tenants and drives economic growth.

And finally, with a significant number of people unable to buy a property or choosing to rent in our UK cities and urban areas, we must ensure the private rented sector continues to thrive. By increasing suitable housing in cities, people will remain, they will contribute to the economy and local business, in-turn ensuring the long-term sustainability of our cities. Reform of the planning system can help increase the total number of new homes being built and changes to the tax system and more certainty over future regulation would help give landlords the confidence to invest.

Read on to explore The Mortgage Works Private Rented Sector Report, which shines a light on some of the pressing issues of the industry. Backed by data, it offers a basis for a better understanding of what needs to be done to help build a stronger, fairer, private rented sector that works for all.

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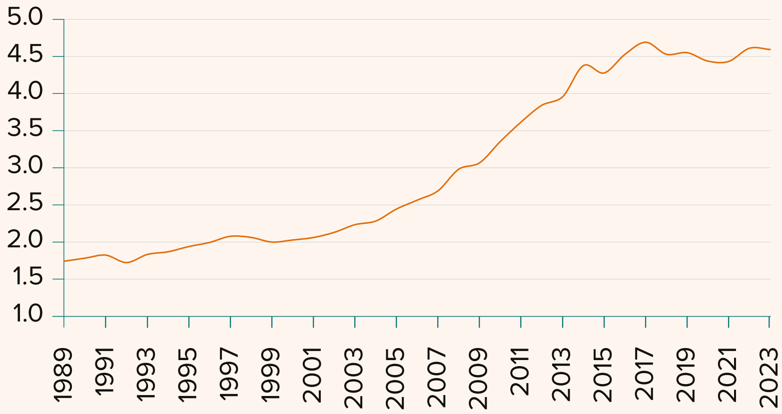
## After a sustained period of rapid growth, relative stability...

The share of households in the private rented sector (PRS) in England has been broadly stable (at c.19%) in recent years. There were c.4.6 million households in the PRS in 2023, a little below the peak of 4.7 million recorded in 2017.

**Number of households privately renting** (mil)




Source: DLUHC

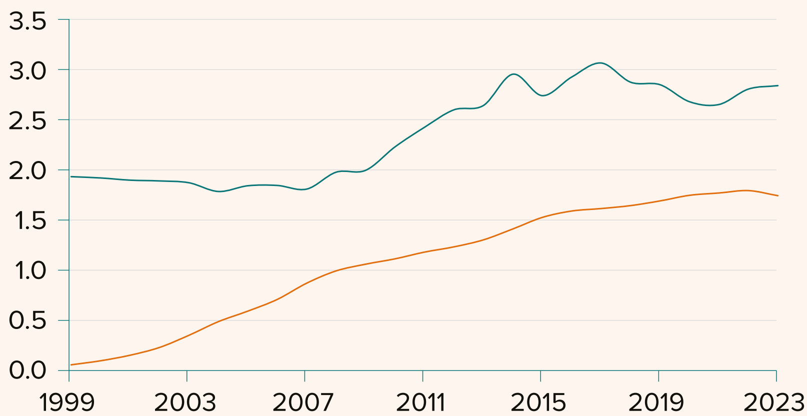
However, this relative stability comes after a sustained period of rapid growth between 2000 and 2015, which saw the number of households privately renting more than double, from 2 million (10% of households) to 4.3 million (19% of households). This was more than twice the rise in the number of owner occupiers, which increased by 1.1 million between 2003 and 2023 (the number in the social rented sector remained broadly flat).

The period of rapid expansion was fuelled by the decline in long term interest rates, which, along with favourable tax treatment, made investment in residential property increasingly attractive. The emergence of the buy to let mortgage market opened the sector to a wider investor base.

Since 2003, the number of buy to let (BTL) mortgages outstanding has increased by more than 1.5 million, though the majority are still owned outright (c.60% of PRS properties in England are unencumbered – not subject to a BTL mortgage).

