

PRIVATE RENTED
SECTOR RESEARCH



TENANT SURVEY 2015/16

SECTOR UPDATE

FUTURE OF THE MARKET

INVESTOR INTENTIONS

SUMMARY



“The Tenant Survey is the largest survey of its kind ever conducted, and shows how, where and for how long tenants want to live in the private sector.”

GRÁINNE GILMORE
Head of UK Residential Research

The Private Rented Sector is continuing its rapid growth across the UK – it is now well established as the second biggest form of tenure after homeownership, having overtaken the social rented sector.

Large scale investment into the private rented sector (PRS) by funds and other institutions is set to treble over the next five years, new research explored in this report shows, further bolstering growth.

This report also aims to give new insight into demand in the privately rented market by sharing the results of Knight Frank's new Tenant Survey, the largest survey of its kind ever conducted, clearly showing the needs and preferences of tenants across the country.

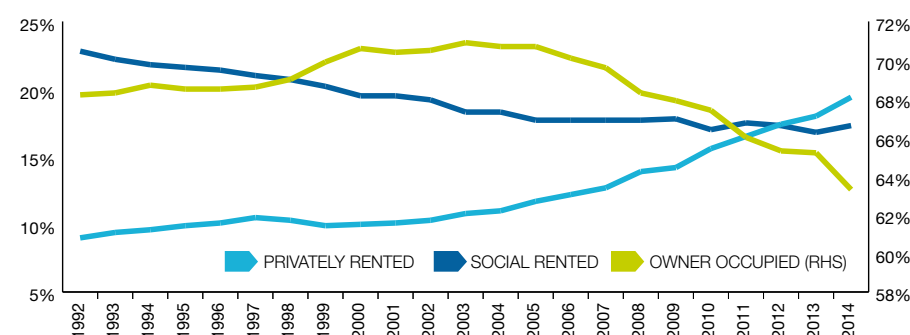
The Tenant Survey carried out by YouGov on behalf of Knight Frank collates the responses of 5,000 people living in privately rented accommodation to identify key trends in the market, which we can break down by region, age group and income. The respondents reflected the size of private rented markets around Great Britain.

For the Investor Survey, we interviewed 16 large-scale investors, revealing how this part of the market is set to develop by 2020 (see page 10-11).

Some of the key findings include:

- Investment by large-scale investors in Build-to-Rent is set to triple by 2020, with Knight Frank estimating that total investment will rise to £50 billion over the next five years.
- Large-scale investors are operating an average gross to net yield of 26% for new Build-to-Rent developments.
- The majority (53%) of tenants favour a six month or one year tenancy for rented accommodation.
- More than half (52%) of tenants said living close to work or their place of study is a key priority, and the main reason (30%) for moving between rented properties was to 'upgrade' to a nicer or larger property.
- More than a third (38%) of tenants have lived in five or more rental properties. While the majority of respondents had moved within a mile of their previous property, around a sixth (19%) had moved more than 60 miles, indicating a relocation for work or study, highlighting the flexibility of PRS as a tenure.
- Nearly a quarter (24%) of Londoners are prepared to pay 50% as a maximum amount of their gross annual income on rent, up from 22% last year.
- A quarter of those living in the PRS do not want to, or don't know if they want to buy a home in the future. Of those that express a desire to eventually buy a home using a mortgage, less than half are currently saving towards a deposit.
- A quarter of those living in the private rented sector live alone, while 34% live in a couple without children. Some 43% of 18-24 years olds share with other adults in a 'flat-share'.

How the private rented sector has grown Changing Housing Tenure (000's)



Source: Knight Frank Research / DCLG

Sector update

The private rented sector is continuing to grow in size, with around 5.4 million, or 20% of households now being let out to private tenants.

There has been a generational shift in the private rented sector. More households are now living in rented accommodation for longer, and while housing affordability is certainly a factor here, rented accommodation is also becoming an established flexible form of tenure, an attribute welcomed especially among younger workers. This was confirmed in last year's Tenant Survey, with 38% of under-35s saying they didn't want a mortgage or that renting suited their lifestyle, rising to 49% for those aged under 25.

The number of under-45s living in the sector has more than doubled, to nearly 3.1 million over the last decade, and those aged 25-34 now account for nearly 37% of PRS households, up from 32% in 2009, according to the English Housing Survey.

In terms of supply, the private rented sector is largely made up of private landlords, many of whom have one or two properties. This direct investment in property was driven by the rise in the availability of buy-to-let mortgage loans in the late 1990s. New regulations on mortgage interest relief for buy-to-let investors from 2017 could lead to a modest slowing in growth in this market.

However, this will likely be overshadowed by the rapid expansion of large-scale investment in the sector, with institutional investors such as pension and investment funds increasingly looking to purchase and hold purpose-built rental accommodation over the longer-term – bringing the UK in line with markets such as the US and Denmark where residential rented accommodation is a specific asset class.

Knight Frank's Investor Survey, one of the most comprehensive surveys of large-scale investors in the private rented sector, indicates that investment is set to treble over the next five years. Knight Frank estimates current investment to be around £15 billion, rising to £50 billion by the end of 2020. For more on the Investor Survey, see page 10-11.

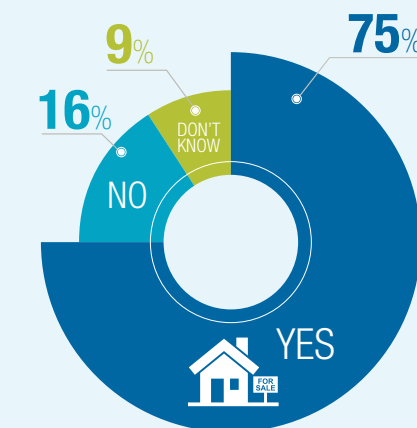
“The face of the Private Rented Sector is changing rapidly amid increasing large-scale investment. Already a dominant form of tenure in the UK, it is also becoming an established asset class, and we believe that Knight Frank's market-leading Tenant Survey provides key insights into the market, addressing the fundamental questions for investors seeking to bring to market a Build-to-Rent development which perfectly meets tenant requirements.”

