



SPRING 2021

**HAS THE DOOR
CLOSED ON
BUY-TO-LET?**

Hamptons

THE HOME EXPERTS

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INTRODUCTION

For decades, investing in buy-to-let was seen as an attractive and relatively secure way to make money. The size of the private rented sector in England alone more than doubled in less than 20 years. Low interest rates on savings accounts and a trend towards diversifying pension pots all helped fuel the sector. This came at a time of increased demand for rental properties and rising house prices which when combined, effectively pushed up returns for millions of non-professional landlords.

However, property price inflation was increasingly locking more people out of homeownership so, in 2016, the government introduced a series of tax and regulatory changes to dampen buy-to-let demand. In this report, we look in detail at the effect of these changes on the rental market in Great Britain and suggest where the sector goes from here.

Fast-forwarding to today and the sector has been buffeted by the Coronavirus pandemic and lockdowns, which affected all areas of the economy in 2020, serving to reduce the number of homes to let and depressing rents. While rental growth started to recover at the end of last year, the recovery has not been felt in all areas. We examine these factors and look at how the stamp duty holiday has encouraged more investors to enter the buy-to-let sector in recent months.

In an era of relatively low house price growth, rental yields have become increasingly important for landlords. And we believe they will become more crucial over the next five years due to continued lower price inflation and the tapering out of tax relief on mortgage interest completing in 2020-21 which has tightened lender's purse strings. While investors in the North East of England currently enjoy the highest yields, this report explains how and where investors in other areas can maximise their returns.

This flux in the buy-to-let sector begs the question: do the sums still stack up for investors? We look at the implications for net yields, capital growth and total returns, as well as analysing the potential threat of the build-to-rent model on small investors. Finally, we present our forecasts for buy-to-let, explaining why we believe the private rented sector will shrink, albeit slightly, over the next five years and why we expect to see small increases in gross yields.

Despite everything, buy-to-let remains profitable for most landlords. While some investors have left the sector in the last five years, there are millions of private landlords who have adapted well to the new lettings landscape. Others have chosen to enter the sector for the very first time. For some, this is because property investment runs in the family, while for others, they can make the sums stack up and the returns beat what banks are offering in savings accounts.



The size of the private rented sector in England alone more than doubled in less than 20 years.

THE LETTINGS MARKET

HOW HAS IT CHANGED?

Buy-to-let was one of Britain's best-loved investments, with the size of the sector more than doubling over the last 20 years. However, since 2016 weaker house price inflation, increased regulation and punishing tax changes have eaten into the profitability of buy-to-let for some landlords and as a result the growth of the private rented sector (PRS) has slowed. Yet, despite the changes, landlords have adapted well and continue to scope out opportunities.

Last year there were over 4.4 million privately rented households in England, a quarter of a million less than at the 2017 peak despite the total housing stock increasing by 695,000 homes over that time. Our analysis shows a rise in the number of landlords selling up and leaving the sector and a fall in the number of new investors buying in.

The introduction of a 3% stamp duty surcharge on second home purchases in 2016 has weighed on investors' acquisitions. In 2020, landlords bought

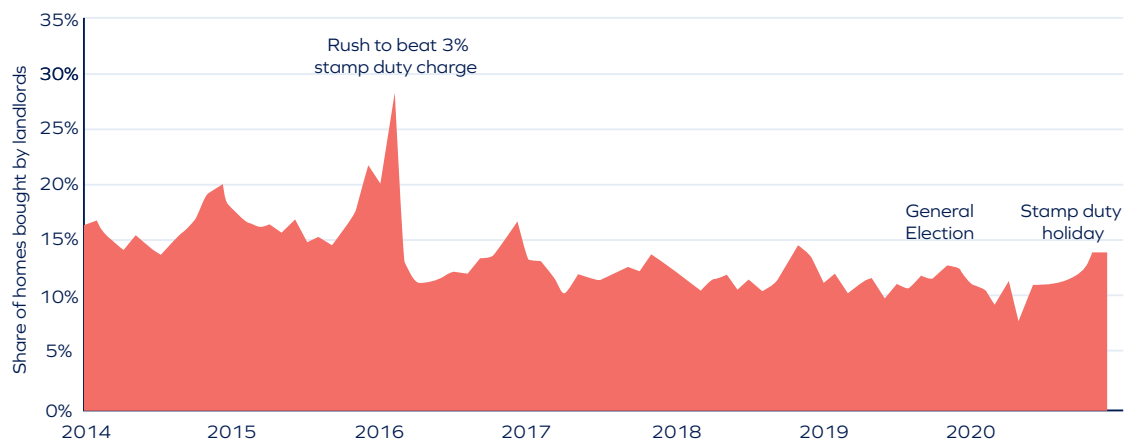
12% of homes sold in Great Britain, equating to around 120,000 properties, down from 16%, or 196,000, in 2015. While the stamp duty holiday has brought more investors back into the market, this is not enough to make up for the overall loss.

Changes to Section 24 have forced some mortgaged landlords to sell up. The changes, announced in 2016 and phased in from 2017, mean that landlords who own properties in their personal name can no longer deduct most of their mortgage interest costs as an expense (i.e. before tax). Since 2020, tax relief has been fixed at the basic 20% income tax rate. This has hit higher-rate taxpayers particularly hard and, in some cases, has pushed lower-rate taxpayers into the 40% bracket, reducing their profits.

However, these changes will not affect most landlords. Typically, the tax changes have hit newer entrants rather than longer-established landlords. By the end of 2020, there were just under

SHARE OF HOMES BOUGHT BY LANDLORDS IN GREAT BRITAIN

Source: Hamptons



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two million outstanding buy-to-let mortgages (both in personal and company names) in Great Britain and around five million privately rented homes. This means only around 40% of current landlords have a mortgage, compared to 46% of owner-occupiers, so most landlords' profitability has remained unchanged despite the new rules. In 2020, 52% of investor purchases were funded with cash.

