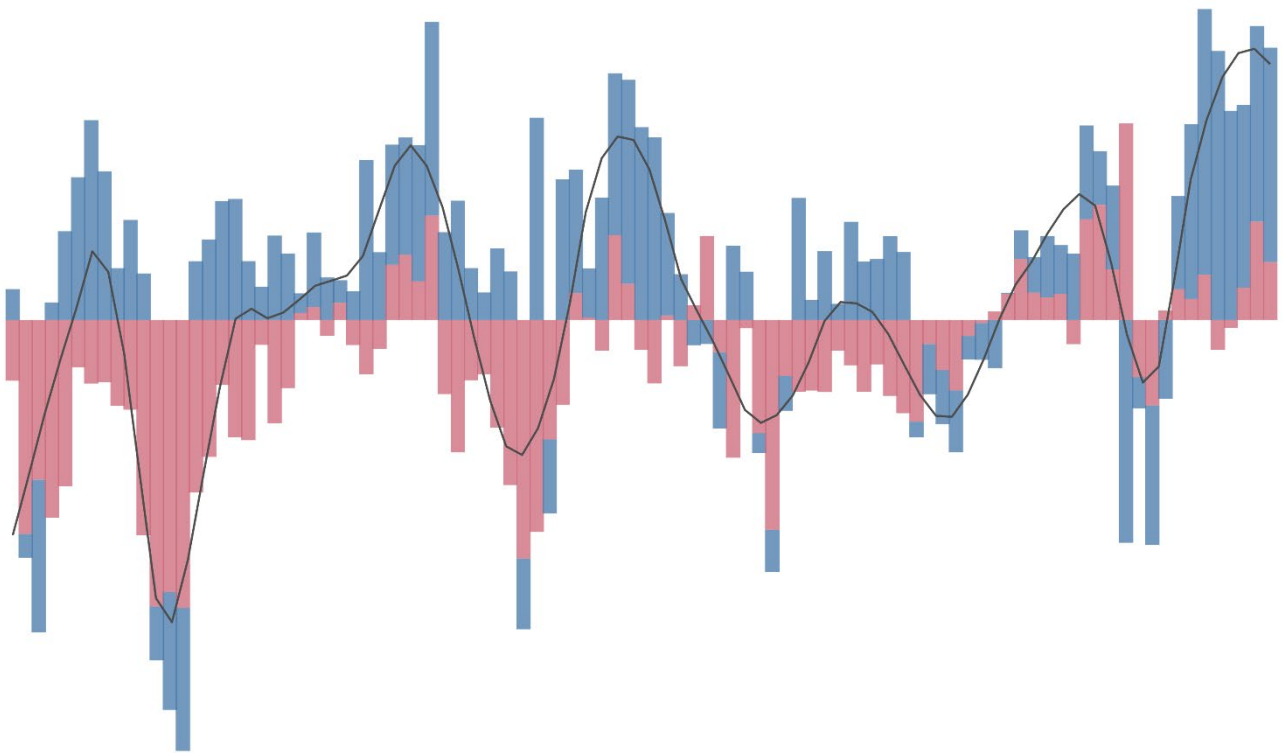


Housing Research Note 9

## Understanding recent rental trends in London's private rented market



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## **1. Executive summary**

- 1.1 This research note compiles and analyses a range of data on the large rent increases in London's private rental market since 2021 and the reasons behind these trends.
- 1.2 London is home to approximately 2.7 million private renters, a figure which has risen considerably since the 1990s (Census, 2021).
- 1.3 Rents for new tenancies fell sharply during the first part of the pandemic period but subsequently increased very rapidly. The growth in rents between early 2021 and late 2022 put increasing pressure on private renters in London, contributing considerably to the cost of living crisis as renters attempted to adjust to higher housing costs.
- 1.4 Asking rents for new tenancies and all-tenancy rents have shown different trends, with asking rents experiencing huge increases in recent months. Both trends and their differences are explored in this paper.
- 1.5 The pandemic, cost of living crisis and move to a period of low economic growth has caused volatility which has made it more difficult to determine, evidence, and forecast the factors which have impacted the rental market. These same issues, however, have also exacerbated existing supply and demand issues in the market.
- 1.6 The large growth in rents in London over this period is likely to have been driven by a significant rise in demand towards the end of the pandemic (linked to the reopening of many workplaces and educational centres), and a longer-term trend of falling lettings in London's private rental sector.
- 1.7 Tracking market data shows that the number of private rental properties available to rent in London has fallen substantially since mid-2020 and is significantly lower than before the pandemic.
- 1.8 Market data shows demand increasing to record levels in London in late 2021 and in 2022, after dramatic falls during pandemic lockdowns. However, it is difficult to forecast what will happen to rental demand and the level of rents in the coming months, given the ongoing cost of living crisis and the uncertain economic outlook.

## **2. Introduction**

- 2.1 This paper sets out the recent historical context of London's private rental sector (PRS), outlines recent trends in rents, and examines some of the supply and demand factors behind the rent increases. The paper also discusses the role of government regulation in the market and the outlook for potential market changes in the short-term.

### Data sources

- 2.2 A range of publicly available data sources have been used for this paper, including government data from Department for Levelling Up, Housing and Communities (DLUHC) and ONS (Office for National Statistics), alongside data from firms such as Rightmove, HomeLet, Moliar and SpareRoom. All sources used have limitations and all measure their data differently, meaning care needs to be taken when directly comparing any data from different sources.
- 2.3 The pandemic brought about dramatic short-term changes in some indicators (notably private rents for new tenancies), some but not all of which have since been reversed. In addition, lockdowns led to disruptions in the measurement or collection of some data. For example, the survey methods for the 2020-21 English Housing Survey were adjusted to

telephone interviews rather than face-to-face, and external rather than internal property inspections. The sample size achieved also fell significantly.

