Briefing notes

Addressing topical issues in UK rental markets

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Ranking cities on their rental potential

from Aberdeen to Worthing

A critical question for investors is how to identify places with the strongest rental potential.

We've dived into our rental database of rents paid, affordability and renter demographics to gather the evidence, matching rental data with the local economic, social and demographic context.

From this we've identified the key relationships and strongest associations which explain higher rents. We've looked at rental potential in two ways:

Either: a place where the current local conditions (earnings, affordability, economic vitality and other key metrics) suggest that rents could be higher.

Or: places which are improving and moving up the rankings (given the trends in earnings, employment and other lead indicators) which suggest the potential for higher rents moving forward.

Dataloft organises and assesses the many factors affecting rents and rental potential within key themes. Central and most important to this is our ability to segment and analyse renter earnings and affordability.

Dataloft's City Rental Potential Model compares the rents and rental growth across 60 different towns and cities to their socio, demographic and economic characteristics.

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Dataloft is an independent consultancy, delivering intelligent, data-driven insight on housing market economics.

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dRMA Dataloft Rental Market Analytics

Dataloft Rental Market Analytics (DRMA) is the UK's largest and most comprehensive single source of achieved rents. It includes over 5 million references, with around 30,000 new tenancies and 50,000 new tenants added each month. Extensive rental data and insight is available semi-automated or in conjunction with bespoke Dataloft Consult analysis.

What does the **evidence** say?

Looking across 60 cities and towns; we've identified the strongest relationships which explain high rents, using correlations to express the strength of the relationship as a percentage. In this analysis we've examined rent for flats, most relevant for build-to rent.

The strongest relationship is between rents and renter earnings. High earnings explain high rents. The correlation is 86%.

Affordability has a similar correlation with rents achieved (85%). This strong positive relationship largely means places with higher affordability have higher rents, the more telling analysis comes as we segment affordability and can see the potential for higher earners to spend more on rent.

There is a wide range even on average affordability numbers. Stand out locations are Aberdeen, where average rents represent just 20.8% of renter earnings versus Worthing, which ranks as the third least affordable city at 28.8%, behind only London and Brighton.

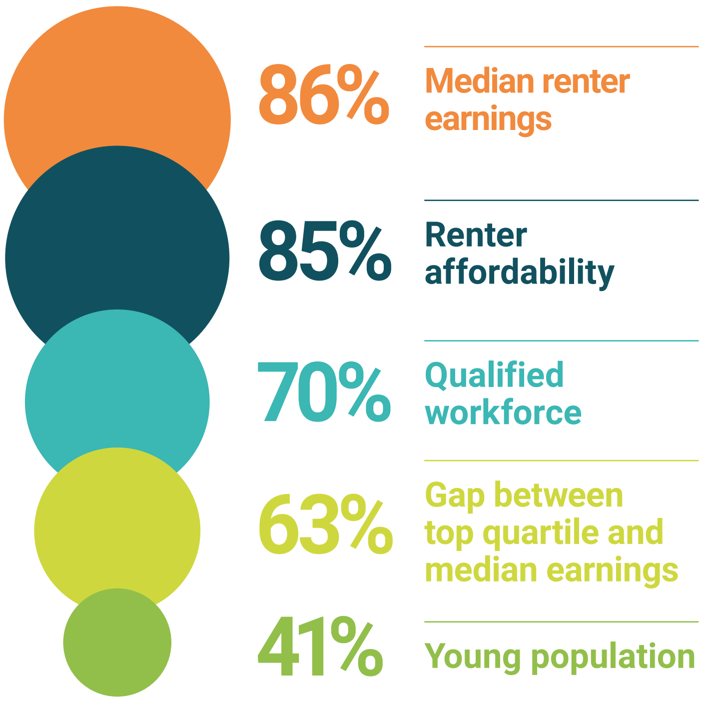
A qualified workforce is tied in with higher earnings, so it makes sense we see a strong correlation with rents of 70%.

We found a robust corelation (63%) where there is a wider gap between median and top quartile earnings telling us about the distribution of rents and the presence of higher earners.

There is a positive relationship (41%) between a high proportion of a 18–29-year-olds and rents, this age group has a high propensity to rent and therefore translates to higher demand.

Determinants of rent levels

Correlation of median flat rent to



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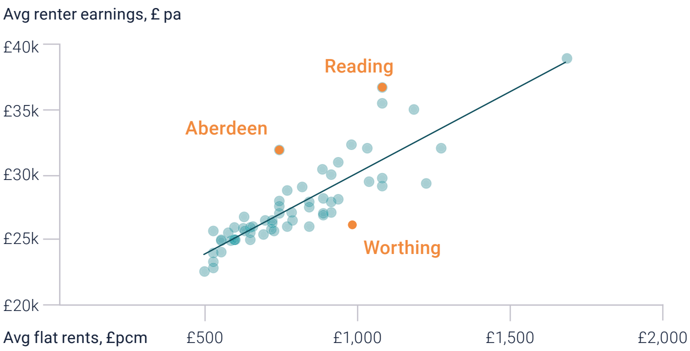
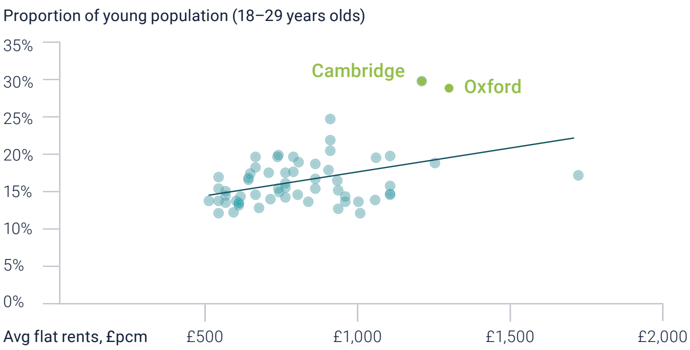
Spotting rental potential

Median flat rents versus average renter earnings by city



Proportion of young population versus average rent by city



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What does this mean?

These factors presented here are crucial in determining current rental potential. Identifying locations with a relatively low level of rent relative to earnings (and other key metrics) suggest that the market is currently under-priced. These cities are a good place to start looking for opportunities.

Reading is a good example, with relatively good affordability compared to current rental levels. A place may require new stock to realise a higher rental level or a more fundamental change to improve its attraction to renters through investment in its transport links, infrastructure or environment. All these things have been underway in Reading (the opening of Crossrail, a strong pipeline of new BTR stock, tempting in a new demographic of renters).

The evidence presented here largely focuses on rental potential in terms of current metrics (current earning levels etc). Investors can also consider concentrating on markets where earnings will grow, and so boost rent levels over time. There are a multitude of indicators of city potential, including educational levels, student numbers and patent applications that speaks to the economic future of the city.

This data presents an initial assessment of city rental dynamics. We have the ability to segment our data across rents, earnings and rental affordability to dig into the detail beyond these city headlines.

Our analysis here focuses on multi-family, we cover single-family and co-living separately.

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