

Index of private rents and yields

A new quarterly index of rents and rental yields from the Centre for Housing Policy at the University of York provides, for the first time, detailed market information about private residential lettings so as to inform investment decisions and allow comparisons with the returns from alternative investments such as commercial property and equities. The data for the Index is being collected with help from the Association of Residential Letting Agents and other principal letting agents, the Halifax Building Society, and the Institute of Rent Officers and Rental Valuers. It provides regular, reliable information on rents, yields and market activity at the local and regional level. Such information has not previously been available, but without it financial institutions are unlikely to invest in the sector. The results for the first quarter of 1996 show:

f Gross rental yields were inversely related to property size, being highest on one-bedroom flats (12.5 per cent on the basis of the valuation index) and lowest on four-bedroom detached houses (6.3 per cent).

f Yields were highest in the regions of London, the South East and the North West (at about 10 per cent); they were lowest in Scotland (6.7 per cent) and in Yorkshire & Humberside (7.9 per cent).

f Not surprisingly, rents varied between different towns and regions. At the regional level, rents were higher in London (£148 per week, based on the valuation index) and the South East (£120) than in other parts of the country, and they were lowest in the East Midlands and in Yorkshire & Humberside (£71).

Introduction

A key objective of Government housing policy is to encourage and sustain a revival of private renting. To this end, it has sought to make conditions in the sector conducive to investors and in particular to the financial institutions, which at present have relatively little involvement in privately rented housing. However, if investment is to develop on a significant scale, potential investors will require market information about rent levels and rental yields so that they can compare returns from residential lettings with those from alternative investments. Until now, such regular and reliable data has not been available; the JRF Index is intended to fill that gap.

The Index employs approaches based on both valuations of a panel of properties and on actual rents agreed on new lettings (transactions). The published JRF Rent Index Bulletin contains much detailed information about rents and rental yields for different types of letting, different types and sizes of property, and different areas (local authorities, postcode areas, counties and regions). It covers England, Scotland and Wales. This summary draws on only a sample from the first Bulletin to examine rents and yields in the first quarter of 1996.

Property types

As expected, rent valuations varied according to property type and by whether the letting was furnished or unfurnished. Figure 1 shows that the average rent for furnished property was in all cases higher than that for unfurnished dwellings. For example, on self-contained two bedroom flats, the average rent valuation was £94 for unfurnished property and £106 for furnished property.

The Index also confirms that the average rent valuation increased according to the number of bedrooms. Thus the rent for one-bedroom flats was £16 per week lower than that for two-bedroom flats. The average rent for detached four-bedroom houses was £23 more than that for three-bedroom semi-detached houses, which was in turn £13 higher than the rent for two-bedroom terraced houses. Perhaps more interesting is the fact that the average rent for two-bedroom flats was £16 higher than that for two-bedroom houses and slightly above that for three-bedroom houses. This result may reflect the different types of market demand for these properties.

There were also variations in the average gross rental yields (defined here as the annual rent as a percentage of the vacant possession value). Figure 2

Figure 1: **Rent officer valuations: Great Britain average weekly rents by property type**