- 2.4 In addition, there are significant differences in the data collection methods used in sources referred to in this report. For example, the ONS index of private rental prices measures changes in rents across all private tenancies, but this means it reacts slowly to changes in the market for new tenancies. Data from other sources, such as Zoopla and Rightmove, measure rents in the active market, showing trends from the flow of new tenancies rather than the stock of homes.

### 3. Context

- 3.1 This section considers the longer-term trends and patterns within the recent history of the private rented market in London. It considers the shifts from home ownership to private renting, as well as the growth of the sector and changes in rents and affordability.

#### Long-term tenure trends

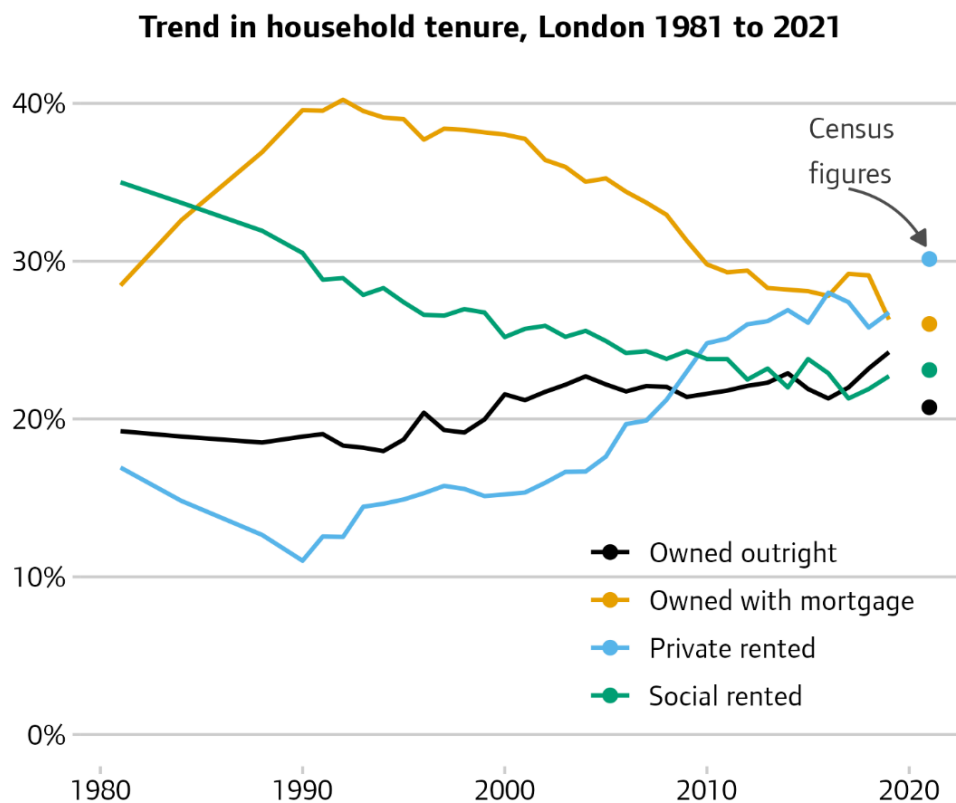


Figure 1: Data from Labour Force Survey and Annual Population Survey, ONS

- 3.2 Over the past thirty years, the private rented sector has grown as the proportion of Londoners either living in social housing or owning their homes with a mortgage has fallen. The percentage of households privately renting in London increased rapidly in the 2000s, but this fast growth was not sustained, and household tenure trends have stayed relatively steady since the mid-2010s.
- 3.3 According to the 2021-22 [English Housing Survey](#), more than a quarter (29 per cent) of homes in London were privately rented, significantly higher than the UK average of 17 per cent. Within these results, private rentals are now the largest tenure above mortgaged homes at 27 per cent. Similarly, recently released figures from the 2021 Census show that

30 per cent of households (comprising a total of around 3 million people) in London were living in privately rented homes. However, data collection for both the 2021 Census and the 2021-22 English Housing Survey took place during the pandemic and tenure figures may have changed since.

- 3.4 The mix of household types in the private rented sector has also diversified over recent decades, with around a third of private renting households in London now including children, up from around one in six in the mid-1990s (figures from GLA analysis of the Survey of English Housing and English Housing Survey).
- 3.5 The proportions of Londoners living in rented accommodation and those who own their home differ significantly between ethnic groups. Non-British White households are the group of Londoners who are most likely to rent privately, followed by Chinese households ([Housing and race equality research note, 2022](#)). Nearly 75 per cent of Black Londoners are renters but only a small proportion of those are privately renting, with the majority living in social housing.
- 3.6 There is an increasing number of older people living in the private rented sector, with the number of people aged 40 or more who were renting privately in London almost doubling from around 290,000 in 2009 to around 570,000 in 2019 (Annual Population Survey). Within this total, the number aged 65+ increased from around 50,000 to around 80,000. There was also a corresponding decrease in the number of older owner occupiers. Age UK reports that high rents leave one in three older tenants in the UK in poverty after their rent is paid, and many older renters rely on a fixed income or pension to pay housing costs ([Age UK, 2022](#)).

#### Rents and affordability

- 3.7 Alongside an increase in private renters throughout the past few decades, rents for all tenancies have frequently increased more than wages, according to ONS data on private rents and average earnings. Average rents increased by 38 per cent from 2005 to 2016, whilst average earnings increased by just 21 per cent.
- 3.8 The increase in rents relative to individual earnings is likely to have contributed to the growth of multi-earner households in London's private rented sector. The [Housing in London 2021](#) report uses English Housing Survey data to measure the median share of housing costs by total household income and found that costs rose for private renters between 2010 and 2014, before falling until 2019 (the latest data available). Costs as a percentage of income remained higher for private renters than any other tenure between the period measured.
- 3.9 In more recent years, increases in average earnings have caught up with growth in rents. There was a particularly large increase in average earnings between 2021 and 2022 (perhaps partly a result of recent high consumer price inflation). The resulting 'unaffordability' index has fallen to the same level as in 2005. However, because this index is based on rents across all tenancies it does not yet reflect the exceptional increases in asking rents seen in 2022. Nor do any of these measures take into account the pressure on household budgets from the current cost of living crisis.
- 3.10 Affordability for low-income households is also affected by the level and availability of support from the welfare system, and housing-related benefits increasingly lag behind the cost of renting, especially in London. Local Housing Allowance rates, which determine the help available through Housing Benefit or Universal Credit to private renters in different locations and homes of different sizes, were increased to the 30<sup>th</sup> percentile of market rents during the pandemic but will be frozen at 2023 cash levels, as announced in

the Autumn Statement in 2022. This will make it increasingly difficult for renters to secure and sustain the homes they need. While increases in rents for existing social housing tenancies has been capped by government at seven per cent next year, private renters have no such protection from increasing rents.

