



## Supply Crunch

The rental market in Scotland has experienced a tumultuous past two years as the sector has had to react to events with more alacrity than the sales market. The pandemic lockdown forced many landlords to respond quickly to changes in demand as economic migration, student populations and the short-term lets market were all interrupted. In many locations, this led to an increase in supply in the market, with reduced demand forcing rents down. For some landlords, the combination of tax changes in the sector, increased and increasing regulation, and a strong sales market encouraged them to exit the rental sector, leading to a decline in supply. This decline continued a longer-term trend, which has seen PRS stock levels falling since around 2016. As demand reasserted itself after the worst of the pandemic was over, rents have risen, particularly in hotspot areas, due to the demand/supply imbalance.



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## Key Findings

Demand has returned to urban centres, causing average advertised rents to rise sharply after the pandemic, with Edinburgh up 9% in three years and Glasgow a stunning 26%.

Time to Let is currently at its lowest level in recent years, at 16 days in Edinburgh and 14 days in Glasgow.

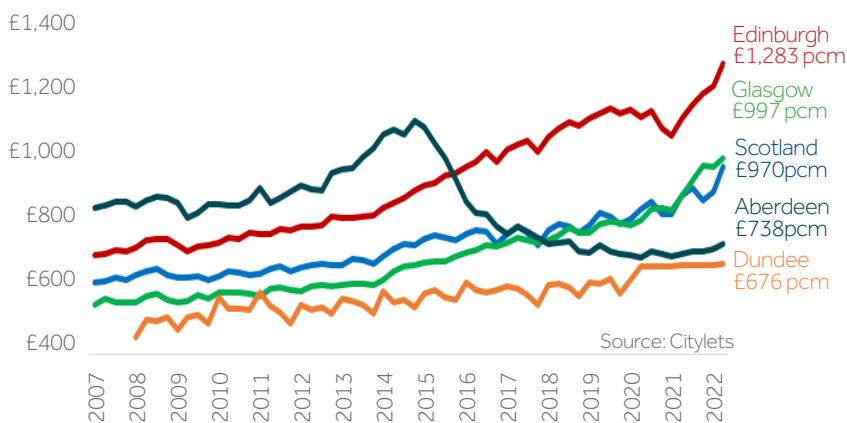
The cost-of-living crisis looks to be hitting tenants more acutely, with ONS figures revealing more rental households reporting issues meeting housing costs.

Further PRS and short-term let regulation may further restrict options for landlords, which may exacerbate the longer-term trend of falling supply and decreased housing choice.

# Rising Rents and Falling Time to Let

The combination of rising demand and reduced supply has meant that, from Q1 2021, average rents in the major economic centres have been rising again. In Edinburgh the average advertised rent is now over £1,200pcm, having been under £1,150pcm going into the pandemic. In Glasgow, the increase has been more pronounced. Before the pandemic, the average advertised rent in the city was under £800pcm but is now over £997pcm. This has meant that, while average rents in Edinburgh have risen 9% in the past three years, in Glasgow they have jumped 26%. This is not to say that the average rent has increased by this amount, rather it is the average of properties coming on to the market that have increased. Typically, advertised properties account for around 10-15% of all stock and evidence suggests that actual passing rents remain more stable. However, there is currently no definitive source for rents in Scotland. A further illustration of the change in the supply and demand balance in the market in recent years has been the average time a property takes to let. Over the course of the lockdown, both Edinburgh and Glasgow saw a pronounced jump in Time to Let (TTL), with Edinburgh reaching over 40 days and Glasgow over 35 days. In the latest figures, TTL has more than halved to 16 days and 14 days respectively.

Rental growth has returned to Edinburgh & Glasgow  
Average Rent by Quarter 2007 to Q2 2022



	Edinburgh	Glasgow	Scotland	Aberdeen	Dundee
Annual Change %	15%	13%	10%	4%	1%
5 Year Change %	24%	32%	23%	1%	10%
5 Year CAGR	4.3%	5.7%	4.2%	-1.3%	2.3%

Source: Citylets

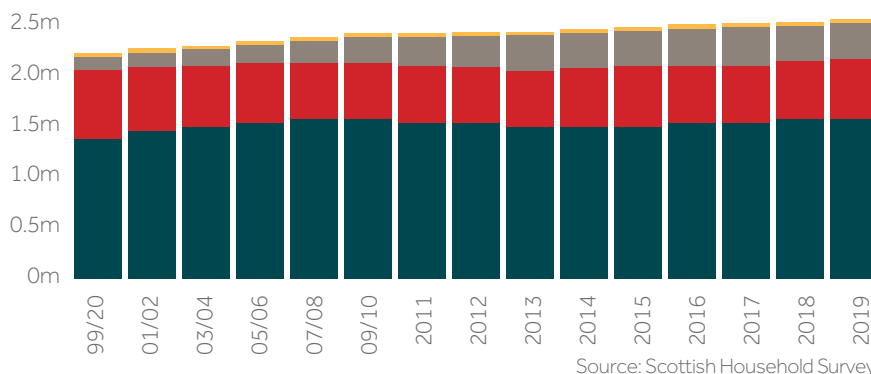
## But supply is falling despite these demand pressures

This type of demand/supply imbalance would normally be a strong signal for more supply to enter the market, but the opposite seems to be the case. The Scottish PRS peaked in around 2016 and is now shrinking, predominantly as a result of the impacts of tax and legislative changes as well as a strong sales market.

