

Trends in Scottish Residential Lettings

Tables turned



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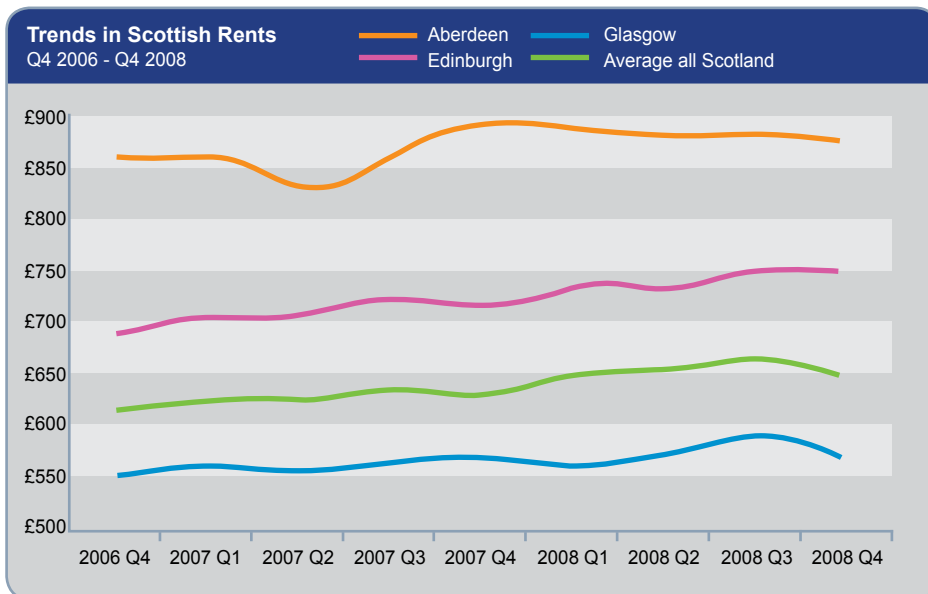
Stocks of rental property in Scotland continued to climb throughout the last quarter of 2008 as more new supply from 'reluctant landlords' came onto the market. Properties took longer to let than in Q4 of last year, rental growth is slowing and the year ahead looks to be very different to 2008.

After a furiously busy third quarter the seasonal slowdown in the last quarter seemed more marked than in previous years but, on the whole, the market performed better than we expected. A high volume of properties were let in the quarter with tenant demand remaining relatively healthy sustained by low confidence in the economy, expectations of further house price declines and, despite the billions taxpayers have invested in banks, limited accessibility of mortgage finance.

However, with people increasingly cautious about their spending and unemployment forecasted to rise in Scotland we suspect that demand for rental property may weaken over the next few quarters. Stock levels are currently high and in the absence of a significant pick up in the property sales market will probably remain so. For established landlords the probability of void periods in 2009 is greater than it has been for some years.

Tables turned

The base rate was slashed to 2% over the quarter and has since hit an all-time low of 1.5% but banks remain reluctant lenders with, in addition to capital concerns, (foreign) deposit outflows possibly further reducing lending capacity. With banks keen to increase net interest margins it's debatable whether new mortgage products will get much cheaper. In the months ahead expect inflation to decline sharply, further base rate cuts, and the recent government action to begin to free up lending.



Average rents for Edinburgh (£752) display a similar pattern to 2007 levelling off in the last quarter. The trend in Aberdeen average rents (£878) remains flat.

It looks as if the upward trend in Glasgow may have come to an end with a fall in average rents to £567. The decline could be seasonal so we wait until next quarter for confirmation.

