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The missing middle: London's rental crisis

Introduction

London's economic success is reliant upon its ability to attract and retain talent. Yet a structural crisis in its housing market is quietly eroding that foundation. For a growing cohort of young Londoners — including many of the key workers who keep the city running — finding an affordable home within reasonable reach of work has

become untenable. This group sits between two markets that no longer accommodate them: earning too much to qualify for social housing, yet too little to afford much of London's private rental stock at any meaningful proximity to their place of work. They are the city's missing middle.

In this report we look at three solutions that unlock genuinely affordable supply for the squeezed middle:

01

Site viability

Increasing flexibility on affordable housing requirements from 35% to 20% helps, but many sites still won't be deliverable. Emergency measures should continue lowering thresholds until stalled developments deliver homes, acknowledging the role of small 'a' affordable rental housing for young Londoners.

02

HMOs and room lets

Letting a room remains the most accessible option for many London renters, yet supply is shrinking. Council tax reform, streamlined licensing and institutional investment could scale professionally managed shared housing.

03

Unit size and efficiency

Current space standards prevent efficient smaller flats being delivered. Allowing a simpler co-living model - compact studios without expansive amenities - could deliver genuinely affordable homes for workers who are otherwise priced out of London's rental market.



A perfect storm: The economics of ‘generation rent’

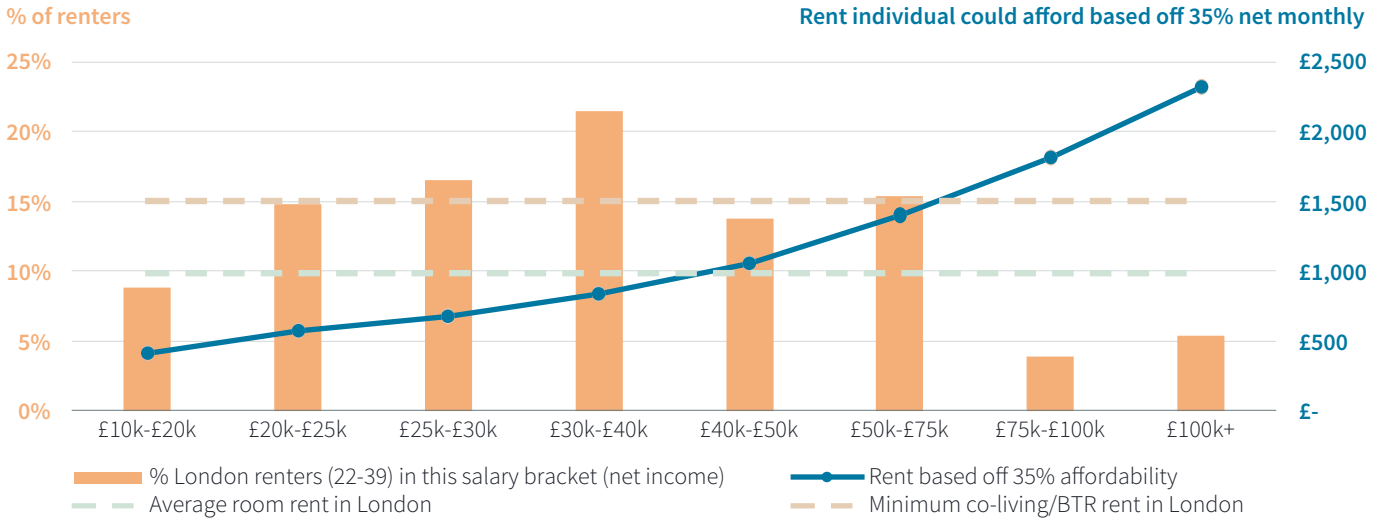
Over the past two decades across London, owner-occupation has fallen from 57% of households to under 50% today, while the Private Rented Sector (PRS) has doubled its share. This profound shift means renting is no longer a transitional life stage, but a longer-term reality for a growing number of Londoners.

