

# The FindaProperty.com RENTAL INDEX



MARCH 2009

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**Under embargo for 0001 hours: Wednesday 25th March 2009**



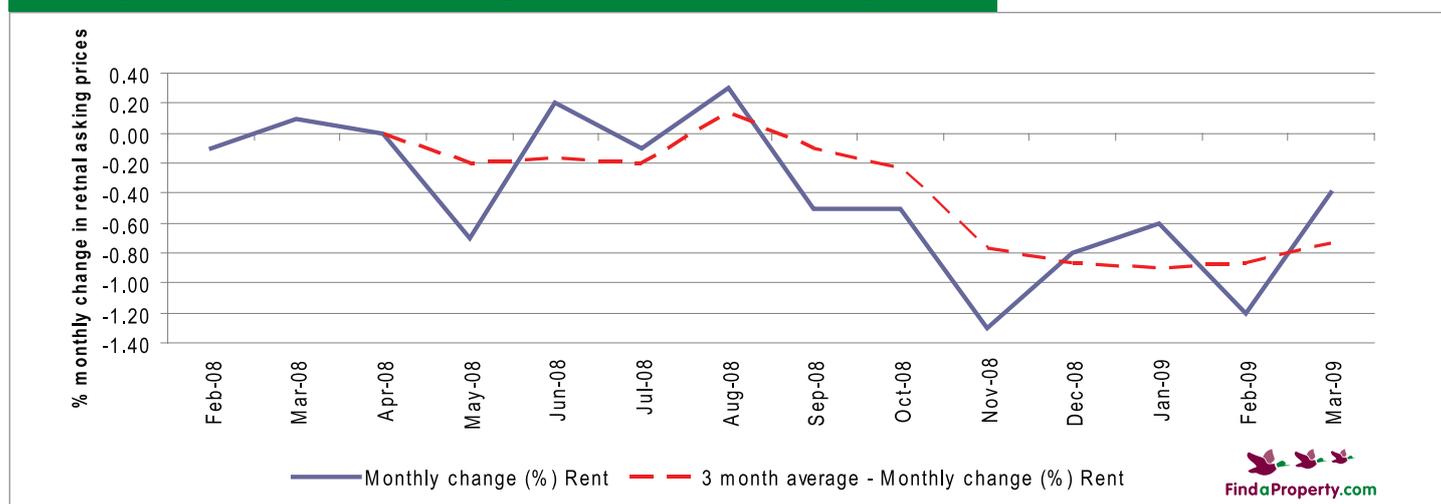
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## Under embargo for 0001 hours: Wednesday 25th March 2009

# UK Nears Bottom of the Rental Market

- The rate at which asking rents are falling and the volume of stock is rising has slowed over the past three months, signalling that the UK rental market may be reaching the bottom of the cycle.
- Average rents in March 2009 were £827 pcm compared with £830 pcm in February 2009 and £873 pcm in March 2008. (A £46pcm or 5.3% fall year-on-year).
- Continued tenant activity has reduced the average time a property is on the market by five days over the month to 65 days, but time on the market remains up by 17 days year-on-year.
- The UK is becoming a tale of two markets: house rentals have seen supply levels stabilise and start to fall (-1.3% month-on-month decrease in March 2009), whilst the supply of rental flats continues to rise (3.9% month-on-month increase in March 2009).
- Rents in London continue to fall, but again at a slower rate, with asking rents falling by 1.1% month-on-month and by 6.9% year-on-year.
- UK rental yield remains stable at 4.65%. However, this disguises the true picture which sees yields for houses stabilise at 4.41% (a very similar value as February 2009 (4.40%) and March 2008 (4.40%)), whilst yields for flats have climbed for the third consecutive month to 5.31%.
- The second quarter of 2009 will be a key period for determining whether this is the beginning of a genuine recovery in the rental market. Patterns in the supply and demand for rental properties will also provide key indicators on the state of the UK sales market.