- 3.11 Affordability of housing costs is an issue for all low-income private renters but, as Black, Asian, and other minority ethnic Londoners are more likely to be in private or social rented homes, any increase in rents would be likely to hit them the hardest. Data from just before the pandemic showed that some of these groups already experienced worse affordability: housing costs for typical private renters from ethnic minorities were over 35 per cent of household incomes across all non-White ethnic groups, compared to under 30 per cent for White tenants. Meanwhile, more than half of Black and Asian renters in the private sector in London said they found it difficult to pay their rent between 2016 and 2019, compared to around 35 per cent of White renters ([Housing and race equality research note, 2022](#)).

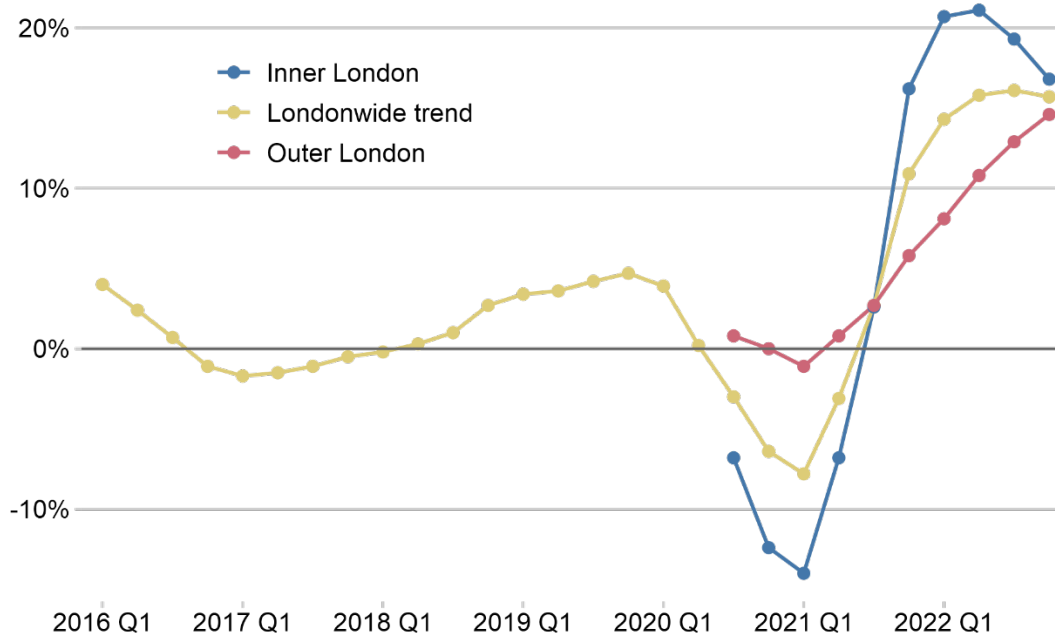
#### **4. Recent trends**

- 4.1 This section lays out the recent trends in rents and affordability in London's private rental sector.
- 4.2 Rents for new tenancies fell sharply during the first part of the pandemic period but subsequently increased very rapidly. Rental price growth over this period put increasing pressure on private renters in London, contributing considerably to the cost of living crisis as renters attempt to adjust to higher housing costs.
- 4.3 The mix of types of supply in the PRS market has also changed in recent years. The importance of Buy to Let landlords as a purchaser of new homes in London has reduced markedly in recent years, from accounting for nearly half of purchases in 2013 to a quarter in 2019 (see Molior data reported in [Housing in London 2020](#)) and even less since then (see below).

##### Asking and advertised rents

- 4.4 Average rents for new tenancies have increased dramatically since the pandemic, and the rate of growth remains high at the time of writing, despite reductions in growth across the rest of the UK. According to Rightmove data, average advertised rents in London reached £2,480 per month in the fourth quarter of 2022, an annual increase of 15.7 per cent (just down from the biggest ever annual rental increase in any region of 16.1 per cent in the third quarter (Figure 2).
- 4.5 Advertised rents in Inner London fell considerably during lockdowns, the highest rate of fall reaching 14 per cent between the first quarters of 2020 and 2021, whilst rents in Outer London fell by just 1.1 per cent. Since then, advertised rents have increased rapidly in both Inner and Outer London, with annual increases peaking at 21.1 per cent in Inner London in the second quarter of 2022.
- 4.6 These rises have meant that, despite initial falls, average rents have surpassed pre-pandemic levels. In London, the average advertised rent in Q4 2022 was £2,480 per month, compared to £2,119 in Q4 2019. Since Q3 2020 when the data for Inner/Outer London began, in Inner London rents have risen from £2,288 to £3,010, whilst in Outer London they have risen from £1,731 to £2,089.

**Annual change in Rightmove average advertised private rent in London, 2016 Q1 to 2022 Q4**



*Figure 2: GLA analysis of data from Rightmove*

- 4.7 HomeLet produces figures based on new tenancies and agreed (rather than advertised) rents. Their data similarly shows large annual increases, with average London rents rising by 14.6 per cent between December 2021 and 2022, and a total increase of 29 per cent since December 2020 and 23 per cent since December 2019.