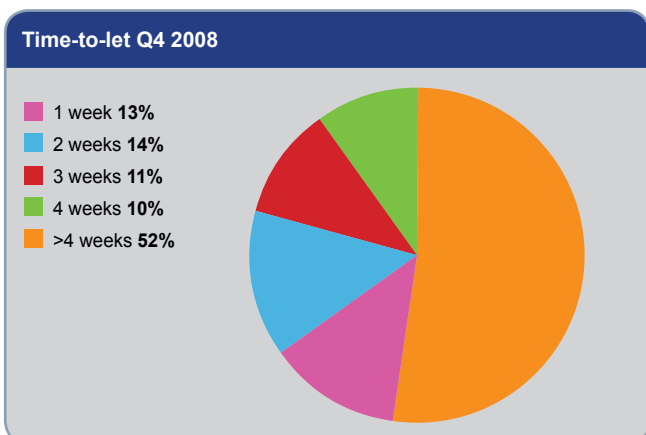
Scottish Rental Index

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	110.2
November	101.6	102.4	104.8	107.4
December	101.2	100.1	106.5	105.9

Index of Scottish Rents

The index shows a 2.1% increase on the last quarter of 2007 - the slowest rate of growth for a year – and average rent in Scotland fell slightly to £644.



Time-to-let

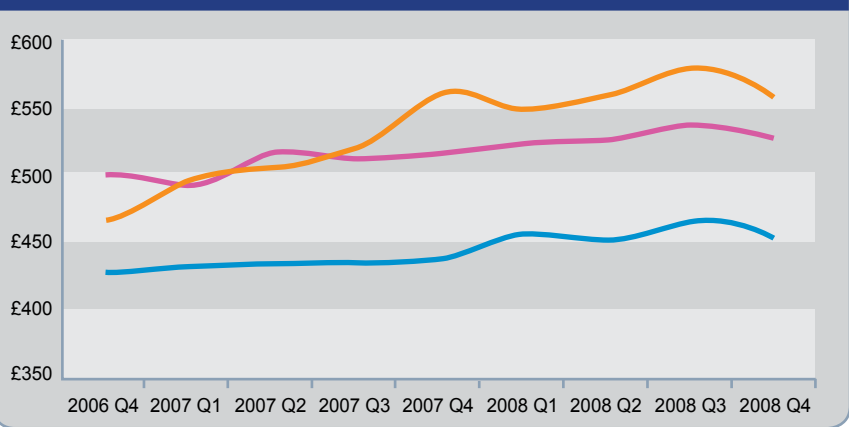
48% of all properties let within a month and the average time-to-let rose to 37 days (2 days longer than in Q4'07). Much of the rise can be attributed to one bed flats, the second largest sector of the market, where TTL's lengthened significantly.

1 & 2 Beds

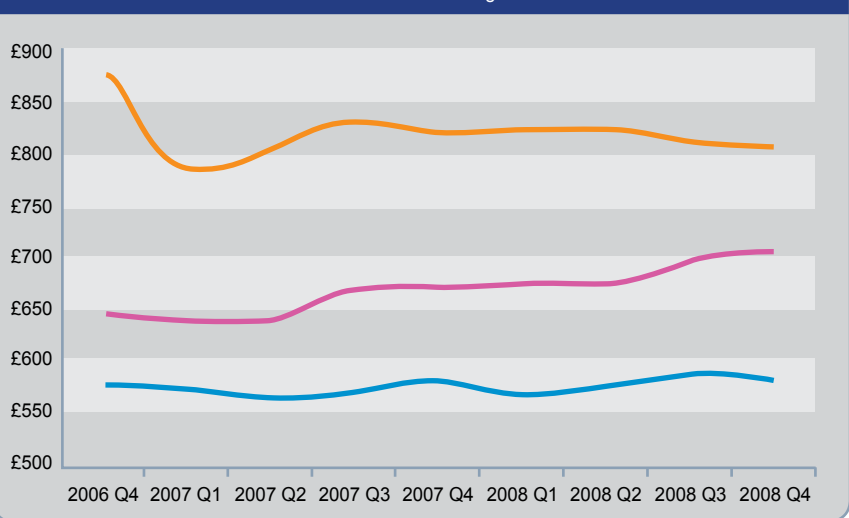
Change ahead

Unexpectedly, average rents for one bed flats in Aberdeen fell to £564 just 1% higher than in Q4 2007 and TTL averages lengthened to 21 days – the highest for three years. Two bed flats in Aberdeen took a week longer to let than in Q4'07 but, as yet, rents are holding averaging £810.