One way to cushion the blow is to put a property, or properties, into a company or SPV (Special Purpose Vehicle). While individuals owning buy-to-lets are effectively taxed on turnover, company buy-to-lets are taxed on profits. This is one of the reasons why more companies were set up to hold buy-to-lets between 2016 and 2020 than in the preceding 50 years combined. In the last year alone, a total of 41,700 new buy-to-let limited companies were formed, an increase of 23% on 2019.

Limited companies don't work for everyone, though. Setting up an SPV tends to benefit higher-rate taxpayers or those with multiple buy-to-let properties. For landlords without a mortgage, or looking to buy in cash, the benefits of putting a property into a company are undoubtedly more marginal than for someone with a buy-to-let mortgage.

Slow house price growth and new tax regulations have made landlords prioritise yield. Weaker house price inflation over the last few years has meant that more of a landlord's total return has come from rental income rather than capital appreciation. However, the tapering of mortgage interest tax relief has caused lenders to apply more stringent affordability tests, particularly for higher-rate taxpayers, and has made securing finance on lower yielding properties tricky.

This has driven landlords seeking yields further North. The professionalisation of the sector and quest for higher yields mean landlords are now buying properties 40% further away from where they live. Offering the highest average yields, the North East remains the capital of buy-to-let, with one in four homes sold in the region last year bought by a landlord.

TENURE GROWTH OVER THE LAST 20 YEARS

Source: English Housing Survey

	Growing Most	Falling Most
2000	Cash	Social
2001	Cash	Mortgage
2002	PRS	Social
2003	PRS	Social
2004	PRS	Mortgage
2005	PRS	Social
2006	PRS	Mortgage
2007	PRS	Mortgage
2008	PRS	Mortgage
2008 - 09	PRS	Mortgage
2009 - 10	PRS	Social
2010 - 11	PRS	Mortgage
2011 - 12	PRS	Mortgage
2012 - 13	PRS	Social
2013 - 14	PRS	Mortgage
2014 - 15	Cash	PRS
2015 - 16	PRS	Mortgage
2016 - 17	PRS	Mortgage
2017 - 18	Mortgage	PRS
2018 - 19	Cash	Social
2019 - 20	Cash	PRS

QUICK FACTS

52%

of investor purchases were funded with cash in 2020

THE CONSEQUENCES OF CORONAVIRUS

Since the start of the first government lockdown in March 2020, landlords and tenants have been subject to a similar set of forces as buyers and sellers. But it was the rental market that experienced the slower year.

Last year around 23% fewer rental homes were marketed than in 2019, with London the only region where more homes were available to rent. By comparison, data from HMRC show that just 7% fewer homes were sold in 2020 than in 2019. A lack of rental stock has undoubtedly both suppressed activity and supported rents – although the picture is far from uniform across the country.

With tenants more likely to be impacted by job losses than homeowners, the recovery in rental stock in the months following the easing of the first lockdown in May was firmly driven by the top end of the lettings market. In the most affluent areas, where average rents are around £1,500 per month, just 17% fewer rental homes were marketed last year than in 2019. However, in the least affluent locations, where rents average about £750 per month, there were 25% fewer rental homes marketed.

The maximum fall in rents across Great Britain was a decline of 1.7% year-on-year in May. However, in places where stock levels have come under pressure, outside London in particular, rental growth has recovered rapidly. Rents increased nationally in October for the first time since the

onset of the pandemic, rising 1.4% that month before accelerating to 3.0% in November and 4.1% in December. In January 2021, rents rose 4.3%, the fastest rate of rental growth since July 2016 and this increasing pace of rental growth has continued into this year.

All nine regions in England saw rents rise at the start of 2021, with rental growth also turning positive in Wales. However, rents in the capital have been slower to recover from lockdown than anywhere else – they only started rising again in November. In January rental growth accelerated to 1.0%, predominantly driven by outer London due to the desire for extra space and a shift towards the greenery offered by more suburban locations.

In inner London, rents remain 11% below where they were before the pandemic started. A combination of fewer tourists and students – both domestic and overseas – as well as less business relocation and immigration has suppressed demand for short-term lets, meaning that the owners of these short lets moved them to the long-term rental market. By late autumn this had led to a doubling of rental homes being marketed in parts of inner London, putting downward pressure on rents. Outer London was not subject to the same pressures, however, meaning stock levels remained lower and by January 2021 rents were back above where they were in February 2020.



Rents increased nationally in October for the first time since the onset of the pandemic.

HAS THE DOOR CLOSED ON BUY-TO-LET?

The lack of rental stock outside London has its roots in a couple of factors. It is at least in part driven by unprecedented government intervention in the lettings market. A moratorium on evictions since the start of the pandemic and a requirement for landlords to give six months' notice to obtain possession of their property have meant that a relatively large number of rental homes have not been made available to new tenants. The fact investors have been buying comparatively fewer properties, with some choosing to sell up, has also reduced stock levels.

However, there are signs that the stamp duty holiday introduced in July has drawn new investors into the market and we have seen a pick-up in buy-to-let purchases. Under the terms of the tax break, investors are still liable for the additional 3% surcharge on their buy-to-let, but are able to benefit from the stamp duty exemption on the first £500,000 of their purchase. This means an investor buying a typical £250,000 house faces a stamp duty bill of £7,500 instead of £10,000.

In the final months of 2020, around 15% of homes were bought by an investor. Most of these purchases will complete before the end of March, when the stamp duty holiday is scheduled to end. While this 15% figure is double the 2020 average for the proportion of all properties purchased by investors, it is also significantly below the 28% figure recorded in February 2016, two months before the introduction of the second home stamp duty. With stamp duty rates heading back to normal in April 2021, it seems likely that relatively low stock levels will support rental growth for the foreseeable future.

