

Renting by the Room A Guide to Maximizing Property Returns



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**THE UK'S
MOST VISITED
FLATSHARE SITE**

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Generation Rent

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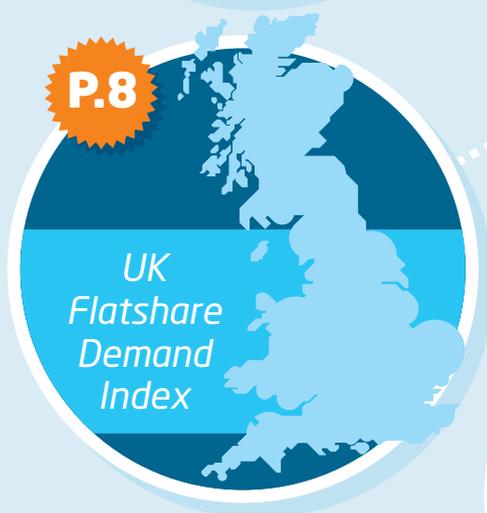


Case Study

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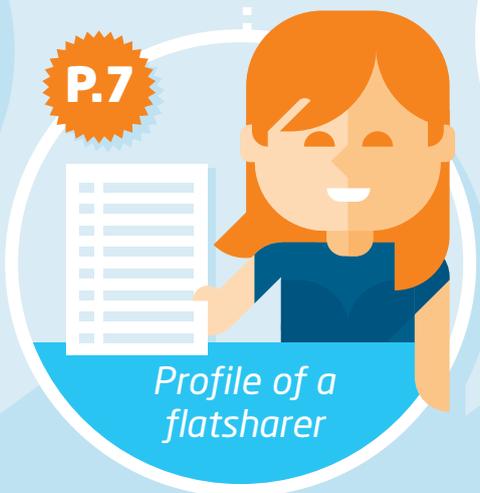
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Introduction

Whether you're looking for your rental property to provide you with a day to day income, a retirement fund or just a more comfortable lifestyle, it's natural to look for ways to maximize your return on investment.

Property investment gurus and estate agents make lots of noise about the growth in house prices and the money to be made from investing in property. But they rarely mention the single

biggest factor in increasing your profitability from renting - renting it out by the room. In many cases, properties let this way can bring in two to three times the income of the same property let as a single unit.

To discover how much renting by the room will increase the profitability of your rental property, read on...

READ ON

Generation Rent

TO LET

Young people expect to be renting for longer, with their ability to save for a deposit hampered by high rents and higher deposit demands by mortgage lenders.

The average first time buyer is now 30. Research from Moneysupermarket.com has revealed that today's renters do not expect to purchase their first home until they are 38 years old. Most will need help from their families.

"By 2016 we estimate that one in five households - or 5.9 million households in England will be renting in the private sector. ...the shift to private renting has accelerated since the credit crunch, thanks to constrained mortgage finance and the significant deposit hurdle for would-be home owners," according to the Rightmove & Savills' Special Report on Rental Britain.

As they rent, they struggle to save. Rents have approached an affordability ceiling. A Rightmove study from 2012 shows the average UK tenant spends 38% of their wages on rent. In the South East and London this jumps to 41% and 40% respectively.