**Ownership of private rented households** (mil)

- Unencumbered (estimate)
- BTL mortgage




Source: DLUHC, UKF, Nationwide estimates

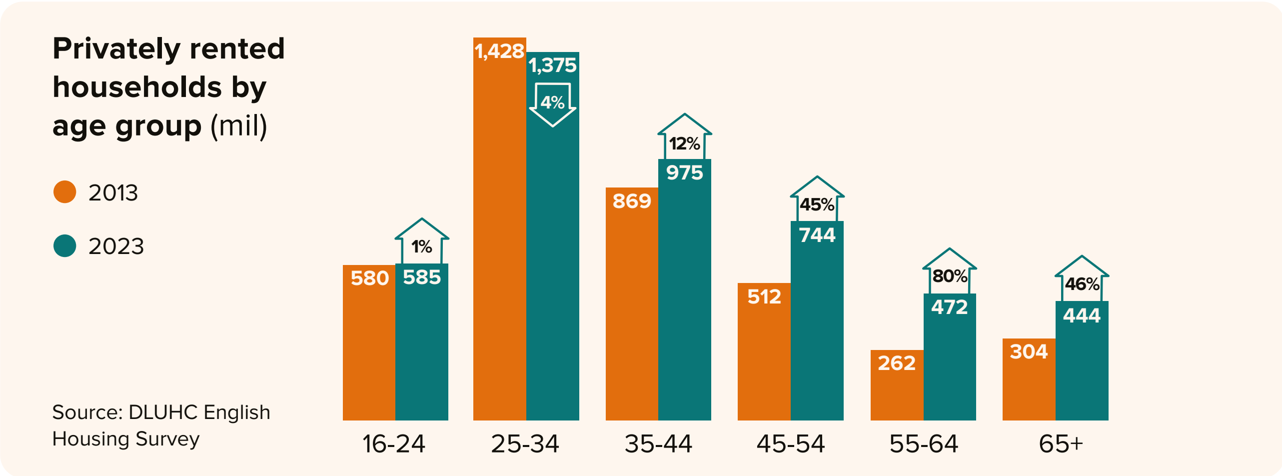
However, since 2015, investment demand has slowed due to increased regulation, political uncertainty and tax changes.

More recently, higher mortgage rates have made purchasing a property using a BTL mortgage less attractive. Indeed, there has been a modest decline in the total number of BTL mortgages outstanding over the last year.

## Stable growth masks ageing tenant population

The structure of the rental market has also changed enormously – notably in terms of the demographic profile of renters.

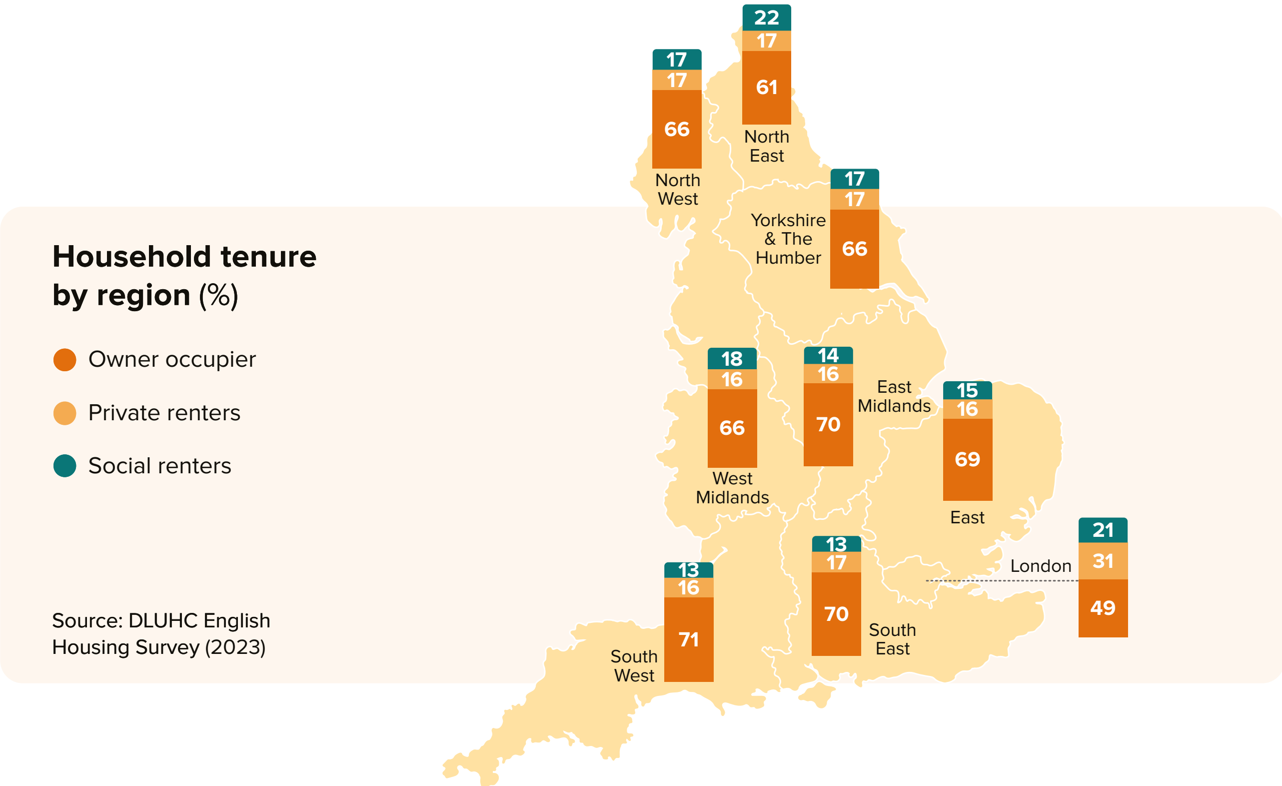
**One of the most dramatic shifts has been among those aged 55-64, where the number of households privately renting has increased by 80% over the last decade.**




