



The return of the city centre rental market

How our towns and cities have bounced back post Covid, creating surging tenant demand against constrained supply.



An introductory note from Richard Rowntree

March 2020 – our city centres were emptying. People were quickly looking to escape the confines of urban life, searching for space, greenery and an alternative to an unknown future of living in apartments or small houses with little access to outside gardens.

Hundreds of thousands of renters returned to the childhood bedrooms of their parents' houses in the shires or flew home overseas to be back with loved ones at a time of panic and fear. Families packed up and shipped out. The closed shops, restaurants, bars, cafes, theatres, sports venues and music halls that make our cities great created deserted ghost towns. It is estimated that approximately one million people left London alone during the first lockdown.

For landlords, it was a challenging and worrying time. A lack of tenant demand was compounded by the short-term holiday lets market converting to long-term rentals as tourists and weekend visitors dried up.

Nearly two years later, the situation has turned on its head. Those shops, restaurants, bars, cafes, theatres, sports venues and music halls are open again and vibrancy has returned. The commuter trains are not as busy as they once were, but offices and workplaces are operating.

In most cities, tenant demand significantly outweighs available supply, most notably in London. Tenants are competing for property via sealed bids and rents are being forced up.

The return to the office is one of the factors behind this, but a form of normality and a desire for the excitement that city living can offer – particularly for younger tenants – has drawn people back. Supply of rental property in cities is an issue. Property disposals and the move back into AirBnB-style lets means that rental property is scarce.

Our own data shows that landlords are buying urban property again, but not necessarily in our major cities.

We have seen strong growth in landlords buying in secondary cities and towns - the likes of Bristol, Coventry and Nottingham.

Those locations that combine some of the benefits of urban living in their own right, but are commutable to larger cities if necessary.

As the Government progresses with its Levelling Up agenda, we should see further investment in northern towns and cities.

This report examines some of the trends we have seen in recent months and offers some insight into what we are seeing on the ground, what properties landlords are buying, how tenant demand is changing and whether build-to-rent is picking up the slack.



Richard Rowntree
Director of Mortgages
Paragon Bank

The growth in satellite city centres

Landlords are buying in city locations again, but not necessarily in our major conurbations.

Landlord demand for city centre property was strong in 2021, with Paragon's analysis showing house purchase completions in urban postcodes increasing by 100% compared to the previous year.

The strongest growth was not necessarily in the UK's major cities – Birmingham, Liverpool or Leeds. Aside from Manchester and London, the top 10 growth locations were in smaller cities or large towns.

The likes of Cardiff, Luton, Bristol, Northampton, Milton Keynes and Nottingham experienced strong double or triple-digit growth in completions during the year, as the map demonstrates.

There appears to be one of, or a combination of, three factors that each of these locations share:

- **Commutable distance to a major city:** The majority of the locations enjoy good train or road links to a nearby major city. Milton Keynes, for example, is less than an hour into London Euston, Nottingham is commutable to both Birmingham and Manchester.
- **Vibrant universities:** The popularity of these locations could be linked to the return of university life. The majority of the locations boast popular universities, supplementing tenant demand.
- **Strong economies:** All of the strong growth cities enjoy healthy local economies and offer broad employment opportunities. Financial services and aerospace, for example, are just two major industries in Bristol

Top 10 cities and towns for buy-to-let completion growth



Source: Paragon

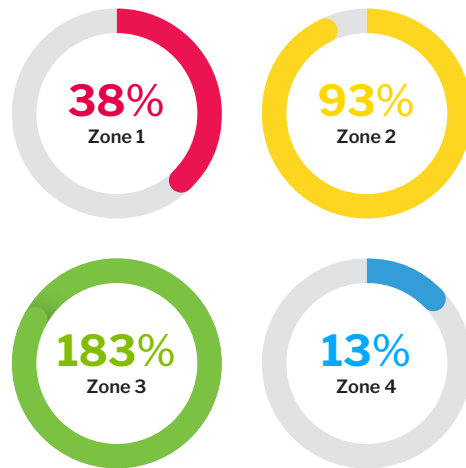
The picture in London

London remains one of the most popular locations for tenants in the UK due to the many attractions of the capital. It's a transient city, pulsing each year with new people coming to work, study and live.