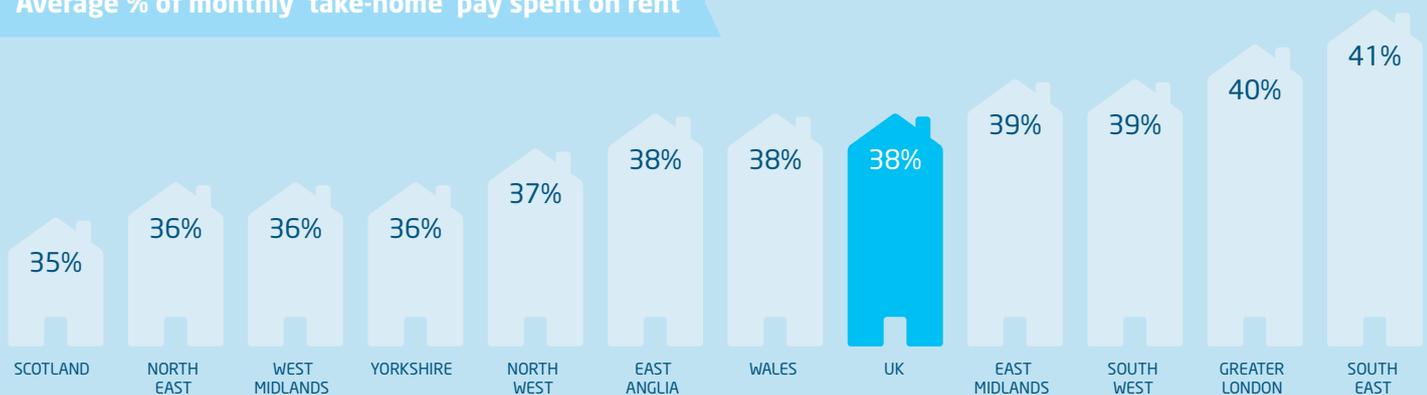
£5.9m

Estimated no. of households in England that will be renting in the private sector by 2016

38%

of wages spent on rent, by average UK tenant

Average % of monthly 'take-home' pay spent on rent



A third of all tenants claim that more than half of their monthly take-home pay is swallowed up by the cost of renting. In London, 16% of tenants spend more than 60% of their net income on rent.

The most effective way to save money on rent without moving to a cheaper area is to share a property.

16% *of tenants in London spend more than 60% of their net income on rent*

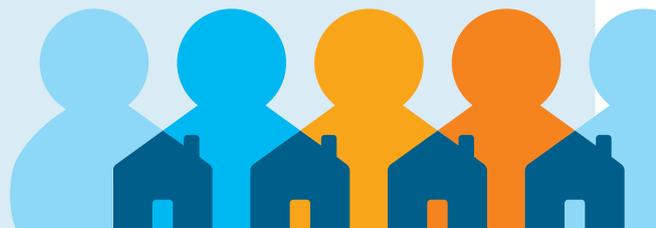
The Growth of Flatsharing

Demand for flatshares has increased massively since 2008 due to economic factors as well as government policy. Lack of credit for house purchases has been the most obvious factor, along with the change in housing benefit rules. From January 2012 this meant that under 35s receiving an allowance will only be covered for a single room in a shared house, rather than their own one-bedroom flat. This, together with the priced out generation of prospective home-owners, puts pressure on the limited supply of shared housing.

"Home ownership is little more than a dream for most young professionals today. Add to that rising rents and you're left with a landscape in which, for many, sharing is the only viable option. More young people are sharing, and sharing for longer. On top of that we're seeing an uplift in the number of older people sharing who simply can't afford to rent on their own. For some this marks a return to sharing - for others it's a rude awakening. Whatever the reason the demand for rooms has never been higher,"

Matt Hutchinson, director of SpareRoom.co.uk

SpareRoom.co.uk is the UK's leading flatshare website and with a market share of 60%, offers a true insight into the growth of flat-sharing. Searches for rooms to rent took off in early 2008 and have been on a steady growth pattern since. Visitors to the site have more than doubled in the last 2 years alone and appetite for our daily alert emails has grown 28 fold since August 2011. Spareroom now has around 1 million unique visitors every month, making it the 5th biggest property website in the UK (as independently assessed by Experian Hitwise). We now have more than 3 million customers



The Joseph Rountree Foundation report on housing, June 2012 stated *"In 2008, one main pathway into private renting emerged. Approximately one million 'young professional renters' left the parental home and entered the Private Rental Sector, where they remained for some time. Most had qualifications higher than A-level standard and they shared accommodation. ... The most significant change is likely to be increased competition for PRS accommodation from young people unable to access home ownership or social rented accommodation."*

Flat-sharing is seen as a flexible and affordable solution for many people. Whilst 48% of renters say they'd be happy to rent longer term, almost one in five (18%) think they'll never be able to buy.

48%

of renters say they'd be happy to rent longer term

The Benefits of Renting by the Room

The three main benefits are...



Increased yields



Decreased risk of void



Zero agent fees

1 Let's talk about yields

"The average gross income yield across the UK is 5.8%, a figure that rises to 7.7% for investors able to secure discounts through bulk purchases," according to the Rightmove special report on Rental Britain.