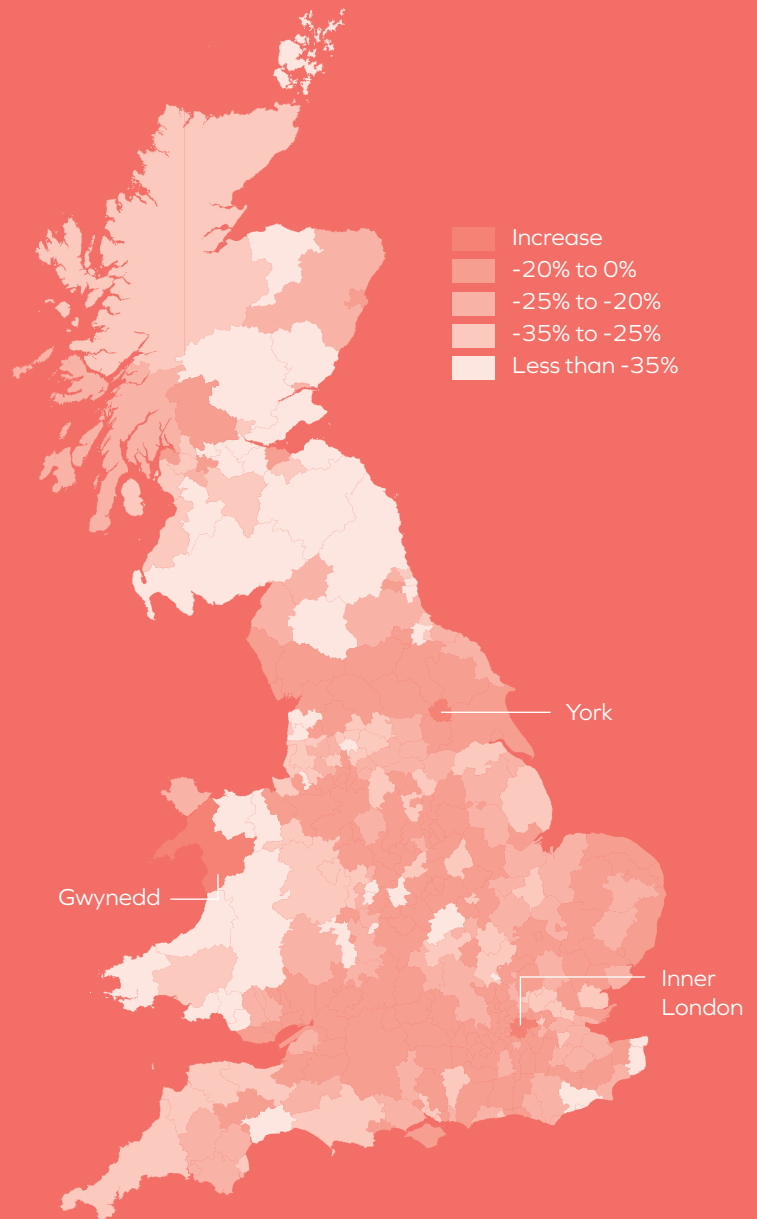
QUICK FACTS

15%

of homes were bought by an investor
in the final months of 2020

CHANGE IN NUMBER OF RENTAL HOMES MARKETED (2020 VS 2019)

Source: Marketview



DO THE SUMS STILL STACK UP?

Property has outperformed many other assets over the long term, and with interest rates at historic lows, yields on alternative investments are thin. Yet, with all the extra obstacles the government has thrown its way, is housing still an attractive investment?

Gross versus net yields

Gross yields, expressed simply as annual rental income as a proportion of the property value, are typically at the forefront of talk about the attraction of a rental investment. But as they do not take into account the many additional costs and taxes now associated with buying and owning a rental home, they do not reflect the true return. Net yields, which

consider the expenses associated with owning a rental home and the taxes landlords must pay, provide a more accurate picture.

Impact of costs and taxes on yield

From the 2020-21 tax year, an average mortgaged landlord in Great Britain who's a higher-rate taxpayer with a 75% LTV interest-only loan on a property bought for £190,000 will see their net profit (i.e. after tax and costs) fall from £4,303 in 2016-17 to £3,720. Despite them no longer being able to offset all mortgage interest against tax, crucially they are still able to return a profit. A basic-rate taxpayer will not see any change to their net profit of £5,740 a year.

