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Trends in Scottish Residential Lettings

Rate Expectations



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Traffic to **citylets.co.uk** hit an all time high in May as the residential lettings market picked up after the traditionally slow winter.

Historically the spring quarter sees a rise in lettings activity after the quieter winter months and this year was no exception. Reflecting the seasonal increase in both supply and demand, 23% more properties were let in the second quarter of 2007 than in the first. But, while activity has increased considerably the same cannot be said for average rents.

With interest rates in Q2 2007 one percent higher than in Q2 2006 higher rental growth might have been expected with landlords passing on their higher borrowing costs. However, without any noticeable changes in either supply of properties or tenant demand (Aberdeen excepted) the degree by which they were able to may have been restricted.

In this issue we focus on Glasgow, candidate city for the 2014 Commonwealth Games, and revisit 1 & 2 bedroom flats where Aberdeen rental performance continues to sparkle.

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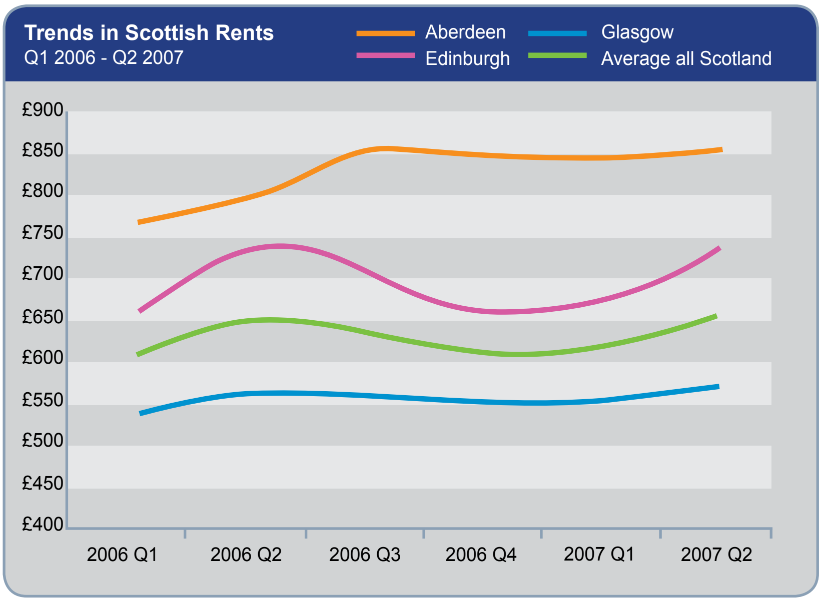
Rate Expectations

Interest rates increased four times between Q2 2006 and Q2 2007, rose again in July and inflationary pressures suggest another increase is likely this year. Thus far, though, the market for Scottish rental property exhibits only very modest growth in average rents (Q2'06 to Q2'07).

Average price levels in Aberdeen show signs of levelling off after very strong growth throughout 2006.



Aberdeen outperformed all other areas experiencing the strongest rental growth (Q2'06-Q2'07).

Edinburgh's seasonal pattern is very evident but average rents of £736 for Q2 2007 are unchanged on 2006.

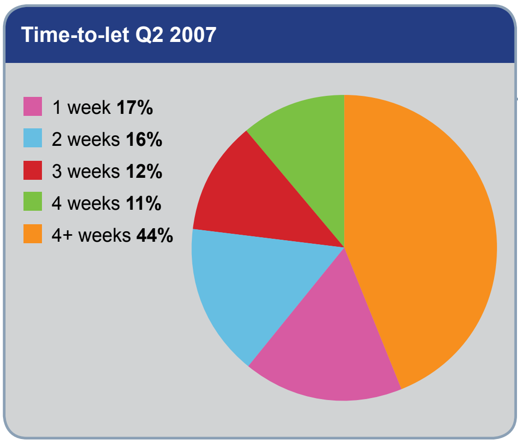
Similarly no growth seen in average rents in Glasgow.

