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Trends in Scottish Residential Lettings

The Tempest

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The financial storm grew in intensity through the last quarter and as the winds of contagion blew across the globe wholesale money markets froze toppling banks like dominoes. With mortgage approvals at astonishingly low levels it will be of little surprise that demand for rental properties in Scotland remained high.

As is usual the third quarter was busy with the volume of properties let 38% higher than in Q3 2007. But, in a departure from the norm, stock levels on Citylets stayed high over the quarter as the supply of rental property increased. Business has been good for letting agents and with the sales market dead in the water we suspect this will continue in the near term with higher tenant demand than in previous years together with an increasing number of new instructions. However, with the economic outlook worsening further it looks increasingly likely that the trends observed over the past few years will change.

It is perhaps too early to tell from one quarter's figures but if the trends observed in other countries (ahead of Scotland in the property/economic cycle) are followed, supply may continue to outpace demand ultimately affecting rental price inflation. The time-to-let indicators will react the quickest and we expect to see averages creeping upwards over the few next quarters.

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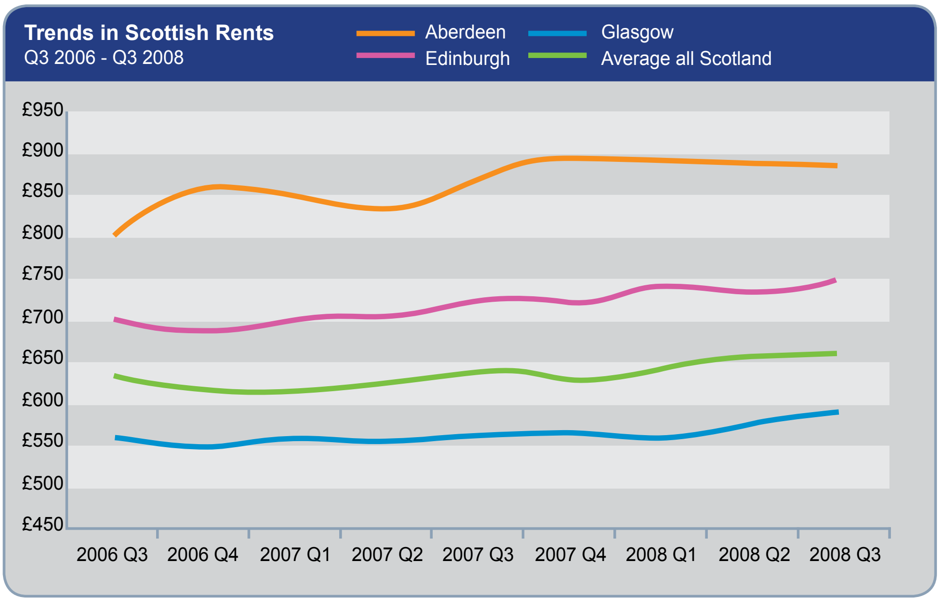
The Tempest

Expectations of a global economic downturn have exerted downward pressure on commodity prices and, with the UK economy contracting, more base rate cuts are likely. In the short-term though rate cuts may be immaterial if they are not passed on and/or lending is restricted. Let us hope that the taxpayer capital injection to banks is sufficient to keep them solvent and restores stability to the banking system.

Trends in Scottish Rents
Q3 2006 - Q3 2008



Average rents are now adjusted for the mix (type and size) of properties. This has smoothed out the peaks previously seen in Q2 of each year which were largely an effect of the high numbers of larger properties let in that quarter.

Trends remain the same with Aberdeen flat (£879) and upward trends in Edinburgh (£752) and Glasgow (£586).

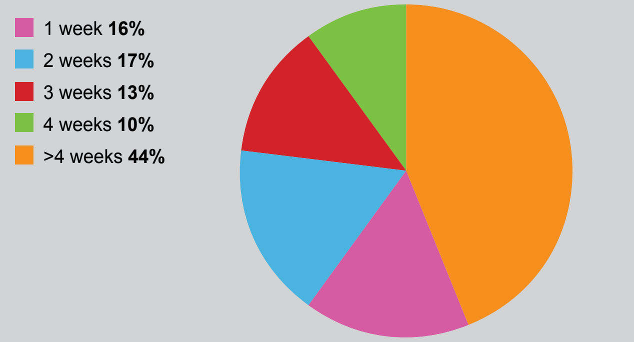
Scottish Rental Index
Base: Jan 2006 = 100