### Monthly % UK rental price changes with 3 month average trend



#### Media Enquiries:

Maud Rousseau, TTA Group | Tel: 020 7886 0327 | Mob: 07813 850 341 | Email: [MRousseau@ttagroup.co.uk](mailto:MRousseau@ttagroup.co.uk)

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# Overview & Commentary – UK

## UK Market

The first signs of recovery in the UK rental market may be beginning to present themselves. The rates at which asking rents are falling and the volume of stock is rising have slowed over the past three months, which may signal that the UK rental market is reaching the bottom of the cycle.

In terms of rental prices, asking rents fell by only -0.4% in March 2009, the lowest fall for six months and half the average monthly fall of -0.8% over the same period. In addition, the level of available stock only rose by 1.9% in March 2009. This was the lowest monthly increase since September 2008, and is well below recent monthly increases which have been as high as 12%.

However, the signs of recovery are embryonic and we may still be several months away from seeing any increase in asking rents or a significant fall in stock levels across the UK. Supply levels continue to be high and are up by 164% year-on-year, whilst average asking rents are down by -5.3% over the 12 month period.

Interestingly, the UK is becoming a tale of two rental markets, with houses and flats performing differently.

The supply of houses has risen by 196% year-on-year compared with a 148% increase in the number of flats on the market. This rapid increase in the stock of houses has been attributed to frustrated vendors turning to the rental market either because they cannot find a buyer or because they are unwilling to sell at lower values.

However, this trend now seems to be in reversal, as recent months have seen a stabilisation in the availability of houses and March 2009 saw the first recorded fall (-1.3%) in the number of houses in the period covered by the Rental Index.

This suggests that many of these 'accidental' landlords have failed to find tenants willing to pay the rental prices required to make financing this arrangement plausible and have decided to remain in the property or return it to the sales market at a more achievable sales value.

In contrast, the supply of flats available to rent has continued to rise, and was up by 3.9% in March 2009. Flat owners are continuing to market their properties to potential tenants as first-time buyers and investors who have previously purchased a significant proportion of these types of property have found it increasingly difficult to secure mortgage funding at viable rates.

On the sales side, the fall in the asking sales prices for flats has been considerably steeper than for houses. Average asking sales prices for houses in the UK have fallen by -5.5% year-on-year since March 2008 compared with a -11.2% fall for flats over the same period of time.

As a result, with asking sales and rental prices for houses falling at similar rates, the average yield has remained relatively constant at approximately 4.41%. Flats on the other hand have seen the yield rise to 5.31% in March 2009, up from just under 5% in March 2008.



**Andrew Smith, Head of Research, comments:** *"The UK rental market over the past year has been a story of rising supply levels outstripping tenant demand, which in turn has led to falling rental asking prices.*

*There now seems to be some evidence that this downward spiral is slowing and as such we may be reaching the bottom of the market.*

*"We believe that the slowing increase in supply is due to landlords becoming more realistic and accepting lower offers combined with many accidental landlords returning their properties to the sales market.*

*"Economic instability and low consumer confidence mean that it is impossible to predict what will happen to the rental market over the coming months; however, we believe that there are signs that we may start to see supply levels tighten and rents begin to rise towards the end of 2009.*

*"We are seeing some indications of recovery in the house market as rental supply levels have already begun to fall. In the case of large family homes with more than five bedrooms, (one of the hardest hit sectors of the market) rents have already started to increase and were up by 2.1% in March.*

*"On the other hand, the supply of flats continues to rise and this may lead to a slower recovery in this sector. This large supply issue has been caused by the lack of interest from first-time buyers and the large number of new-build apartments constructed in recent years"*

### Media Enquiries:

Maud Rousseau, TTA Group | Tel: 020 7886 0327 | Mob: 07813 850 341 | Email: [MRousseau@ttagroup.co.uk](mailto:MRousseau@ttagroup.co.uk)

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# Overview & Commentary – Regional & London

## Regional Market

The regional UK rental market remained relatively stable during March 2009 with eight regions recording modest falls in asking rents, two regions recording modest rises and one showing no change.

