Consumer Data Research Centre

An ESRC Data Investment

CLUTTONS

A hedonic regression analysis of prime Central London rental values, and what implications this may have for the future demand and rental values of the Battersea & Nine Elms development

Alex Jones[1], Elena Besussi[1], Faisal Durrani[2] and Kseniya Savelyeva[2]
[1]University College London, [2]Cluttons

Project Background

This study assesses the characteristics of the prime Central London (PCL) rental market and explores which variables affect the value of the weekly rental price using hedonic regression analysis. From this, the aim was to use the results to provide insight into how the rents and demand of the Battersea & Nine Elms (B&NE) development may change.

Understanding the property characteristics allows for a valuable assessment of what amenities are desired the most amongst renters. This may aid one with answering whether or not the new build stock can attract the growing demand in the Central London area and disrupt the PCL rental market.

Data and Methods

To investigate as to which variables affect the weekly rental price, hedonic regression analysis was utilised. The variables being assessed were size of the general floor area in square feet, the number of bedrooms, the accessibility index (Underground stations per square kilometre), park index, new stock (properties built from 2012-2018), Underground journey time in minutes to Canary Wharf, and Underground journey time in minutes to Bank (City of London).

The time frame for the sample was July 1st 2017 – June 31st 2018 so that the effects of time-variant variables, such as the recent changes in BTL legislations, inflation, interest rates, Brexit, and growth in incomes, were able to be minimized. Cluttons and LonRes data were utilised and 6,531 lettings were collated for the observed sample. This is around 58% of the total number of agreed lettings during this period.

A log-linear form of the dependent variable is used in this regression analysis, so the coefficients formulated are able to be more easily understood as the approximate percentage change in rent given a change in the independent variable. Another is that using the log form allows the model to avoid the issue of heteroskedasticity. Lastly, the semi-log model accommodates the variation in the pound '£' value of a specific characteristic, so that the price of one component depends on the property's other features and characteristics.

Key Findings

The model was hugely insightful when assessing the impact of commuting times to central business districts on rents, an under researched area. This is hugely helpful in predicting impacts that Crossrail and the Northern Line Extension may have on rents. Additionally, properties with more Underground stations per square kilometre also may increase the rent.

Being in proximity to a large park demanded an increase, representing that there is demand for green open space close to a property. B&NE will likely benefit from this due to being close to Battersea Park and also its instalment of a linear park.

Based on the hard data we found that new build properties charge a considerable premium on rents, signifying that renters have high desire for new build amenities such as all-inclusive rents and modern installations. The average new build rents in B&NE are approximately 30% less than those in PCL. This leads one so assume that the site will attract growing demand, especially when the northern line extension opens in 2020.

Interestingly, the model calculates that size resulted in no negative or positive impact on the rent. Also, an additional bedroom may not lead to a high increase as predicted. This shows that location and the level of modernity were the pivotal factors and general floor space is no longer a key characteristic.

Value of the Research

This study exposed key PCL property characteristics and the effects they have on the rental value in quantitative form. This research will be hugely beneficial in helping to eliminate information asymmetries between landlords and agents when agreeing a rental price. Furthermore, it provides a useful insight into how these findings may translate to the B&NE development, due to its close proximity to the PCL submarkets. From this, forecasts of its impact can be calculated and assessed.