Compare that to 8-12% for houses let by the room, with gross yields of up to 20% possible. This is of course very attractive in the current low yield environment, and with high inflation rates in particular.

Alistair Lawes, a Birmingham landlord has an income of £2200 a month from properties marketed as multi-lets, which would ordinarily command a rate of £950 a month as a single let, increasing his yield by 132%.

Property that produces a high yield has a lower market value, and is therefore cheaper to invest in. This type of investment appeals to those looking for a good regular income, as opposed to relying on stratospheric house price increases, which seem to be unpredictable in the current climate, especially outside London.

UK average gross income yields:

5.8%

UK AVERAGE
BUY TO LET

7.7%

BULK
PURCHASES

20%

LET BY
THE ROOM



2 Avoiding the void

When your property isn't let out, you're not making any money, but the costs of servicing your debt don't go away. That's why it's essential to avoid void periods. Waiting for the ideal family or couple to turn up and move in may take some time, and if they decide to move on, you're stuck with no rent coming in again till you find replacements for the whole property.

When you rent by the room, you reduce the risk of having the whole thing empty. If one tenant leaves, you still have a reasonable income from the remaining tenants until you replace them. With the demand for rooms to rent on the increase, it's unlikely you'll be left hanging on for long. Many SpareRoom advertisers have been staggered by how quickly their rooms were let, with many reporting it gone within 3 days.

"Bravo! I found the perfect person for my room to let the very next day! I have just placed another ad with you for another property - your ads seem to really work! Thank you!"

S Webb, SpareRoom user



AGENCY FEES X

3 No Agency fees

The most common gripe you'll hear amongst both tenants and landlords is the issue of agency fees. Whilst many continue to pay, there is a strong undercurrent of resentment, and disbelief at what some agents actually do to earn those fees.

Few agents are interested in room rentals, as they aren't as lucrative for them as whole property rentals or sales. It does require a little more work on the landlord's part to get to grips with renting by the room at first, but it will save hundreds if not thousands in fees.

The ease of advertising rooms on the internet and immediately reaching interested prospective tenants is being discovered by landlords all over the country. →



**ROOM
TO RENT**

*"Advertised room
in shops, local rag,
etc. No joy!..."*

*Advertised on SpareRoom and had 5 responses in 3 days.
I mailed back 1st person and he moved in 5 days later...*

Of course Agents do provide other services, such as tenancy agreements, credit checks and holding deposits on behalf of tenants. But these are all very easy to do yourself, and SpareRoom offers resources to help you with all of them. So isn't it time to think about becoming independent and really maximizing the profits from your rental property?

If you're going it alone for the first time, we'd recommend attending local property networking events and joining a landlord association (either the NLA or RLA), which give you the opportunity to meet and talk with other people going through the same experiences as yourself.

Landlords can advertise their property as well as make direct contact with thousands of 'room wanted' advertisers for a weekly charge of under £10 - or £20 for a month. Compare that to 10-15% of your annual rent that Agencies will often charge to find you a tenant. SpareRoom's monthly pricing option gives you the added benefit of a money back guarantee.

Whilst many landlords use agents to field enquiries and arrange viewings, delegating this job means you've less chance to use your skills to sniff out the good tenants and develop relationships with them from the outset. Doing your own viewings does take time, and this is often outsourced to an agent. But nobody knows the ins and outs of your property better than you, so who better to show it off in its best light?

*...Brilliant, hassle
free and will use
again for future
rooms... Cheers"*



*K Pople,
SpareRoom user*

Profile of a Flatsharer

So who lives in a shared house or flat nowadays?

The typical UK flatsharer has changed significantly since the late 90s, when it was fairly uncommon to share a flat into your professional working life, except in London.

Today's flatsharer is likely to be...

AGED 25-35

though the age range is currently rising.

According to Rightmove's report "Over a quarter of trapped renters are over the age of 40". SpareRoom figures show that the over 45s are the fastest growing demographic amongst sharers, growing 101% since 2009.

Female (51%)

Professional (79%)

Earning £25-30K

Sharing with strangers

Typical UK Flatsharer

Source: SpareRoom Data

According to the Joseph Rowntree Foundation report on Housing options and solutions for young people in 2020, published in June 2012, "Around 1.5 million more young people aged 18-30 will be pushed towards living in the private rented sector in 2020, reflecting growing problems of accessing both home ownership and social renting."