While this partly reflects growth in the number of households in this age category, the proportion renting has also increased by almost 50%.

**This correlates to the ongoing decline in home ownership amongst 55-64 year olds (which is now around ten percentage points below its 2007 peak).**

As the chart below illustrates, the proportion of households privately renting in each English region is broadly similar, with the notable exception of London.



**In London, more than 30% of households rent privately – almost double the proportion in the rest of England. London has traditionally had a higher share of renters, but the proportion of renting has more than doubled since 2004.**

This reflects the impact of intensifying affordability pressures for prospective first time buyers, where the price of a typical home in London is now twice the UK average, compared with c.50% higher in 2000. Indeed, the proportion of households owning with a mortgage in the capital declined from c.40% to 25% over the past 20 years.

## The landlord population has also changed...

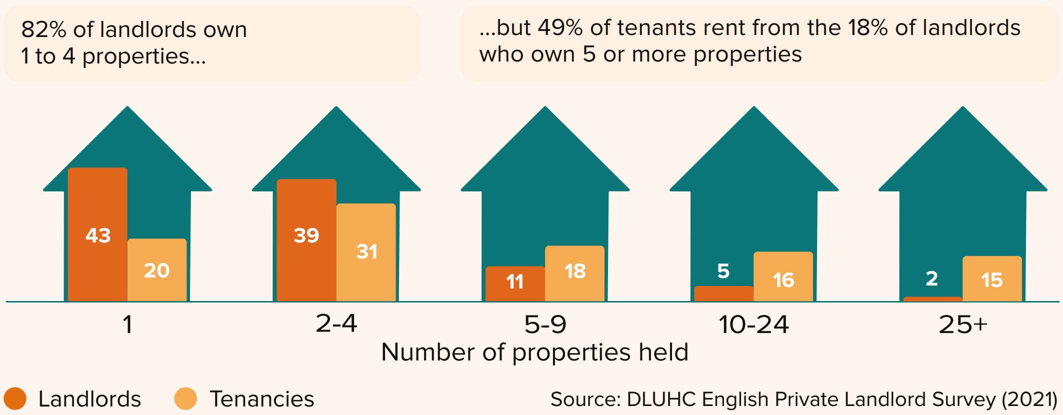
There has also been a marked change in the ownership structure of the market and the composition of landlord portfolios.

Data from the English Private Landlord Survey 2021 shows that just under half (43%) of all landlords owned one rental property – a significant shift from the situation in 2010, when almost 80% of landlords owned a single property.

**Similarly, the proportion owning five or more properties has increased from just 5% in 2010 to 18% in 2021 – the latter have a disproportionate role in the market since they account for almost half of all tenancies.**

As you might expect, landlords operating as individuals usually have smaller portfolios than those operating as companies or organisations. More than half of landlords operating in a company structure own five or more properties.

**Landlords by portfolio size** (%)




Source: DLUHC English Private Landlord Survey (2021)

Just over half have been landlords for 11 or more years, and less than 10% are recent entrants (3 years or less). When compared with 2010, 70% had been landlords for 10 years or less and 60% had no property or buildings experience.

The most popular reasons cited for becoming a landlord in 2021 were a preference for investing in property rather than other investments (42%) or a pension contribution (40%).