Month	2005	2006	2007	2008
January	97.6	100.0	102.0	106.1
February	100.8	101.7	103.2	107.9
March	101.7	103.6	105.2	108.5
April	101.0	104.4	106.6	110.1
May	101.8	106.2	103.7	109.2
June	103.1	104.0	104.3	109.3
July	103.2	103.7	105.4	111.5
August	101.9	104.3	106.2	109.4
September	103.4	106.9	106.8	111.0
October	101.3	105.4	105.4	
November	101.6	102.4	104.8	
December	101.2	100.1	106.5	

Index of Scottish Rents

Average rents in Scotland rose to £659 with the index recording an increase of 4.3% on the third quarter of 2007. In general rents have been rising roughly in line with inflation this year.

Time-to-let Q3 2008



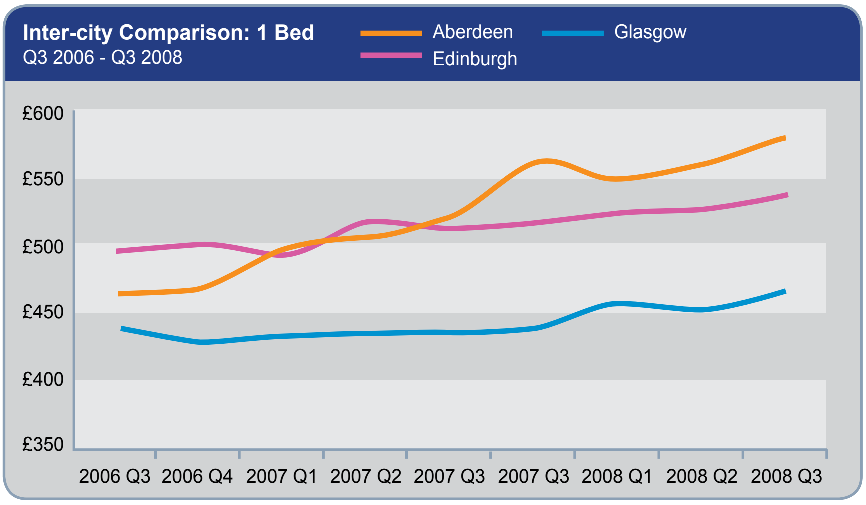
Time-to-let

The average time-to-let and the proportion of all properties let within a month are the same as Q3 of last year at 33 days and 56% respectively.

1 & 2 Beds

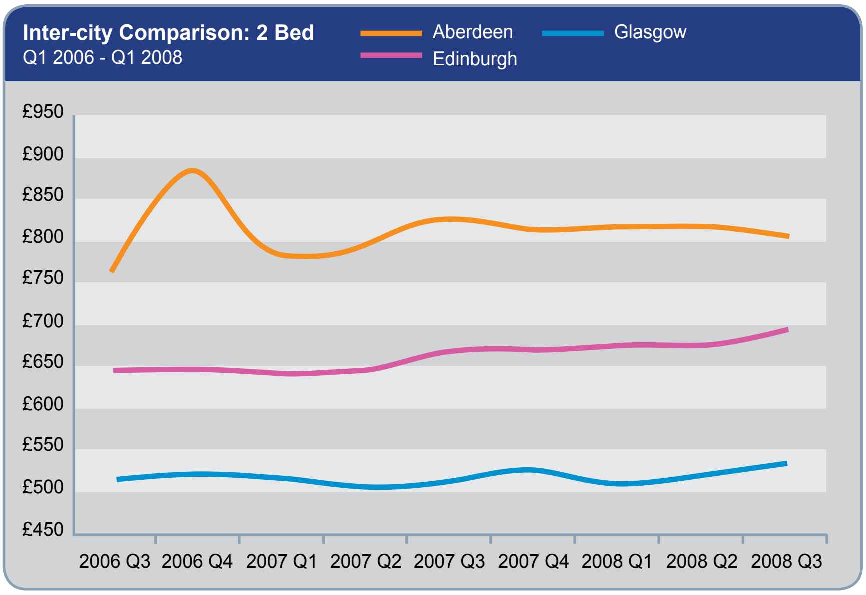
High Activity

There was a steep rise in the turnover of two bed flats in Edinburgh with 47% more lets recorded than in the last quarter (and 40% more than Q3'07). To put this into perspective this is three times the normal Q2/Q3 difference. Rents have risen 4.5% over the year and now average £699.