#### Affordability and security of tenure

- 4.8 In addition to the long-term affordability pressures mentioned above, the pandemic and the cost of living crisis have worsened affordability and increased the risk of eviction for renters, due to reasons including higher living costs and lack of job security resulting in increased rent arrears. In August 2020 – early into the pandemic – it was estimated that a quarter of London’s privately renting adults had either fallen behind on their rent or said they were likely to do so as a direct result of the pandemic, and half a million Londoners potentially faced eviction (YouGov, 2020). In late 2022, 40 per cent of London’s renters reported being likely to struggle to meet rent payments in the next six months (YouGov, 2022).
- 4.9 According to the [Homelet Rental Data Index](#) for February 2023, renters taking up new tenancies in London spend an average of 35.8 per cent of their household income on rent, nearly five percentage points higher than the national average of 31 per cent. This affordability measure improved temporarily during the pandemic but has since worsened again, with a high of 36.4 per cent in December 2022, almost reaching the pre-pandemic (December 2019) peak of 36.7 per cent.
- 4.10 The DLUHC tables on homelessness show 920 households in London were threatened with homelessness between July-September 2022 due to being served a Section 21 notice – an increase of 53 per cent from the same quarter in 2021. The main reasons given for issuing the notice were the landlord wishing to sell or re-let the property, the end of an Assured Shorthold Tenancy and renters struggling to cover their bills with their budget.

4.11 In addition to housing costs, many private renters have struggled with rising bills to keep their homes warm throughout the winter due to recent rises in the price of energy. Even before significant increases in the costs of energy, private renters were ten per cent more likely than owner occupiers in London to say they can't keep their home warm enough in winter, according to the 2021-22 Survey of Londoners. The proportion of those unable to keep their home warm varied significantly across ethnic groups, with Black Londoners ten per cent more likely to struggle to pay their energy bills than the average Londoner (Housing in London 2022).

## 5. Demand factors

5.1 This chapter examines the long- and short-term factors affecting tenant demand in London's private rented sector.

5.2 The combined impact of the pandemic, cost of living crisis and move to a period of recession has caused turbulence which has made determining, evidencing, and forecasting factors which have impacted the rental market more challenging. These same issues have also exacerbated existing supply and demand issues in the market, as shown in Figure 3. Data from the RICS Residential Market Survey shows that the supply of private lettings in London, measured in terms of reported changes in 'landlord instructions', has fallen in most quarters since mid-2017, while tenant demand has increased over most of the same period, with a fall during the immediate pandemic period followed by a particularly sharp increase in demand in the last two years. Combining these two trends shows that the period from mid-2021 to late 2022 saw a larger and more sustained increase in demand relatively to supply than any previous period.