TIM HYATT,
Head of Residential Lettings,
Knight Frank

RENT NOW, BUY LATER

Around a quarter of tenants don't want to, or don't know if they would ever like to own a property in the future.

Would you like to buy a property at some point in the future?



Source: Knight Frank Research

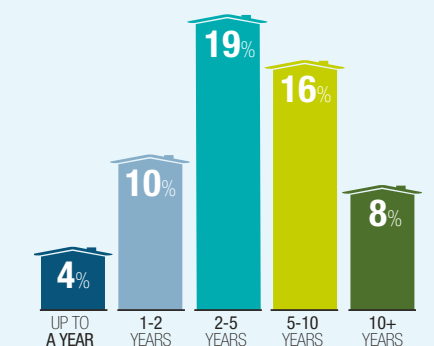
This chimes with last year's Tenant Survey, which showed that 25% of those in the private rented sector felt

they would always rent privately. For those who do want to own a home in the future, last year's survey also highlighted that the private rented sector is increasingly not being seen as just a short-term form of tenure, but as a longer-term housing option, with just 24% of tenants saying they would leave the sector within two years.

This is also reflected in the House Price Sentiment Index data compiled by Knight Frank and Markit Economics. The latest data shows that the majority of those living in the private rented sector anticipate buying within two to five years.

The growth of the private rented sector highlights its establishment as a longer-term form of tenure, especially among younger generations. Affordability may play a part here, but our survey, builds on last year's Tenant Survey, which highlighted that some 32% of respondents felt that as a form of tenure, private rented accommodation suited their lifestyle.

When do you plan to buy a home?



Source: Knight Frank Research/Market HPSI

25%

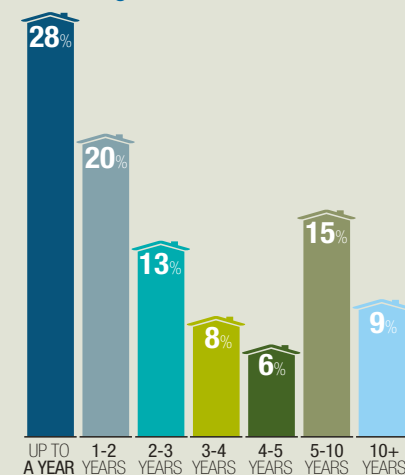
Tenants who don't want to or don't know if they want to buy a home at some point in the future

TENANT FACTS

How long have you lived in your current property?

(See note on back page) ★

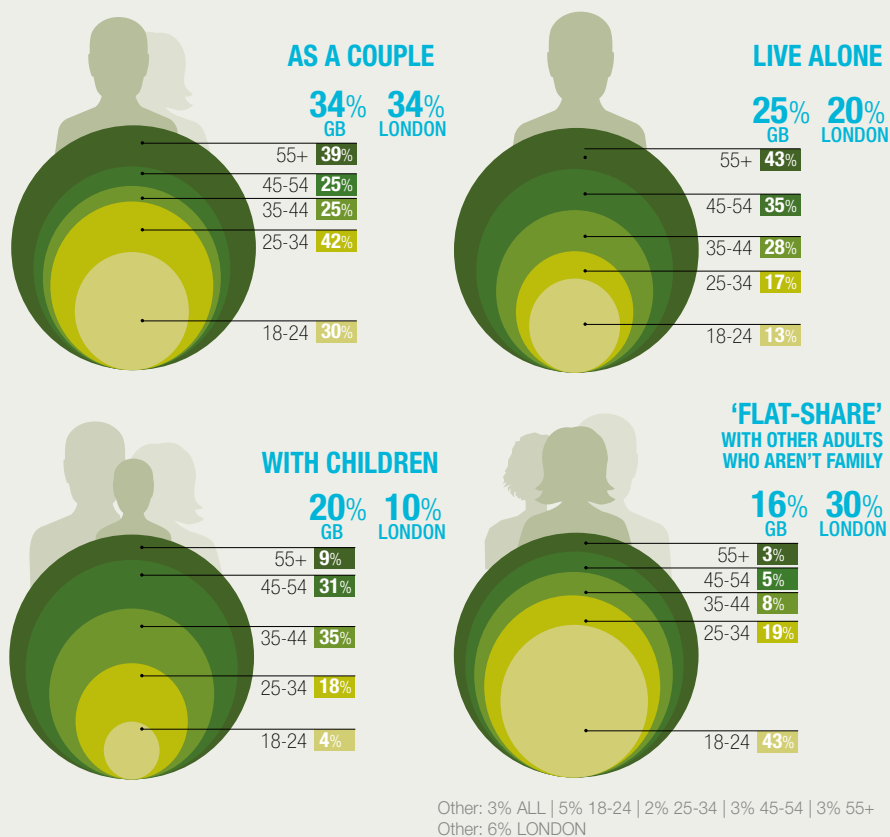
GB average



This snapshot of how long private tenants have lived in their current home shows that the majority of respondents have been living in their property for less than a year, although the overall results are affected by the under-25's, with nearly two-thirds (61%) of tenants this age saying they moved in less than 12 months ago. However, longer tenures are more common among older renters, more than a quarter (26%) of 25-34 year olds having already lived in their current property for between one and two years. Some 8% of 35-44 year olds have lived in their rented property for more than ten years.

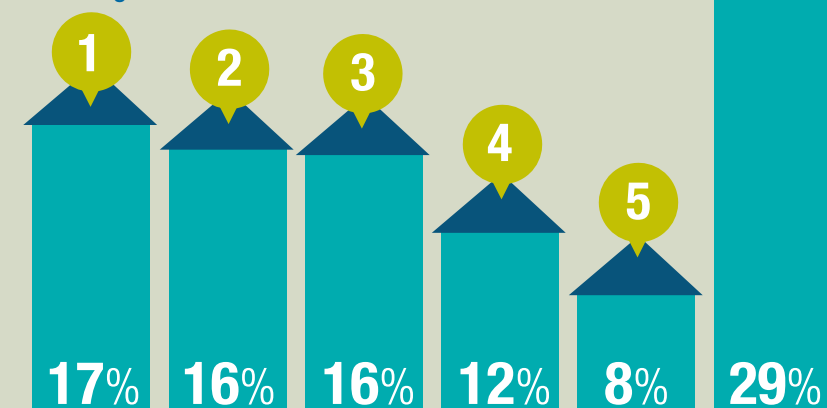
Who are you living with?

