

Briefing notes

Addressing topical issues in UK rental markets

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Rental affordability is under intense scrutiny given the acute pressures in the current market. Some can be explained by short-term imbalances in the wake of the pandemic but there is clearly a deeper structural problem that needs to be addressed.

Our renter demographic dataset enables us to analyse actual individual renter incomes alongside their other demographic characteristics, giving us a unique ability to understand who rents in the UK.

In this note we explore the extent to which people are excluded from the UK's rental market, or compromise on their living standards. For this reason, we used wider income data covering the whole population – those who own, those who rent and those who can do neither.

'Affordability' is a measure of how easily households, given their income and financial capacity, can afford to rent. A high-income individual might find a house affordable even when the rent is very high, while the reverse is the case for someone on a lower income.

Limited availability of affordable housing restricts employment mobility, and can create a shortage of essential workers, including teachers, nurses, police officers and others.

Poor affordability also leads to people living in lower-quality housing with cramped conditions. Studies have linked cramped or poor-quality housing to lower educational achievement and poorer health outcomes.

Rental affordability

A spotlight on lower income households

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A PriceHubble company

Dataloft creates data-driven insight on UK housing markets as part of PriceHubble, a global property data and technology business.

Contact **Sandra Jones**

M +44 7714 124681 [dataloft.co.uk](https://www.dataloft.co.uk)

dRMA Dataloft Rental Market Analytics

Dataloft Rental Market Analytics (DRMA) is the UK's largest and most comprehensive single source of achieved rents. It includes over 6 million records, with around 40,000 new tenancies added each month.

Demographic data covers: age, income, employment sector, workplace destination, migration patterns, household type.

What does the **evidence** say?

Lower quartile earnings in London were £28,611 in April 2023 (ONS). To meet the typical tenant referencing affordability requirement (30% of gross income spent on rent) the maximum rent a lower-quartile earner in London could pay is £715 pcm.

Based on rents achieved in 2022, only 1% of one-bed flats in London were available to a lower-quartile earner.

For a London household with two lower-quartile earners, the situation is better. 42% of one-bed flats were affordable – but only 20% of two-bed flats.

Outside of London (using earnings data for those regions) the situation for one person households is not much better. Just 7% of one-bed flats in the rest of the South East were affordable to a lower-quartile earner and 30% in the rest of the UK.

For households with two lower-quartile earners, there is more scope. They are able to meet the affordability test for the vast majority of one-bed flats in the South East and three quarters of the two-beds.

Three bed flats are largely out of reach for households even with two lower-quartile

earners in London where only 7% of three-bed flats would be affordable. That rises to 49% in the wider South East and 63% in the rest of the UK.

Lower-income household compromise on size and quality of rental homes. Based on families with a single earner, the average home of those with below median income is around 19% smaller than those with above median income.

Using EPC as a proxy for quality, households with lower-quartile incomes are less likely to live in homes with an EPC grade C or above.

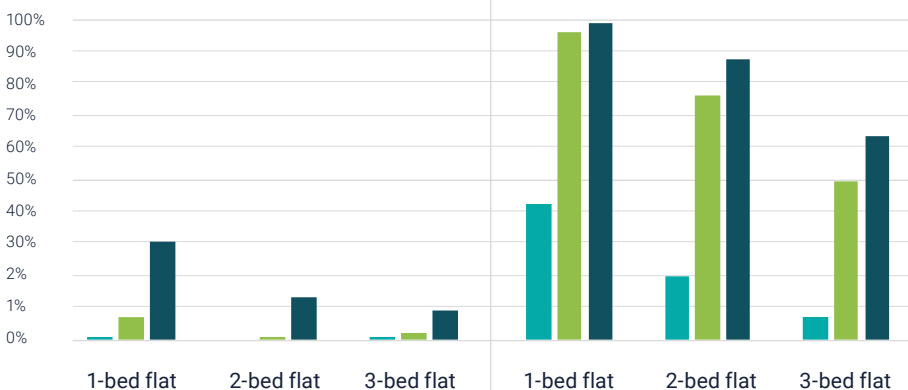
Rental homes affordable to low-income households

% of homes **one earner can afford**

London	1%	0%	1%
South East	7%	1%	2%
Rest of UK	30%	13%	9%

% of homes **two earners can afford**

London	42%	20%	7%
South East	95%	75%	49%
Rest of UK	97%	87%	63%



Comparing average size of rental homes **Families with one earner**

London	South East	Rest of UK
949	951	962
Higher earners ▲		
Low earners ▼		
782	797	814

sq ft

Comparing quality of rental homes **Proportion with EPC rating A to C***

London	South East	Rest of UK
62%	55%	54%
Higher earners ▲		
Low earners ▼		
53%	50%	49%

Higher earners have incomes above median
*As a proxy for quality.

Dataloft Rental Market Analytics, ONS Annual Survey of Hours and Earnings

What does it mean?

This analysis highlights the significant affordability issues in the housing rental market, particularly in London, where a large percentage of homes are not within reach for lower-quartile earners. Even outside London, while affordability may be relatively better, larger properties can still be difficult to find within an affordable range, especially for single-income households.

This analysis can be extended to cover commute times and may be expected to show that key workers in higher value areas tend to commute over longer distances.

Families will always need to adapt to the cost of renting. The analysis finds that currently, families in all regions with one modest income are forced to accept smaller and less energy-efficient homes. Investors focused on delivering a defined social impact should consider targeting these households.

By providing high quality homes for this demographic, households' financial stability will improve, as both rental and utility expenses decrease. This, in turn, can lead to numerous societal benefits, including higher educational attainment and improved health outcomes.

The data should also encourage local authorities to prioritise the development of particular types of homes in areas with lower affordability for this type of stock.

Employers struggling to recruit key workers in areas such as healthcare should consider the provision of homes affordable to the incomes of their employees, given their family make-up. The housing may not maximise the rental potential of a site, but this will be potentially off-set the financial benefits of filling vacancies and maximising staff retention.