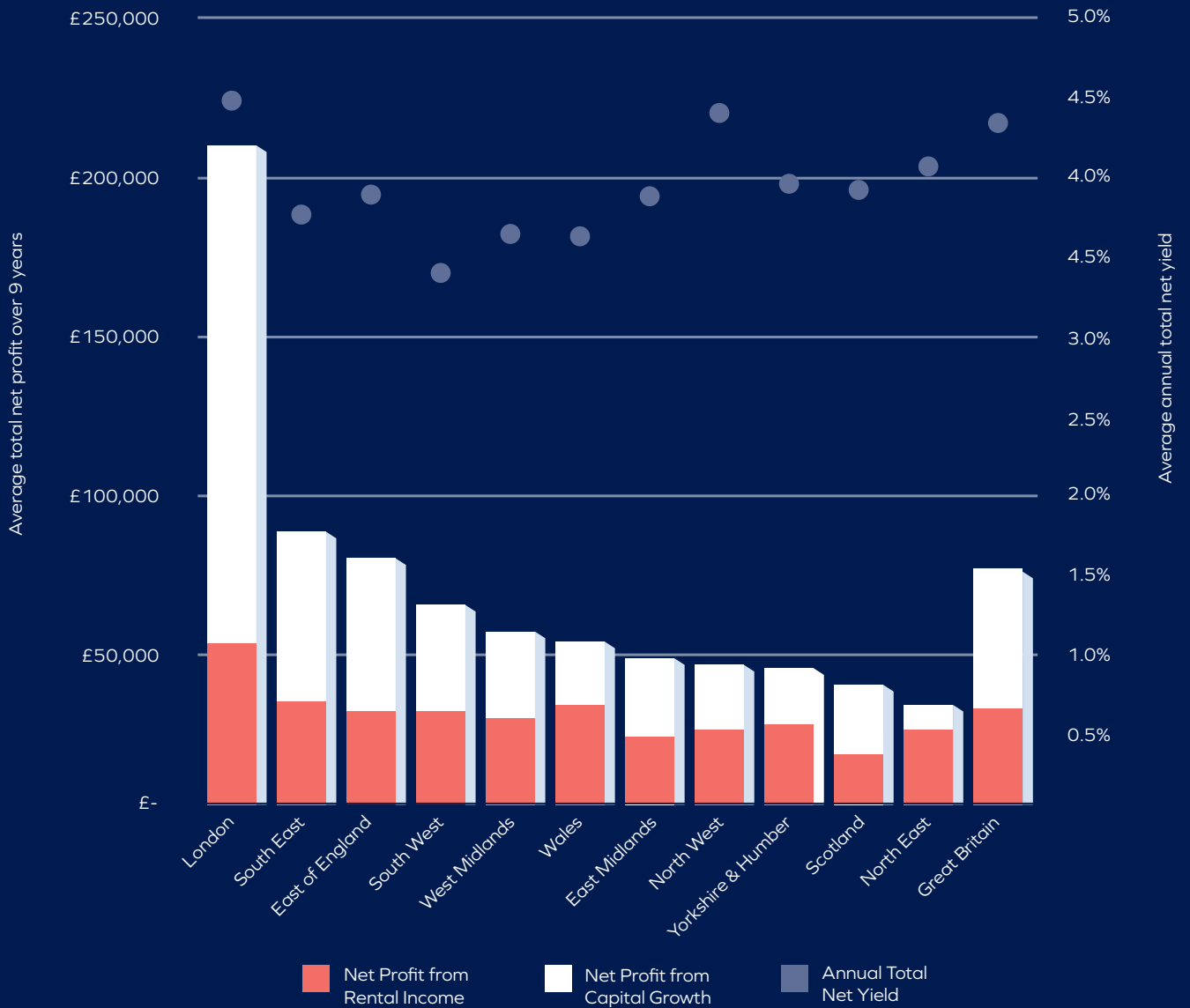
CHANGE IN TAX BILL FOR HIGHER-RATE TAXPAYERS WITH A 75% LTV MORTGAGE

Source: Hamptons

	House price	Gross yield	Profit (after tax & costs) 2020-21	Change in profit from 2016-17 rules	% Change in profit from 2016-17 rules	Net Yield (after costs & tax)
East Midlands	£137,970	6.1%	£2,810	−£425	−13%	2.0%
East of England	£225,550	5.3%	£3,650	−£694	−16%	1.6%
London	£490,380	4.6%	£6,040	−£1,507	−20%	1.2%
North East	£90,920	8.4%	£3,030	−£278	−8%	3.3%
North West	£115,950	7.1%	£3,000	−£358	−11%	2.6%
Scotland	£112,270	5.9%	£2,200	−£345	−14%	2.0%
South East	£252,230	5.2%	£4,000	−£775	−16%	1.6%
South West	£210,760	5.4%	£3,550	−£648	−15%	1.7%
Wales	£159,530	6.8%	£3,870	−£489	−11%	2.4%
West Midlands	£167,830	6.0%	£3,370	−£516	−13%	2.0%
Yorkshire & Humber	£123,740	6.9%	£3,100	−£382	−11%	2.5%
Great Britain	£190,000	5.9%	£3,720	−£ 583	−14%	2.0%

COMPOSITION OF TOTAL RETURNS ACROSS THE REGIONS FOR A HIGHER-RATE TAXPAYER

Source: Hamptons & Land Registry



However, if we assume landlords incur additional costs representing 10% of their rental income, the average higher-rate taxpayer will see their net yield fall from 2.3% to 2.0% over the same period. However, it's worth remembering that flats, whilst commanding premium yields, often have higher costs associated with ownership, such as ground rent and service charges. Also, most investors aim to recover stamp duty through capital growth, but even if this is added to the purchase price, a higher-rate taxpayer landlord can still return a net yield of 1.9% in year one. A lower-rate taxpayer would see their net yield fall from 3.0% to 2.9% with stamp duty added.

London landlords, who have bigger mortgages in absolute terms, are set to be hardest hit by Section 24 tax changes. The average higher-rate taxpayer landlord in the capital will see their profit fall by 20% to £6,040 a year. London also has the lowest gross yields in the country, so once costs and tax are factored in, the average net yield for a landlord here will fall to 1.2%.

Capital growth

While higher-rate taxpaying mortgaged landlords, both new and existing, will see their buy-to-let profits shrink because of the tax changes, the many landlords who own their property in cash will be unaffected. While yield from rental income is still important to cash landlords, many look for capital gains to drive their total return over the longer term.

The average landlord who sold up last year sold their buy-to-let for £78,010 more than they paid for it, having owned it for an average of 9.2 years.

After maintenance or improvement costs (we've assumed 20% of the gross return), and when stamp duty and capital gains tax are added, the average 40% taxpayer landlord in Great Britain made a net profit of £43,340 after selling.

In London, this figure rose to £154,600 due to the region recording the strongest house price growth over the last decade. For many landlords in the capital, stronger capital growth has made up for weaker rental income as a proportion of their property's value.