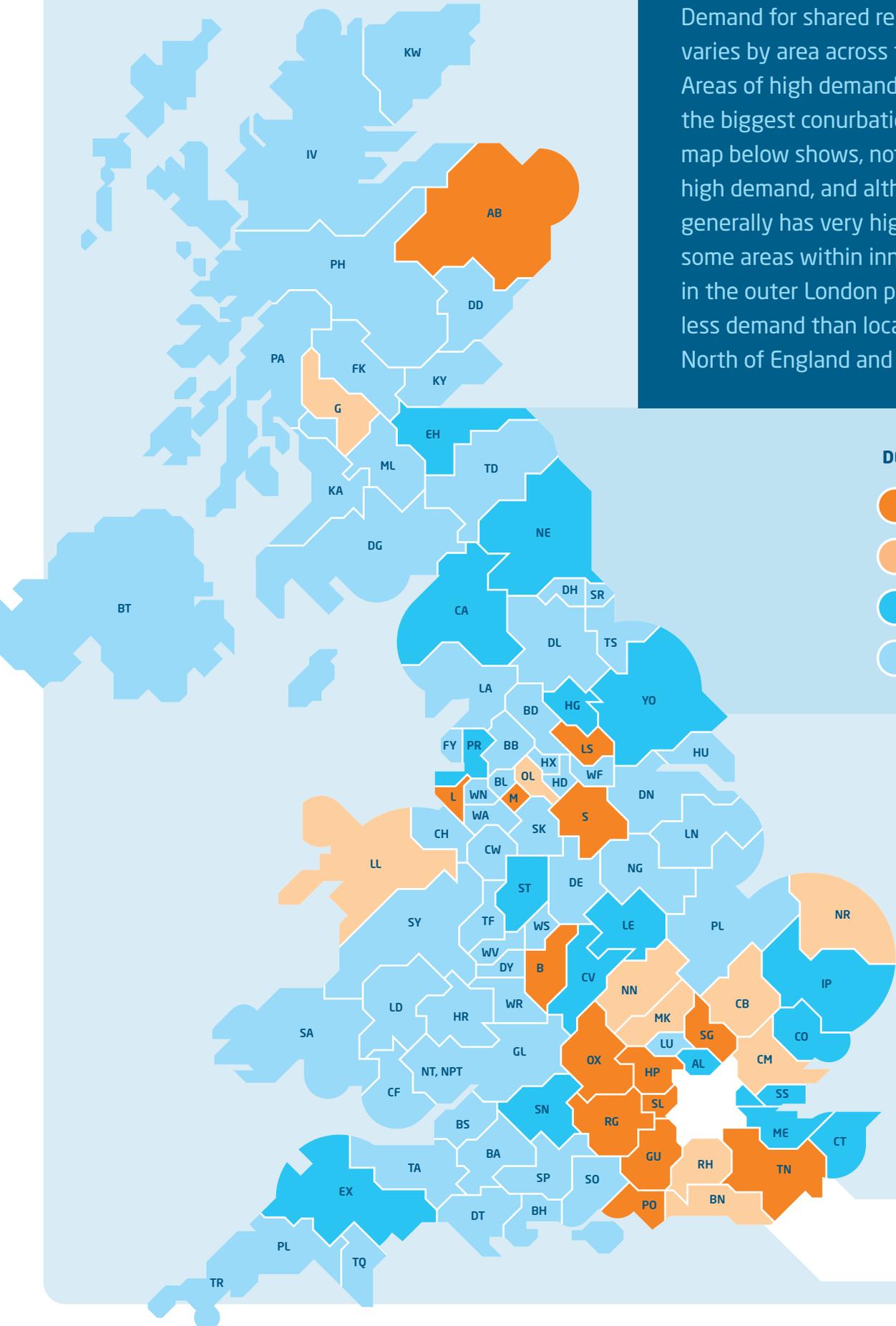
"The number of young people living in their own private rented sector (PRS) tenancies in 2020 is predicted to increase by approximately 1.3 million to 3.7 million."