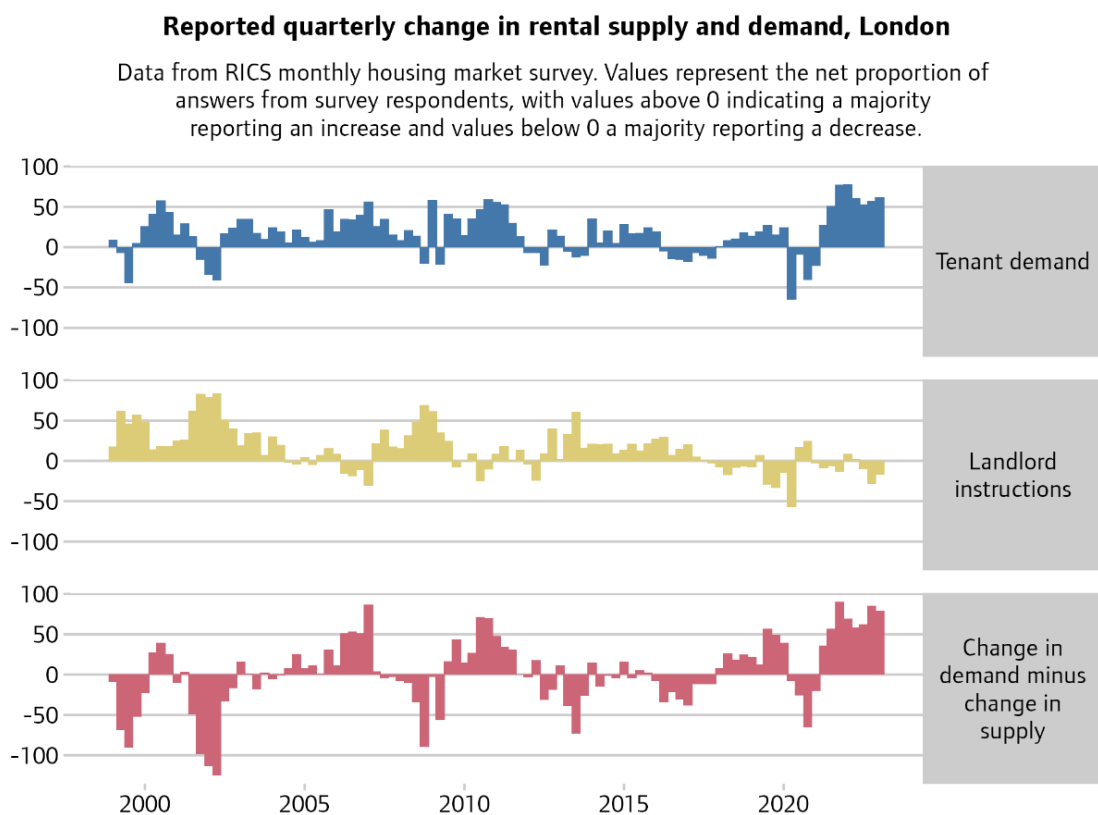


Figure 3: Data from RICS



5.3 Tenant demand has increased due to a range of long and short-term factors, analysed in turn below.

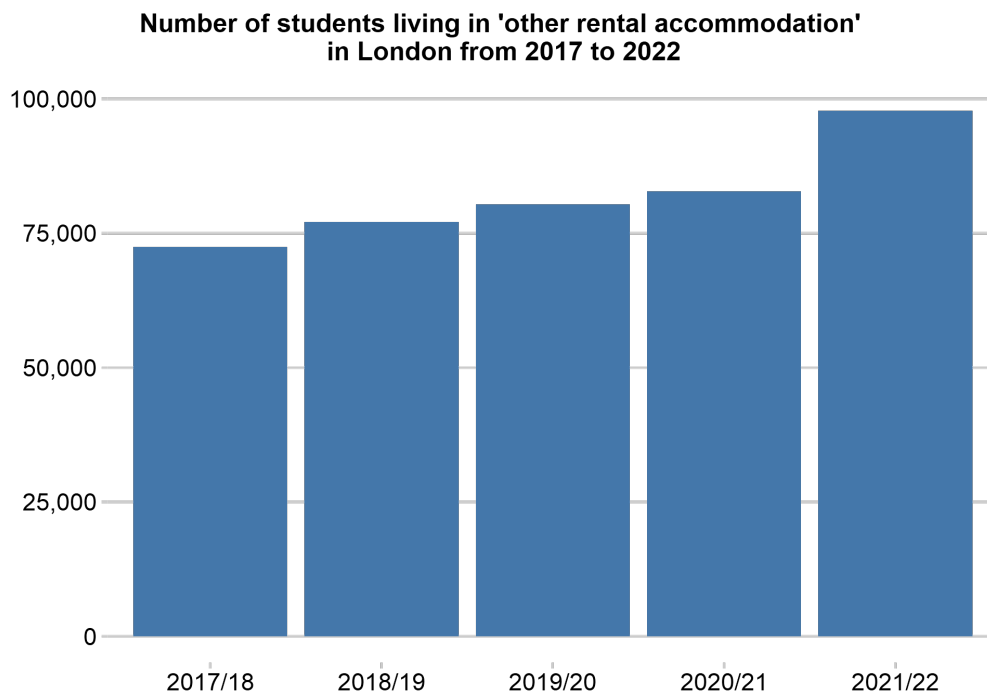
#### Long-term factors

5.4 The population of London increased by 23 per cent between 2000 and 2020 (Office for National Statistics), whilst the total housing stock in London grew by 18 per cent in the same period ([DLUHC Dwelling Stock figures](#)). Demand for private rented homes increased due to a growing number of would-be first-time buyers who were unable to buy due to rising costs and deposit requirements, and to rising numbers of low-income or vulnerable households unable to access social housing. The latter factor has made the demographics of PRS tenants more diverse and vulnerable over time.

#### Short-term factors

5.5 ONS PAYE data shows a rapid increase in employees in London throughout 2021 and 2022, after a dip during the first year of the pandemic, as workplaces re-opened. The trend was particularly stark in Inner London, where the number of employees rose by 9.4 per cent between March 2021 and July 2022, compared to 6.1 per cent in Outer London. Growth has continued since then but at a slower pace.

5.6 Trends in data from the house share website SpareRoom show clear seasonal patterns in the number of people actively looking for rooms, with large increases at the end of every summer as students return to London (Housing in London 2022). This pattern of increased seasonal demand was particularly exaggerated in 2022 and accompanied by an extremely low level of available rooms, perhaps driven by an increase in student numbers (see below) coinciding with continued growth in employment.



*Figure 4: Data from Higher Education Statistics Agency*

5.7 The short-term increase in rental demand as a result of students looking for accommodation in London has occurred for many years, but the number of students looking for PRS homes is rising. According to data from the Higher Education Statistics

Agency (HESA), there was a sharp increase between 2020/21 and 2021/22 in the number of full-time higher education students at London institutions living in what the HESA categorise as 'other rented accommodation' (see Figure 4). This includes any rented accommodation which is not a family home, the student's permanent residence, private sector halls or accommodation linked to the provider, therefore likely to be in the mainstream private rented sector. The number of these students increased from 82,790 in 2020/21 to 97,845 in 2021/22. There was a particularly sharp increase (from 30,595 in 2020/21 to 40,950 in 2021/22) in the number of first-year students in this kind of accommodation.

- 5.8 The resumption of international travel following the pandemic has also resulted in higher numbers of overseas students moving to the UK, with the number of UK student visas reaching a record high of 490,000 in 2022 (Office for Budget Responsibility). Similarly, Home Office figures show that there were sharp increases in sponsored study visas to the UK in 2021 and 2022.
- 5.9 The post-Brexit immigration regime which began in 2021 issued 800,000 UK visas in total in its first year of operation, only 50,000 of which were for EU citizens who did not require a visa under the previous regime (OBR). Other large changes to net migration figures in the year to mid-2022 include 129,000 British National Overseas visas to Hong Kong nationals and 210,000 visas to Ukrainian nationals, an unknown proportion of whom will have found accommodation in London's private rental sector.

## **6. Supply factors**

- 6.1 This section explores economic and market changes which have impacted the supply of PRS homes in London, including new regulation, changes in the availability of homes and varying access to the PRS for different demographic groups.
- 6.2 According to the Census there were 1.03 million occupied dwellings in London's private rented sector in 2021, home to approximately 3 million people.
- 6.3 Tracking market data shows that the supply of private rental properties available to rent in London has fallen substantially since mid-2020 and is significantly lower than before the pandemic. This fall in available listings is linked to increases in rents: Figure 5 shows the drop in London properties available to rent on Rightmove across the past four years and the annualised change in rents for new tenancies from Homelet data, producing a clear inverse relationship.