Rental asking prices fell in London (-1.1%), East Midlands (-0.6%), East of England (-1.4%), North East England (-0.6%), South West England (-1.8%), Wales (-0.9%), West Midlands (-0.2%) and Yorkshire and the Humber (-0.8%). South East England did not record any changes in average asking rents in March 2009.

The largest rise in rental prices was seen in the North West where monthly asking rents increased by 0.8% to £597 pcm. However, the region continues to show the greatest decline in rental asking prices over a 12 month period, with a year-on-year fall of -13.5%. This is over double the rate of fall in any other region. Greater Manchester, in the North West region, has seen even larger falls with asking rents down by -17.2% since March 2008.

## London Market

The majority of London boroughs continue to see a decline in asking rents both on a month-by-month and year-on-year basis. The average asking rent in London fell by -1.1% in March 2009 to £1,650 pcm compared with £1,669 pcm in February 2009. Average asking rents are also down by -6.9% over the year.

Boroughs that are traditionally popular with City workers continue to suffer significant falls in asking rents with the City of London, Tower Hamlets (incorporating Canary Wharf) and Kensington & Chelsea being particularly hard hit on a year-on-year basis.

However, the largest monthly fall in rents was seen in Hammersmith & Fulham, where asking rents fell by -3.7% in March 2009 to £2,190 pcm. Conversely the only London borough to see rental growth on both a month-on-month and year-on-year basis was Haringey, which saw rental prices rise by 1.4% in March 2009 and by 1.9% on the same month last year.

With asking sales prices falling at different rates across the capital, a clear pattern is emerging in terms of rental yields.

Prime central areas such as Kensington & Chelsea, Westminster and the City of London as well as affluent west London boroughs such as Wandsworth and Richmond-upon-Thames, are seeing prices holding better and as a result rental yields are typically below 4.5%. In the case of Kensington & Chelsea the rental yield is as low as 3.97%.

In contrast, more affordable boroughs, predominantly in East London, are seeing much more attractive yields of around 6%, as prices fall at a faster rate and rental demand remains strong.

### Andrew Smith, Head of Research, comments:

*“The rises and falls in asking rents have been modest across the regions during March 2009 and we see this as a further indication that we may be reaching the bottom of the market.”*

*“One of the few areas to see rental growth was the North West, however this may be a dead cat bounce resulting from over 12 months of heavy asking price falls. The area continues to see a large oversupply of properties and we do not see sustained rental growth in the area until demand catches up with supply.”*

The highest available rental yields are currently achievable in Newham (6.90%), Barking and Dagenham (6.06%) Greenwich (5.99%) Waltham Forest (5.69%) and Hackney (5.63%).

Many of the areas that are offering the most attractive rental yields are also undergoing regeneration, making them particularly attractive to investors who can benefit from strong short-term income and the potential for long-term capital growth.

### Andrew Smith, Head of Research, comments:

*“Variations in falling sales and rental prices in the London market are starting to present some interesting opportunities for savvy property investors. Whilst prime areas are looking less appealing, cheaper boroughs are beginning to offer attractive yields, some in excess of 6%. In addition many of these areas will also benefit from long term public and private investment such as the 2012 Olympics, the extension of the East London Line and other town centre regeneration projects.”*

*“We are hearing anecdotally from agents that high single digit and even double digit yields are achievable on properties purchased from distressed vendors; however, the ability to capitalise on this window of opportunity is being restricted severely by the availability of funding. As such it is cash buyers and low geared investors that are making the most of these opportunities.”*

(Please note: the rental yield is calculated on the average asking annual rent as a proportion of the average asking price. The figure aims to indicate a trend and higher yields are available in practice to investors who manage to match up low capital values with high rental income.)

