

Edinburgh's Rental Market Response to Covid Market Briefing

February 2021



Achilles Heel?

Known as the Athens of the North, it may now be an apt time to borrow another parallel from the Peloponnese in describing Edinburgh's current rental market. The 2020 figures from Citylets have reported the first annual fall in average advertised rents in Edinburgh since 2009, and this has raised concern among some of those involved in the market. However, this downturn is not unexpected and a rebalancing of the Edinburgh rental market will certainly be welcomed by tenants and politicians. Even for investors, market 'bubbles' are never good over the longer term and corrections, such as in 2020, will enhance market stability. The Edinburgh market has a strong fundamentals (education sector, centre of finance and politics, business tourism, The Festival, a diversified growing economy and inward migration) and all have been affected by the pandemic. However, these fundamentals have not gone away and the Edinburgh rental market retains a very positive outlook as a result.



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Key Findings



The pandemic triggered a sharp upturn in long-term rental supply, while simultaneously constraining demand. This led to a -4.1% price fall in Q4 2020, the first in a decade.



Supply in Edinburgh's most active rental markets was up c.15% YoY in 2020, with some areas and months seeing supply over twice the level of a year earlier.



The strong fundamentals of Edinburgh, and its economy, are expected to drive rental market recovery as lockdown restrictions are eased and ultimately lifted.