A quarter (25%) of those in the private rented sector live alone, according to our Tenant Survey. A further 34% live as a couple without children. Some 16% live in a property with adults who they are not related to – ie in a 'flat-share', however, it is clear that in urban environments this figure will rise – in London nearly a third (30%) of tenants live in a flat-share, rising to 57% for those aged under 25. Across the country as a whole, some 43% of those aged 18-24 years old live in a house-share.



How many privately rented homes have you lived in?

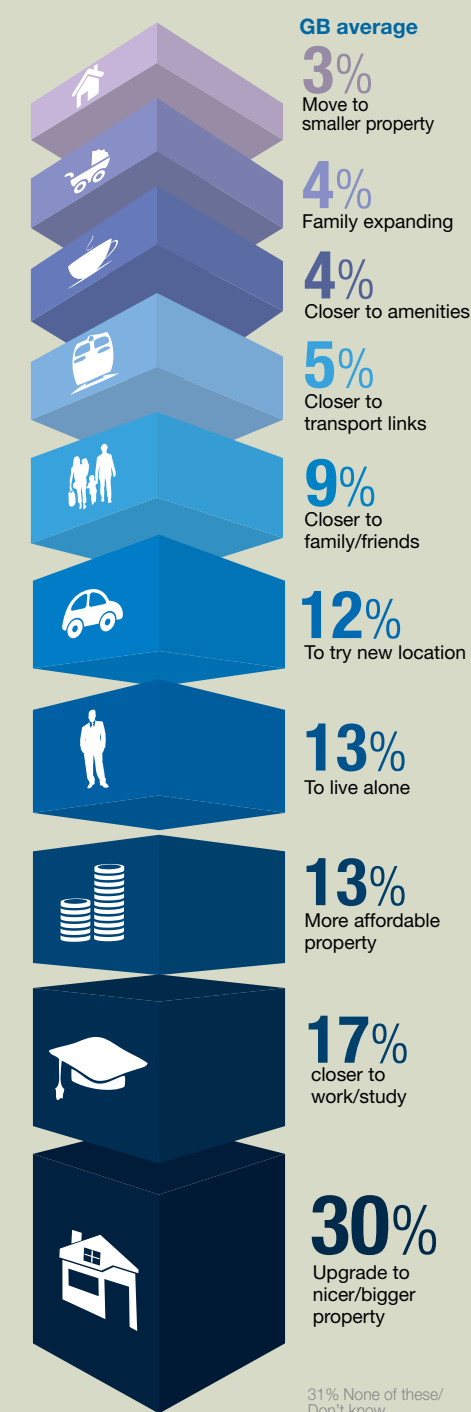
GB average



The mobile and flexible nature of the private rented sector is underlined by the survey, which shows that 38% of respondents have lived in five or more rented properties. This also reflects the increasingly longer-term nature of renting as a form of tenure, with people staying in this sector for longer before buying in many cases. As could be expected, older tenants have lived in more properties than younger tenants on average. However, it is worth noting that the majority of respondents to the Tenant Survey said that their most recent move had been prompted by a desire to move to a larger or 'nicer' property, as shown in the chart opposite.

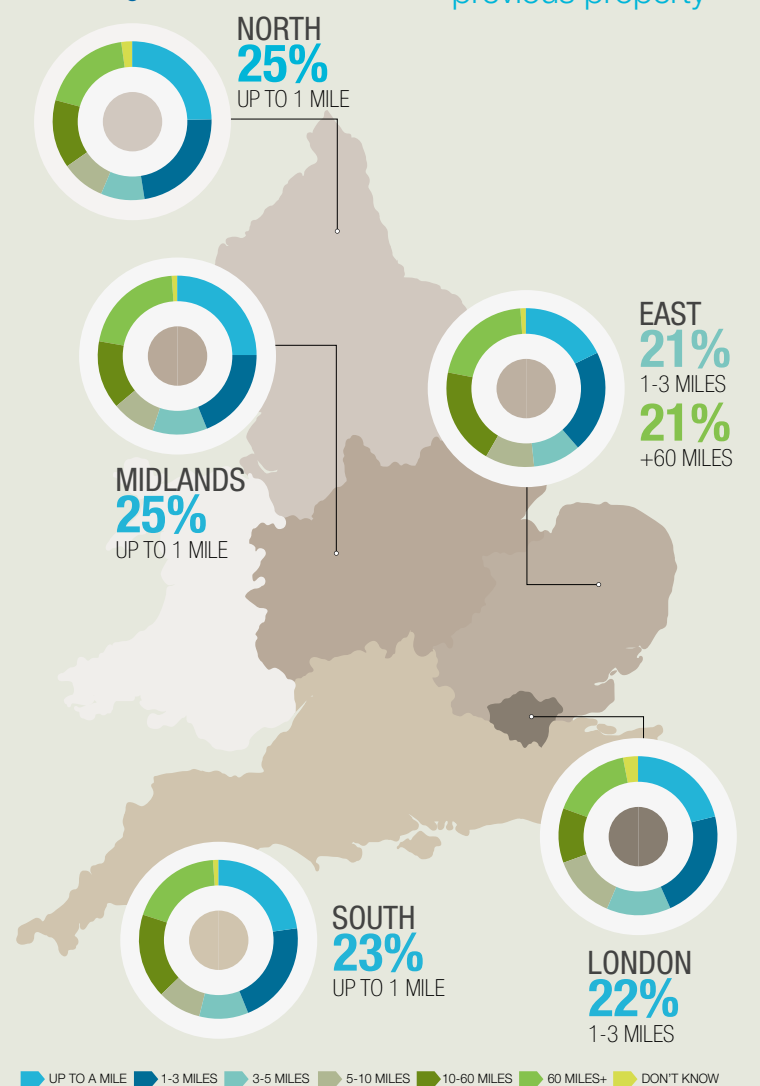
Why did you move from your previous property? ★

Why people move also gives a key insight into the mobility of the market, with the biggest proportion (30%) of respondents saying that moving to a bigger or 'nicer' property played a part in their decision for their most recent move. Some 17% also said moving closer to work or their place of study was a consideration.