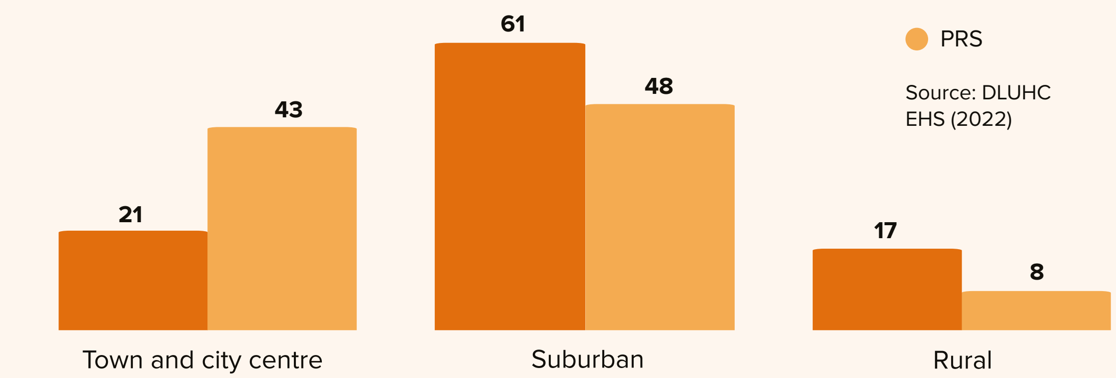
While just over half (52%) of those surveyed in 2021 bought their first rental property with the intention of renting it out, over a third (35%) originally bought it to live in themselves.

## More of the stock in urban areas…

Over the past decade the proportion of the private rented stock located in urban areas has increased from c.36% to 43% in 2022. This proportion is significantly higher than is the case for owner occupier housing – where just 21% of the stock is in urban locations. The shift has largely come via faster growth of the rental stock in urban areas, even though the total number of private rented properties has increased in all area types over the past decade.

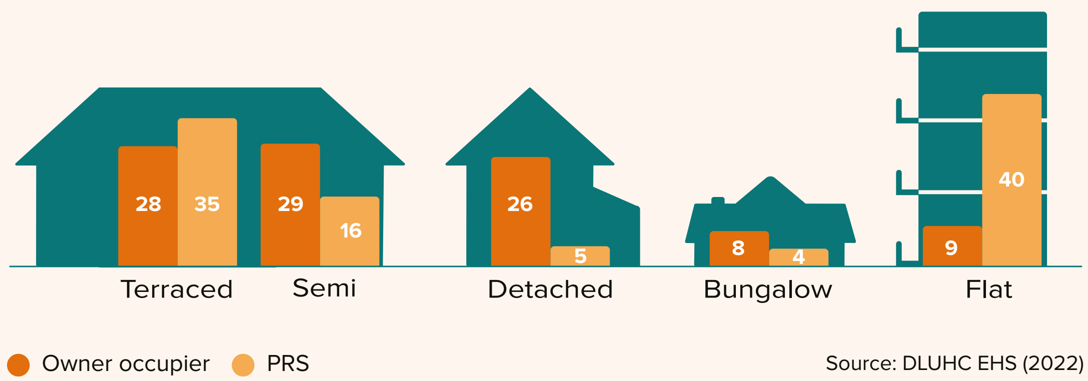
Nevertheless, suburban locations account for almost half (48%) of the private rented stock at present, with rural locations accounting for the remaining 8%. These are significantly lower proportions than for owner occupier properties where suburban dominates (61% of the stock) and where rural (at 17%) also constitutes up a significant portion.

**Housing stock by area type** (%)




The patterns noted above also help to explain the differences in composition by property type between the privately rented and owner occupier properties. The PRS has a much higher proportion of flats (40% of the PRS stock verses 9% of the owner occupier stock) and terraces (35% vs 28%). By contrast detached are much less common in the PRS (5% vs 26% for owner occupier stock) as to a lesser extent are semi-detached properties (16% vs 29% for owner occupier).