Scottish Rental Index
Base: Jan 2006 = 100

Month	2006	2007
January	100.0	102.6
February	101.3	102.4
March	103.1	105.1
April	104.0	106.5
May	106.2	105.1
June	104.3	104.7
July	104.2	
August	104.3	
September	107.2	
October	105.6	
November	102.4	
December	99.3	

Index of Scottish Rents

The index shows a 0.6% p.a. increase on the same quarter in 2006. This suggests that, in general, landlords have not increased rents in response to higher interest rates. This could be because many landlords have fixed their borrowing costs or because rents rises lag interest rate rises and the full effect is yet to be seen.



Time-to-let

56% of all properties marketed on citylets.co.uk let within a month with an average time-to-let of 34 days - overall fractionally slower than in Q2 2006.

Typically the larger the property the longer it takes to let but as with last year, four and five bedroom properties in Edinburgh are in high demand in Q2 with 46% letting in two weeks or less.

1 & 2 Beds

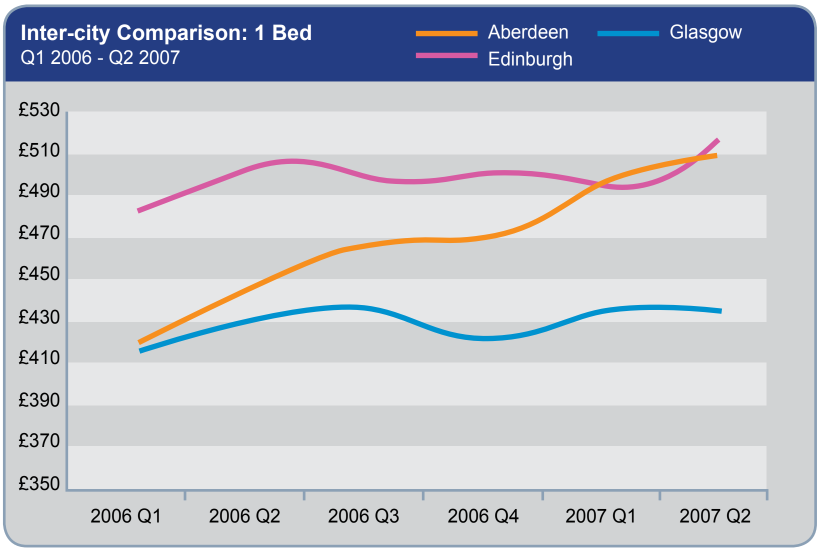
Silver City

In Q2 2007 there was no let up in demand for 1 bedroom flats in Aberdeen which continued to let extremely quickly. As in the previous two quarters a high percentage of flats advertised on citylets.co.uk let within a week (42%) and the average time-to-let was just 16 days. Strong growth sees rents 15% higher than Q2'06.

1 Bed comparison

City	Average Rent Q2 2007	Growth Q2 2006-Q2 2007	Average TTL (days) Q2 2007	Let within a week	Let within a month
Edinburgh	£515	1.2%	26	25%	64%
Glasgow	£435	1.4%	33	18%	55%
Aberdeen	£509	15.0%	16	42%	85%

Inter-city Comparison: 1 Bed
Q1 2006 - Q2 2007

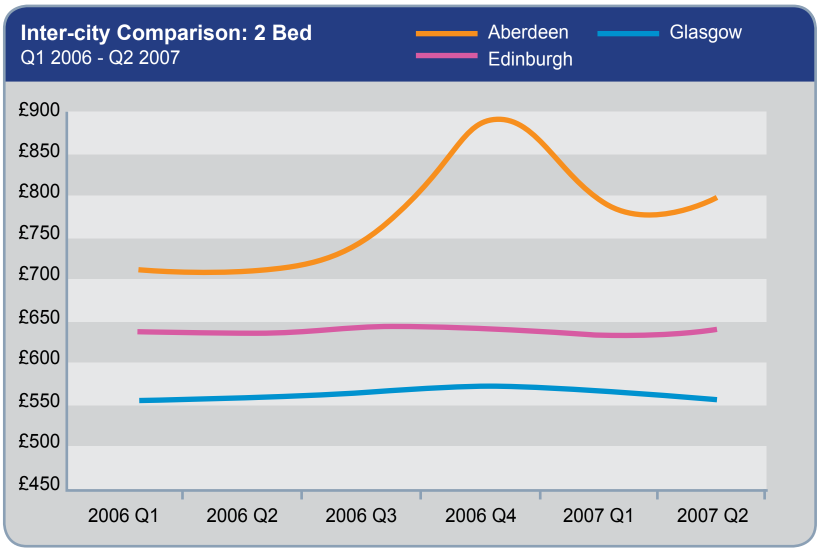


The TTL (time-to-let) figures indicates how many days property takes to let. As is usual, these are lower in Q2 than Q1.