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# UK Rental Indices

## Rental Index – UK

	Feb-09	Mar-09
Average Property Asking Price	£215,042	£213,478
Average Rental Asking Price	£830	£827
UK Average Gross Yield	4.63%	4.65%
% change in rent in month	-1.2%	-0.4%
% change in rents in past year	-4.8%	-5.3%



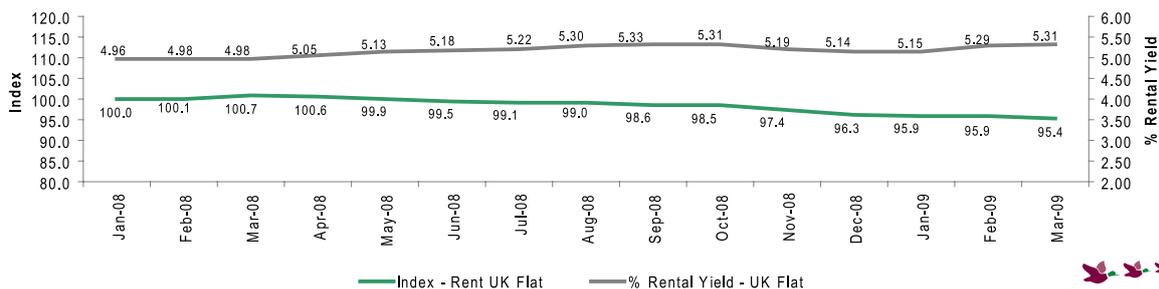
## Rental Index – UK Houses

	Feb-09	Mar-09
Average Property Asking Price - UK House	£234,739	£233,167
Average Rental Asking Price - UK House	£860	£856
UK Average Gross Yield - UK House	4.40%	4.41%
% change in rent in month - UK House	-1.6%	-0.5%
% change in rents in past year - UK House	-5.0%	-5.4%



## Rental Index – UK Flats

	Feb-09	Mar-09
Average Property Asking Price - UK Flat	£174,419	£172,870
Average Rental Asking Price - UK Flat	£769	£765
UK Average Gross Yield - UK Flat	5.29%	5.31%
% change in rent in month - UK Flat	0.0%	-0.5%
% change in rents in past year - UK Flat	-4.2%	-5.3%



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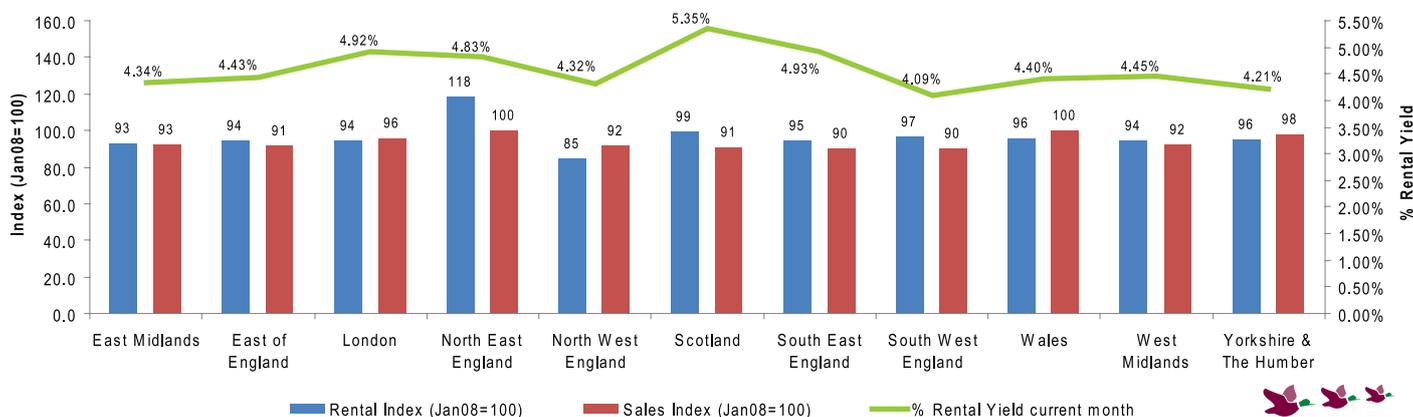
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# Regional Breakdown