**Housing stock by property type** (%)

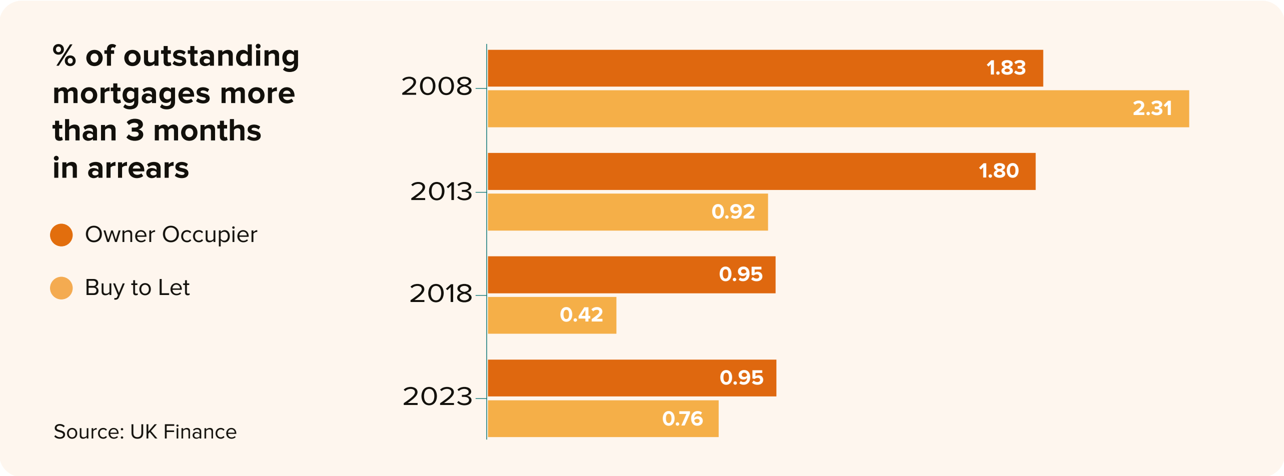


## How are landlords coping with higher rates?

The impact of higher interest rates has been uneven across the sector. Since the majority of the rented stock is owned outright, most are insulated from the direct impact. However, for the c.40% owned with a mortgage, the significant rise in interest rates since late 2021 poses a major challenge, especially since most BTL mortgages are contracted on an interest only basis.

**Therefore, it is reassuring that, while mortgage arrears in the BTL sector have edged up in recent years, they remain at extremely low levels by historic standards.**

This resilience reflects a number of factors.

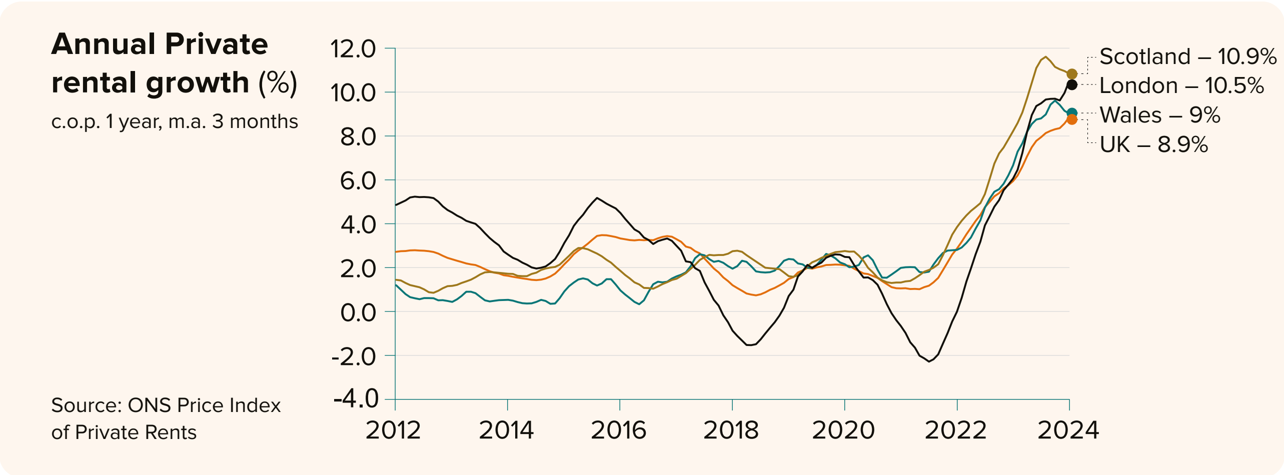



First, in the years running up to the pandemic, the vast majority of BTL mortgages were contracted on fixed interest rates (especially 5 year), giving most landlords time to adjust to the new environment. This is a sharp contrast to a decade ago, when the majority of BTL mortgages were on variable rates (tracker or SVR), with less than a third on fixed rates.

Second, loan to value ratios across BTL are typically low (around three quarters of loans below 75% LTV in recent years), which has helped to reduce the impact of higher interest rates.

Third, changes to underwriting standards since 2016 increased the resilience of the sector, in part by requiring firms to use an affordability test. Initiatives from lenders during the pandemic (such as payment holidays) also helped the sector deal with an unprecedented shock.

Finally, strong rental growth in recent years has provided some relief, as shown below.