London is also one of the most popular locations for landlords to purchase property. UK Finance figures show that in the 11 months to the end of November 2021, Greater London accounted for 14% of all buy-to-let purchases, second only to the wider South East.

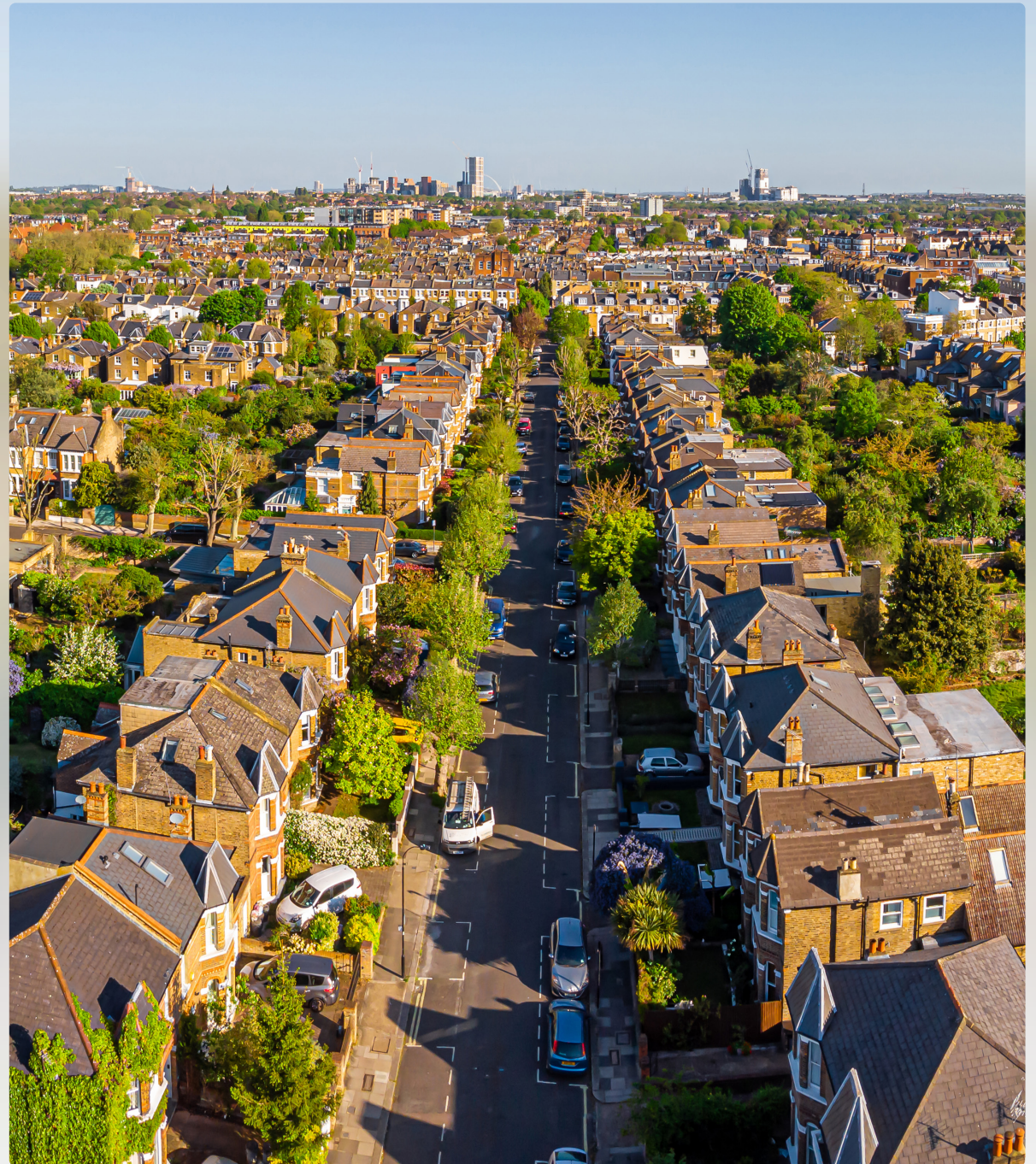
Paragon's figures show a 95% increase in buy-to-let completions in the capital during 2021, with landlords concentrating acquisitions in Zones 2 and 3 as they balanced the requirement for yield, availability of property and tenant demand. Whilst Zone 1 also recorded a strong increase – potentially as a result of landlords being able to secure good pricing in a market adversely hit by the pandemic – Zone 4 was less popular.