### Number of properties listed as available to rent on Rightmove and annual change in rents for new tenancies reported by Homelet

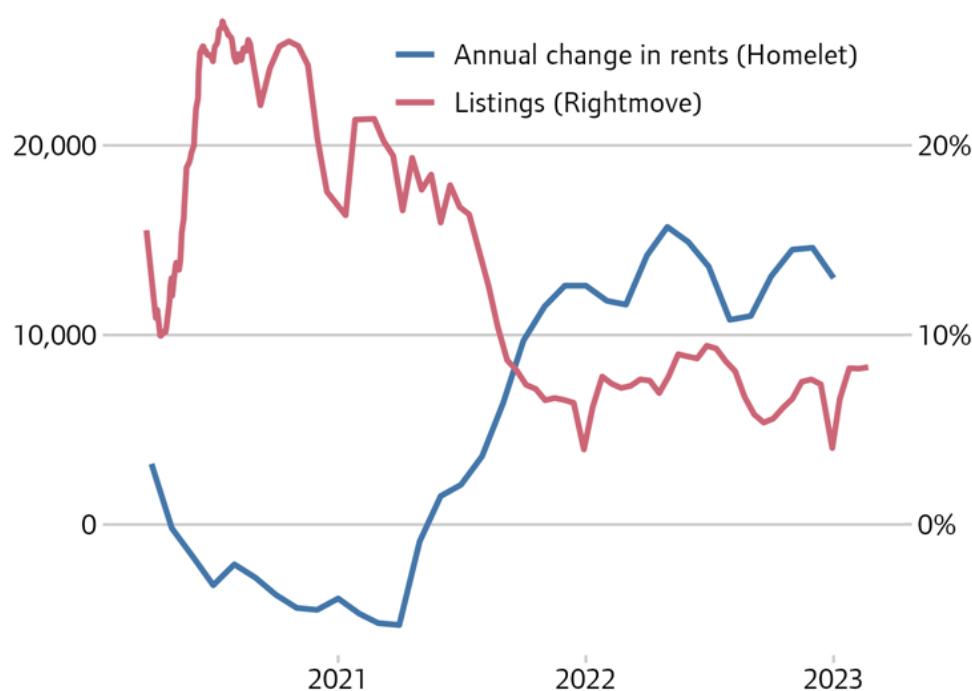


Figure 5: Available London properties data from Rightmove and London rental data from Homelet

6.4 The recent supply of privately rented homes has been impacted by a range of short and long-term factors, analysed in this section.

#### Previous taxation and regulatory changes

6.5 Since 2015, the government has introduced several tax and regulatory changes, some of which were designed to make property a less attractive investment by reducing landlord returns. The main changes made to date are:

- i) A stamp duty surcharge on second homes and additional properties, introduced in 2016. The additional rate starts at three per cent on the first £125,000 of the price of a property and rises incrementally up to an additional 15 per cent for amounts over £1.5 million.
- ii) From April 2017 to April 2020, layered buy-to-let tax relief on mortgage payments was gradually phased down to one flat rate. Previously, landlords were able to claim tax relief at their marginal rate of tax, meaning that basic rate taxpayers could claim 20 per cent relief, higher rate taxpayers could claim 40 per cent and top-rate taxpayers 45 per cent. As of April 2020, all taxpayers can claim only 20 per cent tax relief.
- iii) Capital Gains Tax for rented property has been kept at a rate of 28 per cent but was reduced to 18 per cent for other assets in 2016 (Scanlon et al, 2021).
- iv) Changes to the Wear and Tear Allowance came into effect in 2016, meaning that landlords can only claim tax relief for replacing furnishings, appliances and

kitchenware when they can provide evidence that they have purchased a replacement.

- v) From June 2019, the Tenant Fees Act made it illegal for a letting agent to charge most fees to tenants renting a new property or renewing a tenancy. The Tenant Fees Act also introduced a deposit cap at no more than 5 weeks' rent where the total annual rent is less than £50,000, or 6 weeks' rent where the total annual rent is £50,000 or above.

- 6.6 Whilst it is difficult to measure the direct impact of these changes due to the large number of factors influencing the market, research for Nationwide in 2021 found that the increased financial barriers had prompted a 'very slow process of disinvestment' in the sector ([Rugg & Wallace, 2021](#)). The research found that an immediate exodus of buy-to-let landlords did not occur following recent regulatory changes, but their impact on lowering yields may dissuade new entrants to the market. A significant additional factor in supply discussed in the research is the aging landlord population, many of whom are reaching or have reached retirement age and always planned to 'wind down' their portfolios by gradually selling properties to fund their retirement. However, some of these homes may be sold to other landlords, resulting in no reduction in supply.
- 6.7 On the other hand, National Residential Landlords Association (NRLA) members gave changes in regulation as the largest reason for adjusting their portfolio, as reported by the NRLA's Landlord Confidence Index from late 2022. The percentage of survey respondents across the UK who said they intend to sell in the next 12 months was at its highest level since before the pandemic at 33 per cent, more than double the 15 per cent who said they were intending to buy in the next year, and the gap between the two groups is steadily growing. However, this survey does not reflect the impact of new landlords joining the market, or the activities of landlords who aren't members of the NRLA.
- 6.8 The fall in landlord instructions in recent years (Figure 3) is likely to reflect a number of factors, including fewer properties coming onto the market as renters are staying in their properties for longer (see section on 'Availability' below), rather than just a fall in the total number of PRS properties.

#### Buy to Let and Build to Rent – long-term trends

- 6.9 The two main sources of growth in the number of private rented properties in London are small to medium landlords purchasing homes via Buy to Let (BTL) mortgages and larger developers building homes specifically designed for renting, known as Build to Rent (BTR) homes. Looking closely at the long-term patterns of each of these types of housing can help to explain the current shortage of PRS supply and forecast whether supply will increase in the future.
- 6.10 Buy to Let mortgages were introduced in 1996. Across the following decade the number of Buy to Let mortgage advances rapidly increased across the UK, rising from 48,400 in 2000 to 346,000 in 2007 (UK Finance). Since 2015 growth in the Buy to Let sector has slowed at the national level. London-specific data on new or outstanding BTL loans is not available.
- 6.11 Build to Rent homes are a more recent form of private rental housing. Significant numbers of Build to Rent homes only started to be delivered in London in 2009, with BTR homes started reaching a peak in 2015 (Housing in London 2022). BTR completions have steadily grown since the early 2010s, most recently peaking in 2021 when completions increased by 43 per cent since the year before.