## Regional Breakdown March 09

Region	Rental Index (Jan08=100)	Sales Index (Jan08=100)	% Rental Yield current month
East Midlands	93.3	92.6	4.34%
East of England	94.4	91.4	4.43%
London	94.1	95.8	4.92%
North East England	118.1	100.0	4.83%
North West England	84.8	91.5	4.32%
Scotland	99.3	90.8	5.35%
South East England	94.7	90.0	4.93%
South West England	96.7	90.0	4.09%
Wales	95.8	99.8	4.40%
West Midlands	94.1	92.1	4.45%
Yorkshire & The Humber	95.5	97.8	4.21%



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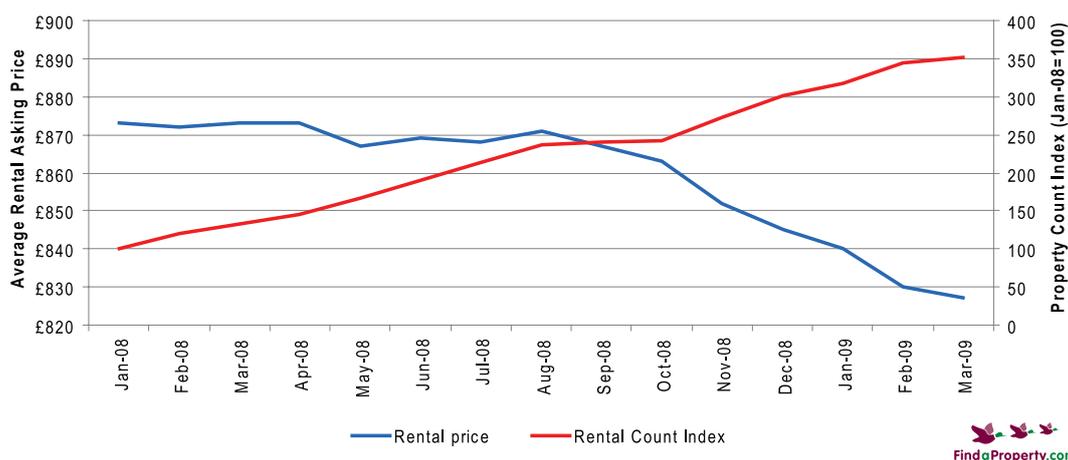
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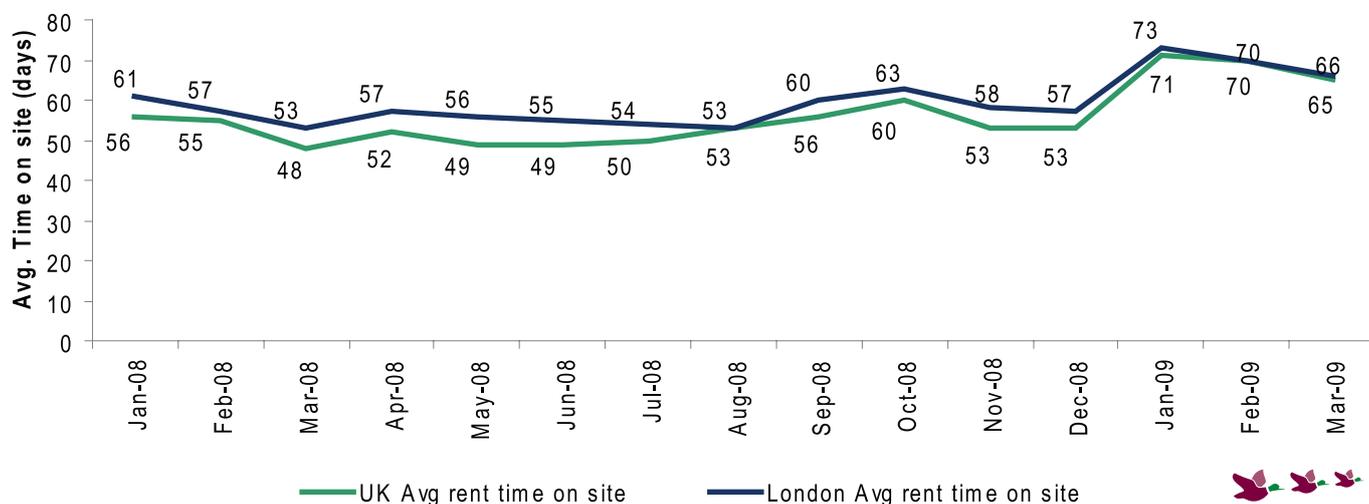
# Supply vs. Asking Price & Average Time On Site