London completion growth 2021



Source: Paragon

How the longer- term picture for London pans out remains to be seen. Prior to the introduction of the Stamp Duty holiday in the middle of 2020, London had seen the greatest fall in buy-to-let house purchase following the introduction of the surcharge in 2016. There were 58% fewer new buy-to-let purchases in 2019 than 2015, the year prior to the Stamp Duty changes, and this fall in new stock, combined with landlord exits and the pivoting of property into the short-term lets market, has created huge pressure on the private rented sector in the capital.

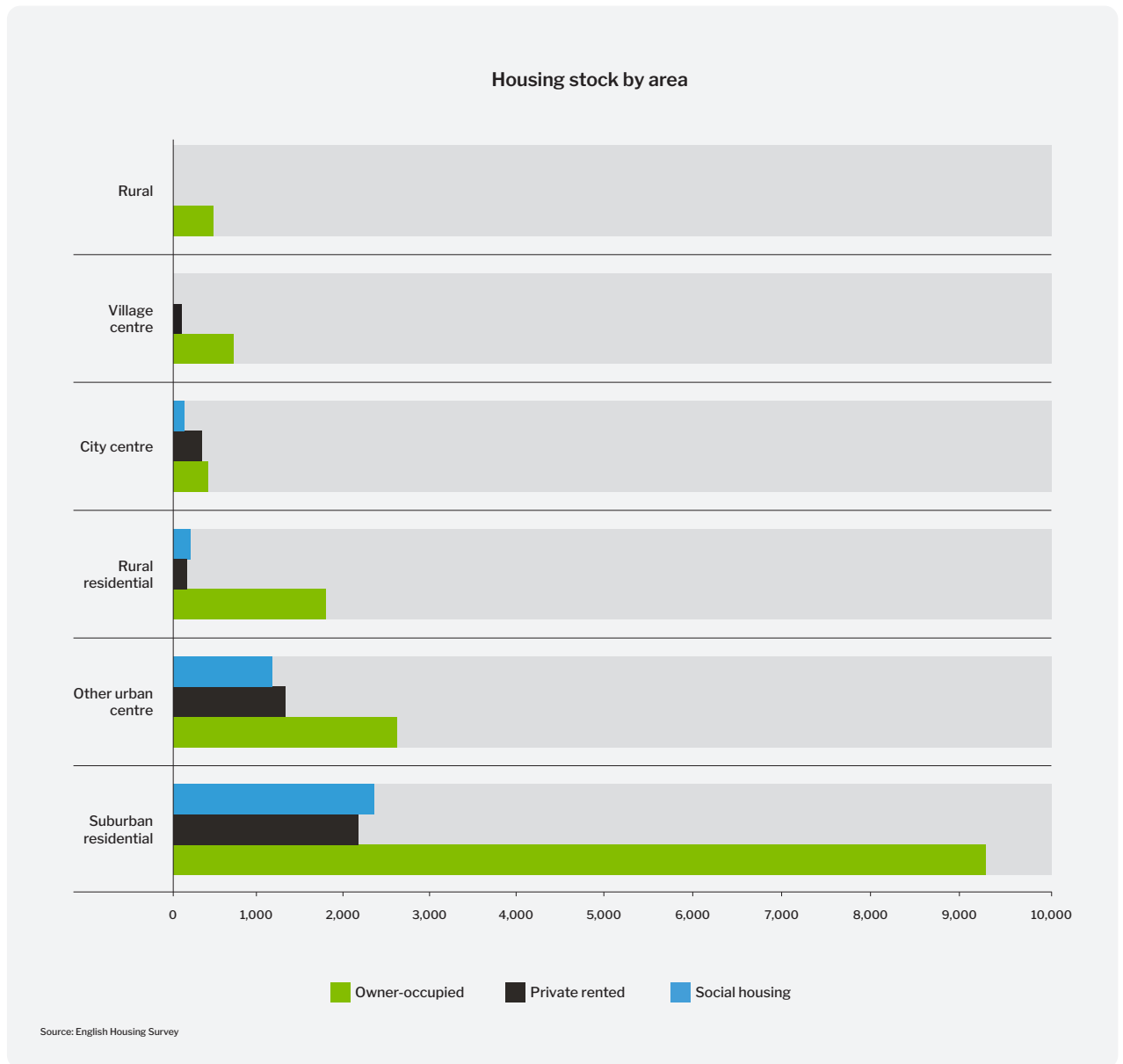


Where are private rented properties located?

City centre or urban properties make up nearly half of private rented sector homes in England.

Four in every 10 properties in the private rented sector in England are located in either city centre or urban locations. That equates to 1.7 million properties, highlighting the importance of the urban dwelling market to the sector.

Just over half of rented properties, according to the England Housing Survey, are located in suburban areas, followed by 10% in rural or village locations.



What types of city centre property are landlords buying?

Paragon Bank's Head Surveyor Neil Smith discusses what type of city centre properties landlords are buying.

Each urban market has its own distinct characteristics that are determined by the type of property within that city or town, its economy, universities and even its historical status. A former industrial city will have a greater proportion of terraced homes, for example.

Our recent research showed that landlords looking to acquire new property in 2022 are favouring semi-detached homes, reflecting the desire for more open space.

There has certainly been a shift in demand towards larger homes within urban centres as families look to test a new location before buying, but we have yet to see these type of homes become the mainstay of landlord purchases.