How far did you move from your previous property?

GB average

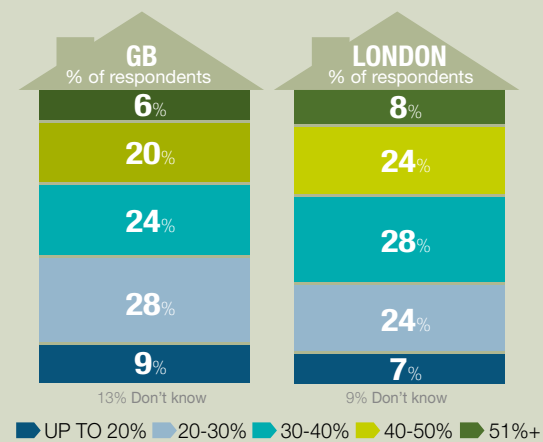


Some 45% of tenants have moved to a rental property within three miles of their previous accommodation, although it is notable that nearly a fifth (19%) moved more than 60 miles, suggesting relocation for work or study. London tenants are more mobile, with a larger proportion (26%) moving within 3 to 10 miles to a new rental property than in other regions.

This data is backed up by separate independent evidence from rental data collated by Knight Frank. Analysis of more than 4,000 rental records from London and the South East shows that while 35% of tenants in London moved within a mile from their previous property, some 26% moved between 3 and 10 miles to their new home.

DEMAND DRIVERS

What is the maximum percentage of gross monthly income you are willing to pay on rent?



Nearly a quarter (24%) of Londoners are prepared to pay 50% as a maximum amount of their gross annual income on rent, up from 22% last year. Overall, across Great Britain, more than a half of respondents said they would be prepared to pay either 30% (28% GB adults) or 40% (24% GB adults) as a maximum amount of their gross monthly income on rent, with a fifth saying they would pay 50% of their gross annual income on rent. The median average of rent that tenants are willing to pay across the country is 40%. The outlook for incomes is positive in the coming years, with the Office for Budget Responsibility forecasting annual earnings growth of 3.6%. In 2016, rising to 4.4% by 2020. To put this in context, in 2015, earning growth was at 2.2%, and this marked some of the highest growth seen since the financial crisis.

Separate external evidence, collated by Knight Frank, shows that nearly 30% of 18-24 year olds in Capital are paying more than 40% of their income on rent – failing to 15.3% for those aged 25-34, reflecting the higher average earning in the age bracket.

Which factors are important when choosing a rental property? ☆

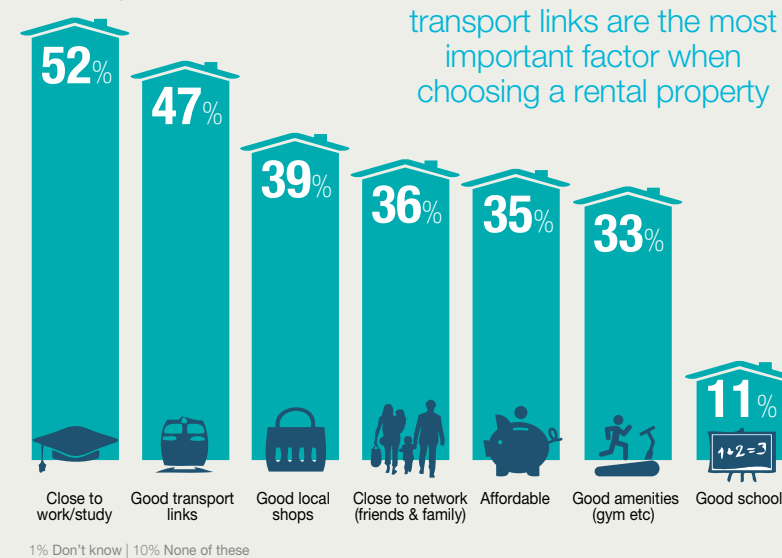
% of respondents who identified each factor

The main priorities for tenants when choosing an area in which to live is proximity to their work or place of study, fitting in with the rising demand for private rented accommodation near employment hubs in city centres. This is borne out by Londoners, with 71% saying that being close to transport links is their primary concern when choosing a property, and underlines the findings of last year's Tenant Survey. Affordability is also a key concern, especially for those aged

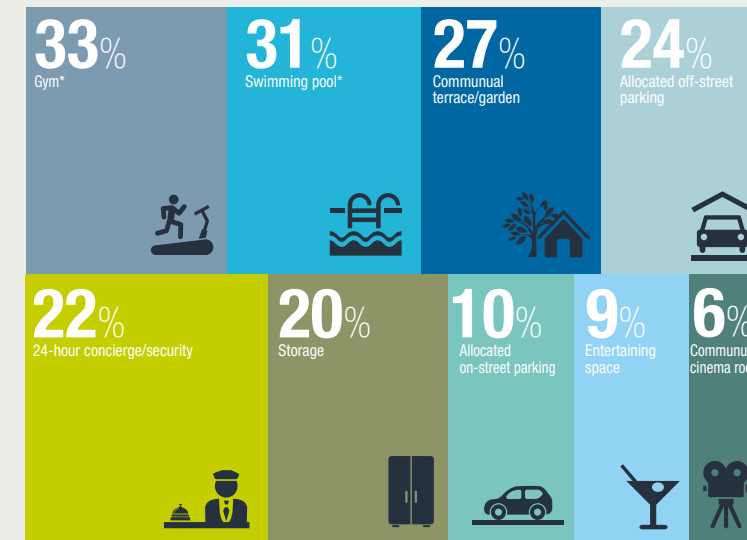
18-24, with 50% citing this as a key factor. Overall, the relatively small proportion of respondents who said that proximity to good schools was a factor may be explained by the fact that around just a fifth of respondents overall live with children in the private rented sector.

