

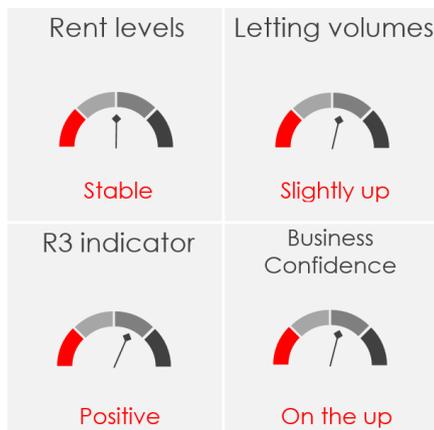
MARKET R3VIEW Q3-2017



Better than expected

The London political landscape has been facing uncertainty over the last three years, with elections, referendum and further elections. The rental market has been adjusting to this and the last quarter has seen little evidence that uncertainty over Brexit is as bad as some had feared.

R3Location Indicator



- **Rent levels:** With a 7th quarter of marginal rents declines, many are suggesting the market has now bottomed out and London might be on the brink of future rent increases.
- **Letting volume:** Letting volumes continue to be on the up this quarter, as they were last quarter, with several drivers responsible for this strengthening in demand.
- **Business confidence:** Business confidence does not seem to have been adversely affected by the uncertainty surrounding Brexit, suggesting strong convictions about the strength of the London economy.

The London Economy

The Brexit Effect

There is still much uncertainty following the latest talks in Florence about what the future will hold with regards to Brexit. So far, the triggering of Article 50 has had an impact on the market in London but in subtle ways that may not have been easily predicted at the onset:

- **Super Prime:** The higher prime residential rental market may well have suffered the most with the more material downward adjustments in rent seen in the £5,000+ a week rent.
- **Senior Executives:** The relocation market has seen a rise of senior executives moving into London against a similar period last year. This trend reflected in some of the data available in this area [1].
- **Brexit roles:** In addition, R3Location has seen an influx of senior roles in London created to deal with Brexit.

Marco Previero of R3 says: "*Large organisations are investing in senior Brexit roles in London to help steer companies during this uncertain period of transition. This is having a positive effect on the local market*". Furthermore, demand in the super prime may also have been positively affected by the continued uncertainty on the Sales side linked to tax changes such as higher rates of stamp duty [2].

Policy Support

Despite the relatively stagnant economy [3] companies, especially in the financial services, are continuing to invest in their relocation policies and are adjusting some of their housing budget upwards to realign themselves more closely to the London market.

Technology companies should not be discounted in their growing influence on the London economy and the relocation market, though many are still finding their feet in how to support international assignees. Nevertheless commitments to the Capital form the likes of Apple, Google, and more recently Facebook, Snapchat and Deliveroo are all to be welcomed. **Marco Previero** of R3 says: "*This industry has real potential to drive demand and their needs may well be very different to those of a more traditional relocation market*".

The Rental Market

Marginal decline of rents

Prime London rents have continued a small steady decline, now across a seventh consecutive quarter [4]. It appears that this rate of decline is firmly bottoming out, however. The uncertainty over the effect of Brexit has not materialised into any tangible decline in demand. "*There is little evidence that the long term role of London as a major global financial centre will be materially affected by these latest European developments*": says **Anna Barker** of R3.

RPI may be levelling off

After several months of steady increase, RPI may be levelling off at just under 4%. It will be interesting to watch this closely as a higher RPI does put pressure on rent increases on renewal [5]. Higher RPI is resulting in Landlords more validly insisting on rental increases in later years with the minimum and maximum being adjusted to between 2% and 5%, sometimes 6%.

RPI All Items

RPI All Items: Percentage change [5]

Period	RPI
2016 Q2	1.4
2016 Q3	1.9
2016 Q4	2.2
2017 Q1	3.0
2017 Q2	3.5
2017 Q3	3.8
Jul-17	3.6
Aug-17	3.9
Sept	3.9

Finally....

If you have any questions on this or any other areas related to the London rental market or relocations therein, please do not hesitate to contact us.

References

1. **Knight Frank** London Residential Review – Autumn 2017
2. **Knight Frank** London Residential Review – Autumn 2017
3. **GLA Economics** – London Economy Today October 2017
4. **Savills** – Prime residential rents July 2017
5. **Office of National Statistics** – October 2017