

Private Rented Sector Snapshot December 2010

The UK's private rented sector (PRS) comprises 3.3 million homes, according to Government statistics, accounting for one in seven households. Approximately a third of these are financed with a buy-to-let mortgage and, according to the Council of Mortgage Lenders, there are 1.29 million buy-to-let mortgages currently outstanding, worth £150 billion. The PRS is increasingly becoming a tenure of choice, rather than one of necessity, and demand is forecast to grow.

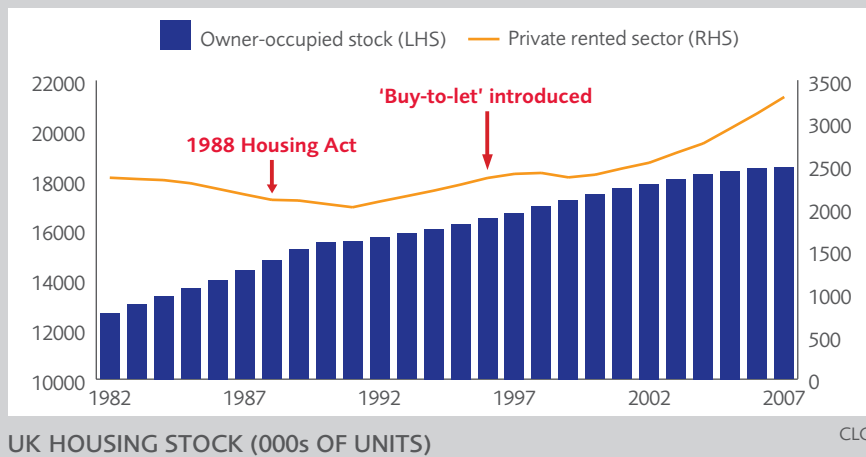
3.3m
properties in the PRS

14.2%
households in the sector

£8.5bn
value of buy-to-let loans completed in 2009; the lowest number since 2001

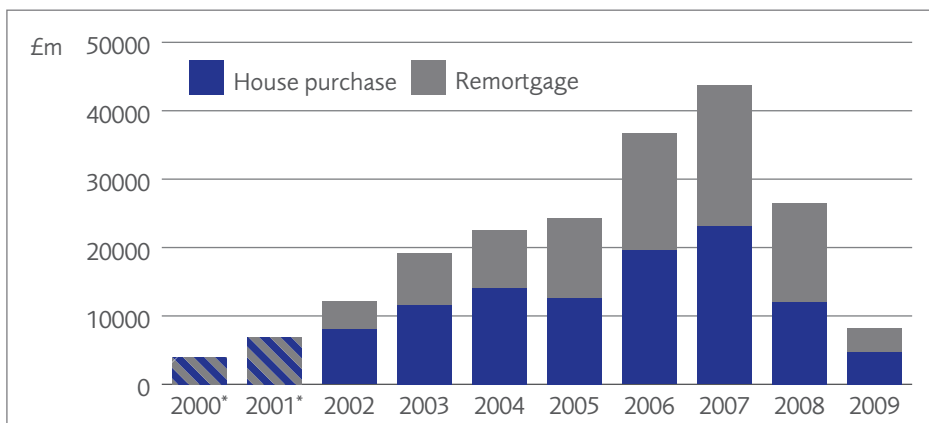
PRS – A BRIEF HISTORY

- PRS was in long-term decline prior to the 1988 Housing Act – the Act reformed landlord/tenant legislation and was the catalyst for the resurgence of the sector
- Introduction of buy-to-let in the mid 1990s provided further stimulus for the sector
- The number of PRS properties has increased by 40% since 1996 to 3.3m
- Owner-occupation peaked at 70.9% of English households in 2003. It fell to 67.9% by 2009
- PRS now accounts for 14.2% of English households – up from 10% in 2001



BUY-TO-LET LENDING LEVELS

- Buy-to-let lending that facilitated PRS growth has dried up over past two years
- Value (£8.5 billion) and number (93,500) of buy-to-let loans in 2009 lowest since 2001
- Buy-to-let mortgage product availability 90% lower than August 2007 peak



BUY-TO-LET GROSS ADVANCES

* CML only distinguished remortgage and house purchase figures from 2002

THE PRS CATERS FOR A DIVERSE RANGE OF DEMOGRAPHIC AND SOCIAL GROUPS

Single person dwellings are the most common household in the PRS (30%), followed by couples (25%) and couples with dependent children (17%)

48% of private renters are aged 34 or under, with 22% in the 35-44 age group, 12% in the 45-54 age group and 16% over the age of 55

61% of PRS households are in full-time employment, 9% in part-time work, 5% are unemployed, 9% are retired and 17% classed as 'other inactive'

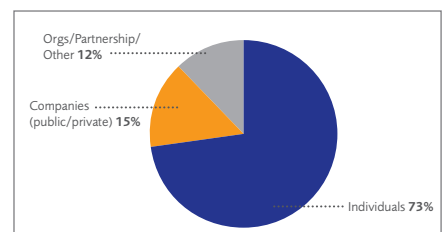
CLG

THE AVERAGE PRS LANDLORD:

- is over 50 years old
- has let property for 9.5 years
- owns 7.8 properties
- retains his/her investment for nearly 18 years

ARLA

WHO OWNS PRS PROPERTY?