71% of Londoners think that transport links are the most important factor when choosing a rental property

GB average



London

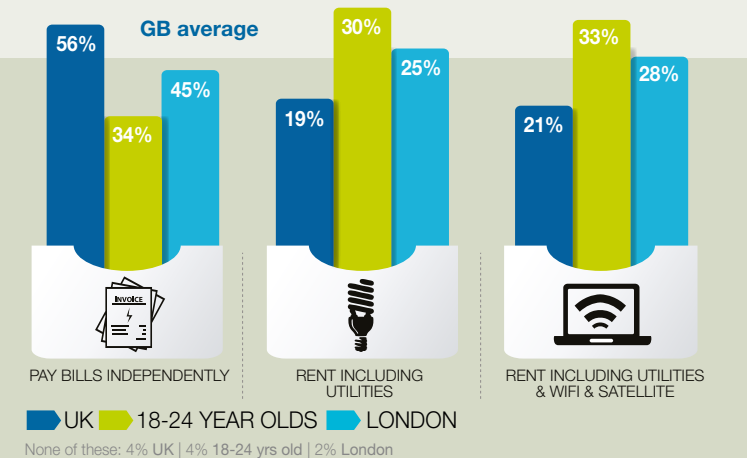


* in or close to building

Thinking about your utility bills (e.g. gas, electricity etc.), satellite, TV, and Wi-Fi subscription bills...

Which ONE of the following would appeal to you the most?

Younger renters would prefer to pay all bills and amenities within their monthly rental payments, with 62% of 18-24 year olds saying they would prefer to roll up their utility bills into the rent, or both their wifi/satellite tv and their utilities into the monthly payment.



51%

Proportion of respondents who own a car

Which of these amenities would you be prepared to pay for? ☆

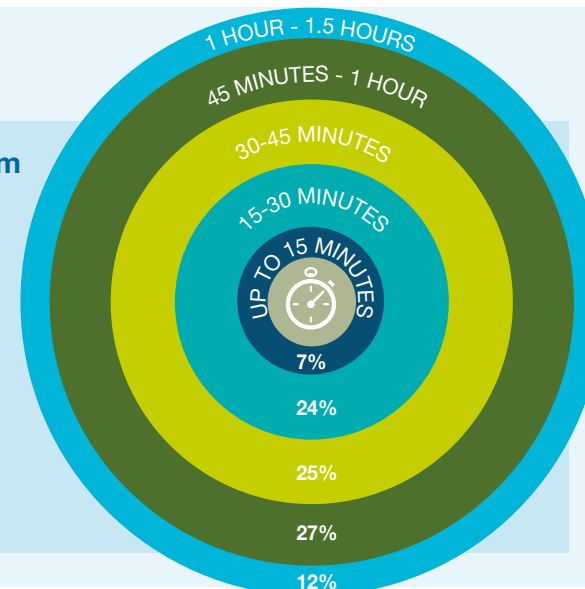
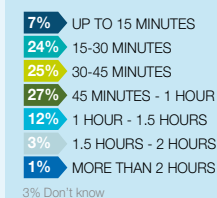
Access to a gym or swimming pool are the key amenities for which Londoners would be prepared to pay a slight rental premium, with 33% and 31% of respondents identifying these factors. We have taken London as an example here of a city centre market, with a focus on amenities offered in PRS blocks. A higher proportion of young London tenants would like these facilities, with 48% of 18-24 year olds saying they would pay extra rent for access to a gym in or near their building, and 41% saying the same about access to a pool, perhaps underlining the benefits they see in having access as part of their rent, rather than having to pay gym membership fees. Some 36% of 18-24 year olds said they would pay a slightly higher rent for access to a communal terrace or garden, as did 31% of 25-34 year olds.

COMMUTING

Nearly half of working tenants would be prepared to travel for either 15-30 minutes (24%), or 30-45 minutes (25%) door to door to reach their office or place of work each morning. In Wales, some 44% of tenants would prefer to commute for either less than 15 minutes (13%) or between 15-30 minutes (31%), while in the North East, the proportion is 37% (either 7% less than 15 minutes or 30% for 15-30 minutes). In London, the most popular commuting time (43%) is between 45 minutes and an hour (43%) each morning. The top mode of transport for tenants outside London (except Scotland) is car, while in the capital, more than half (51%) of respondents use the London underground for part or all of their journey, as shown opposite.

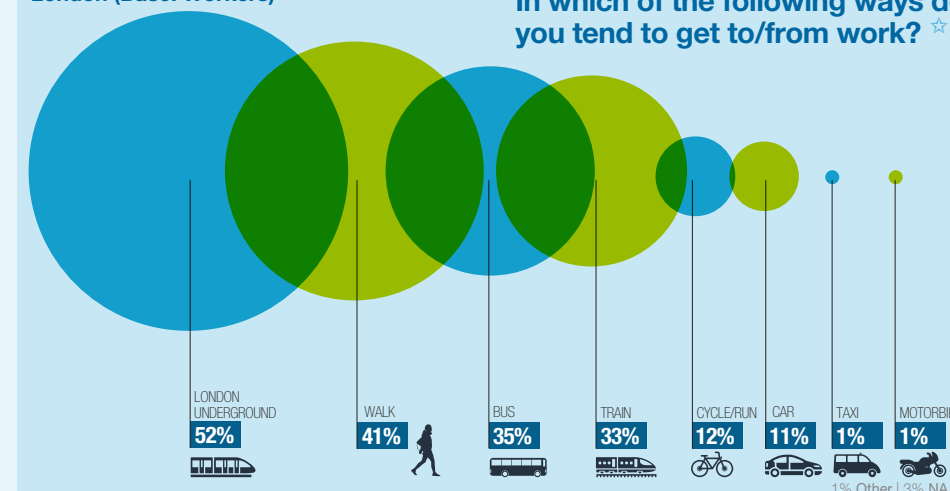
GB average (Base: Workers)

What is the maximum amount of time that you are willing to spend commuting to work?