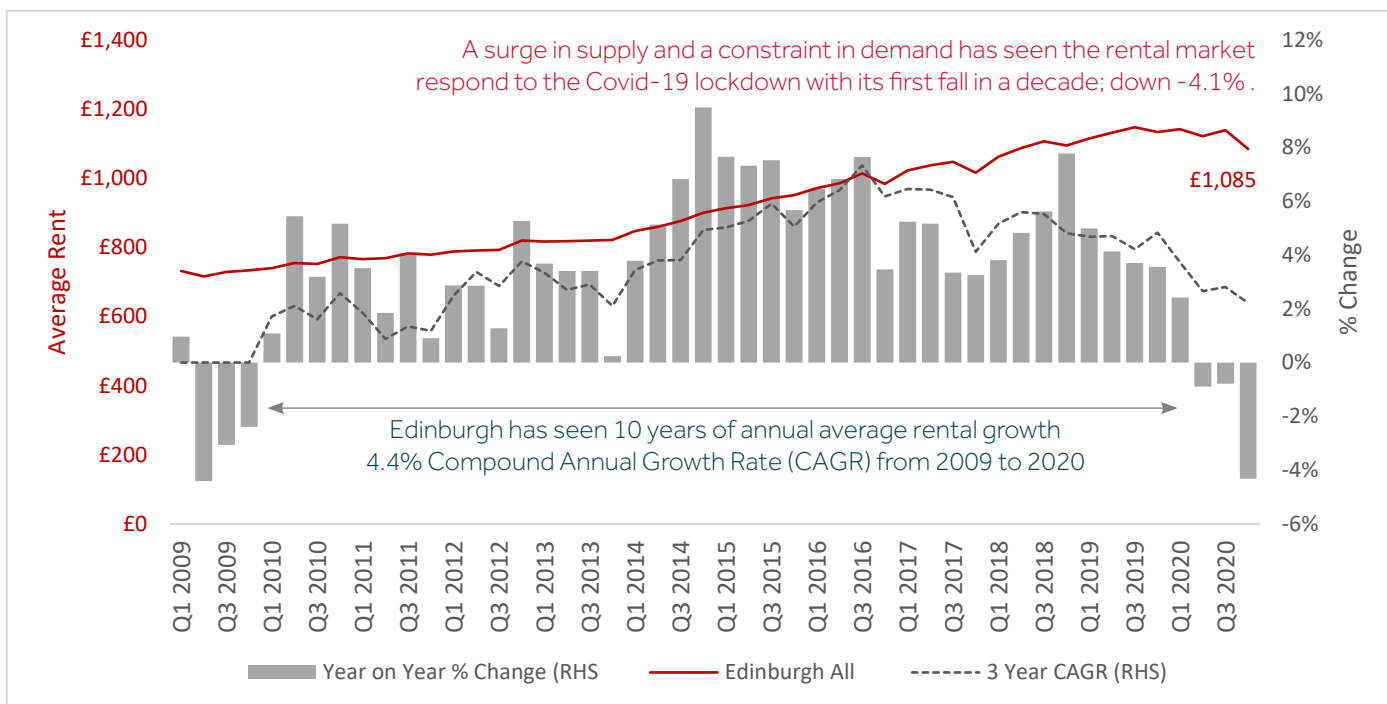
A Fall in Average Rents in Edinburgh

Figures reported by Citylets in their Q4 2020 report have shown a -4.1% fall in average advertised rents in the Capital, the first fall in annual average rents since 2009. In a time of uncertainty, this fall has been met with consternation in some quarters. However, it is worth understanding the context and reasons behind the Q4 figures. First, to place this quarterly fall in context, over the past 10 years Edinburgh has seen average advertised rents rise by over +40% returning a +4.4% compound annual growth rate in the decade running up to 2020. Over the past 3 years, including the pandemic and the most recent fall, average rents are still up +6.8% and have returned a compound growth rate of +2.2% per annum. These figures could be considered surprisingly positive given the political and economic headwinds.

Secondly, it is worth understanding the unique nature of Edinburgh's rental sector, and this rise of short term lettings in the last six years. The pandemic closed down core areas of demand for this market, shifting some stock in to the traditional PRS. At Festival Time, there would usually be over 14k short term lets listed on major portals, these halved in 2020 and much of it went in to the long term PRS market. This was especially true as the pandemic extended beyond the initial months increasing revenue distress in the short term rental sector. In the most active rental markets (EH3, EH6 and EH7), stock levels in the traditional PRS were up around +15% for the year as a whole, with supply in some months in the second half of the year being twice that of a year earlier. The laws of supply and demand, combined with the

responsive nature of the rental market led to a price correction. A third and final thought, and maybe a silver lining. Unless you believe the end is nigh, then at some point travel, education, The Festival and in-migration will resume to more normal, if suppressed, levels. The strengths and diversity of the Capital economy, which has been its Achilles Heel during the pandemic, will become its Trojan Horse and support returning demand. After 10 years of rental growth, a pause in growth may also not be seen as a bad thing, especially against the calls for Rent Controls. The pandemic has essentially run a supply and demand experiment in the Capital and shown, as has been advocated for some time, that a significant increase in supply in stock would ease price pressures in the city without the need for political intervention. Perhaps something to dwell on as lockdown continues.

Edinburgh has seen a decade of rental growth



"An influx of short term lets into the traditional private rental sector, combined with suppressed demand from students, limited in-migration, and constrained market churn led to an annual fall in average rents in the Capital. However, the rental market is highly responsive and the strong fundamentals of the City will likely see an increase in demand as lockdown eases once again."