## Supply vs Asking Price

Date	UK Avg. Asking Rental price	Property Count Index (Jan-08 = 100)
Jan-08	£873	100.0
Feb-08	£872	120.3
Mar-08	£873	132.8
Apr-08	£873	145.5
May-08	£867	166.7
Jun-08	£869	189.8
Jul-08	£868	212.8
Aug-08	£871	236.5
Sep-08	£867	240.4
Oct-08	£863	242.7
Nov-08	£852	272.2
Dec-08	£845	302.1
Jan-09	£840	316.9
Feb-09	£830	344.3
Mar-09	£827	350.9



## UK & London Rental Average Time on Site



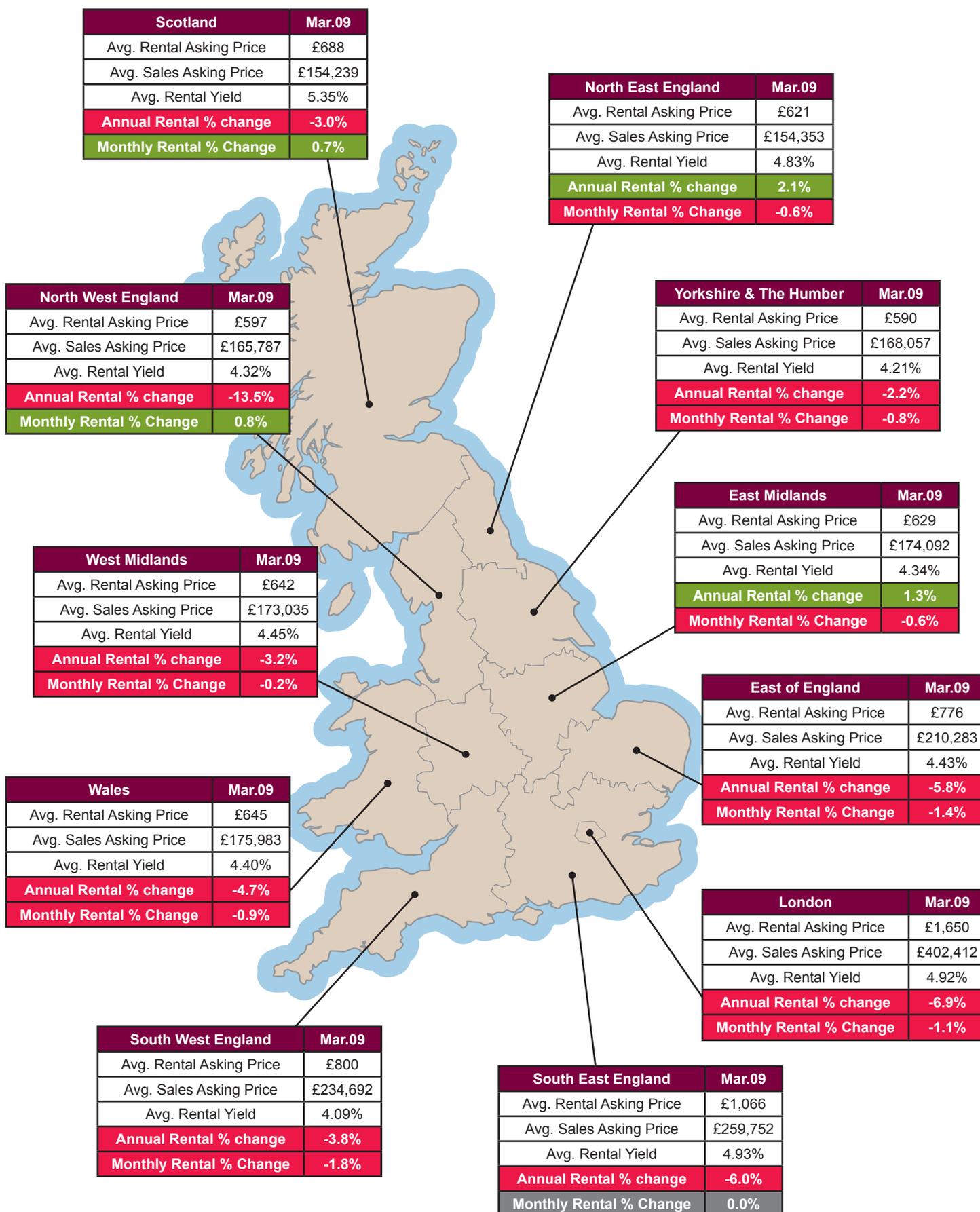
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# Regional Map – Annual & Monthly Change



