Briefing notes

How resilient are UK residential rental markets to Covid-19?

Issue 2 | April 2020

Forecasts are notoriously unreliable at the best of times. In the current climate, attempts to forecast economic or housing market indicators come with an almighty caveat. To support our clients in modelling short and long term outlooks in the light of Covid-19, we prefer to set out scenarios for alternative futures.

In this series of **Briefing Notes** we share our thoughts on aspects of the residential rental market that seem likely to be under pressure as a result of Covid-19 to provide evidence of resilience.

For this paper, we look closely at affordability ratios and model the impact of a scenario under which earnings fall by 20% – a real cirumstance, albeit short term, for many workers in the current climate. Affordability is the metric widely used to gauge renters' spending power in a market, by showing rent paid as a proportion of earnings.

From our DRMA dataset, we are able to analyse rent paid by an individual renter against their income and calculate the averages from this line-by-line tenancy information. We call this ratio Real Renter Affordability (RRAff) to distinguish it from the conventional measure of affordability which divides average rents in an area by average earnings. We have previously published research which shows that RRAff is considerably less onerous than the conventional measure implies.*

*Real Renter Affordability report, Dataloft 2020

Short term fall in earnings –

how vulnerable are UK rental markets?

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

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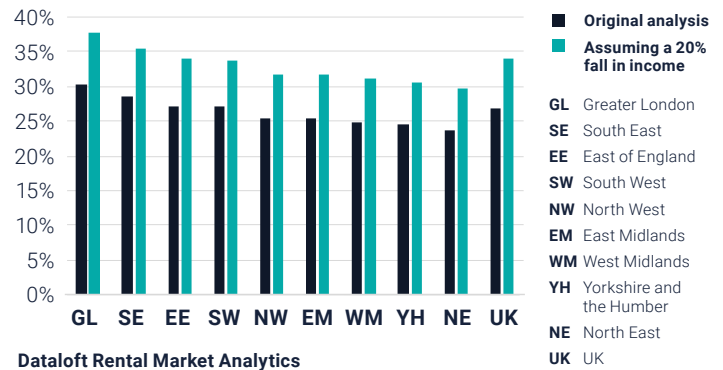**M** +44 7714 124681
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dRMA Dataloft Rental Market Analytics

Dataloft Rental Market Analytics (DRMA) is the largest and most comprehensive single source of residential rents achieved for the UK market. The dataset holds rent paid transactions from individual tenants and tenancies. It contains over 2.3 million aggregated references rigorously recorded by tenant referencing companies. It covers five years of historic data with a monthly addition of c30,000 new tenancies and c50,000 new tenants.

What does the **evidence** say?

- Across the UK, the average Real Renter Affordability, (RRAff) is 27%. In other words, tenants spend, on average, 27% of their gross income on rent. RRAff shows the ratio between a renter's actual income and the part of rent for which they are personally responsible.

- We took a 20% fall in earnings for our scenario on the basis that any tenant furloughed will experience a reduction of at least 20% in their earnings and many businesses have taken that as a benchmark for salary cuts or reduced hours. A 20% drop in earnings, causes the UK average RRAff to shift from 27% to 34% of gross income spent on rent.

- London has the highest RRAff – although London earnings are higher than elsewhere in the UK, rents are higher still, by a bigger margin. If earnings were to fall by 20% for London renters, the RRAff ratio would shift from 30% to 38%, making rents considerably more onerous.

- Across the UK, around 11% of renters spend more than 40% of their income on rent, using the RRAff metric. If earnings dropped by 20%, the proportion of renters liable for a rent that equates to more than 40% of their earnings would rise to 30% of all renters – a far more significant burden than at present.

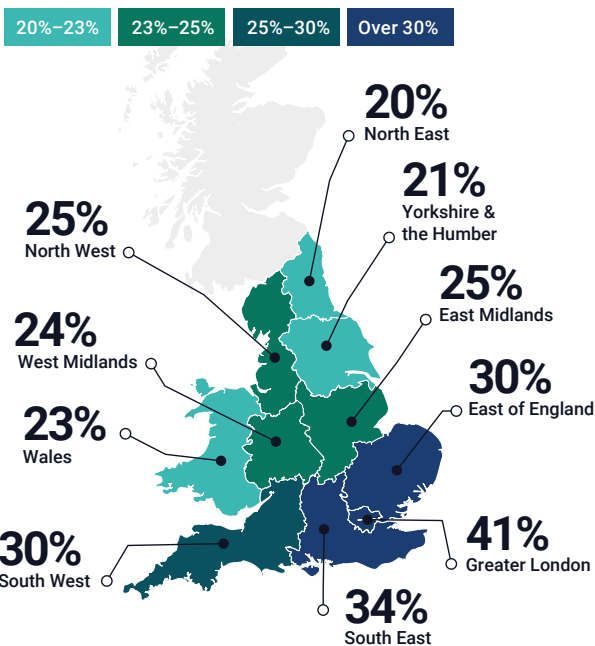### % of **gross income spent on rent** per tenant

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■	**Original analysis**
■	**Assuming a 20% fall in income**

GL	Greater London
SE	South East
EE	East of England
SW	South West
NW	North West
EM	East Midlands
WM	West Midlands
YH	Yorkshire and the Humber
NE	North East
UK	UK

UK-wide **resilience measures**

	Pre-Covid-19 metrics	Scenario 20% fall in income
Average Real Rental Affordability (RRAff)	27%	34%
Proportion of renters with ratio of 40%+	11%	30%

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Proportion of tenants with a Real Rental Affordability of 40%+ assuming 20% drop in income

20%–23%	23%–25%	25%–30%	Over 30%

20% North East

21% Yorkshire & the Humber

25% North West

25% East Midlands

24% West Midlands

30% East of England

23% Wales

30% South West

41% Greater London

34% South East

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What does it mean?

Our previous research on RRAff metrics has shown that rental markets are more resilient than is often portrayed. Renters in the private rental sector are very often well-paid professionals earning significantly above the average earnings in a locality. Many share or combine incomes to form a rental household – a factor that conventional metrics struggle to express.

That means that, on average, a drop in earnings of 20% is sustainable, if not desirable. Only in Greater London does a 20% fall in earnings result in a RRAff close to 40%. This is a level that would generally be considered to be problematic and even there, it remains on the right side of the line.

However, in all regions at least a fifth of renters would reach a RRAff of 40% if their earnings dropped by 20%. Therefore, while the market might look resilient, there are individuals that would be pushed into straitened circumstances. Landlords may be well advised to take the initiative with tenants in this situation and avoid the confrontational behaviour that has emerged in the retail sector.

London, inevitably, is more exposed to a fall in earnings because 41% of renters would be pushed above the 40% RRAff threshold by a 20% drop in income. We looked in **Briefing Note 1** at the proportion of leases expiring in Q2 and Q3 2020. While London is protected by having later lease expiries, it looks to be significantly more vulnerable to a drop in earnings.

It is worth noting that early indications show that spending is also greatly reduced during this period, meaning there may be more elasticity in RRAff than at other times.