2 Bed comparison

City	Average Rent Q2 2007	Growth Q2 2006-Q2 2007	Average TTL (days) Q2 2007	Let within a week	Let within a month
Edinburgh	£641	1.4%	31	17%	57%
Glasgow	£555	0.1%	37	14%	50%
Aberdeen	£799	12.5%	34	11%	60%

Inter-city Comparison: 2 Bed
Q1 2006 - Q2 2007



It's been a landlords market in Aberdeen but surprisingly, or thankfully depending on your perspective, rents for 1 bed flats have only risen 2% on Q1 2007. However, with high demand, limited supply and rising property prices a continuation of the upward trend in 1 bed rental values seems very likely.

Rental values of two bedroom flats in Aberdeen have also increased significantly growing 12.5% (Q2'06-Q2'07) and while average rents are below their Q4'06 highs they appear to be stabilising around the £800 mark.

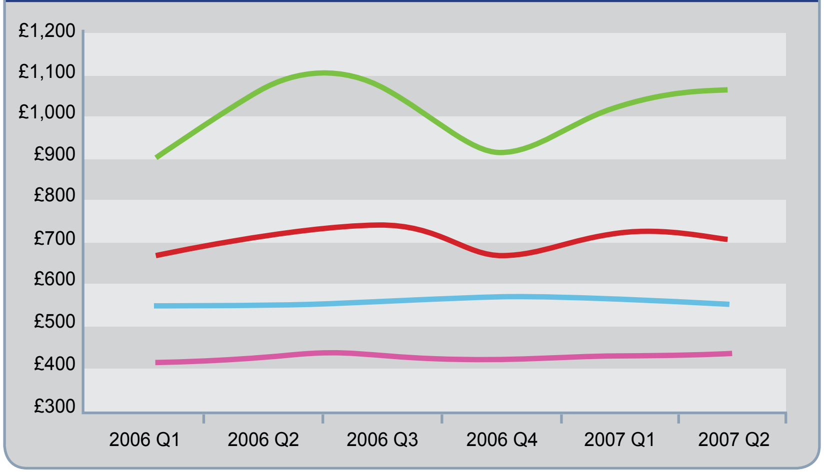
Although there have been sizable increases in Aberdeen rents, property prices have grown by considerably more and it follows that the rent-price ratios (or gross rental yields) must have fallen.

In comparison to Aberdeen, the rental performance of 1 and 2 bed flats in Edinburgh and Glasgow is steady but in real terms (rental growth less inflation) rents are lower than last year.

Glasgow

With a population of 580,000 Glasgow is the third largest city in the United Kingdom and comfortably Scotland's largest. In contrast to Edinburgh, Glasgow's population has long been in decline and projections forecast further declines - albeit at slower rates than previously.

Trends in Glasgow Rents
Q1 2006 - Q2 2007

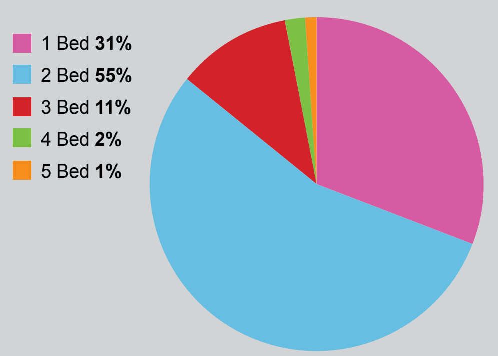


The overall picture for Glasgow shows that on average rents are very marginally above the equivalent quarter last year. 1 bed flats were the best performers achieving an increase of 1.4% over Q2 2006. Seasonality is evident in four bed properties but, as with two and three bed properties, rental values are virtually unchanged. In Q2 2007 50% of all properties let within a month with an average time to let of 35 days – 5 days longer than Edinburgh.