Since 2015, London rents have grown at approximately three times the rate of entry-level salaries. It is now common for young Londoners to spend 40-45% of their gross income on rent, far exceeding the widely accepted affordability threshold of 30%. Government private rents data shows that to rent the average priced home in the most affordable London borough Bexley would require an income of £61,200 at 30% affordability

or almost £46,000 at 40%. In eight London boroughs tenants would need an income of more than £100,000 to rent an average priced property at 30% of income. Compare this to tenant income data and the widening gap is clear, with one in four London tenants earning less than £30,000 a year, and 60% earning less than £50,000.

This means for most young tenants, renting a home to themselves remains unattainable. But even those simply renting a room are facing an affordability crisis. Average rents for a room in a shared house now exceed £1,000 per month in 40% of London postal districts, according to data from Spareroom. Even in the E12 postcode, listed as having the lowest average room rents in London, rents exceed £740 a month.

Even renting alone has become unattainable for many young Londoners: 90% of 22–39-year-olds cannot afford to rent a home by themselves.



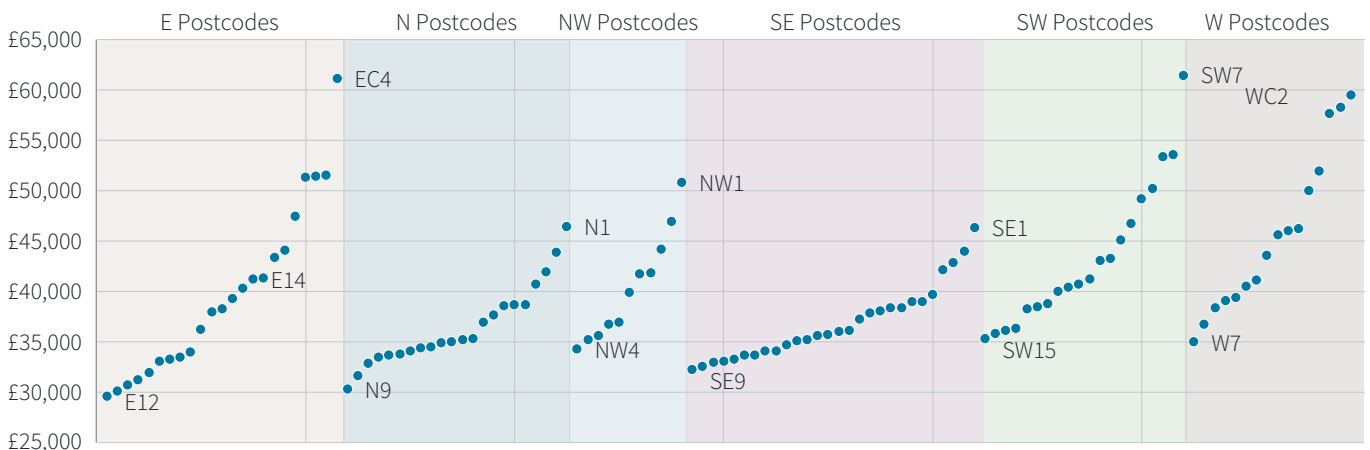
Source: JLL Research using Spareroom

Transitioning out of the PRS to home ownership is no longer a realistic prospect for this cohort either. The average first-time buyer deposit in London now exceeds £125,000 (Halifax/UK Finance, 2025), while tighter mortgage affordability rules introduced in 2014 limit most lenders to writing only a small share of mortgages above 4.5 times income. Even renters

earning meaningfully above the borough averages cannot translate their saving capacity into a purchase within a reasonable timeframe; recent industry analysis suggests a typical London renter would need close to 30 years to accumulate a deposit at current saving rates.