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# London Boroughs Overview

## London Boroughs

Borough	Avg Rental asking price March 2009	% monthly change	Avg Rental asking price March 2008	% yearly change	% rental yield
Kensington & Chelsea	£3,183	-1.9%	£3,546	-10.2%	3.97%
City of Westminster	£3,028	0.0%	£3,208	-5.6%	4.30%
Camden	£2,516	-0.3%	£2,740	-8.2%	4.92%
Hammersmith & Fulham	£2,190	-3.7%	£2,512	-12.8%	4.55%
Barnet	£1,737	-1.5%	£1,828	-5.0%	4.64%
Islington	£1,727	-1.1%	£1,969	-12.3%	4.94%
Haringey	£1,713	1.4%	£1,681	1.9%	4.55%
Richmond upon Thames	£1,705	-1.6%	£1,798	-5.2%	4.43%
City of London	£1,673	0.5%	£1,967	-14.9%	4.38%
Wandsworth	£1,646	-1.4%	£1,866	-11.8%	4.51%
Tower Hamlets	£1,572	-2.5%	£1,783	-11.8%	5.31%
Merton	£1,563	-3.2%	£1,754	-10.9%	4.91%
Ealing	£1,523	0.4%	£1,649	-7.6%	4.95%
Kingston upon Thames	£1,471	0.9%	£1,592	-7.6%	5.00%
Hackney	£1,453	-2.0%	£1,572	-7.6%	5.63%
Brent	£1,445	-2.7%	£1,509	-4.2%	4.96%
Lambeth	£1,419	-2.6%	£1,588	-10.6%	5.03%
Hounslow	£1,407	-1.7%	£1,560	-9.8%	5.22%
Southwark	£1,392	-1.2%	£1,547	-10.0%	5.20%
Greenwich	£1,296	-0.4%	£1,226	5.7%	5.99%
Bromley	£1,239	-2.3%	£1,280	-3.2%	4.63%
Enfield	£1,222	1.0%	£1,255	-2.6%	5.00%
Newham	£1,205	-1.1%	£1,238	-2.7%	6.90%
Harrow	£1,204	-0.6%	£1,252	-3.8%	4.69%
Hillingdon	£1,169	-1.4%	£1,139	2.6%	4.86%
Lewisham	£1,160	-2.4%	£1,244	-6.8%	5.16%
Sutton	£1,135	-0.1%	£1,159	-2.1%	5.19%
Redbridge	£1,115	-1.1%	£1,124	-0.8%	4.98%
Croydon	£1,071	-1.2%	£1,087	-1.5%	5.16%
Havering	£1,069	-0.4%	£1,086	-1.6%	4.82%
Waltham Forest	£1,031	-1.0%	£1,090	-5.4%	5.69%
Bexley	£926	-2.0%	£944	-1.9%	5.11%
Barking & Dagenham	£899	-0.2%	£932	-3.5%	6.06%
<b>London Average</b>	<b>£1,650</b>	<b>-1.1%</b>	<b>£1,773</b>	<b>-6.9%</b>	<b>4.92%</b>