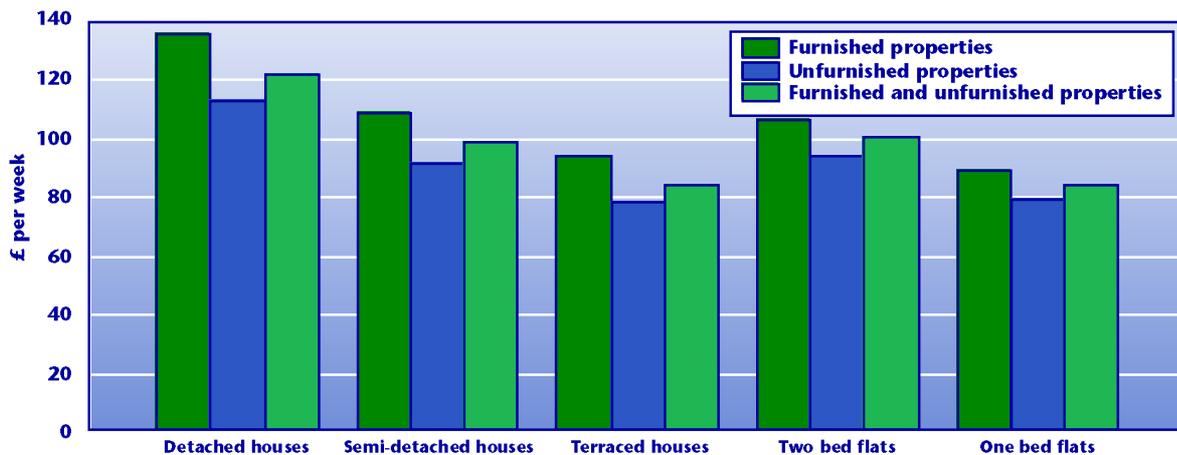


Figure 2: **Rent officer valuations: Great Britain average gross yields**

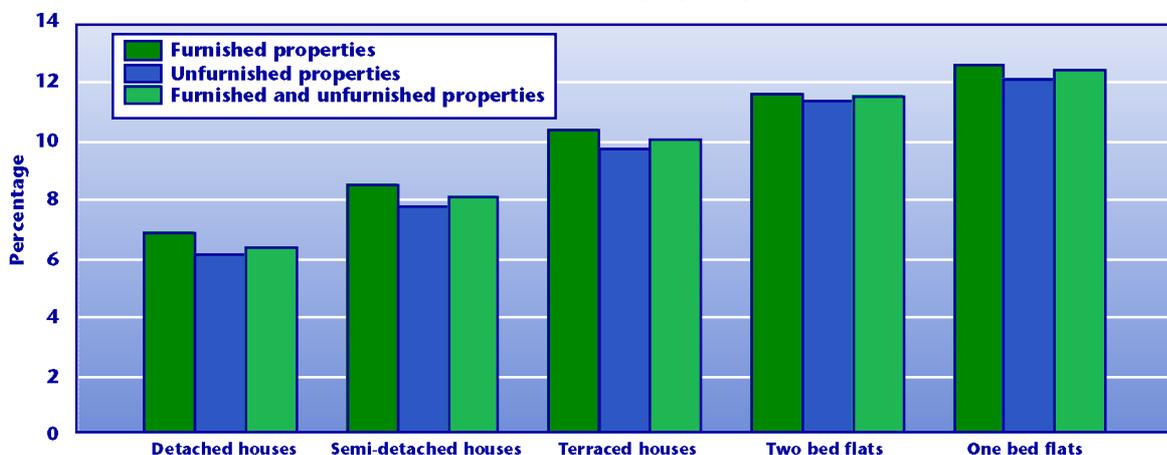


Figure 3: **Rent officer valuations: Average weekly rents for all properties by region**

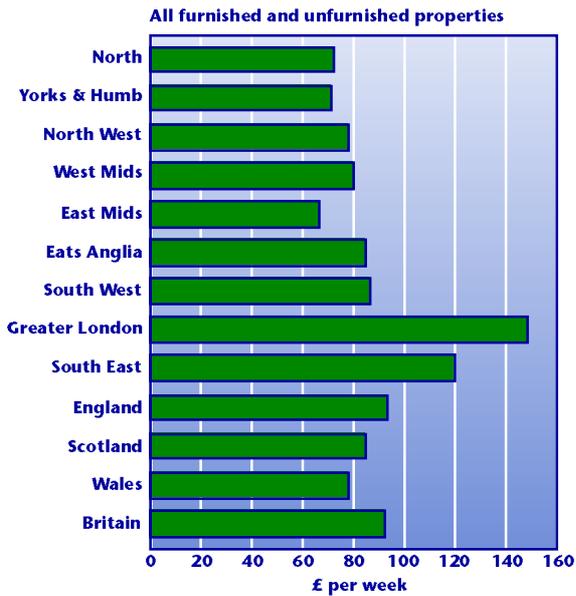


Figure 4: **Rent officer valuations: Average gross yields for all properties by region**



shows a clear, inverse relationship between property size/type and rental yield. Average yields were higher on flats than on houses and yields decreased as the number of bedrooms increased. Thus the average gross yield was 10.0% on two-bedroom terraced houses, 8.1% on three-bedroom semi-detached houses, and 6.3% on four-bedroom detached houses. The average yield on two-bedroom flats was 11.5% while on flats with one bedroom it was 12.5%.

The highest yields were on one-bedroom flats, the smallest property type, and the lowest on four-bedroom detached houses, the largest property type. This does not necessarily mean that smaller properties were the most attractive to investors; other

important factors, such as the potential for capital growth, would also need to be taken into account.