Whilst young professionals are sharing for longer, they are not willing to compromise on comfort or style. Long gone are the days of Rigsby-esque landlords offering shabby digs. Today's professional sharer wants a comfortable home they can be proud of. Popular properties feature designer furniture, flatscreen tvs, broadband and stylish kitchens where sharers can host dinner parties. Quality properties such as these can often be let at a premium.

ROOMS WANTED

UK Flatshare Demand Index

Demand for shared rental housing varies by area across the country. Areas of high demand tend to be in the biggest conurbations but as the map below shows, not all cities have high demand, and although London generally has very high demand, some areas within inner London and in the outer London postcodes have less demand than locations in the North of England and Scotland. →

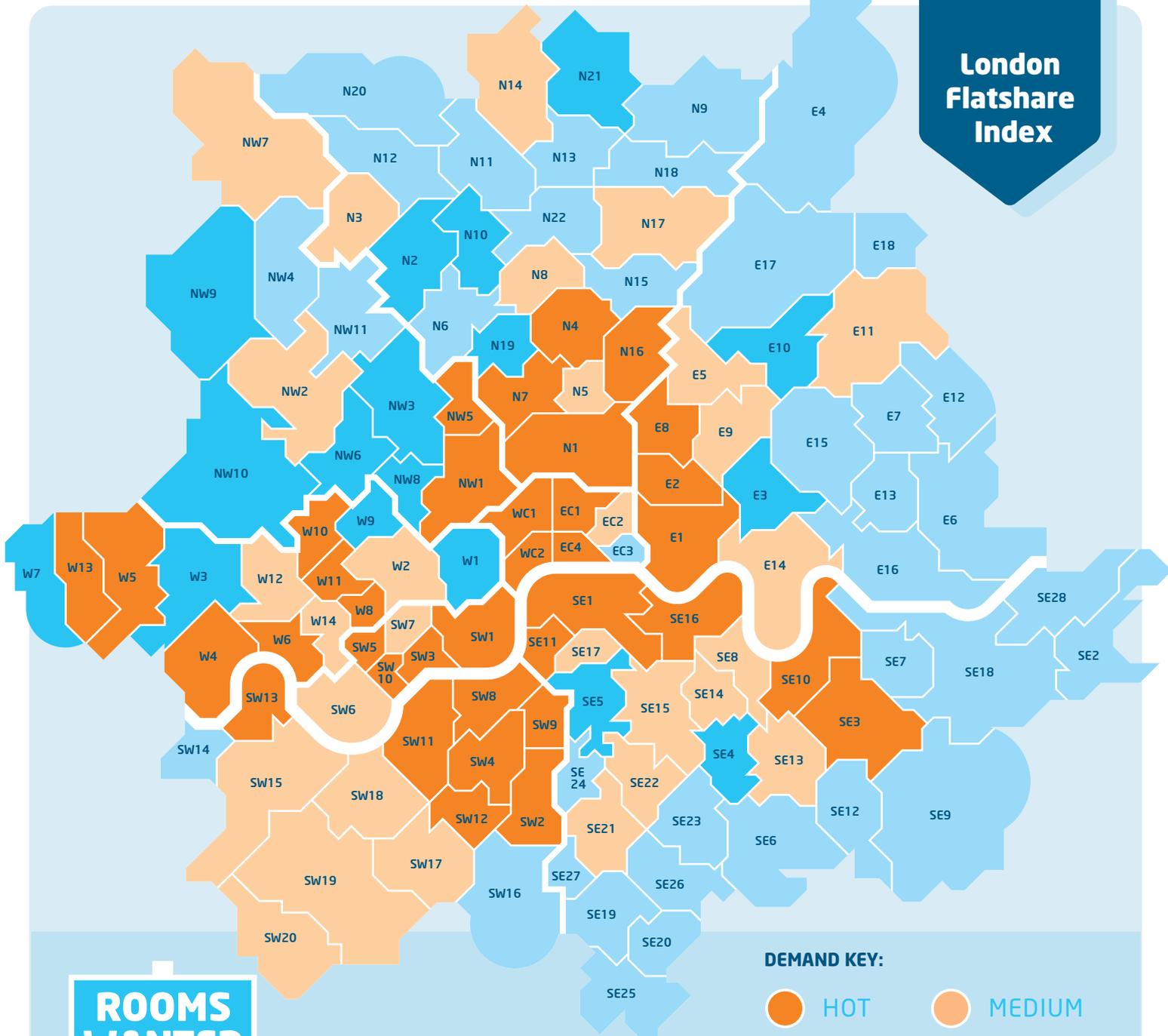


DEMAND KEY:

- HOT
- MEDIUM
- MILD
- COOL

London Flatshare Index

London Flatshare Index



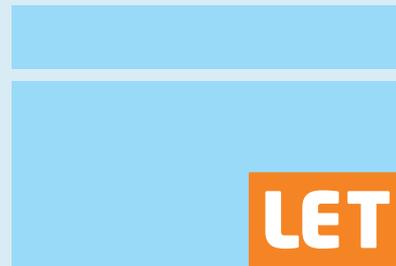
ROOMS WANTED

For a more detailed assessment of demand by area, you can browse the Room Wanted ads on SpareRoom. These should give you an idea of how popular an area is compared with others nearby, what kind of budgets motivated room seekers have available, and the profiles of these seekers.

Remember though, that not every room seeker needs to place a Room Wanted to use

SpareRoom, so you'll only be seeing a fraction of the demand. Only once you place an advert will you get a full picture of who is interested. You can also search Room Offered ads to see the rent being asked for similar properties in an area, and use it to compare room amenities and descriptions to understand the local rental market. You can also download the latest SpareRoom Rental Index to assess demand by post town.

The Property Expert who only rents to Professional Sharers



Gary's been in the property business for over 10 years and runs Padshare, a lettings service on a room by room basis in Manchester. He tells us why he's so enthusiastic about renting by the room.

"Basically, you can charge more in rent. Each two bed apartment has a yield of around 16% more when we let them to sharers".

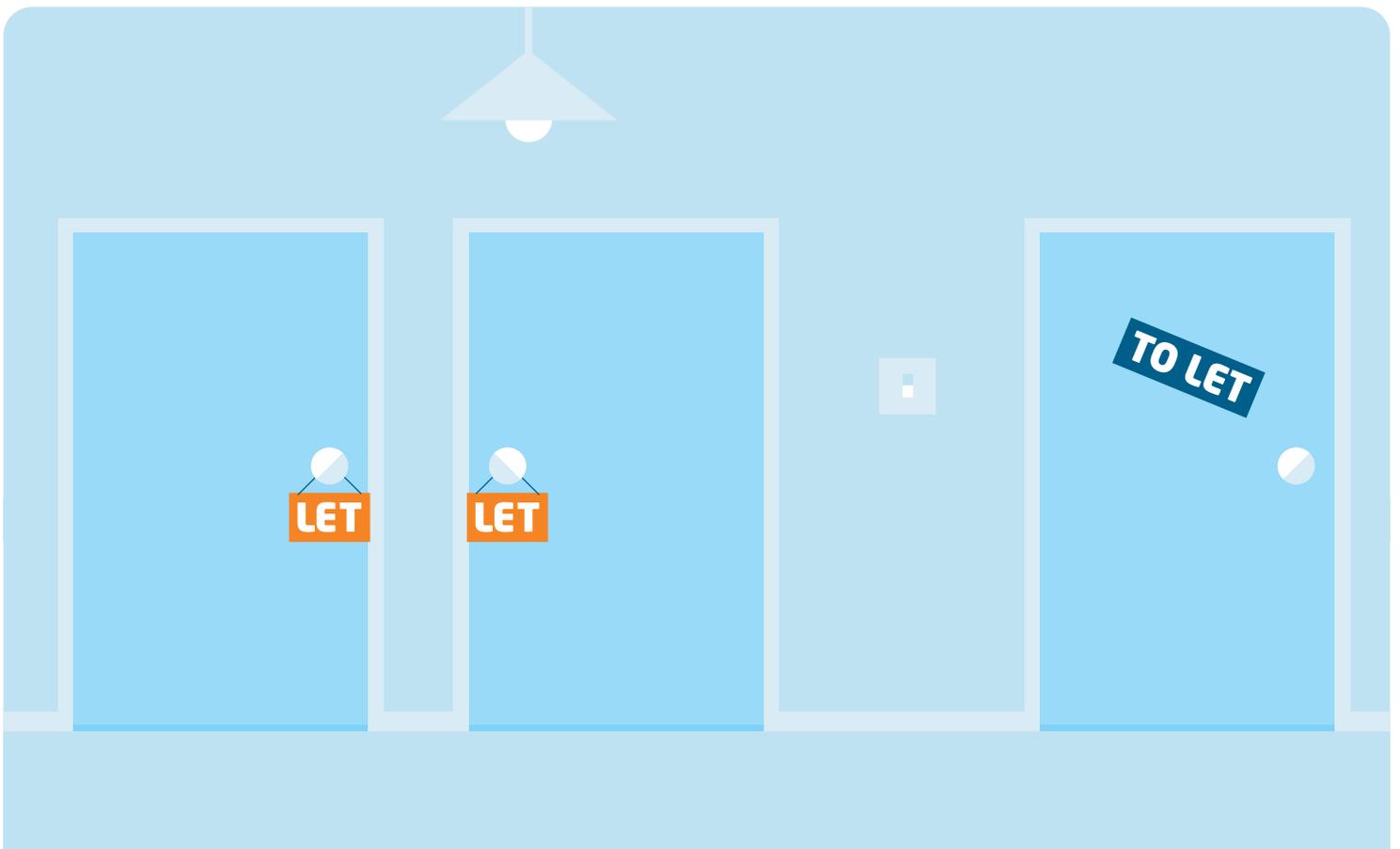
Gary always lets rooms on an all-inclusive basis, to keep things simple. There are then no arguments over splitting the utility bills between the tenants, and whilst the actual costs may vary between summer and winter, it evens out over a year. And to prevent crazy heating bills being racked up, there's a ceiling on the inclusive amount, above which the tenants know they'll be liable.