Total returns

Once rental income and capital growth over the average nine-year ownership period are added together, the average landlord in Great Britain made a total net profit of £76,820 in 2020. This represents a 39% return on their initial investment, or an annual net yield of 4.3% after costs and taxes.

London landlords made the biggest absolute total profits, averaging £208,930, or 4.5% each year, with 80% of this generated from capital growth. While landlords in the North West earned the second highest annual total net yields of 4.4%, 57% of their profits came from rental income and 43% from capital growth.

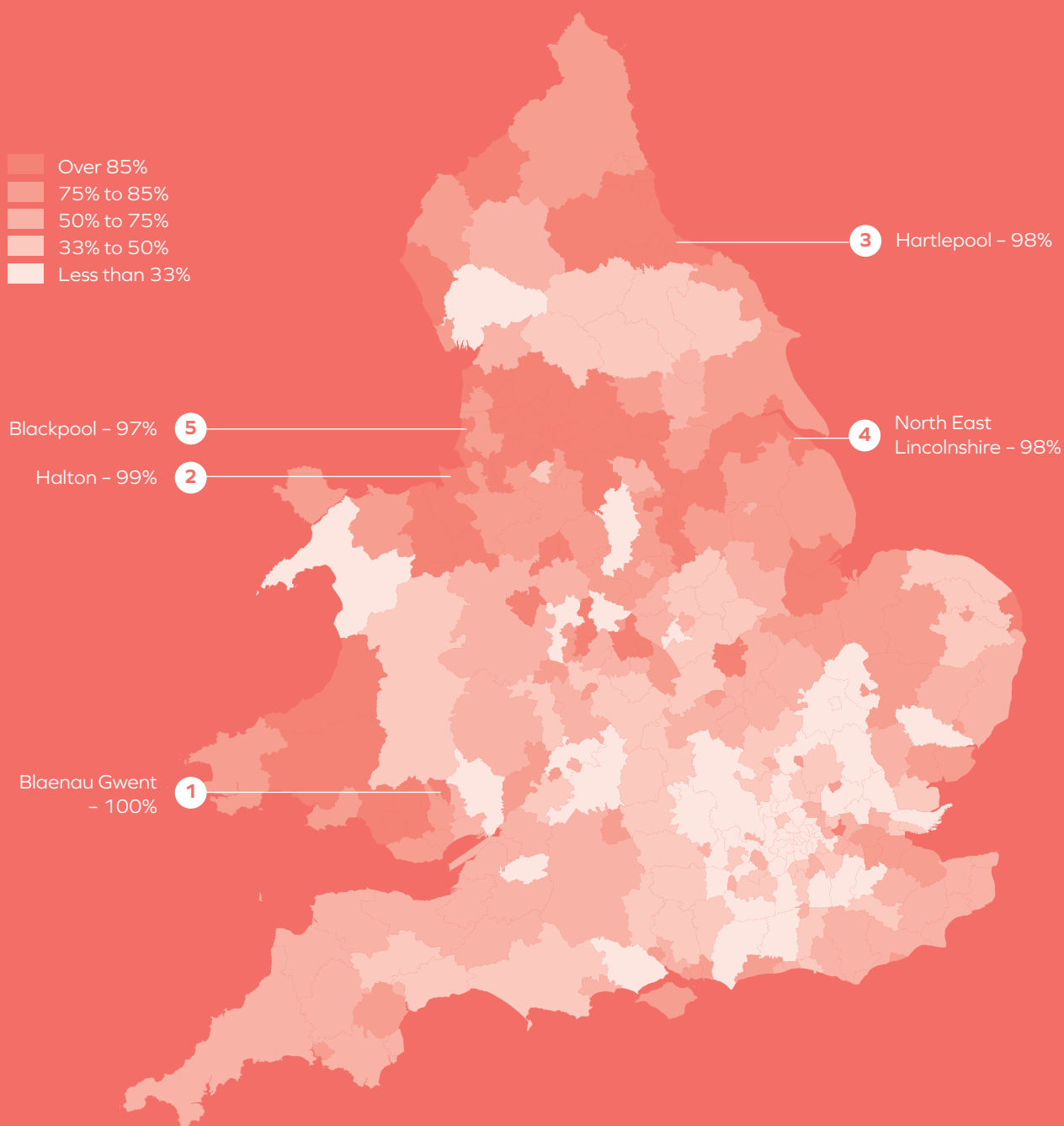
All this means that while the focus on rental income is becoming increasingly important for mortgaged landlords, capital growth should not be underestimated. And while net yields have shrunk, particularly for higher-rate taxpayers, in most cases buy-to-let remains profitable.



London landlords made the biggest absolute total profits, averaging £208,930, or 4.5% each year.

LANDLORDS ACHIEVING A GROSS YIELD OF MORE THAN 5%

Source: Hamptons & Land Registry



YIELD CHASING

For as long as the buy-to-let sector has existed, yields have been one of the most important metrics for landlords. However, over the next five years, we believe they will become even more crucial for two reasons.

First, it is likely that price growth from 2020 to 2025 will be lower than it was from 2015 to 2020, meaning a larger proportion of an investor's income over this period will come from rent rather than capital appreciation. And second, with the tapering out of tax relief on mortgage interest completing in the 2020/2021 tax year, lenders are applying increasingly stringent affordability tests given that a larger proportion of the rent will be taxed. This will make securing finance on lower-yielding properties by higher-rate taxpayers much tougher in the years to come.