### Buy to Let and Build to Rent - recent trends

- 6.12 Whilst the NRLA has reported many BTL landlords saying that they plan to sell their properties in recent years, there is limited data to show the extent to which this has taken place. Recent nationwide figures from Hamptons show that the percentage of homes sold by landlords rose gradually from four per cent in 2010 to 16 per cent in 2016 and remained at 16 per cent in 2022. Alongside this trend, the percentage of homes bought by landlords has fallen from 16 per cent in 2015 to 12 per cent in 2022, meaning that landlords are currently selling more homes than they are buying, potentially contributing to the shortage in supply of homes to rent. Additionally, provisional stamp duty data from HMRC released in February 2023 shows an 18 per cent fall in buyers of ‘additional homes’ (which includes BTL landlords and second home purchasers) in the last quarter of 2022 compared to the same period in 2021.
- 6.13 Molior collects data on new homes on sites of 20 private units or more in London. In October 2022 they reported that the majority of new-build private homes continued to be sold as BTR homes or through the Help to Buy scheme (see Figure 6). BTR providers have frequently been the largest group purchasing new homes on large developments since 2019, reflecting the high demand for new private rental properties.

**Method of sale for new market homes on large developments in London, 2019 Q4 to 2022 Q3**

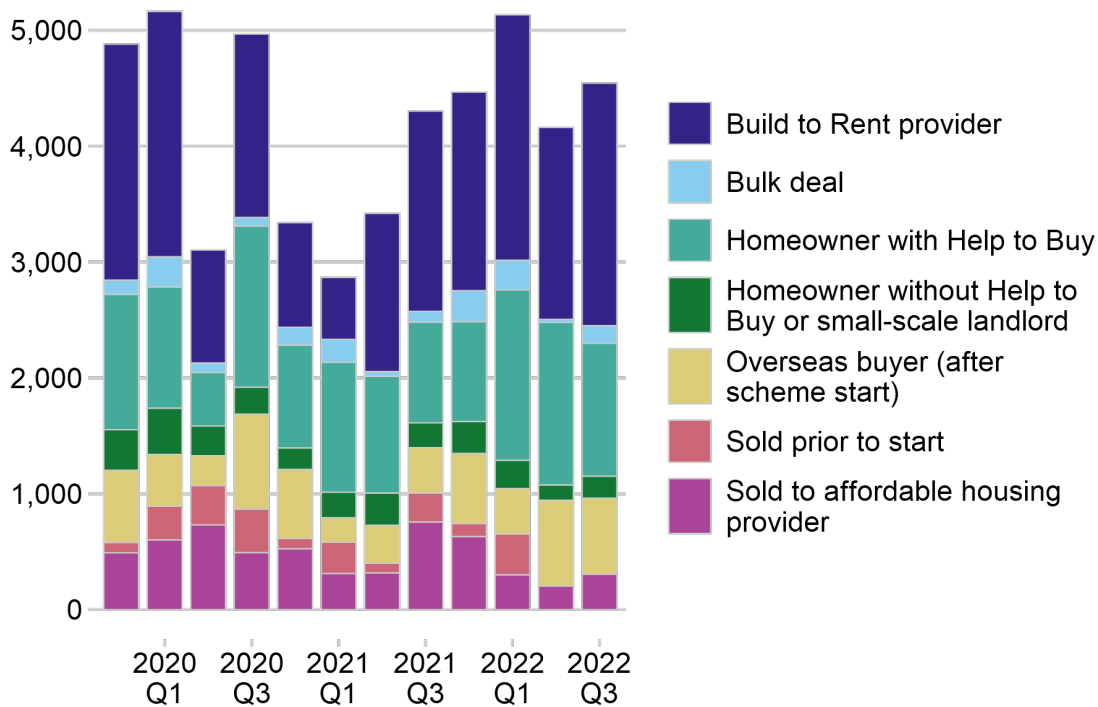


Figure 6: Data from Molior London research

- 6.14 According to Molior data, in 2021 there were 4,150 new BTR homes started in London, and 7,870 completed (the highest figure ever recorded). The number of BTR homes currently under construction in London has however fallen to 11,560, the lowest figure since mid-2017.

## Availability

- 6.15 Another factor contributing to lower supply is the increase in average tenancy lengths. [Dataloft](#) reported in June 2021 that the average time renters had stayed in their previous home had increased from 17.2 months in 2016 to 19.3 in 2021 at the national level, and London had longer than average tenancy lengths at 20.3 months. Some market commentary indicates that those who signed tenancies at reduced rents during the early stage of the pandemic period were more likely also to sign longer contracts (The Telegraph, 2023). Longer tenancy lengths also contribute to reduced demand from those who move within London but, given some of those who change tenancies will leave London, the net effect of longer tenancies is to reduce supply relative to demand.
- 6.16 Competition among renters to secure rental properties reached a peak in the third quarter of 2022, according to Rightmove. The Rightmove rental index for the third quarter of 2022 also reported a 24 per cent drop in new listings coming to the market for rent in London in the last year, compared to an increase in every other region. As a result, many renters faced ‘bidding wars’ and increasing requests for higher deposits or increased payments of rent in advance (BBC News).
- 6.17 The number of properties available for mainstream private renting in London can also be affected by trends in the use of housing for short-term lettings through Airbnb and other platforms. According to data collected by Inside Airbnb, the number of entire homes in London listed on Airbnb and with a review in the last month (a proxy indicator for active listings) fell from 10,700 in December 2019 to 1,900 in 2020 before increasing again to 8,800 in December 2022 (Inside Airbnb). It is not possible from this data to say how many of these properties have been removed from the mainstream private rental market. Airbnb is not the only short-term letting platform operating in London so the total number of properties affected is likely to be higher than indicated by these figures alone.