This can be seen in results from the Scottish Household Survey over time. The number of households in the PRS in Scotland peaked at around 370,000 in 2016 but is down at around 340,000 in the most recent figures and likely to fall further. The Scottish Association of Landlords (SAL) recently claimed that there could be a further loss of around 36,000 homes from the sector, mainly due to increasing regulation and perceived government hostility.

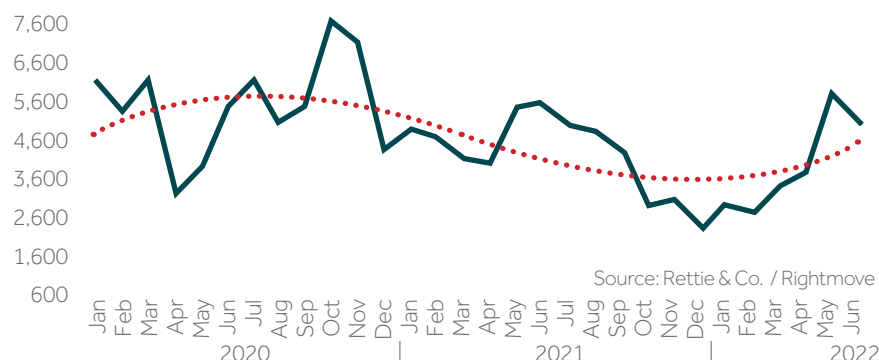
A similar picture can be seen on monthly letting listings, which are on a clear downward trend in Scotland since early 2020.

We seem to be past peak PRS despite increasing demand pressures  
Total Household Count by Tenure (Owner Occupier / PRS / Social / Other)



Source: Scottish Household Survey

Monthly lettings listings are on a clear downward trend since early 2020  
New Monthly Lettings Listings & 6-Month Rolling Total of Scottish Rental Listings



Source: Rettie & Co. / Rightmove

[SAL Warning - Insider.co.uk](#)  
[Scottish Household Survey](#)  
[Citylets Briefing](#)

## Further Change is Coming

The Scottish Government has taken a more interventionist approach with the PRS since Nicola Sturgeon became First Minister in 2014. The Private Housing (Tenancies) (Scotland) Act 2016 provided much greater security of tenure to tenants, with the ending of 'no fault' possession. The legislation also provides means to provide more predictable rents and protection for tenants against excessive rent increases and providing comprehensive and robust grounds for repossession that will allow landlords to regain possession. Many of these changes have been accepted by the sector and indeed seem now to be being adopted down south. However, we did express concerns about the inability of students and landlords to agree to fixed term tenancies and warned at the time that this would likely drive landlords from the student sector. The downsides of this inflexible approach are now evident in rental markets with strong student populations.

In alliance with its Green Party partners, the Scottish Government is committed to a further round of tenancy reforms, with the emphasis on tenant rights and including a firm commitment to a system of national rent controls by 2025. Although the full policy details are yet to be unveiled, it may act to further disincentivise landlords from operating in the PRS, with consequences for supply. Some of the proposals and responses to these in a consultation exercise have been published recently.

Another key change coming to the rental sector, which is most likely to impact Edinburgh acutely, is the increased regulation of the short-term rental sector. Edinburgh will become Scotland's first designated Short-Term Let Control Area after the Scottish Government approved the Council's proposed change to planning requirements.

A control area is intended to preserve the character of neighbourhoods, prevent short-term lets in inappropriate places or types of building, and help ensure homes are used to their best effect. With a few exceptions, changing the use of an entire residential home in the city to short-term letting will automatically require planning permission.

Where the change of a dwelling house to a short-term let took place before the designation of the control area, the existing planning rules will apply, which require planning permission for a change of use of property where that change is a material change in the use of the property.

Discretionary powers enabling local authorities to designate short-term let control areas came into effect in 2021. Separate legislation introducing a mandatory licensing scheme for all short-term lets in Scotland was approved earlier this year. From 1 October 2022, new hosts must obtain a licence from their local authority before

they operate as a short-term let. Existing hosts have until 1 April 2023 to make an application for a licence and can continue operating while their licensing application is being determined.