1 Bed comparison

City	Average Rent Q3 2008	Growth Q3 2007-Q3 2008	Average TTL (days) Q3 2008	Let within a week	Let within a month
Edinburgh	£541	5.9%	20	29%	76%
Glasgow	£463	5.9%	31	17%	57%
Aberdeen	£578	9.5%	18	34%	81%



August is always a busy month for lettings but this year activity remained high throughout September.

2 Bed comparison

City	Average Rent Q3 2008	Growth Q3 2007-Q3 2008	Average TTL (days) Q3 2008	Let within a week	Let within a month
Edinburgh	£699	4.5%	26	23%	66%
Glasgow	£586	3.0%	36	15%	51%
Aberdeen	£812	-2.0%	34	15%	56%

Rents for one bed flats have appreciated the most with those in Edinburgh and Glasgow 5.9% higher than in Q3'07. In Aberdeen, one bed flats took longer to let than last year but still averaged a fast 18 days and experienced the strongest rental growth, rising 9.5% to average £578.

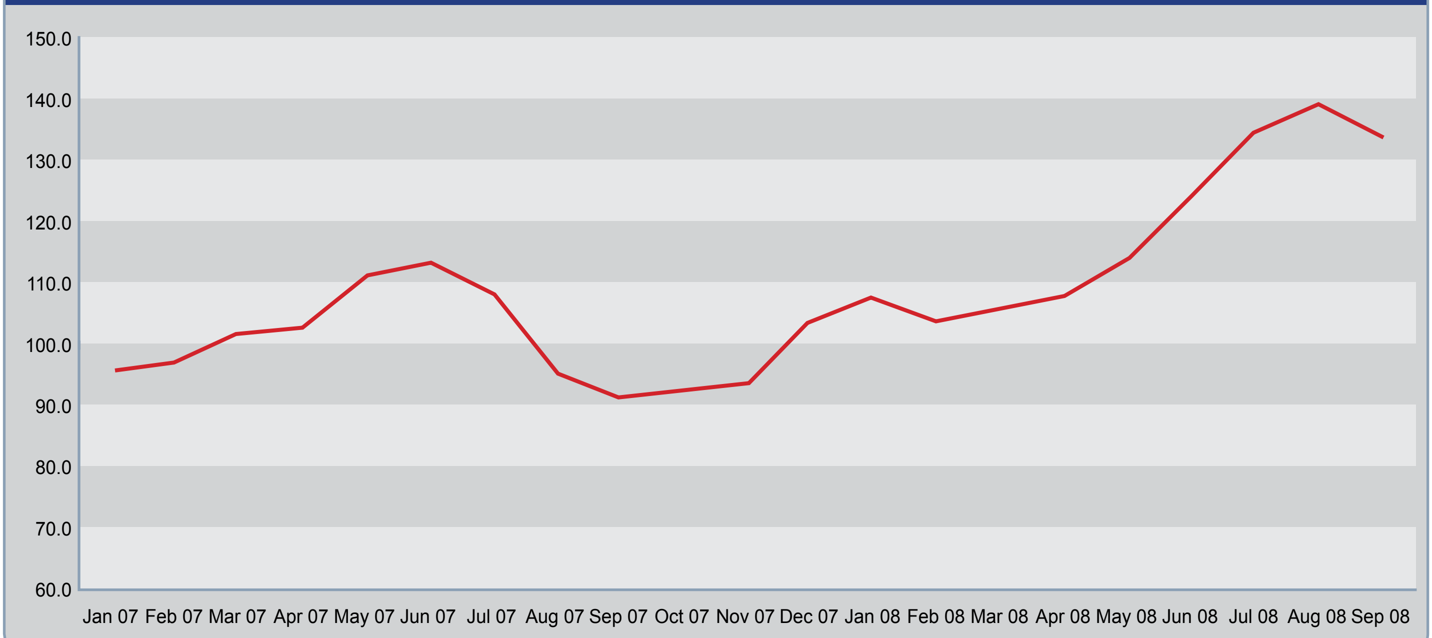
It is a different story for two bed flats in Aberdeen with TTL's also lengthening but rents on average 2.0% lower (£812) than in Q3'07. A high volume of properties were let in the quarter but supply has increased and with oil prices in decline reduced demand for corporate lets may also be having an impact on achievable rents.

Last quarter we saw a significant fall in the average time-to-let for two bed flats in Glasgow, a trend we thought might continue. It hasn't: despite a high turnover average TTL's slipped back to 36 days which, while two days faster than in Q3 2007, is only a modest improvement. Rents rose to average £586, an increase of 3.0% on Q3'07.