Regional variations

Greater London and to a lesser extent the rest of the South East had the highest rents by far (see Figure 3). The average rent was £148 in Greater London and £120 in the rest of the South East. Next highest was £86 in the South West, followed by £85 in East Anglia and £84 in Scotland. The lowest rents were £67 in the East Midlands and £71 in Yorkshire and Humberside. The Quarterly Bulletin shows that there were important variations within each of these regions.

Gross rental yields also varied by region but not by quite so much as rents. This is because the differences in rents between London and the rest of the South East and elsewhere in Britain were greater than differences in property values. Even so, as Figure 4 shows, London and the rest of the South East were among the highest regions by rental yield, with figures of 10.1% and 9.9% respectively. At 10.0% the average gross rental yield was also relatively high in the North West of England. The lowest rental yields were in Scotland (6.7%) and in Yorkshire and Humberside (7.9%). The average for Britain as a whole was 8.8%.

Table 1: Letting agent transactions: Average weekly rents for all transactions by postal area

Postal area Name	(Code)	Median rent (£pw)
1 Twickenham	(TW)	244
2 Bath	(BA)	115
3 Enfield	(EN)	115
4 Brighton	(BN)	110
5 Cambridge	(CB)	107
6 Leeds	(LS)	104
7 Edinburgh	(EH)	104
8 Croydon	(CR)	104
9 Cardiff	(CF)	102
10 Birmingham	(B)	101
11 Blackpool	(FY)	100
12 Southampton	(SO)	92
13 Bournemouth	(BH)	92
14 Glasgow	(G)	90
15 York	(YO)	85
16 Colchester	(CO)	81
17 Newcastle	(NE)	81
18 Nottingham	(NG)	78
19 Plymouth	(PL)	76
20 Wakefield	(WF)	75
21 Norwich	(NR)	69
22 Ipswich	(IP)	68
23 Doncaster	(DN)	65
24 Dundee	(DD)	59

Note: Table includes postal areas with a sufficient number of cases for analysis at this level. Future bulletins will include additional areas where the number of cases allow.

The gap separating the highest and lowest yield regions was as much as 3.4%. Or to put it another way, the average yield in Scotland was only two-thirds of the average yield obtainable in London, the rest of the South East and the North West.

As well as national and regional level data, the JRF Index Bulletin includes rents and yield data at the county and postal area levels. Table 1 reveals very marked differences in rents by a selection of postal areas. The lowest average rents were in Dundee (£59pw), Doncaster (£65pw) and Ipswich (£68pw). The highest rents were in Bath (£115pw), Enfield (£115pw) and Twickenham (£244pw).

Looking at the main postal areas of Inner London, average rents were much higher in the Western postal areas than in the Eastern ones. The highest average rent transactions were in the North West postal area of London, with a mean rent of £436pw (an area largely comprised of Barnet, Brent and Camden). The lowest average rent transactions were in the East postal area, with a mean rent of £149pw (an area largely comprised of Hackney, Newham, Tower Hamlets, and Waltham Forrest).

About the study

The JRF Index of Private Rents and Yields is constructed by David Rhodes in collaboration with Professor Peter Kemp of the Centre for Housing Research & Urban Studies at the University of Glasgow.

The Department of the Environment also contributed to the cost of the Index. The other partners in the preparation of the Index are the Association of Residential Letting Agents (ARLA), the Halifax Building Society, and the Institute of Rent Officers and Rental Valuers.

The valuations index is constructed from valuations of market rents and vacant possession capital values specially provided for the JRF Index by Rent Officers, based on six different property types with a specified set of characteristics, which are valued each quarter. These valuations are based on open market rents for the most representative privately rented locality in each local authority area. They are quite separate from the rent determinations made for Housing Benefit purposes and the fair rents

for regulated tenancies. The valuations index allows like-by-like comparisons of a consistent panel of properties to be made over time and between areas.

The transactions index is based on all the lettings of particular property types made by members of ARLA in England and by principal letting agents (whether ARLA members or not) in Scotland and Wales, matched with house price data provided by the Halifax. Although not representative of the sector as a whole, ARLA agents operate in the parts of the market most likely to attract investment from financial institutions. The transactions index provides information about actual rents. This index will also make it possible to track changes in the volume of market activity over time.

Further information

The full JRF Index of Private Rents and Yields is available from: Centre for Housing Policy, University of York, Heslington, York, YO1 5DD, Tel: 01904 433691. Subsequent issues of the JRF Index will be published each quarter. Further information about the Index is available from David Rhodes at the University of York's Centre for Housing Policy. A technical report is also available from the Centre for Housing Policy, price £10.

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