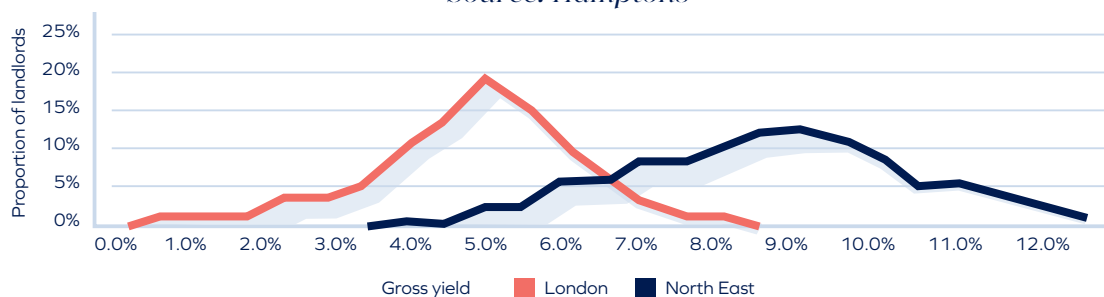
It is no secret that northern landlords enjoy higher yields than their southern counterparts – nine in ten landlords in the North East achieve yields above 5%, compared with half of landlords in the South East and a third in London. However, there is plenty landlords can do to maximise their yield while still buying locally.

The area

- More affluent areas rarely offer the highest yields. Average yields in the 10% most affluent areas averaged 4.6% in 2020, while in the 10% least affluent areas they stood at 8.0%. While there are of course other considerations, in general, cheaper places offer higher returns.
- The worst house on the best road tends not to be the best investment. While received wisdom suggests owner-occupiers should buy the worst house on the best road they can afford, this means investors end up paying a premium, too. For them, the average house on the average road is likely to net a far higher yield.
- Avoid competing with owner-occupiers. Someone buying a home to live in will almost always pay more for a property than an investor. Avoiding competition can mean buying a home which needs more work doing to it than most owner-occupiers want to take on. This will often be cheaper to buy and also allows for personalisation and reconfiguration to the tenants' needs.

YIELD DISTRIBUTION

Source: Hamptons

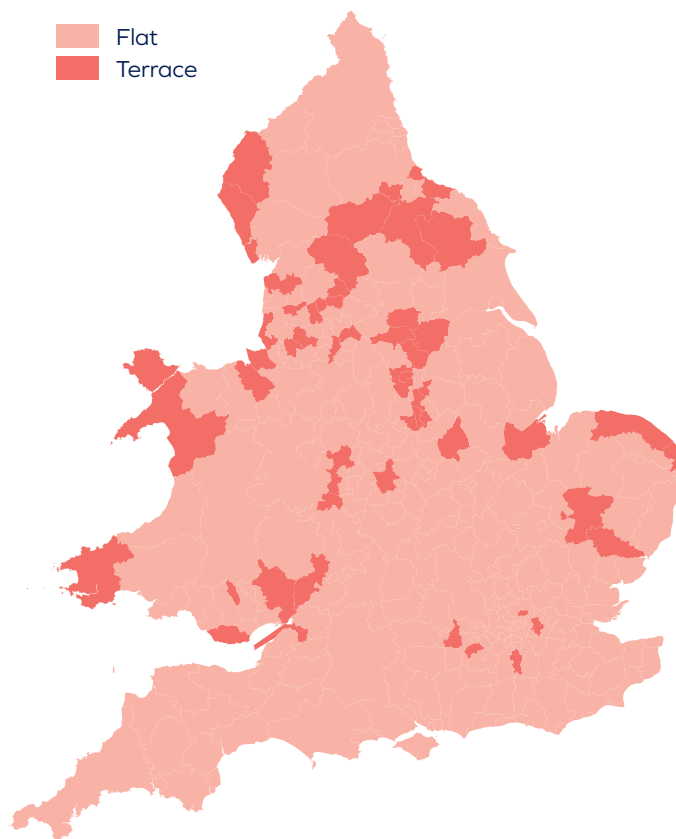


The property

- Flats offer higher yields than houses. Last year, in 83% of local authorities, flats offered higher average gross yields than any type of house, be it detached, semi-detached or terraced. In the remaining 17% of England and Wales, predominantly towns in the Midlands and Northern England, terraced houses offer the highest returns.
- Buy smaller with fewer bedrooms. Nationally, average yields fall by 0.6% per additional bedroom. This means one- and two-bed properties offer the highest returns. Yields also drop by 0.1% for each 10 sq ft of space added, making the purchase of optimally-sized homes a key driver of yields.
- Understand your target market. Working out who the optimal tenant is will ensure you can offer them exactly the right sort of space. Three friends looking for a house to rent are more likely to want three double bedrooms, while a family with young children is more likely to be happy with a double and a couple of single bedrooms.
- Buy tenanted. More than one in five homes sold in London during 2020 had been owned by a landlord. Purchasing a property with a sitting tenant can mean avoiding a void period and receiving rent from the day of completion.

HIGHEST YIELDING PROPERTY TYPE

Source: Hamptons



Average yields in the 10% most affluent areas averaged 4.6% in 2020, while in the 10% least affluent areas they stood at 8.0%.

WHERE NEXT FOR BUILD-TO-RENT?


While the growth of the private rented sector has been flat over the last five years, this masks changes in the structure of the sector. Despite the pandemic, growth in build-to-rent – schemes backed by financial institutions destined for the private rented sector – has continued apace, and by the end of 2020, the sector accounted for around 1% of homes let. Does this mean build-to-rent is poised to crowd out the average landlord with one or two properties? The answer, certainly in the short to medium term, is no.

The build-to-rent model of the last decade has been to offer high specification city centre apartments with additional services that will command a rental premium. While the precise nature of locations and services have evolved, the

in a build-to-rent scheme is £14,000 higher than that of the average tenant – more than what the average tenant pays in rent annually.

Build-to-rent schemes are generally concentrated in town and city centres where rents are higher. Also, they offer additional services such as concierges, broadband and gyms, the price of which is often included in the rent. Many of the tenants would have otherwise been renting centrally located newbuild flats being let by landlords who had bought into build-to-sell schemes.