To rent a room in London needs a salary of more than £30,000

Gross income required at 30% affordability ratio



Source: JLL Research, Dataloft Pricehubble - Individual renters in London aged 22-39

Rent vs. Travel cost dilemma

The conventional wisdom that moving to outer zones or outside London saves money is not as clear-cut as it appears. Lower rents are quickly eroded by commuting costs with the benefit

generally reversing as you move outside the zone 6 to commuter towns. Although offering limited savings the lowest overall cost is generally achieved by living between zones 3-6.

North

Area	Zone	Room rent	Travel cost	Total pcm
Camden / St. Pancras (NW1)	Zones 1-2	£1,229	£172	£1,401
Kentish Town (NW5)	Zones 1-2	£1,067	£172	£1,239
Southgate (N14)	Zones 1-4	£865	£247	£1,112
Barnet (Outer)	Zones 1-5	£850	£293	£1,143
Hemel Hempstead (LNWR to Euston)	beyond Z6	£717	£528	£1,245

West

Area	Zone	Room rent	Travel cost	Total pcm
Hammersmith (W6)	Zones 1-2	£1,086	£172	£1,258
Ealing (W5)	Zones 1-3	£980	£202	£1,182
Uxbridge	Zones 1-6	£760	£313	£1,073
Maidenhead (Elizabeth Line)	beyond Z6	£733	£465	£1,198

The PRS is shrinking

While demand rises, supply is contracting, and at pace. Regulatory and tax changes over the last decade, culminating in the Renters' Rights Act, have driven a sustained landlord exodus from the PRS. Our latest JLL Landlord Survey shows landlords were five times more likely to be selling up than expanding their portfolio this year.

Simultaneously, the stock of Houses in Multiple Occupation (HMOs) — historically the most

affordable option for young professionals — is in decline as stricter licensing and standards bite. Government figures show the number of private rented homes in London fell 6% in the latest annual data. The market is shedding affordable stock faster than it can be replaced. With the Renters' Rights Act now in force, this reset is happening whether London plans for it or not; the only open question is whether institutional supply can rise fast enough to fill the gap left behind.

Limited delivery and a widening gap

New housing supply is only partially addressing the problem and is doing little for the people who need it most. London is seeing a mere trickle of new starts because of the wide-ranging issues facing the residential development sector, and the homes that are being delivered do not cater to the mass market where the crisis is most acute for young professionals. JLL latest report Fixing London's New Homes Market highlights the delivery challenge, with private housing starts (6,325 in the last 12 months) falling far short of the 88,000 all tenure housing need target.

Some of the challenges facing the sector — including high build costs, gateway approvals, swap rates, funding pressures and S.106/CIL requirements, to name just a few — mean that

in general, Build to Rent (BTR) and Co-Living developments need to target higher-earning professionals to remain financially viable for developers. These products sometimes include amenities such as gyms, co-working space, cinemas and concierge services to support pricing and attract tenants. This market positioning, coupled with limited supply versus strong demand for new rental homes, results in studio BTR apartments and co-living units in London's Zone 2-3 commanding rents between £1,500 and £2,800 per month, pricing out a large proportion of renters in London.

The result is a clearly defined market failure. Our analysis shows that of the approximately 2.7 million private renters in London, almost

900,000 are single private renters. But based on one salary more than 60% cannot afford the cheapest new-build co-living or BTR studio currently available, representing half a million people unable to access affordable,

purpose-built rental homes. Narrow this down to young professionals (22-39) in the capital, and this figure rises to 90%.

An economic and social imperative

This is more than a social issue; it is a direct threat to London's economic competitiveness. One in three London businesses report housing costs as a significant barrier to recruiting junior staff (CIPD). The estimated cost to a business of replacing a junior employee driven out by housing costs is £3,000–£5,000, and a growing number of firms are relocating functions out of the capital as a direct result.

Beyond the economic impact, the mental health toll is significant. Renters are 2.3 times more likely than owner-occupiers to report housing-related anxiety, driven by insecurity, poor conditions and financial stress according to research by the Mental Health Foundation.



Towards a solution: Policy repair and innovative thinking

The crisis facing London's young professionals is structural and will not be solved by existing market forces alone.