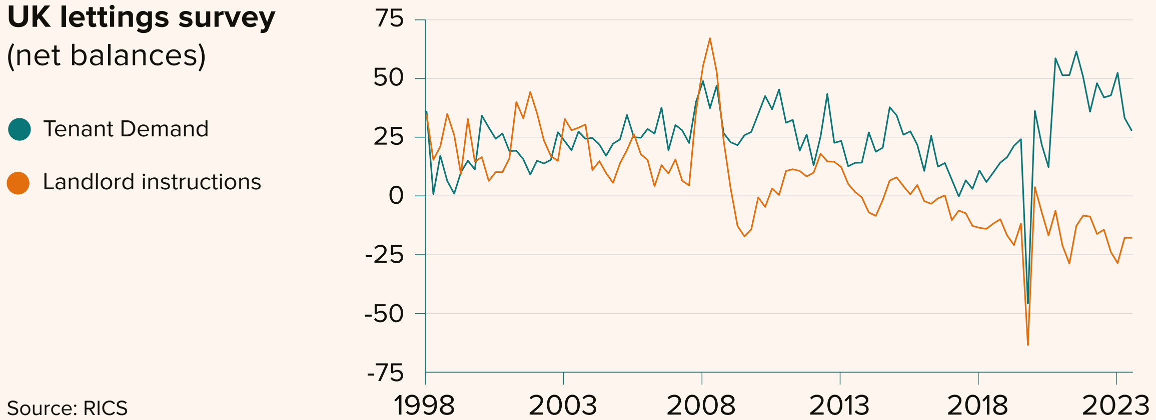


Nevertheless, the impact of higher interest rates is likely to be felt for some time if rates remain at current levels. Around 350,000 BTL fixed rate mortgages are due to mature over the next 12 months. The typical interest rate on these loans is c.2.7%, which implies those refinancing are likely to face a payment shock of c.£225 per month (based on BTL rates in April 2024).

## Rental growth has accelerated sharply

ONS data indicates that annual rental growth rose to all-time highs in recent quarters (on data extending back to 2005), reaching double digits in some parts of the country. Moreover, since this data captures rental trends in the private rented stock as a whole, this suggests that new tenancies have seen even more rapid rises. This reflects that tenant demand has been extremely strong since 2021 while the flow of rental properties coming onto the market has been declining.

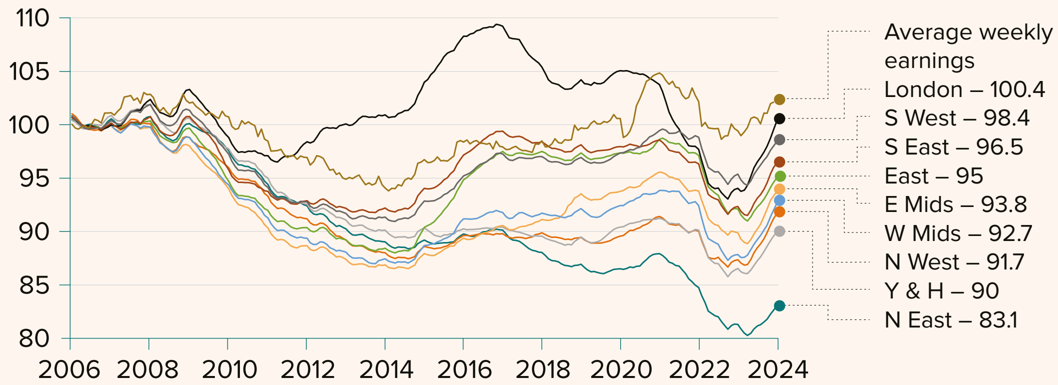
**UK lettings survey** (net balances)




Source: RICS

The sharp rise in rents marks a significant change from the trends prevailing before the pandemic, when for significant periods, rental growth was negative in real terms (i.e. it failed to keep up with inflation) in most parts of the country, as shown below.

**Private rentals in real terms**

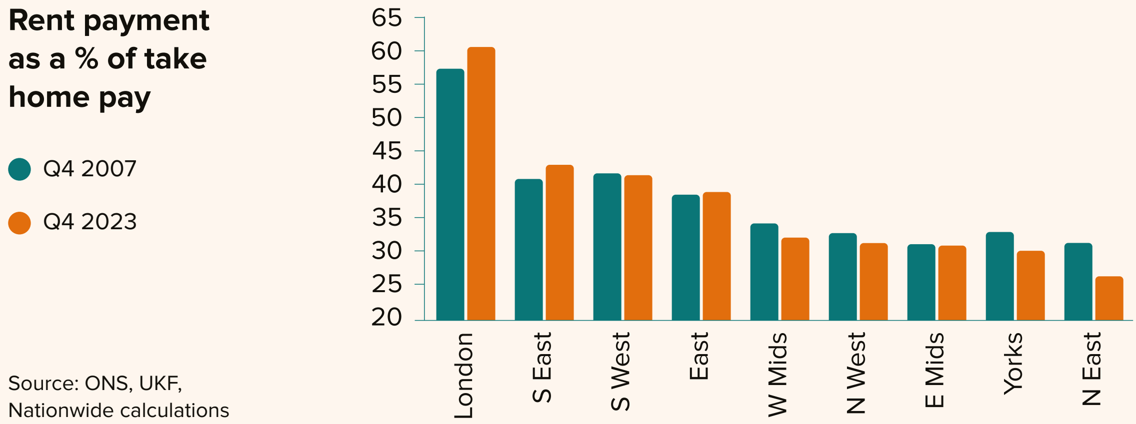



(Deflated by CPI, Index, 2006 = 100) Source: ONS

This was in large part because wages were under significant pressure over the same period, where income growth is the key factor determining how fast rents can rise over time. Indeed, UK renters already spend a high proportion of their income on rent by international standards.