Historically, we have seen landlords buy three types of property in city centres – flats, terraced homes and houses in multiple occupation (HMOs). Even with the disruption caused by the pandemic that has continued to be the case.

With flats, price inflation has been more subdued than other property types as people looked for more outside space in the pandemic. For many landlords, that presented a good buying opportunity as there will normally be a sustainable tenant demand for this type of property. At Paragon, we are also conscious of localised areas where there is an oversupply of flats and have always been more cautious about these markets.

Markets such as Leeds and Birmingham, for example, saw a huge explosion of flats in the mid noughties, which created an oversupply issue. Where we have more recently seen the strongest growth, however, the supply of flats is more aligned to tenant demand. Consequently, landlords have continued to invest in these properties.

Terraced homes remain a common choice with landlords due to their popularity with tenants. These homes also benefit from outside space and additional bedrooms, which tenants have been asking for more frequently in a post Covid world.

The acquisition of HMOs has remained popular in cities with good quality, expanding universities. Purpose Built Student Accommodation is certainly becoming more prevalent in many university cities, but it is not yet keeping pace with rising student numbers and not all students want to live in this type of property. HMOs are also very popular in London where it is common for individuals to share and secure more affordable accommodation.

Balancing the supply of city centre homes continues to be a challenge across the country, not just in London, and the market will be hoping this starts to ease as some form of normality returns to the housing sector.



Neil Smith
Head of Surveyors
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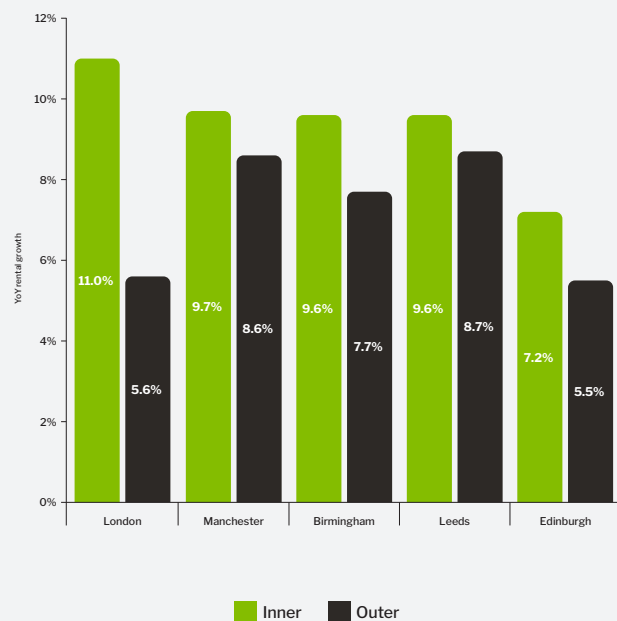
Tenant demand rebounds in cities