Inter-city Comparison: 1 Bed
Q4 2006 - Q4 2008



Inter-city Comparison: 2 Bed
Q4 2006 - Q4 2008



One bed flats tend to let quickly in the last quarter of each year but this year there has been a noticeable slowdown in all the major cities. One bed flats in Edinburgh took 6 days longer to let on average than in Q4 2007, Glasgow 5 and Aberdeen 9. Rents in Edinburgh and Glasgow saw respective increases of 3.0% and 2.8% on Q4'07 but this is almost half the 5.9% growth each recorded last quarter. The slowdown could be a sign of the times with reduced economic activity in the cities. Job security fears and people looking to save money in the year ahead may also be prompting more to share rental accommodation.

Two bed flats in Edinburgh posted the strongest increase in rents - rising 4.7% to average £702 – and a large number were let in Q4 but rising supply suggests growth may soon peak. In Glasgow, the surge in demand for two bed flats seen in the first half of 2008 seems to have been satisfied by the increase in new supply in Q4'08. Rents edged lower from last quarter to average £578, the same as Q4'07 and indeed Q4'03.

1 Bed comparison

City	Average Rent Q4 2008	Growth Q4 2007- Q4 2008	Average TTL (days) Q4 2008	Let within a week	Let within a month
Edinburgh	£532	3.0%	26	23%	66%
Glasgow	£452	2.8%	34	16%	53%
Aberdeen	£564	1.0%	21	28%	73%

It is quite likely that the time-to-let averages in the next few quarters will be higher than the equivalent periods of last year.

2 Bed comparison

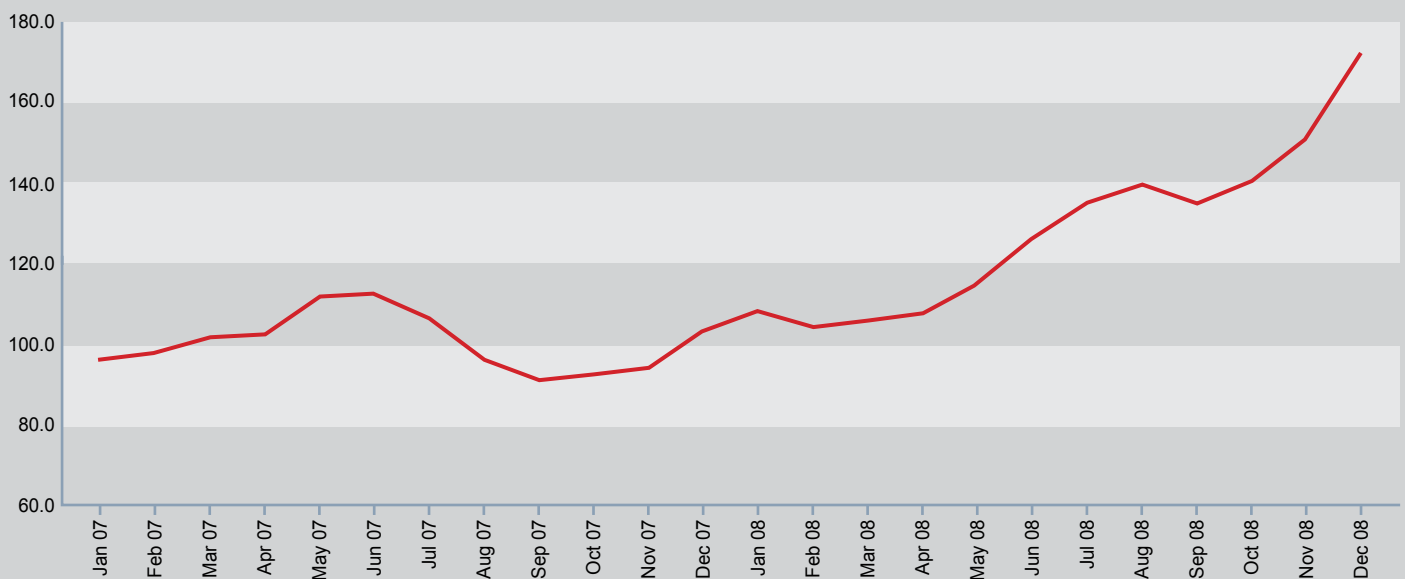
City	Average Rent Q4 2008	Growth Q4 2007- Q4 2008	Average TTL (days) Q4 2008	Let within a week	Let within a month
Edinburgh	£702	4.7%	30	17%	57%
Glasgow	£578	0.0%	37	10%	48%
Aberdeen	£810	-1.1%	35	15%	56%