Stocks

In recent months it has been widely reported that the supply of rental property has been increasing across many parts of the UK warranting a closer look at the Scottish picture. Broadly speaking, stock levels have displayed a similar pattern in 2008 to previous years but in the last three months there has been a considerable deviation. The pattern usually seen is that stock levels increase throughout the first half of the year, decline sharply in the third quarter and stay fairly low through the last quarter. This year started in a similar fashion but in the third quarter stocks have increased.

Citylets Stock Index
Base = 100 = average 2007



Typically in Q3 the number of properties let exceeds the number of new properties marketed with the result that stock levels are lower at the end of the quarter than at the beginning. This year the net effect was a slight surplus of new properties marketed so, while lettings increased 38% on Q3'07, the supply of new properties rose 55%.

Some of this growth is attributable to an increase in Citylets client numbers over the period but there is little doubt that both demand and supply have risen since last year. With traffic to citylets.co.uk remaining high we would concur with other reports that the supply of rental property has increased and so-called 'forced landlords' – small scale property developers and others unable or unwilling to sell – are among the new instructions. The increase in supply appears to be quite widespread with no one city or area seeing a disproportionate increase.

Given the current lack of confidence in the property market and the scarcity of mortgage finance it is probable that this is a trend that will continue. New supply may be offset to some degree by buy-to-let repossessions which are also expected to rise in the future but there is every chance these will be recycled to the sector via other cash rich investors.

Looking forward into 2009 the risk is that the economy and financial sector in Scotland contract, supply outpaces demand at a faster rate and stocks rise further putting downward pressure on rents. Although the effect may not be as dramatic as seen in the Irish rental market, by this time next year we could envisage average Scottish rental price growth slowing towards zero.

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	£570	£738	£1,052	£1,451		24
EH2	£590	£776				25
EH3	£580	£839	£1,153	£1,413	£1,825	24
EH4	£571	£692	£894	£1,272		28
EH5	£520	£647	£830			32
EH6	£519	£663	£879	£1,240	£1,478	27
EH7	£520	£676	£923	£1,246		24
EH8	£534	£679	£939	£1,231	£1,591	21
EH9	£536	£710	£994	£1,325	£1,650	23
EH10	£562	£736	£1,016	£1,294	£1,640	23
EH11	£504	£637	£860	£1,204	£1,605	26
EH12	£555	£679	£913	£1,272	£1,660	28
All Edinburgh	£536	£690	£952	£1,302	£1,645	26

Glasgow

Postcode	1 Bed	2 Bed	3 Bed	4 Bed	TTL
G1	£533	£681			34
G2	£519	£690		£1,268	30
G3	£526	£675	£948	£1,172	30
G4	£478	£601	£788		27
G5	£497	£567	£736		36
G11	£485	£657	£891		31
G12	£527	£715	£1,022	£1,228	31
G20	£468	£571	£771		34
G31	£399	£523	£619		32
G32	£384	£479	£593		33
G40	£399	£517			38
G41	£446	£555	£709	£1,006	34
G42	£410	£517			36
G44	£407	£521	£570		39
G51	£376	£502	£591		40
All Glasgow	£459	£582	£760	£1,064	33

Aberdeen

Postcode	1 Bed	2 Bed	3 Bed	4 Bed	TTL
AB10	£572	£812	£1,056		30
AB11	£559	£826	£1,223		32
AB15	£700	£952	£1,225	£1,925	45
AB24	£532	£763	£1,034		20
AB25	£573	£779	£1,200		25
All Aberdeen	£573	£817	£1,110	£1,725	31

(Avgs: 2008 Q2, Q3)

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 30,000 properties a year on behalf of over 200 letting agents. Citylets is privately owned and independent of estate / letting agent groups or media organisations.

Disclaimer
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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 is manually cleansed to remove multiple entries and other anomalies. The cleansing process continues to guide refinements to data recording.

Averages are calculated on a monthly or quarterly basis as weighted (mix-adjusted) means. Indices are constructed holding composition (property type and number of bedrooms) fixed at the average of the last three years. This ensures that changes in the index reflect rent changes and not changes in composition, which are likely to occur seasonally.

Acknowledgments
Dominic McKeith
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Media enquiries please contact:
Scott Douglas, Holyrood Partnership
Tel: 0131 561 2244 or E-mail: scott@holyroodpr.co.uk

Other enquiries please contact
Citylets
Tel: 0131 467 4864 or E-mail: reports@citylets.co.uk