We have constructed a benchmark measure which compares average private sector rents to take home (net) pay for a single adult full time worker in each English region. Broadly speaking, average rents to take home pay have been relatively stable over the last 16 years.

**Rent payment as a % of take home pay**




Source: ONS, UKF, Nationwide calculations

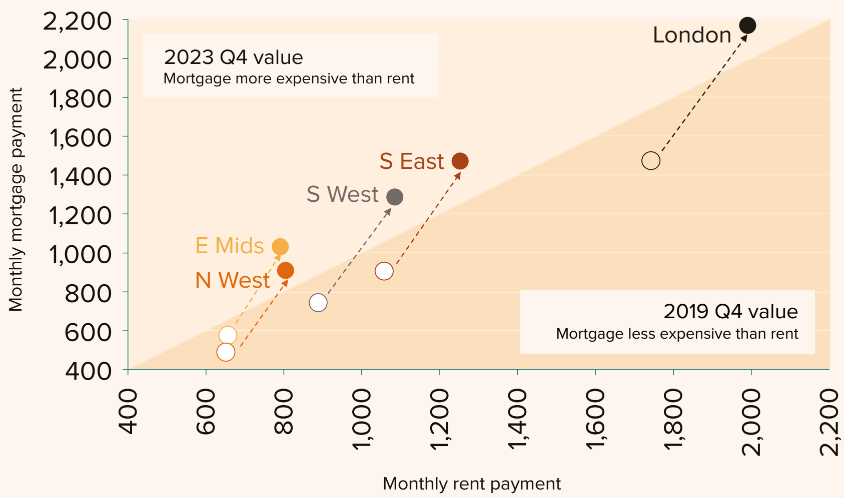
**Mirroring trends in the owner-occupier sector, London is the least affordable region with average rents currently equal to 61% of take-home pay, up from 58% in 2007 (pre-financial crisis). Affordability appears significantly better in the Midlands and North of England, with average rents in the North East accounting for 27% of take-home pay.**

## Outlook remains clouded

The outlook for the private rented sector is particularly difficult to discern at present. In many respects, fundamentals remain strong. Tenant demand is extremely robust, and, as noted above, rental growth is strong. Moreover, with housing affordability stretched, many aspiring homeowners are likely to stay in rented accommodation for longer, so tenant demand is likely to remain solid.

Indeed, across regions, the cost of renting a typical rental property is now less than the cost of monthly mortgage payments on a typical first-time buyer home (assuming a 20% deposit), for the first time in over a decade as a result of the rise in mortgage rates. See chart on the following page.

**Cost of renting now less than cost of buying** (%)

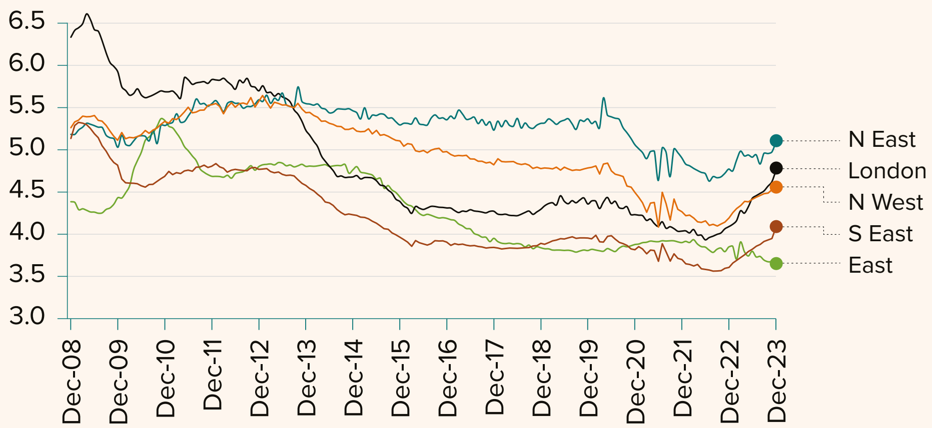



Source: ONS, UKF, Nationwide calculations

Nevertheless, the rental market is also experiencing strong headwinds. In particular, after more than a decade of ultra-low interest rates, borrowing costs have snapped back towards long-term averages. If this is maintained, it is likely to exert an ongoing drag on the sector.