## Access

- 6.18 Even when there are homes available to rent, there may be inequalities in access depending on the resources available to households and discriminatory barriers.
- 6.19 Overcrowding is a common problem in London's rental sector, particularly for Londoners from minority ethnic groups. Based on data from 2017/18 to 2019/20, 15 per cent of private renting households in London were overcrowded, compared to 17 per cent of social renting households and just 2 per cent of homeowners. Data from the English Housing Survey from 2016-2019 showed that three per cent of households that were overcrowded in the private rented sector were White, compared to 13 per cent of households from all other ethnic groups combined.
- 6.20 Renters can face discrimination in the private rental market on the grounds of race, gender and disability, and disadvantage in terms of their family make-up and financial security. Research by Rhodes and Rugg (2018) found that private renters in London are disproportionately likely to be defined as ‘vulnerable’. DLUHC’s English Private Landlord Survey (2022) found that 84 per cent of landlords nationally are unwilling to rent a property to a tenant with a history of rent arrears, while 44 per cent are unwilling to rent to tenants requiring property adaptations to accommodate disability.
- 6.21 Renters in receipt of housing benefit can also experience discrimination in the private rented sector, despite the courts deeming ‘No DSS’ policies to be unlawful in several legal cases since 2020. The number of recipients of Housing Benefit or Universal Credit (with a housing costs component) renting privately in London has increased considerably since before the pandemic. In January 2020, there were 271,000 recipients in the private rented

sector, a number which increased by more than 50 per cent to 414,000 in January 2021 due to the economic impacts of the pandemic. As of November 2022 this figure had decreased to 390,000, still well above the pre-pandemic level (DWP, 2022).

## 7. Discussion

- 7.1 As presented throughout this paper, market data shows demand increasing to record levels in London in late 2021 and in 2022, after dramatic falls during lockdowns. However, it is difficult to forecast what will happen to rental demand and the level of rents in the coming months, given the ongoing cost of living crisis.
- 7.2 The scarcity of available homes to rent relative to demand in London is resulting in rising rents and giving landlords more power when setting rents. Additionally, due to high demand, landlords are increasingly in a position to be selective about which tenants they rent to, increasing the risk of discrimination and of some groups (e.g. those with children or pets) struggling to find a place to live.
- 7.3 NRLA's [Landlord Confidence Index](#) (survey undertaken in the third quarter of 2022) reported that increasing costs was the top reason for their members adjusting rent. Landlord costs are likely to continue rising in the medium term due to energy price and mortgage costs increasing, as well as the costs of retrofit works to improve energy efficiency.
- 7.4 Demand for privately rented homes is currently extremely high and new supply is low, therefore any decrease in the stock of rented homes would risk pushing rents even higher. Sales of rental homes to first-time buyers do simultaneously reduce both supply of and demand for rental housing. If, however, a shared house (a house of multiple occupation) is sold by a landlord to a single household, multiple people will require a new home, so the rental supply is likely to fall by more than the demand.
- 7.5 As increasing energy prices and inflation continue to drive cost of living pressures, more renters may need support with bills over the next year and it will be very difficult for many to pay higher rents. If rents continue to increase, renters may face getting even further into rent arrears and other debt, increasingly at risk of eviction and homelessness. Renters who are becoming priced out of the private sector could also add to the need for already oversubscribed social rented homes. Across the UK in December 2021, the [District Councils Network](#) reported that 76 per cent of councils they surveyed said that the rise in landlords selling up or converting their properties into short-term lets had caused a rise in housing waiting lists.
- 7.6 Court backlogs continue to result in lengthy timescales and delays for possession hearings - an issue often reported to the GLA by local authorities and landlords. When combined with rising rents and associated arrears, these delays create an increased risk of illegal evictions.

### Potential future trends

- 7.7 As discussed in this paper, underlying growth in rental demand is driven by growth in population and average incomes, which is expected to continue over the long term, maintaining demand-side pressure on the market.
- 7.8 UK Finance data forecasts that interest rates are likely to remain high in 2023 and 2024, reducing demand for house purchases. They also forecast that lending for house purchase mortgages will fall by 23 per cent due to the cost of living crisis and rising interest rates. A

reduction in access to home ownership is likely to result in increased demand for private rental properties.

- 7.9 With mortgage rates expected to remain at a relatively high level through 2023 and 2024, it is likely that some landlords will seek to cover increased mortgage costs by raising rents for both new and renewed tenancies, further contributing to issues of affordability. According to the 2021 English Private Landlord Survey, 45 per cent of landlords reported that they increased the rent for their last letting to a new tenancy and 26 per cent reported that they increased it for their last renewed tenancy. However, other landlords will absorb extra costs and some will leave the sector, rather than raising rents.
- 7.10 Another potential future trend in the rental market is for demand to increase for HMO properties, as people move to shared accommodation to save housing costs. This could lead to higher demand for larger, family-sized homes, although recent Zoopla research has found that renters are also looking for smaller properties in order to lessen energy bills ([Zoopla, 2022](#)).
- 7.11 Data from the Annual Population Survey shows that private renters are becoming older and more diverse, with the share of private renters in London who are aged 40 or above rising from 14 per cent in 2009 to 20 per cent in 2019. As this trend continues, what renters require from their homes will change and more flexibility will be required from landlords. Evidence from the 2021 English Private Landlord Survey shows a reluctance from landlords to let to renters with specific needs, with 44 per cent of landlords unwilling to rent to anyone needing adaptations and 15 per cent unwilling to rent to people with dependent children. An increase of pension-age renters also means more renters will be living on a fixed income, meaning they are more likely to struggle with increases in rent.

## **8. Conclusion**

- 8.1 In conclusion, the large growth in rents in London since 2021 is likely to have been driven by a significant rise in demand towards the end of the pandemic (linked to the reopening of many workplaces and educational centers), and a longer-term trend of falling lettings (partly due to reduced churn) in London's private rental sector.
- 8.2 While annualised rental growth in London has levelled off in recent months, it remains very high in historical terms. This very high rate of growth is unlikely to be sustained, and rents may even fall depending on the depth of the economic slowdown and the wider cost of living crisis. But the sharp increase in rents since early 2021 demonstrates that the underlying scarcity of housing in London has not gone away and, if housebuilding continues to be affected by high borrowing and construction costs, it may get even worse.



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