Gary's properties are all in Manchester City Centre, which attracts a young and vibrant

"Renting rooms to young professionals makes good business sense"

~ Gary Hymanson, Padshare, Manchester

type of tenant. *"They tend to be between 23 and 35, and all working in very professional jobs - bankers, lawyers, consultants, engineers, IT professionals, architects and accountants. Whilst they're young and making their first few steps along their chosen career paths, they need the flexibility that sharing gives them, and renting a one-bed apartment often proves just beyond their budget".* That's if they can find a one-bed, as very few are available - developers tend to prefer to build two-bed apartments in much bigger numbers. →



“There’s definitely a social aspect”, says Gary, “3 bed properties are very popular amongst sharers but quite rare. Most of the portfolio is made up of 2 beds which our tenants are very comfortable with”. He advertises all his available rooms on SpareRoom, and carefully selects from the pool of respondents those he feels would best suit the mix of existing tenants in each property. It’s important for him to get the age and gender balance right, and even gives his existing tenants first refusal on their new flatmates. *“They can turn down up to two of the flatmates I propose to them, but beyond that I have to put my foot down. Tenants rarely refuse to meet my recommended flatmates. They understand they were once in the same position plus they trust my judgement”.* There’s so much demand that he has the luxury of being able to select his tenants very carefully, so there aren’t many issues with the flatmates not getting on.

Another benefit that he’s keen to point out is the general lack of void periods. It generally takes less time to rent out a room than a whole property, and in the meantime you’ve still got rent coming in from the other tenant.

Whilst there’s a shortage of smaller properties for young professionals to rent individually, there’s always going to be demand for flatshares and Gary’s happily turning that demand into a thriving business. *“Generally my tenants are all on 6 month AST’s but if someone wants a short let of say 3 months, we charge them a bit more.”* The young professionals he lets to tend to stay at least a year before their career or life choices take them elsewhere. Then he’ll be advertising the room on SpareRoom again, to find suitable replacements.

How to find out more



There is further information on renting by the room in our Landlord information section on the SpareRoom.co.uk website.

RENTING BY THE ROOM



[Click to visit now >>](#)

Get started with a

10% discount

To get started as a SpareRoom advertiser, visit the site now and enter offer code:

RBTRG

to get 10% off your first upgrade package, including bold advert and early bird access. Offer valid until end Sept 2013.

We hope this guide has piqued your interest in renting by the room and maximizing your property yield.