Both the current and previous government have been intent on reducing the small landlord PRS in favour of an institutional, multi-family housing model. The ideology makes sense: replacing variable individual landlords and poorer-quality stock with new, energy-efficient, professionally managed homes offering long-term rental security. The unintended consequence is that the cheapest rooms in older, smaller homes are leaving the market faster than the institutional model can replace them — and at

Site viability

The problem - is that development appraisals are under strain, affecting land values, project viability and funding. The conflict in the Middle East means build cost inflation is accelerating at a time when developers are still grappling with the last bout of inflation post-pandemic. Positively, there is enough suitable land that could support a significant expansion of the construction and delivery pipeline, with many sites located in outer-zone brownfield locations that could offer more affordable rental homes.

higher price points. This is not the fault of developers, navigating one of the most challenging residential markets in a generation.

So, what does a workable answer look like? At its most basic level, we need more privately funded homes that genuinely meet the affordability needs of the squeezed middle — the young professionals and key workers who, in most cases, cannot access social housing. Three policy levers, taken together, can unlock this supply: revisiting viability, professionalising the HMO and room-let sector and reintroducing flexibility on unit size.

The challenge – is that while temporary measures have reduced the required share of affordable housing to 20%, this is often not low enough to make sites viable in today's market and only covers traditional residential (C3) and not sui generis* (Co-living/HMO). If the emergency measures lead to more homes being delivered than the previous 35% threshold, it could pave the way for continued lobbying.

The solution – a more constructive conversation about extending and permanently reducing affordable provision is needed, for both C3 and sui generis, recognising that the seismic challenge the market faces is in delivering any homes at all.

*The UK planning system defines properties that do not fit into standard building use classes (including co-living) as sui generis. Specific planning permission is typically required to change a property to or from a sui generis use.

HMOs and room lets

The problem – for many young Londoners, renting a room in a House in Multiple Occupation remains the most accessible route into the private rental market. HMOs have long served as a more affordable housing solution for those who cannot afford a self-contained flat, yet they are frequently overlooked in mainstream housing policy. With the private rental sector shrinking and demand for rooms rising, it's crucial to recognise

the importance of HMOs and focus on supporting rather than diminishing their supply.

The challenge – HMO numbers are falling, with mandatory licensing requirements, Article 4 directions (restricting change of use), increasing compliance costs and a general landlord exodus from the PRS market exacerbating the issue.

The legal framework and frequently overlooked benefits:

A key advantage of HMOs is their legal structure: tenants rent individual rooms with their own agreements, while the landlord manages shared spaces; a model already common in purpose-built co-living and student accommodation. This removes joint liability, reduces financial risk and offers flexibility – lowering barriers to entry for younger independent renters, those on variable incomes and key workers who may be on fixed-term contracts.

This is a direct policy contradiction: **measures designed to raise standards are inadvertently reducing the supply of the most affordable homes in the city.**

The solution – policy reform to encourage a new generation of professionally managed, purpose-built or purpose-converted HMO stock at scale. Tax and policy reform could allow operators of large, professionally managed shared houses to be treated more equitably with BTR schemes, reducing the per-room cost burden that currently makes the model difficult to scale.

Introducing a single national HMO licence for accredited operators would help streamline compliance and encourage investment. In the long term, creating a distinct planning use class for professionally managed room-let residential, carving it out of the sui generis category that currently covers both large HMOs and co-living, would offer clear rules for developers and investors, both needed to bring institutional capital into the sector. Without these reforms, affordable room rentals will remain dependent on a shrinking group of small private landlords.

Unit size and efficiency

The problem – many of the homes currently being lost from the PRS are efficiently sized flats within converted houses. These smaller homes, some of which utilise the living room as a bedroom to maximise affordability, would not meet the criteria of the National Space Standards — a well-intentioned policy initially introduced

to London in 2011 to prevent the intensification of living spaces.