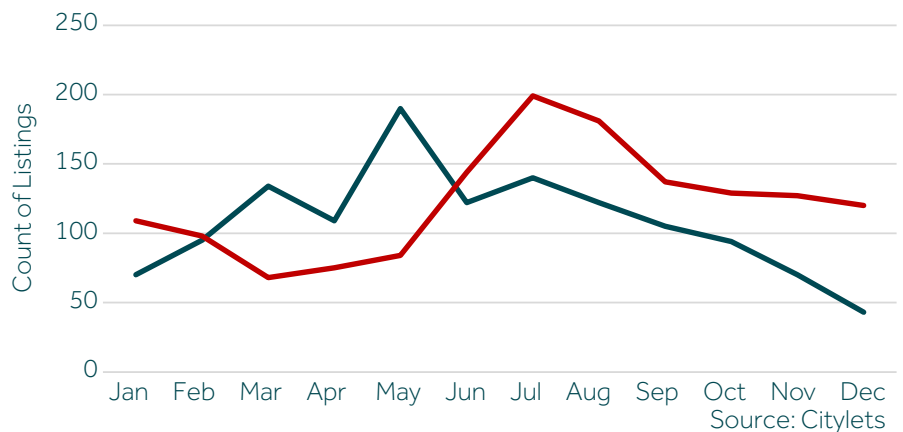
Karen Turner
Director of Lettings

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+13.7%

EH3: Rental Supply
2020 vs 2019

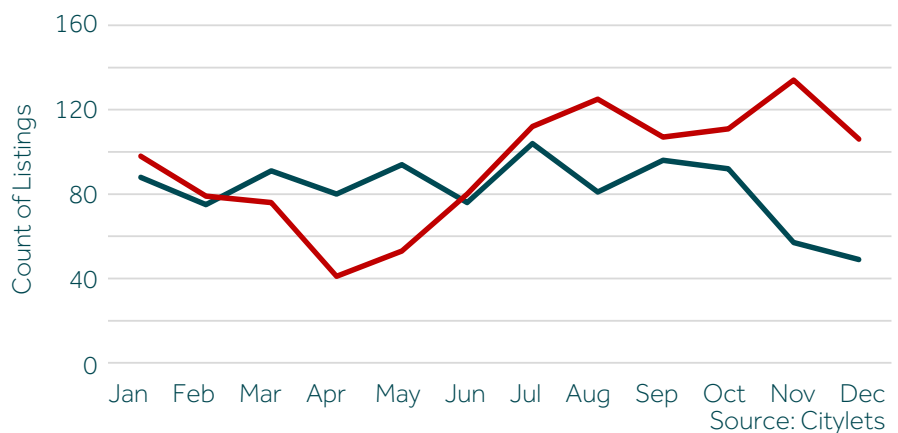
New Listings in EH3 by Month & Year



+14.1%

EH6: Rental Supply
2020 vs 2019

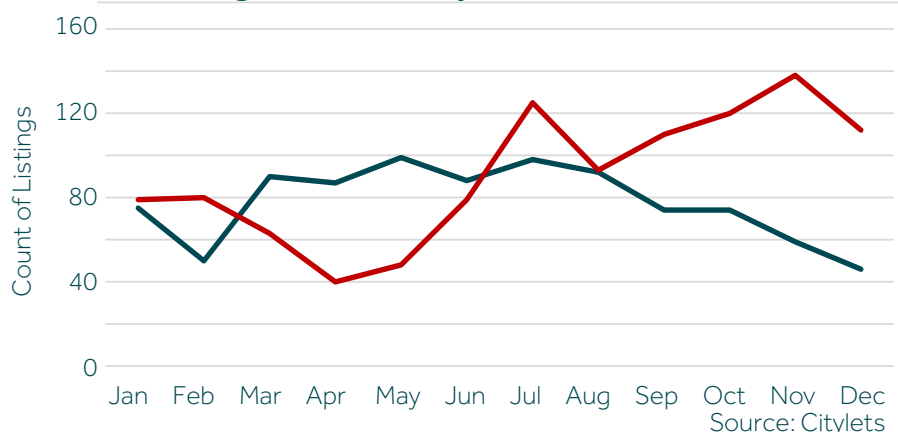
New Listings in EH6 by Month & Year



+16.6%

EH7: Rental Supply
2020 vs 2019

New Listings in EH7 by Month & Year



"While the short lets market has been severely impacted by Covid-19, working with our sister company Rettie & Co. Lettings, we have been able to minimise the downside for our client's during this unprecedented time. We have also taken this time to prepare for the return of short let demand, especially the first phase of staycations, so our clients are ready to make the most of market conditions."

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Rettie & Co. is one of the leading letting agencies in Edinburgh and Glasgow and has a growing portfolio of quality rental properties in many other parts of Scotland. We are approved on the Scottish Government Letting Agent Register and are a member of ARLA (Association of Residential Letting Agents). We provide a comprehensive range of services for Landlords and Tenants, all designed to streamline the letting process and provide exceptional value.

Build to Rent



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Our Build to Rent (BTR) team is at the heart of the private rented sector in Scotland, with almost £1bn in assets under management. We provide a comprehensive range of BTR services and have the research expertise, experience and network to make Build to Rent work north of the border.

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Our Consultancy & Research team is the largest in the Scottish Private Sector and provides a broad range of services to both private and public sector clients. Covering all parts of the Scottish residential market, the team provides clients with in-depth, reliable and up-to-date information that enables evidence-based decision making.