There has been a flight out of traditional PRS into short-term lets since the rise of Airbnb and other platforms since around 2014. This rise now seems to have levelled off and is probably in decline, especially post-pandemic, but the effects of this legislation will likely see a further curb in short-term let numbers. Some properties may revert to the traditional PRS sector, be sold or be used as second homes. Currently, it is difficult to be exact about the consequences of this shake-up in this market, but a significant reduction in the number of short-term lets available in Edinburgh as well as other tourist hotspots like Glasgow City Centre and Skye seems likely.

The more challenging conditions for small-scale landlords is likely to incentivise institutional investors in the Build to Rent (BTR) sector to increase delivery. While there are few operational units in Scotland, there is now a growing pipeline of over 11,000 units. However, BTR is also subject to higher levels of regulation in Scotland than it is in other parts of the UK and there are also concerns here about the direction of future legislation in Scotland, especially around rent controls, which may act as a barrier to more growth.

## Renters will likely be harder hit by the cost of living crisis

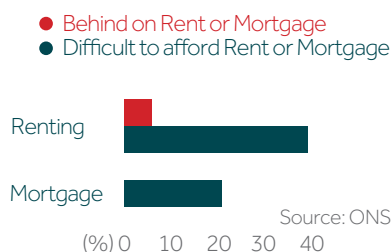
On the tenant side, there can be no doubt that inflation and the cost of living and energy crisis, as well as the increased cost of borrowing, are going to reduce buying and renting power in the market. The recent Office for National Statistics (ONS) [Opinions & Lifestyle Survey](#) shows that renters are more likely to have financial difficulties than mortgagors, with nearly 40% of renters

stating that they are finding it difficult to afford their rent compared with around 20% of those with mortgages.

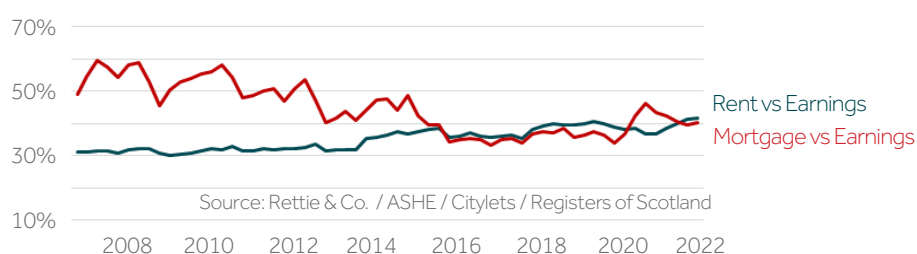
This will likely worsen given rising rents, particularly in hotspots like Edinburgh, where the average advertised rent is now over 40% of average earnings, compared to around 30% at the time of the GFC.

While the low cost of borrowing in the last 15 years has meant that mortgages have become more affordable for those able to raise a deposit (and to purchase rather than rent), the rising cost of borrowing is likely to spell the end of this level of cheap finance. With house prices remaining relatively high, more renters will have less choice to move tenure and will probably have less choice in renting.

Adults Currently Paying Off a Mortgage or Rent in GB, 16-27 March 2022



Cost of Average Rent as % of Average Earnings in Edinburgh vs Cost of Mortgage for Average House Price as % Average Earning, 2007-22





# Properties to Let



Wester Coates Road,  
Edinburgh, EH12  
£3,750 pcm  
5 Bedrooms



Rothsay Place,  
Edinburgh, EH3  
£1,750 pcm  
1 Bedrooms



London Street,  
Edinburgh, EH3  
£1,600 pcm  
3 Bedrooms



Gaffney Gardens,  
Haddington, EH41  
£2,500 pcm  
5 Bedrooms



Queens Gardens,  
Glasgow, G12  
£2,200 pcm  
3 Bedrooms



Hyndland Avenue,  
Glasgow, G11  
£2,100pcm  
2 Bedrooms



Castleton Drive,  
Newton Mearns, G77  
£1,100 pcm  
3 Bedrooms



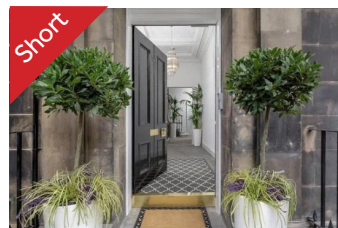
Allanbank Gardens,  
Lauder, TD2  
£2,200pcm  
5 Bedrooms



21 North East Cumberland St  
Edinburgh, EH3  
Short & Festival Let



Meadowbank Lodge,  
Edinburgh, EH8  
Short & Festival Let



Rutland Square,  
Edinburgh, EH1  
Short & Festival Let



Hart Street,  
Edinburgh, EH1  
Short & Festival Let

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