

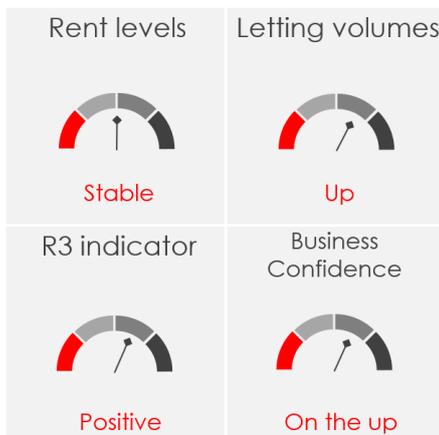
# MARKET R3VIEW Q4-2017



## A positive 2018 ahead

Political and economic uncertainty has softened somewhat in the last quarter. And with Britain finally reaching a deal on the first stage of Brexit negotiations, we can all hope for some steadier, less uncertain waters ahead.... Hope being the operative word...

### R3Location Indicator



- **Rent levels:** Robust demand and tightening of good quality stock (supply) is seeing long-term rental levels decrease to their lowest point in almost two years.
- **Letting volume:** A stronger quarter and more positive outlook has seen both viewings and tenancies agreed go up year on year in December.
- **Business confidence:** London's economy should start 2018 on a solid footing with some uncertainties inherent in Brexit now lifted. Despite many areas still requiring greater clarity, the fundamentals on which the Capital's economy is based appear sound.

## The London Economy

### Hope of a positive start

London has had its title as the largest financial centre re-confirmed recently with The Global Financial Centres Index (ranking of the competitiveness of financial centres) ranking London 1<sup>st</sup> ahead of New York (in 2<sup>nd</sup> place), HK (3<sup>rd</sup>) and Singapore (4<sup>th</sup>); moreover, in the past four years, four Chinese banks have opened branches in London as part of the Capital's emergence as the largest offshore RMB hub outside of Asia [1].

London's economy continues to perform well with recent forecasts' expectation for growth in the Capital set at 2.2% on average up to 2020 [2]. And although uncertainties for the economy remain elevated, the fundamentals appear sound.

### Brexit

One such uncertainty continues to be Brexit, despite the UK reaching a deal on 8<sup>th</sup> December for the terms of an exit from the EU, paving the way for the second phase of talks. The next stage will focus on some of the key terms of the future of the UK/EU relationships and substantial risks remain as to the likely outcomes [3]. **Marco Previero**, Director at R3Location, says: *"Lack of clarity is disruptive for companies, but with the exception of a few companies' contingency plans of moving some subsidiaries elsewhere in the EU, we have not, so far, seen a material exodus from London"*. And this has certainly been the case for financial services institutions in the Capital – still one of the key drivers of rental demand in prime central London.

## The Rental Market

### Rent declines are bottoming out

A reduction in general macro-economic uncertainties, coupled with positive noises coming out of the Brexit negotiations of late (including some clarity of possible outcomes for passporting rights), is maintaining strong demand – with substantial increases in both viewings and number of tenancies agreed [4]. *"In addition, we are continuing to see a decline in the number of good properties coming on to the market, creating further upward pressures on rental levels"*, says **Anna Barker**, Director at R3Location.

Solid demand and limited supply has resulted in the most modest decline in rental decrease recorded in the last 21 months, and average rents in prime central London fell by only 2.2% year on year in December [4].

R3Location would expect this pattern of decline to reverse in 2018 – with strong demand and limited supply of good stock very much a feature of the next 12 months.

### RPI is levelling up

With inflation rate generally thought to be nearing its height, R3Location feels pressures on RPI will also abate and 2018 should see a steadier index than the market has experienced in the last year – this would assume no major shifts in exchange rates or global commodity prices [6].

### RPI All Items

RPI All Items: Percentage change [5]  
 – Dec 17 not yet published, fig. below is estimate.

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
2017 Q4	3.9
Oct-17	4.0
Nov-17	3.9
Dec-17	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. Best wishes for 2018 everyone!

### References

1. RMB – Renminbi is the official currency of the People's Republic of China (Yuan being the unit of currency)
2. London's Economy Today (GLA) – Issue 184 Dec 2017 page 4 and 5
3. London's Economy Today (GLA) – Issue 184 Dec 2017 page 3
4. Knight Frank Prime Central London Rental – December 2017
5. Office of National Statistics – January 2018
6. PwC UK Economic Outlook – November 2017 page 3