
Mansion blocks in Kensington and Chelsea in prime central London — Getty Images

Rent asunder

UK property Drought has descended on London's prime lettings market as the number of available homes dries up. By *Alexandra Goss*

Rob Miller had rented a home in Knightsbridge for three years until last September when he and his wife decided they wanted to escape the bustle for a greener, more family-friendly area such as Kensington or Notting Hill. Miller, an American management consultant, was willing to pay up to £4,000 a week and thought finding a new London rental would be a breeze. How wrong he was — after six months and more than a dozen property viewings, the Millers had not seen a single suitable home.

"I thought we had a decent budget so didn't expect to have any problems, but it proved so, so hard," says Rob, 45, who has three children. "The only house we liked in all that time went within 48 hours of coming on to the market, after three offers."

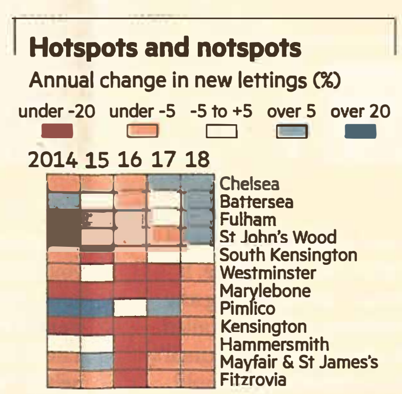
A similar story is repeated all over prime parts of the capital as tenants struggle to find properties to rent. "I looked for a two-bedroom flat in South Kensington or Chelsea for £500 to £600 a week, on behalf of a client," says Robert Bailey, a buying agent and property adviser. "I got five results. A few years ago, we would probably have had 500 properties to choose from."

The number of homes in prime central London being listed to rent in the second quarter of the year was down 5.3 per cent on the 2018 figure and is almost 22 per cent lower than the same period in 2016, LonRes research shows. At the same time, demand for rentals is rising as people grow wary of buying in case house prices fall further. They also worry about what Brexit will do to the economy and their jobs. Tom Bill, head of London residential research at Knight Frank, says his agency now has 6.8 prospective tenants on its books for every new letting, the highest ratio for more than a decade.


Three-bedroom flat in Hyde Park Gate, £1,500 a week

According to the LonRes analysis, the rental property drought is most pronounced in Fitzrovia, where the number of new lettings coming to market in the second quarter of the year was 15.6 per cent lower than the year before. In Mayfair and St James's new lettings fell by 15.5 per cent. In Kensington, stock is down 13.4 per cent, Marylebone 10.2 per cent and Westminster 9 per cent. Although new lettings have picked up in some areas, such as Chelsea and St John's Wood, most places have seen declines. Rentals under £500 a week are in shortest supply, falling by almost 19 per cent from the second quarter of 2018.

This is despite the fact some tenants are willing to pay substantial sums. In the past year, Mark Tunstall, managing director of Mark Tunstall Property, has agreed three long-term rental contracts for more than £25,000 a week. "These £1m-a-year lets have become more common," he says. "It's mostly down to politics and stamp duty. You can rent a beautiful home for several years for the amount of stamp duty due if you bought an equivalent property."



So, what is causing the shortage? "An increase in renewals as tenants stay in the same property for longer and fewer new buy-to-let properties are being bought," says Marcus Dixon, head of research at LonRes. Over the past five years, rents in prime central London have increased by 6 per cent, while achieved prices for homes sold have fallen by 13.4 per cent, LonRes says. This means gross yields have improved, but are still an average of only 2.93 per cent.

"For many years, investors accepted low yields in London because they believed they would be compensated by strong capital growth," says Rob Dix, a buy-to-let investor and co-founder of Property Hub, an online property forum. "Although the fall in London's prices has boosted yields slightly, it has also shattered beliefs in the capital's growth prospects so may not be enough to draw investors back in." Clients are far more excited by cities such as Manchester, Liverpool and Nottingham, which offer higher yields plus the prospect of house-price growth, Dix adds.

London landlords have been hardest hit by a raft of tax and regulatory changes designed to damp demand for buy-to-let investment. These include a 3 per cent stamp duty surcharge on second and investment properties, introduced in 2016, and the gradual loss of tax relief on mortgage interest, which will be phased out completely by next year.

"Tax relief is a more important benefit in expensive areas as landlords are more likely to have a higher level of debt," says Aneisha Beveridge, head of research at Hamptons International. Hamptons' monthly lettings index shows that company landlords — who can write off expenses, including mortgage interest — are gaining ground as individual investors retrench. There are an estimated 641,480 properties in the UK let by companies, a 42 per cent increase on 2015, before the rules were overhauled.

There is the occasional happy ending in London's rental market, however. After increasing their budget to £5,000 a week, the Millers have finally found a home in Kensington, more than eight months after their search began. Their landlord even permits pets, allowing the family to bring home a long-awaited puppy. "The only downside is that it's destroying our rugs," Rob says.

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What you can rent for . . .

£1,500 a week A newly refurbished three-bedroom flat in Hyde Park Gate, South Kensington, that was once the home of the sculptor Sir Jacob Epstein

£6,950 a week A two-bedroom apartment in Clarges Mayfair with facilities including a wellness centre and 24-hour concierge

£12,750 a week An Edwardian house in Mulberry Walk, Chelsea, with six bedrooms and an orangery