Stocks



A combination of new client growth and increased supply saw stock levels on Citylets increase steadily throughout the second half of 2008 to end the year 68% higher than in 2007. It is a seasonal trend for stocks to increase in the last quarter of the year but in Q4 2008 the growth rate was faster than normally seen.

Citylets Stock Index
Base = 100 = average 2007



Tenant demand was the dominant feature of the first half of 2008 but as property sales slowed to a crawl the rise of a 'can't sell it, rent it' approach among frustrated sellers generated a steady stream of new instructions. Through December 2008, the typical letting agent had 50% more properties available to rent than in 2007 with some, notably larger agents, considerably more. And, in common with other reports, Citylets has seen a proportionally larger increase in houses being marketed than other properties.

In the medium-term a recovery in property sales activity does not look likely and we suspect that rental stocks will rise further in the first half of 2009. Should unemployment also increase (and we have yet to see how the Scottish banking sector will be affected post-merger of HBOS and part-nationalisation of RBS) it will dampen demand for rental accommodation and the rate of stock level increase may even accelerate.

While greater choice of rental accommodation is good news for tenants established landlords face the prospect of longer voids as properties take longer to let and, with increased competition for tenants, the capacity for rental growth looks limited. Falling inflation and lower financing costs than a year ago (for those whose interest rates are not fixed) may be some compensation for established landlords who may also be able to gain an advantage over 'reluctant landlords' by offering tenants longer leases than the standard. With average tenancies longer than a year some tenants may be interested in the security of knowing that their tenancy won't end after six months because the property has been sold.

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	£571	£781	£1,117	£1,513		28
EH2						33
EH3	£587	£852	£1,205	£1,497	£1,749	26
EH4	£571	£702	£956	£1,175		30
EH5	£524	£639	£843			35
EH6	£516	£660	£892	£1,212	£1,438	31
EH7	£525	£691	£916	£1,192	£1,482	28
EH8	£535	£682	£920	£1,202	£1,608	26
EH9	£538	£730	£996	£1,318	£1,718	28
EH10	£569	£747	£1,042	£1,281	£1,679	28
EH11	£508	£641	£864	£1,169	£1,656	25
EH12	£540	£679	£895	£1,371	£1,643	30
All Edinburgh	£538	£699	£971	£1,294	£1,624	30

Glasgow					
Postcode	1 Bed	2 Bed	3 Bed	4 Bed	TTL
G1	£538	£698			33
G2	£520	£696			33
G3	£519	£701	£958	£1,219	30
G4	£473	£617	£784		32
G5	£502	£575	£747		36
G11	£487	£669	£913		29
G12	£537	£734	£1,002	£1,346	32
G20	£469	£559	£680		35
G31	£393	£519	£599		35
G32	£391	£484	£595		38
G40	£397	£520			41
G41	£456	£554	£691	£884	37
G42	£408	£516	£625		39
G44	£409	£521	£593		39
G51	£379	£503	£592		40
All Glasgow	£459	£583	£753	£1,027	36

Aberdeen					
Postcode	1 Bed	2 Bed	3 Bed	4 Bed	TTL
AB10	£561	£790	£974		30
AB11	£576	£820	£1,255		30
AB15	£708	£982	£1,241	£1,881	52
AB24	£534	£746	£1,033		20
AB25	£575	£767	£1,150		27
All Aberdeen	£573	£810	£1,089	£1,624	33

(Avgs: 2008 H2)

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

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