The challenge - these minimum space standards, coupled with rising build costs, are partly responsible for the affordability crisis we now face. Given the unintended consequences they are creating, it may be time for a review or at least some flexibility in their application.

The solution – stepping beyond the limits of minimum space standards, similar to the co-living (sui generis) model, which typically offers 18–27sqm studio units. However, the need for and operation of extensive shared amenities in co-living schemes drives up rents and limits affordability – one reason why most of these schemes are concentrated in Zones 2-3, with rents reflective.

To broaden the sector beyond its current premium positioning, planning support should be consistent across boroughs and policies should allow simpler schemes with fewer amenities. A compact urban studio of 18–22sqm with a bed, kitchenette, en-suite shower room and access to communal kitchen space — without the gyms, cinemas and concierge services — could be delivered at price points genuinely accessible to most young professionals and key workers.

It is also notable that the Mayor’s time-limited route permitting 20% affordable housing on private land currently excludes co-living — meaning the very product best placed to serve the squeezed middle is denied the viability relief now extended to mainstream housing. Including it would materially strengthen its delivery and viability in outer zones.





International precedent: where space-standard flexibility has worked

Tokyo's permissive residential zoning supports a substantial stock of compact studio apartments well below 15sqm, particularly in its central wards. The model underpins one of the most resilient urban rental markets globally, with high tenant turnover, low void rates and stable demand sustained across decades.

Amsterdam has developed a recognised micro-living sector built around compact private units paired with high-quality shared kitchen and amenity arrangements — demonstrating that the model can be confidently regulated within a major European planning framework.

In December 2024, New York City passed City of Yes for Housing Opportunity, which eliminated minimum unit size restrictions in Manhattan below 96th Street and downtown Brooklyn, and reduced the city's dwelling unit factor more broadly. The reform explicitly acknowledged that floor-area mandates had been suppressing the supply of the most affordable purpose-built rental homes the city needed.

Each precedent confronts the same structural challenge London now faces, minimum unit standards designed to safeguard quality have, over time, become a barrier to delivering the affordable supply the market most urgently needs.

Policy asks

For the GLA and London boroughs

- Adopt a consistent London-wide framework for simplified co-living, permitting compact 18–22sqm studios with light amenity provision in appropriate locations.
- Review the 2011 London Space Standards to allow flexibility for purpose-built rental products serving the squeezed middle.
- Support professionally managed HMOs through streamlined licensing and the proactive identification of suitable conversion sites, including underused commercial buildings.

For Government and MHCLG

- Make permanent the reduction in S.106 affordable housing thresholds and extend the framework to reflect ongoing viability constraints on stalled sites.
- Introduce a single national HMO licence for accredited operators to replace the current patchwork of local schemes.
- Create a distinct planning use class for professionally managed room-let residential, sitting outside sui-generis, to give institutional capital regulatory clarity.

The offer to investors and capital partners

- A structurally under-supplied asset class with high demand, low void risk and durable income.
- A long-term, defensive position in the most resilient rental segment of the UK's largest urban market.
- Opportunities to partner with major urban employers (NHS Trusts, universities, hospitality and care providers) to underwrite demand for committed key worker housing at scale.

For investors, these levers represent a compelling opportunity to broaden and diversify beyond the current product set. A solution requires alignment across three groups: planners and politicians willing to support a simplified co-living and room-let model in the right locations; large urban employers prepared to underwrite demand for their workforces; and investors ready to back a long-term, defensive asset class.

Mass-market rental homes built for the squeezed middle would carry structurally high demand, low void risk and durable income compared with more premium products. The model offers a route for private capital to deliver something that is both commercially rational and socially responsible — at a moment when the city most needs it.

By focusing on the fundamentals — viability, supply, and homes sized to genuine affordability — we can begin to close the gap for London’s missing middle and secure the city’s future as a vibrant, accessible hub for global talent.



Speak with us

We can support you with expert advice that reflects your business needs and priorities

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About JLL

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