Rugg Review

STRONG LEVELS OF TENANT DEMAND FOR RENTED PROPERTY

Tenant demand is being driven by several sources:

- First-time buyers (FTBs) as a proportion of all buyers has fallen from 55% in 1994 to 38% in 2009. 19% of FTBs were under-25 in 2009, down from 30% in 1991. Social changes, such as people getting married later in life, are part of the cause, as are affordability constraints and lenders applying tougher criteria to FTB mortgages. The average loan-to-value for FTBs fell from 95% in 1994 to 76% in September 2010
- Decline in the traditional family unit – single person dwellings accounted for 18% of households in 1971. This rose to 30% by 2009 and these households have a greater propensity to rent
- Net migration rose significantly between 1997 and 2009. Net migration was 215,000 in the year to March 2010. CML data shows that only 21% of inward migrants become homeowners within 5 years of living in the UK
- Growing student numbers have created further demand for PRS property. UCAS, the university applications service, reported a 22.9% increase in applications in 2009, and applications have grown by 44% between 1999 and 2009.
- Between 1991 and 2007, social housing stock declined by 1 million to 4.8 million. CLG figures show that there were 1.8 million households on the social housing waiting list in 2009, up from 1 million in 2000
- The ONS forecasts that the UK population will rise to 71.6 million by 2033, with 252,000 new households created each year in England until 2031. A 2009 National Housing and Planning Advice Unit estimated that the UK requires 290,500 housing completions a year to satisfy demand, yet there were only 118,000 completions last year

“The prospect of a severe rental housing shortage is ever more likely”

Ian Potter, ARLA operations manager, July 2010

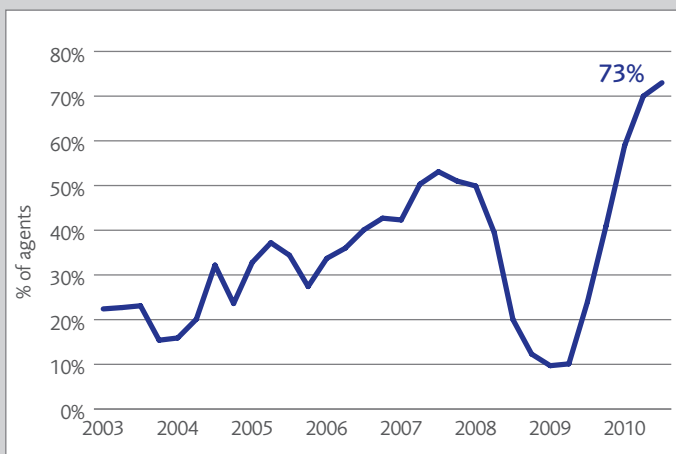
The number of homes in the PRS meeting the 'decent homes standard' increased from 750,000 in 1996 to 1.6 million in 2008

CLG

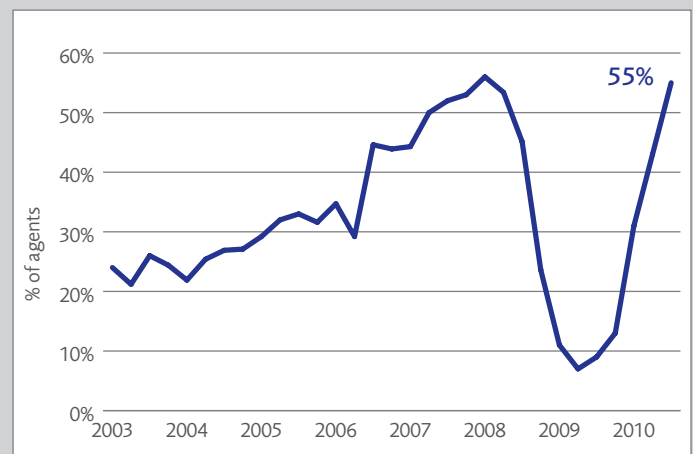
“The PRS is now worth in the region of £500 billion, which dwarfs the value of the commercial sector”

CB Richard Ellis, July 2010

TENANT DEMAND IS FEEDING THROUGH TO A SQUEEZE ON PROPERTY SUPPLY AND RENTAL INFLATION



73% OF ARLA MEMBERS REPORTED THAT THERE WERE MORE TENANTS THAN AVAILABLE PROPERTIES IN Q3 2010



THE PROPORTION OF ARLA AGENTS REPORTING AN INCREASE IN ACHIEVABLE RENT LEVELS ALSO ROSE SHARPLY IN Q3 2010

CONCLUSION

- PRS is playing an increasingly important role in the UK housing market and provides homes to a wide range of demographic segments
- PRS has expanded significantly since 1988, but the lack of buy-to-let finance has inhibited further growth since 2007
- Strong levels of tenant demand are placing pressure on PRS supply and leading to rental inflation
- Fresh sources of buy-to-let finance are required to help the sector grow