Even in build-to-rent's core market, there is plenty of room left to grow. Last year around 2% of all tenant households earning over £50,000 chose



Last year around 2% of all tenant households earning over £50,000 chose to live in a build-to-rent home.

basic principles remain very similar to a decade ago. This means that tenants who have bought into the model tend to be considerably more affluent than the average renter. Our research suggests that almost half (45%) of households who signed a contract with a build-to-rent provider in 2020 had an income over £50,000, compared with just over a quarter (26%) of households in the private rented sector overall. The median household income of a tenant living

to live in a build-to-rent home. Even if the market share increased ten-fold over the next decade, build-to-rent would still only account for 20% of lets agreed to tenants earning over £50,000, which equates to around 5% of homes let in the private rented sector last year.

Given their limited market share, there is very little pressure on build-to-rent operators to diversify any time soon. However, at some point, future growth

HAS THE DOOR CLOSED ON BUY-TO-LET?

may be easier if they offered a different product to lower-income households and/or locations outside city centres. At this point the growth of the build-to-rent sector could potentially begin to impinge on the business model of landlords owning a handful of properties. But it will not necessarily be an easy diversification.

While no such business model exists on a large scale in the UK, if built-to-rent were to diversify into suburban markets, it is likely the additional services being offered would look fairly different. Firstly, it will be harder to convince tenants living in lower-value areas to pay for additional services. Secondly, the requirements for additional services from suburban homes, houses in particular, will not be the same as for city-centre flats. A family renting a suburban semi is far less likely to pay for a concierge or for sharing a co-working space with their neighbours.

Despite this, opportunities for value-added services still exist. In suburbia, the markets for car hire, laundry and cleaning are arguably larger than in the city centres. However, with homes spread over a larger area, services will be costlier to provide. Instead, suburban build-to-rent growth will likely be driven predominantly by economies of scale, while still maintaining a brand and service standards as points of differentiation. With fewer additional services, a suburban build-to-rent product could be offered at a closer price

point to existing landlords, making the scope for competition much greater.

However, just as small investors face headwinds, build-to-rent operators also encounter challenges to grow their portfolios, particularly if they enter places outside their city centre heartlands. Build-to-rent providers almost always find themselves competing against other developers, typically those building homes for sale, who can afford to pay back development loans over just a couple of years, rather than over the lifetime of the home. This is particularly true in suburban markets where a high proportion of new homes are typically sold privately, mostly to owner-occupiers. When combined with the low-yield environment, this makes bridging the suburban viability gap particularly challenging for build-to-rent operators.

All this means that, for the immediate future, build-to-rent will continue to provide a different product at a different price point to 99% of small landlords.

QUICK FACTS

1%

of homes let in the final months of 2020 were part of a build-to-rent scheme



FORECASTS

Following two decades of unparalleled growth, the number of private rented households in England peaked in 2016, and the size of the sector has remained broadly stable ever since. This is because, despite affordability barriers, thousands more 25-34 year olds have climbed onto the housing ladder than at any time in the last decade. While first-time buyers were enjoying cuts to their stamp duty bills, investors faced a 3% surcharge alongside other tax hikes. But is the direction of travel likely to change again? We argue it is unlikely.

Size of the sector

During the 2008 recession, homeownership rates tumbled as first-time buyers and those with smaller deposits were unable to access finance, increasing the numbers living in the private rented sector, while many forced sellers also ended up renting. However, despite the impact of Coronavirus, we believe things will be different this time and that the private rented sector will be slightly smaller in five years than it is today.


This has been no ordinary recession. Lenders have reintroduced higher loan-to-value mortgage products much faster than after the 2008 downturn and a mortgage repayment 'holiday' has stopped arrears and repossessions. Both

will support owner-occupation levels, especially among those with smaller deposits.

At the same time, Coronavirus has shrunk the population of large cities across the world. Typically, those that have left have been the most mobile, living in neighbourhoods where most people rent. Some have left to buy, while others have returned overseas. While it is too early to say whether the pandemic will permanently slow or even reverse the growth of cities, if it does, it has the potential to act as a drag on the private rented sector.

But it is not all one-way traffic. Low interest rates will continue to mean that buy-to-let returns will outstrip cash sitting in a savings account, supporting investment in the sector from smaller landlords in particular. The growth of build-to-rent is also likely to continue, putting a floor under any falls in the number of renters, while the end of Help-to-Buy in 2023 may reduce the number of first-time buyers and force developers to re-engage more readily with investors.