London (Base: Workers)

In which of the following ways do you tend to get to/from work? ☆

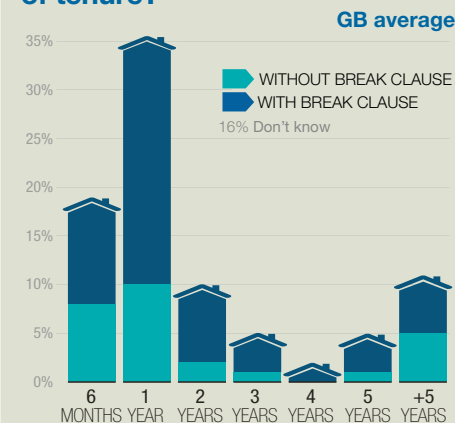


43%

Proportion of London tenants prepared to travel for between 45 minutes and an hour to work each day

MOVING IN

What is your ideal length of tenure?



The majority of respondents said their ideal length of tenure is up to one year, and this is particularly true of younger tenants, highlighting a preference for increased flexibility in the sector. More than two-thirds (**69%**) of tenants aged between 18 and 24 said they would prefer a tenancy agreement of up to a year, with **61%** of 25-34 year olds saying the same. The mobility that the rented sector allows is again underlined by the reasons why people move, with the largest cohort of tenants identifying the desire to upgrade to a larger or nicer property as the reason for their last move. The costs of moving in the owner-occupied sector can inhibit such flexibility.

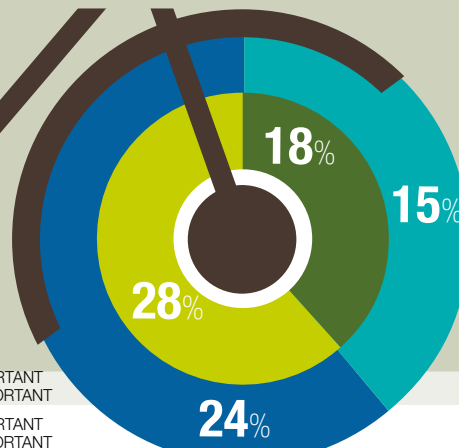
Respondents who want a break clause, allowing tenant or landlord to end the lease early, said their preferred time-frame to break was six months.

How important is it to have storage for/an area to keep bicycles in your privately rented accommodation?

Two fifths of respondents said that the ability to store their bike in their rental property was important to them, although this rises to **46%** of those aged 35-44 across the country.

GB average

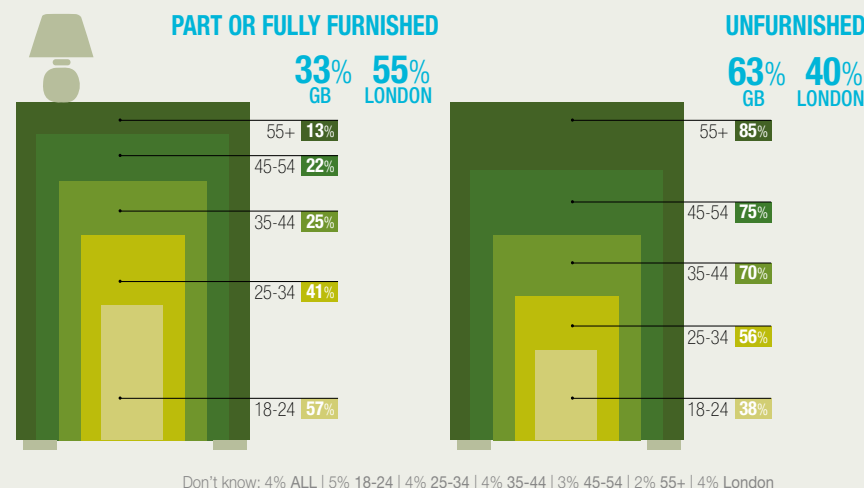
ALL
UK
35-44
YEAR OLDS



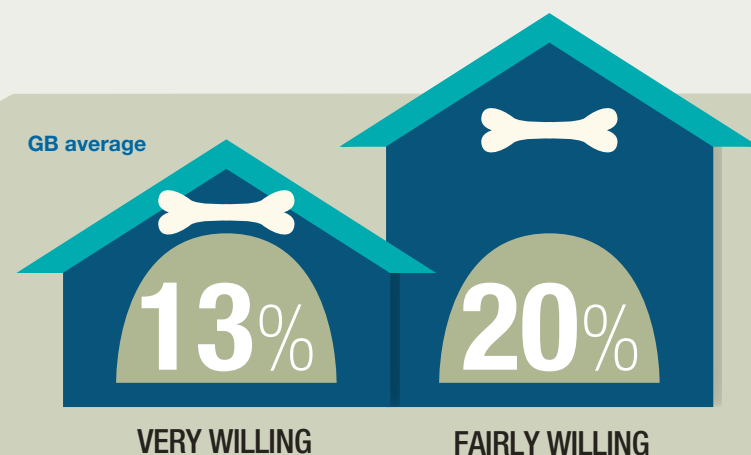
Would you IDEALLY choose to move to a furnished, unfurnished or part furnished privately rented property?

Overall, across the country, a third of tenants would prefer a part-furnished or fully furnished flat. However, the data suggests large variations by region and by age. Some **57%** of 18-24 year olds across the country would like to move into a partly or fully furnished property, and when looking just in London, this proportion rises to **75%**. Nearly two-thirds (**62%**) of Londoners aged 25-34 would prefer a partly or fully furnished property.

75%
proportion of 18-24 year olds in London who prefer a partly or wholly furnished property



GB average

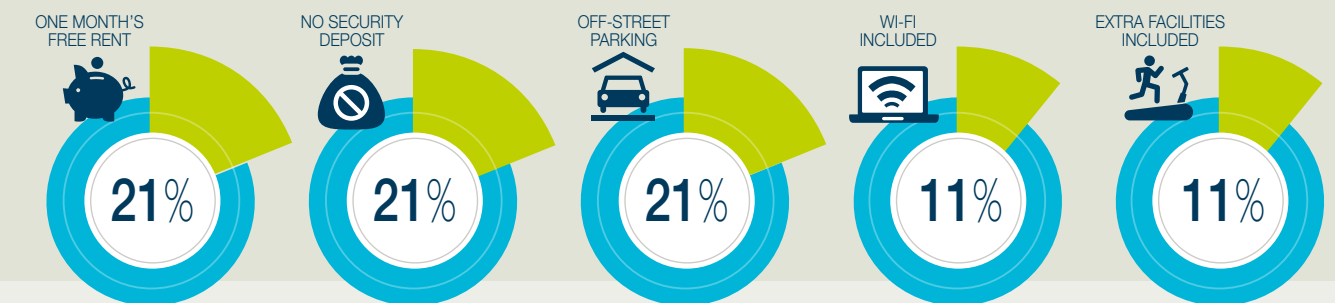


Would you pay extra to keep a pet in your property?