Housing tenure in Glasgow is very different to Edinburgh having a much lower percentage of owner-occupiers and a much higher percentage of social housing. The private rental sector has grown substantially doubling from a low base in 1991 to now represent around 10% of housing stock. Low property prices, urban regeneration and new builds attracted buy-to-let investors, which on occasion has led to short-term oversupply in certain areas.

The market would appear to be quite finely balanced at the moment. Whether there is capacity for rent increases or whether pricing will be geared to 'attract and retain' tenants looks to be highly (micro) area specific.

Composition of the Glasgow rental market 2006



Glasgow rental market

1 and 2 bedroom properties dominate with percentages of larger properties lower than the national average.

With three universities and a total student population reportedly second only in size to London higher percentages of larger properties might have been expected. But, a large proportion of students are local to Glasgow and live at home.

What might I have to pay?

The tables below show the average rents and time-to-let (TTL) over the last six months for a selection of postcodes in Edinburgh, Glasgow and Aberdeen. Gaps in the table occur where there are insufficient observations.

There are many factors other than location and number of bedrooms that can influence rental values. Accordingly, the tables should only be used as an indicator and not as a definitive guide to rents.

Edinburgh

Postcode	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	TTL
EH1	£521	£678	£1,017	£1,308	£1,627	28
EH2	£542	£701				34
EH3	£535	£704	£1,070	£1,456	£1,641	32
EH4	£526	£647	£799	£1,175		34
EH5	£480	£574	£819	£1,197		31
EH6	£475	£622	£868	£1,116	£1,375	35
EH7	£498	£637	£887	£1,148	£1,505	35
EH8	£486	£635	£930	£1,288	£1,550	28
EH9	£571	£670	£903	£1,255		22
EH10	£529	£660	£917	£1,291	£1,649	30
EH11	£480	£604	£827	£1,143		30
EH12	£543	£644	£840	£1,188		34
All Edinburgh	£505	£639	£887	£1,277	£1,567	31

Glasgow

Postcode	1 Bed	2 Bed	3 Bed	4 Bed	TTL
G1	£500	£668			42
G2	£504	£637			38
G3	£482	£662	£889	£1,154	28
G4	£448	£584	£786		35
G5	£462	£550	£721		35
G11	£464	£628	£827		35
G12	£513	£650	£915	£1,159	35
G20	£441	£559	£701		35
G31	£378	£504	£633		37
G32	£368	£460			35
G40	£402	£505	£586		40
G41	£436	£528	£639	£973	38
G42	£388	£498	£596		34
G44	£417	£514	£583		38
G51	£363	£471	£574		39
All Glasgow	£434	£559	£714	£974	37

Aberdeen

Postcode	1 Bed	2 Bed	3 Bed	4 Bed	TTL
AB10	£511	£773	£1,012		26
AB11	£484	£781	£1,009		28
AB15	£660	£1,152	£1,469	£1,939	50
AB24	£462	£707	£1,166		28
AB25	£528	£725	£1,003		23
All Aberdeen	£507	£809	£1,165	£1,644	31

(Avgs: 2007 Q1 and 2007 Q2)

About Citylets

Founded in 1999, Citylets is Scotland's original residential lettings portal. Through its proprietary website **www.citylets.co.uk** and network partners Citylets advertise over 45,000 properties a year on behalf of over 200 letting agents. Citylets is privately owned and independent of estate / letting agent groups or media organisations.

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Methodology
The statistics are based on rental properties advertised on Citylets. Rather than employ snapshot sampling our observations are recorded when a property is removed from the site as let. We believe such transaction-based observations provide a better reflection of the market.

The data was manually cleansed to remove multiple entries and other anomalies. The cleansing process guided refinements to data recording.

Averages are calculated on a monthly or quarterly basis as simple (unweighted) means. Indices are constructed holding composition (number of bedrooms) fixed at their 2006 average levels. This ensures that changes in the index reflect rent changes and not changes in composition, which are likely to occur seasonally.

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