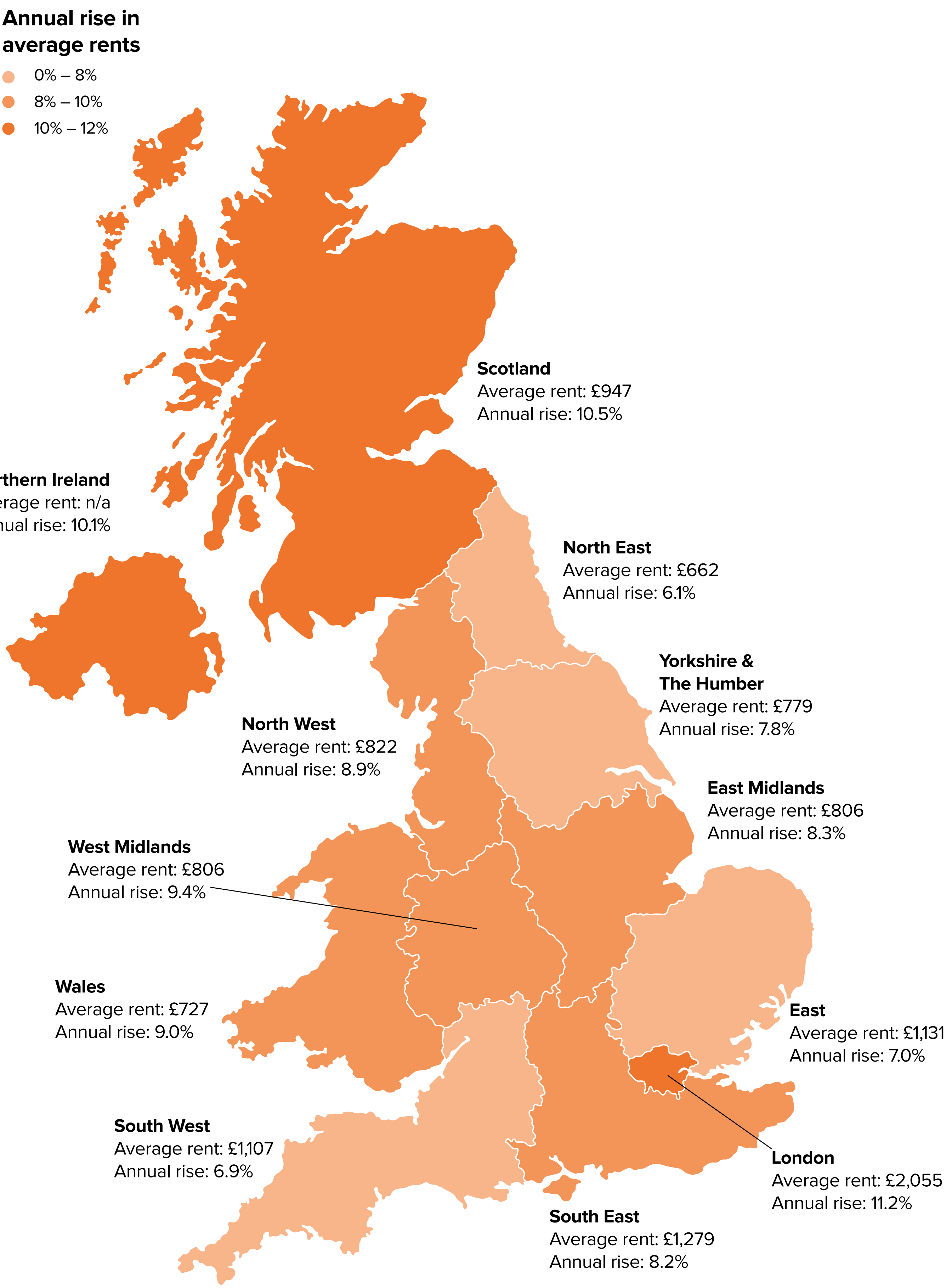
**While rental yields have picked up from the lows seen in the wake of the pandemic, returns on risk free assets (like deposits) have increased significantly.**

**Estimated gross rental yields** (%)




Source: ONS, Nationwide calculations

Moreover, expectations of future house price movements are muted at present, given the affordability constraints posed by higher mortgage costs and since house prices remain high relative to incomes (which means deposit requirements remain extremely high for prospective buyers).




Source: ONS Price Index of Private Rents (March 2024)

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