A third of respondents said they would be willing to pay extra in rent to keep a pet in their property – sometimes landlords charge more to cover the cost of the extra refurbishment needed after a tenant who has had a cat or dog vacates the property. Nearly one in 20 (**4%**) of those in the private rented sector already pay extra to have their pet live with them, and this rises to **7%** for those aged over 55.

Which ONE, if any, of the following factors would MOST attract you to a privately rented property?

GB average



16% Don't Know/None of these

When it comes to what landlords might offer to entice tenants, one month's free rent, a security deposit waiver or no extra charges for off-street car-parking are the winners. A month rent-free was the most popular under-35s with **27%** for ages 18-24 and **26%** for ages 25-34, choosing this option across the country.

WHAT TENANTS WANT...

From property managers and lettings agents

As was the case in last year's survey, tenants in the private rented sector say that the most important quality for a lettings agent is transparency. Being open with tenants, as well as the ability to respond quickly to queries, are both attributes which are prized more highly than the competitiveness of fees charged by the agency. Around a third of respondents said it was important that a lettings agent should be a member of a recognised trade body, although this proportion increased with age, with **42%** of over 55s saying that it was a key attribute.

What are the most important qualities for a good lettings agent?

GB average



Respondents chose up to 3 most important attributes

What are the most important qualities for a good property manager?

GB average

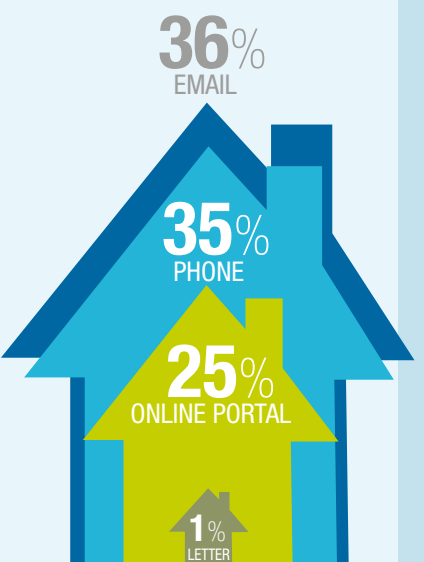


5% Don't know/Other
Respondents chose up to 3 most important attributes

A quick response time to queries is the most important attribute in a property manager, tenants say. Half of respondents highlighted this as a priority, and this was broadly the case across all age groups and all regions. Transparency and ease of contact are the other key qualities for a property

How do you prefer to log repair requests?

GB average



4% Don't know

manager. When logging a repair job, most tenants would prefer to do this by email, while a quarter would prefer to use an online portal system, where repair jobs can be tracked online. Among the under-25s, the proportion of those who would prefer to log jobs online rose to **30%**.

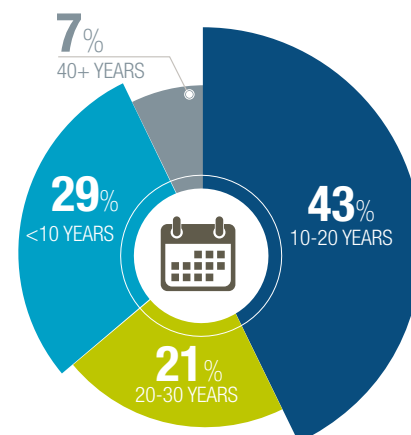
INVESTOR SURVEY

Knight Frank interviewed 16 key large-scale investors in the Build-to-Rent market to ascertain their views on the sector and their outlook for the next five years. We would like to thank all of these investors for their participation.

The survey respondents indicated that the overall investment in the Build-to-Rent market is set to more than treble in the next five years.

Knight Frank estimates that the sector will be worth £50 billion by 2020, accounting for 5% of the total PRS market by value, up from 2% currently.

How long to hold investment?



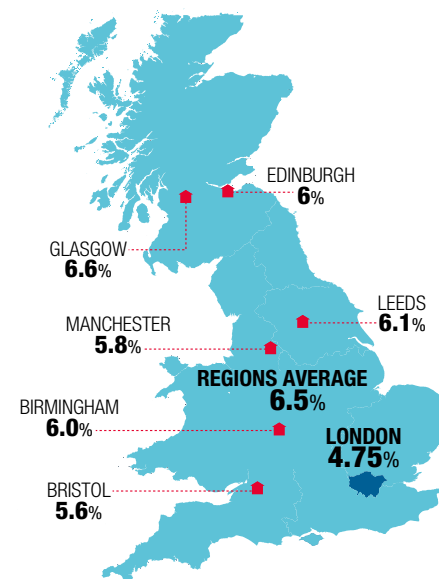
All respondents planned to equal or increase their current level of investment over the next five years, and 71% said they would be holding the assets for more than ten years.

The continued interest in the regional markets, especially city centre markets around the UK, is underlined by the fact that some respondents saw their investments being split 50/50 in London and the regions in five years' time, while others were clear that their portfolios would be weighted towards the regions chiming with the appetite for higher yields.

The range of yields on offer across the country is one of the key attractions of the market, and investors expect yields in regional city centre markets to settle 1.75 basis points higher than London by 2020, assuming that the economy performs in line with market expectations in the meantime.

Perhaps one of the biggest questions in the nascent build-to-rent market at present is

At what level do investors see GROSS yields settling in 2020 in....