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# London - Best & Worst Performers

## Top 5 Rents

Borough	Avg Rental asking price March 2009	% monthly change	Avg Rental asking price March 2008	% yearly change	% rental yield
Kensington & Chelsea	£3,183	-1.9%	£3,546	-10.2%	3.97%
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Camden	£2,516	-0.3%	£2,740	-8.2%	4.92%
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Barnet	£1,737	-1.5%	£1,828	-5.0%	4.64%

## Bottom 5 Rents

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Havering	£1,069	-0.4%	£1,086	-1.6%	4.82%
Croydon	£1,071	-1.2%	£1,087	-1.5%	5.16%

## Top 5 Yields

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# Regional – City Stats

## City Tables

City	Avg Rental asking price March 2009	% monthly change	Avg Rental asking price March 2008	% yearly change	% rental yield
Brighton	£1,045	1.4%	£1,046	-0.1%	4.54%
Bristol	£754	-4.2%	£832	-9.4%	4.55%
Cardiff	£746	0.4%	£736	1.4%	4.48%
Southampton	£725	2.7%	£744	-2.6%	5.18%
Newcastle Upon Tyne	£718	-0.8%	£839	-14.4%	4.65%
Merseyside	£640	-1.2%	£611	4.7%	4.63%
Birmingham	£635	0.6%	£672	-5.5%	5.32%
Leeds	£601	-1.6%	£679	-11.5%	3.90%
Nottinghamshire	£592	-1.5%	£595	-0.5%	4.15%
Greater Manchester	£586	0.7%	£708	-17.2%	4.12%
Sheffield	£540	-4.3%	£457	18.2%	4.74%

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# About The Methodology

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**The FindaProperty.com Rental Index is created using a statistical methodology developed by Calnea Analytics, the company who produce the official Land Registry house price index.**

FindaProperty.com chose Calnea in order to ensure that the data was analysed to the highest possible standards by a company with an outstanding track record in the analysis of house price information.

Calnea brought to the process a degree of statistical sophistication and methodological rigour which we feel is essential to the creation of a reliable price index.

The FindaProperty.com Rental Index is an asking prices index which measures:

- Changes in house prices and rental values at UK level, regional level, city level and London borough level
- A gross rental yield figure calculated using average sale and rental values
- Time on the market (number of days a property is listed)
- Supply levels – the number of properties listed

All data from the FindaProperty.com database is assessed every month, however not all of this data is used in the monthly calculations. A number of exclusions are carried out to ensure that the final figures are not distorted. For example properties tagged as sold, or with invalid postcodes, are not included.

Despite this process of exclusion, the index is based on a very large sample of properties - March 2009's index is calculated from a total of over 434,000 sale and rental properties.

The index is calculated using mix-adjusted averages. These are used instead of simple averages to avoid common distortions to the data. For example, if in one month a large number of studio flats were put up for sale/rent, a simple average of prices would look artificially low compared with the previous month.

The mix-adjusted method removes the impact of monthly changes in the stock of property that is on the market and therefore reduces distortions in the data. The data is adjusted by location, property type and bedroom numbers.

## Using the Index

Please feel free to use the FindaProperty.com Rental Index data in your publications. All that we ask is that any online publications retain all links from within the document. Please credit FindaProperty.com as the information source and link to the 'FindaProperty.com Rental Index' (<http://www.findaproperty.com/rental-index.aspx>) when publishing online.

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