Data shows the demand for city centre property is robust and pushing up rents

Tenant demand rebounded strongly across most city centre markets during 2021. Whilst Omicron created some short-term worry in the run up to Christmas, the general trend has been towards record levels of demand for city centre living, leading to property shortage and rising rents.

Zoopla's Q4 2021 Rental Market Report showed that tenant demand in the UK's major cities was double that of the same period in 2020.

Rental growth accelerates in central cities



Source: Zoopla Rental Index

Across the board, tenant demand is 76% above the Zoopla five-year average, whilst property supply is 39% below the five-year average. ARLA Propertymark's December 2021 Private Rented Sector showed that the average number of rental properties available on members' books in London was just four, 71% below the level recorded in the same month in 2020.

As the table below shows, that has resulted in rising rents in all of the UK's largest cities.

Nottingham and Bristol has experienced the sharpest growth, with rents up 10.6% and 10.3% compared to the same month last year respectively. Elsewhere, Leeds, Cardiff, Glasgow, Manchester and Birmingham all experienced rental inflation at above 9%.

In terms of London, Zoopla's data shows that rents have also risen sharply, up 10.3% a year ago, but this increase only brings the average London rent in line with what it was before the pandemic. In March 2020, the average London rent was £1,622, and in December 2021, it had risen to £1,640.

Rental market in Detail: December 2021

	Average rent (PCM)	% YOY (Dec 2021)	% YOY (Dec 2020)	3YR CAGR	Affordability (Single earner)	Time to rent (Dec 2021)
UK	£969	8.3%	-1.3%	3.0%	37.2%	14
UK ex. London	£811	7.5%	2.0%	3.9%	31.1%	13
Belfast	£658	10.9%	3.6%	5.3%	27.2%	13
Birmingham	£741	9.4%	-1.3%	2.8%	30.2%	14
Bristol	£1,119	10.3%	2.7%	6.0%	42.2%	9
Cardiff	£872	9.5%	1.6%	4.6%	35.7%	15
Edinburgh	£974	7.2%	-2.5%	2.5%	35.2%	8
Glasgow	£711	9.5%	3.0%	5.0%	25.5%	9
Leeds	£782	9.6%	0.1%	4.5%	30.1%	13
Liverpool	£652	6.0%	3.5%	4.2%	26.4%	11
London	£1,640	10.3%	-8.4%	1.0%	52.5%	14
Manchester	£821	9.5%	-1.0%	3.6%	33.4%	12
Nottingham	£766	10.6%	2.7%	6.2%	30.8%	15
Sheffield	£666	6.6%	3.8%	4.0%	26.9%	14
Southampton	£908	6.5%	2.2%	3.4%	33.8%	16

Source: Zoopla

What is the impact of build-to-rent?

Build-to-rent is certainly contributing new stock to city centres, but its niche target market and lack of pace to date is failing to plug the supply gap.

Build-to-Rent (BTR) is a maturing sector that has recorded strong growth in recent years. BTR properties are typically located in city centre locations, or close to city centres, to ensure the tenant demand mass to fill the units.