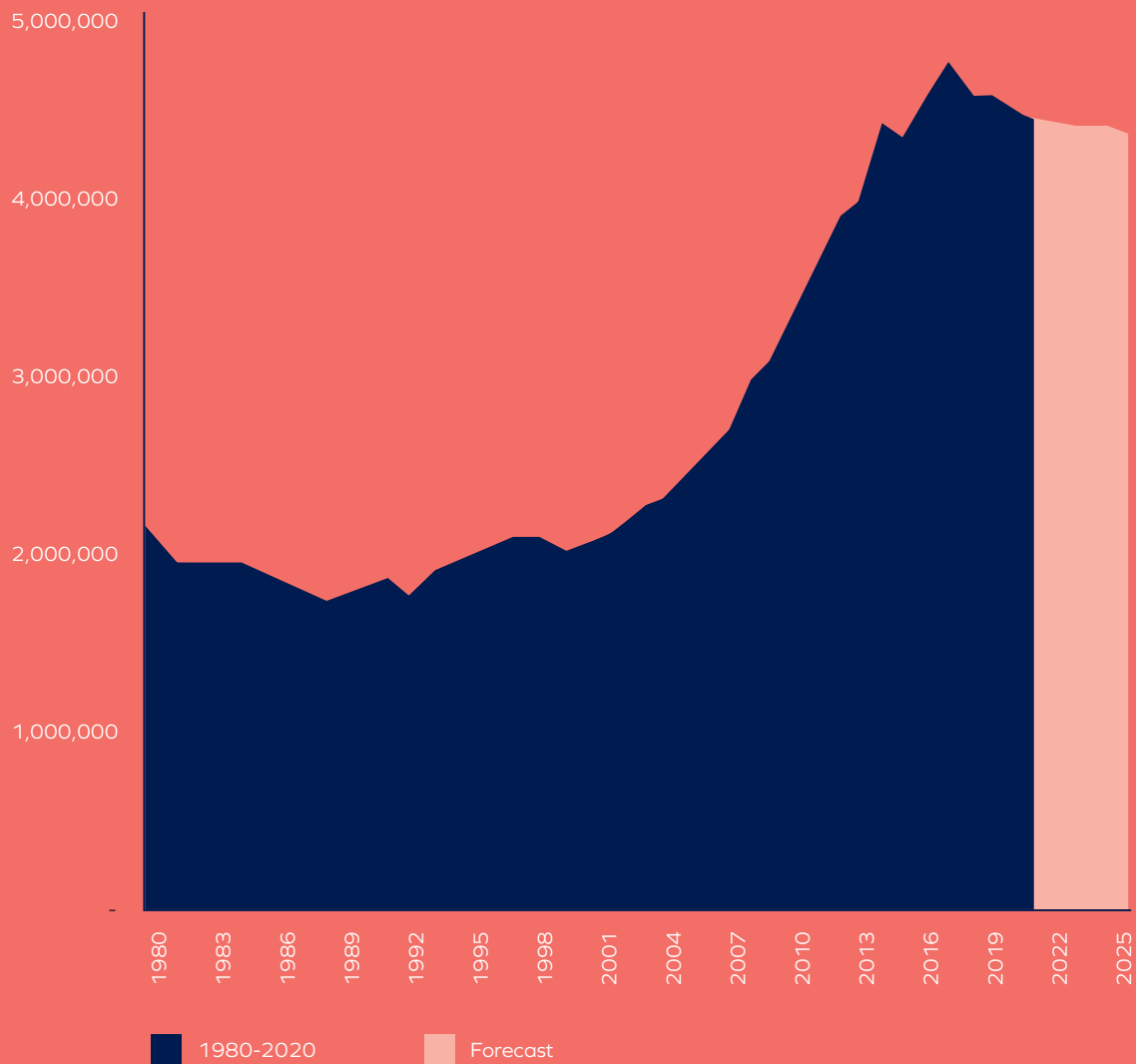
With smaller investors who own up to a handful of properties accounting for more than 95% of all landlords, the growth of the sector will predominantly be determined by the attractiveness of their returns in relation to other



With the exception of London, rental stock levels across the country remain 10% to 15% below the same time last year.

PRIVATELY RENTING HOUSEHOLDS

Source: Hamptons & English Housing Survey



options. Given the absence of any significant changes in government policy, there is little to suggest buy-to-let will become significantly more or less attractive, supporting the view that its size will remain broadly static. We believe there will be 4.3 million privately rented homes in England by 2025, down from a peak of 4.7 million in 2016.

Rental growth prospects

After an unprecedented year, rental growth bounced back in 2021. But Coronavirus has also put tenant incomes under pressure, and this is unlikely to recede until late this year at the earliest, keeping a cap on rental growth. After that, growth will depend on how fast the economy can recover and whether it can make up lost ground. Five years ago, such pressures would have undoubtedly led to rents falling across the country, but the fall in investor purchases since 2016 has reduced rental stock. This supported rents during the early months of the pandemic and has driven up rental growth from late 2020 into 2021.

With the exception of London, rental stock levels across the country remain 10% to 15% below the same time last year. This lack of supply will put a floor under rents for the foreseeable future, despite considerable pressure on tenants' incomes. For this reason, we believe rental growth

over the next three years will remain concentrated across the Midlands and the North, where stock levels have dropped furthest.

In London, rental growth will remain lower due to higher stock levels. In the medium term and even post Coronavirus, affordability constraints and the potential longer-term effect of the pandemic on the appeal of large cities will curtail rental increases.

Rental markets, particularly those in the South of England within an hour or so of the capital, have seen significant demand from people leaving London. This has supported rental pricing across suburban and rural markets in particular, but growth will remain constrained in the longer term by similar affordability pressures to those in the capital.

So, what does all this mean for landlord returns? We are forecasting small increases in gross yields between 2020 and 2023. The North will see the biggest increases, with rental growth forecast to outstrip house price rises. For each 1.0% rents increase faster than house prices, yields broadly increase by 0.1%. However, tax changes will likely mean these increases will not be fully reflected in net yields and, as a result, in landlords' pockets.

GROSS YIELD FORECASTS

Source: Hamptons

	2020	2021 (F)	2022 (F)	2023 (F)
London	4.6%	4.6%	4.6%	4.6%
South East	5.2%	5.2%	5.3%	5.3%
South West	5.4%	5.5%	5.5%	5.5%
East of England	5.3%	5.3%	5.3%	5.3%
East Midlands	6.1%	6.2%	6.2%	6.3%
West Midlands	6.0%	6.2%	6.3%	6.2%
North West	7.1%	7.2%	7.2%	7.2%
Yorkshire & Humber	6.9%	7.1%	7.1%	7.1%
North East	8.4%	8.6%	8.5%	8.5%
Wales	6.8%	6.9%	6.9%	6.9%
Scotland	5.9%	6.0%	6.0%	6.0%
Great Britain	5.9%	6.0%	6.0%	6.0%

Author details:
Aneisha Beveridge, Head of Research
David Fell, Senior Analyst
Alison Blease, Head of Research PR