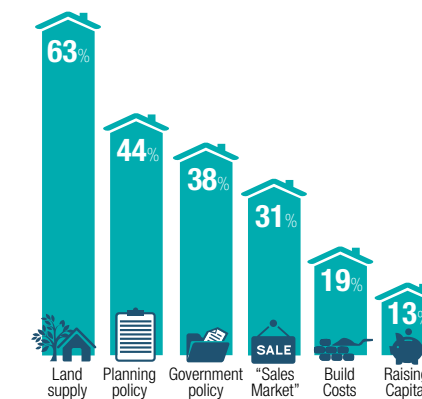
Note: assuming economy performs in line with market expectations

the ratio of gross to net yields. The average response from our survey was 26%, although the responses ranged from 24.5% to 30%, as the exact ratio will be determined by the location and type of building.

26%
average gross to net
currently being factored
in by investors

Land supply is seen as the biggest obstacle to developing the PRS in England & Wales. Build cost inflation was also flagged up as an issue. The sharp increase in the cost of construction materials, especially bricks, over the last 18-24 months, as well as the rising cost of labour, has had an impact on all corners of the construction sector, and even as the pace of build cost inflation

What do you see as key hurdles in fulfilling goals in the PRS market in England?*



eases, the impact will continue to be felt in the coming 12-18 months.

The planning system is also an obstacle to PRS development, investors say. Although there has been a sharp rise in residential planning consents since the introduction of the National Planning Policy Framework (NPPF) several years ago, the process remains complex and the potential delays in being granted permission is often cited by developers across the residential spectrum as an issue hampering development.

Fluctuating capital values in the residential market are also seen as a hurdle, as there

can be a shifting environment when it comes to yields that may not reflect the rental fundamentals.

Investors also flag up Government policy in and around the private rented sector, whether existing or potential legislation. Political rhetoric can be loud in this sector, even if there is little actual appetite to change the largely popular status quo. However, this can create uncertainty, and as with most aspects of housing, while the industry can cope with change, it flourishes in a stable policy environment. It is interesting to note that funding is not seen as a major hurdle now – underlining the increased appetite for Build-to-Rent investment.

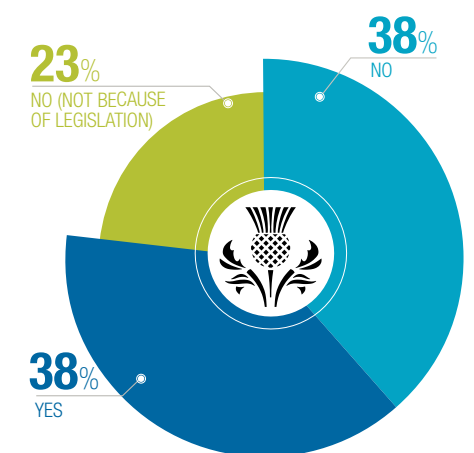
Scotland

The Private Tenancies Bill, set to be introduced into law in Scotland, includes measures to “provide more predictable rents”, as well as changing the basis on which landlords can end a tenancy. The survey results suggest that the proposed legislative changes could reduce the volume of capital applied to build to rent north of the border.

The policy proposals, which will be introduced to try and address some of the issues in and around rogue landlords, may be laudable in their aims. However

they may affect other parts of the rental market, which is perhaps an unintended consequence as the Government has been looking for ways to encourage investment in the build-to-rent sector in Scotland. The policy proposals have resulted in 38% of investors saying that they would no longer consider invest in Scotland. An equal number of investors said that they would still consider investing in Scotland despite changing legislation, whilst 23% said they wouldn't invest, but highlighted that this was down to their internal strategy.

In light of new legislation in Scotland, would you invest in this market?



VIEWPOINT



JAMES MANNIX
Head of Residential
Capital Markets

In 5 years time large investors will have invested £50 billion in the Private Rented Sector – around 5% of the current stock. Today 5.4 million people live within the sector. If current trends continue this will rise to more than 6.75 million within the same timeframe. Most of the demand in the rented sector is from young economically active people with concentrations in urban centres. These people view themselves as being relatively transient and renting affords them the flexibility to upgrade, downgrade or move according to their circumstance.

Tenants are increasingly adopting a “rent now, buy later” mind set since very high

proportions are expressing that they are happy with their current circumstance but have an aspiration to buy later on whether or not they are currently saving for a deposit.

Whilst the rental market remains highly cost sensitive, affordability has slipped down tenants' priority list slightly compared to last year's survey. This is possibly a reflection of a more positive sentiment linked to rising salaries and the general economic recovery.

Our Investor Survey indicates that major investors looking at the sector are working hard to provide fit-for-purpose rental accommodation which they intend to hold and run for a long period of time. 71% of investors are intending to hold for more than 10 years.

We can identify that the major risk to the emergence of high quality bespoke and long term rental accommodation is government legislation. This manifests itself through the 61% of investors who would no longer invest in Scotland, 62% of these as a direct

result of the Private Tenancies Bill being proposed by the SNP. We noted a dampening of sentiment in the broader UK market in advance of the last election as a result of similar rhetoric from the Labour Party.

The results from the Tenant Survey and the Investor Survey demonstrate that there is a generational shift in the market both amongst renters and investors which stands a good chance of both stabilising the volatility of the housing market and satisfying some of the structural shortfall in supply. One of the major controls on production of housing is projected rates of sale. The rental market could significantly accelerate this factor through immediate absorption. Central and Local governments need to resist the temptation to legislate or tax and to allow the market to fulfil its long held potential as a major contributor to the UK housing challenge.



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All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 5036 GB adults who rent privately. Fieldwork was undertaken between 16th-30th October 2015. The survey was carried out online. The figures have been weighted as per the specified age and region quotas.

◆ Note: How long have you lived in your current property? Up to a year (28%); More than a year, up to 2 years (20%); More than 2 years, up to 3 years (13%); More than 3 years, up to 4 years (8%); More than 4 years, up to 5 years (6%); More than 5 years, up to 6 years (5%); More than 6 years, up to 7 years (3%); More than 7 years, up to 8 years (3%); More than 8 years, up to 9 years (2%); More than 9 years, up to 10 years (2%); More than 10 years (9%)

Front page image: The GRID building at Wood Wharf, a residential rental building commissioned by Canary Wharf Group and designed by GRID Architects.

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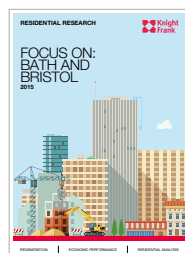
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