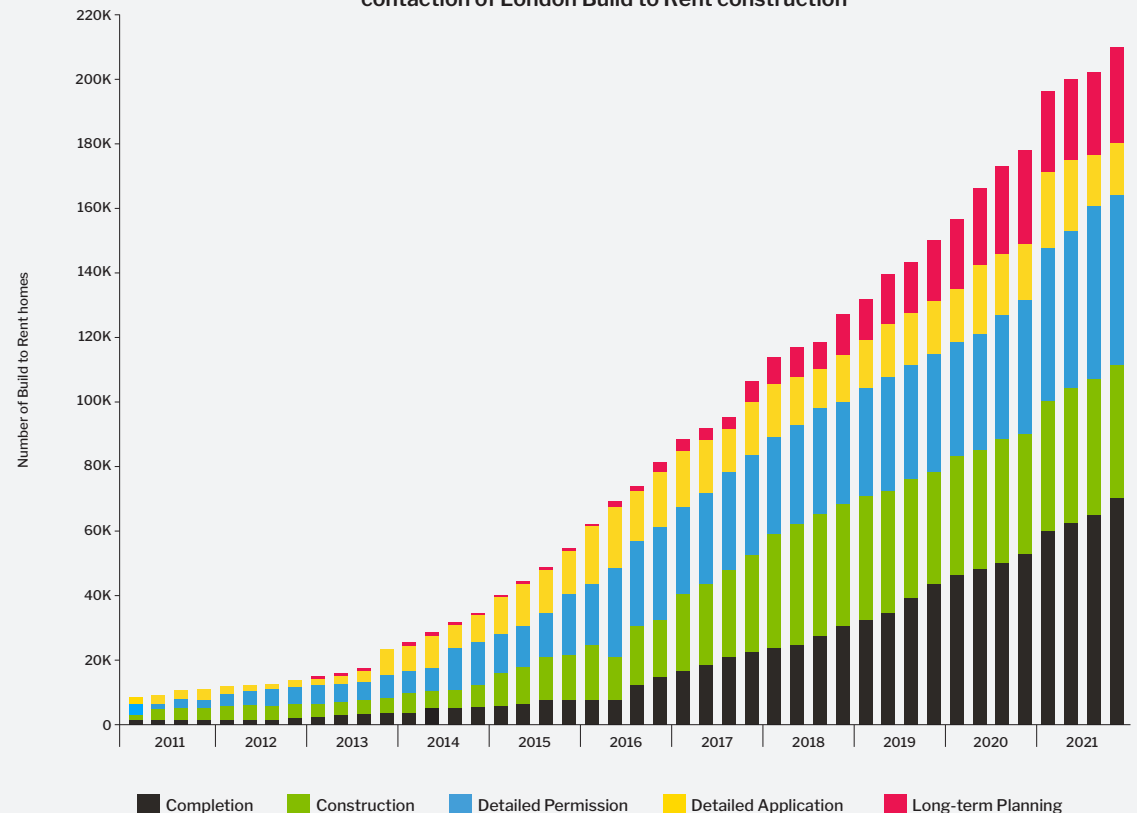
The latest figures from the British Property Federation and Savills shows that, as at 31 December 2021, a total of 70,785 BTR units have been completed in the UK, a 26% increase year-on-year.

A further 42,100 homes are under construction, whilst the future pipeline currently stands at 99,300 homes, including those in the pre-application stage. This brings the total size of the sector to 212,200 homes completed or in development.

A more recent trend in this sector is the shift towards the regions. BTR started as a London phenomenon but the greatest growth is now seen regionally. In 2021, nearly 13,500 homes started construction outside London, which is 47% higher than the three year average (2019-21).

Starts within London remain subdued while completions are running at an all-time high. In 2021 6,800 BTR homes completed in London, 21% higher than the three-year average (2019-21). At the same time 4,100 new BTR homes started construction, down 18% on the three-year average.

UK construction pipeline continues to grow in 2021 despite contraction of London Build to Rent construction



Source: Savills, British Property Federation, Molior

Despite its impressive growth, BTR is still failing to plug the supply gap and is unlikely to do so given current build rates. This type of property works for specific, defined tenant groups and, to date, has predominantly been focused on the young professional market. Increasingly, new schemes are being developed for different tenant cohorts – families and retirement – for example, but it will continue to complement the work of individual landlords, rather than replace them.

BTR cannot compete against traditional landlords on both scale or response to changing tenant demand. Landlords can respond quickly to evolving trends – for example rapidly scaling up investment in a city such as Bristol which has witnessed strong tenant demand growth following the onset of the pandemic.

The nature of large BTR developments means that the sector cannot pivot quickly enough to meet these requirements.



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