

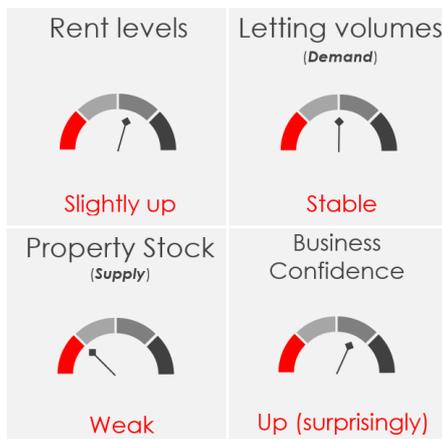
# MARKET R3VIEW Q2-2018



## Mixed messages

We continue to be none-the-wiser on what Brexit will look like. Businesses continue to threaten divesting elsewhere in Europe, or at the very least suspend their future investments in the UK until the situation is clearer. And Trump continues to be Trump-like. Despite these significant political and global economic uncertainties, London is showing resilience and the rental market is holding up. This newsletter looks at why this contradictory position seems to be playing out.

### R3Location Indicator



- **Rent levels:** rent levels are up by just over 1% this quarter, a clear reversal of the trend London has experienced over the last two years.
- **Letting volume:** this despite a levelling of demand as a result of recent economic and political uncertainties.
- **Stock levels:** the reason is lower level of supply of good properties, predominantly as a result of the sales market revival in recent months.

- **Business confidence:** oddly, businesses remain cautiously optimistic about the future but continued uncertainty will eventually bear a more material impact than it has had to date.

## The London Economy

### Nothing's certain but uncertainty

And there's been much of it around this quarter. Trade disputes between the US and other countries seem to be escalating, and together with continued hints on a UK interest rate rise, this is making stock markets jittery. A general drag on sentiment, predominantly led by high street woes and uncertainties on future investments relating to lack of clarity of Brexit negotiations has seen the growth forecast revised downwards from 1.4% and 1.5% in 2018 and 2019 respectively to 1.3% and 1.4% [1].

### How can I not mention Brexit...?

And then there's Brexit of course. Continued political uncertainty surrounding negotiations to leave the EU is weighing on investment. While London Foreign Direct Investment (FDI) remains high, it has been happening at a slower rate than the rest of Europe. Brexit concerns is causing declines in Financial Services investments, Business Services investment and HQ investments in the UK by large global corporations [2].

And yet solid growth continues in London business activities specifically, with employment standing at near historic levels. *"Despite these uncertainties, indicators for the London economy continue to show a degree of strength"* say **Marco Previero**, Director at R3. The question is: for how long and how will it affect the rental market?

## The Rental Market

### Steady rise in rents...

The short answer is that, so far, the rental market is holding up – but for reasons not necessarily related to the state of the broader geo-political environment. **Anna Barker**, R3 Director, comments *"the shortage of stock arising as a result of improved sales market conditions is probably the leading cause of stability on rents"*. Accidental Landlords – those who edged a slow sales market by putting their property on the rental market – are decreasing. A better sales environment is

producing some shortage on the supply side. Even with a slight decrease in demand recorded recently, this has seen rents in Prime Central London increase by just over 1% in the last quarter, after falling steadily for the last couple of years [3]. And the expectation by most property experts is that rents will continue to rise, albeit marginally [4].

### ...despite slight fall in demand

Despite a slight fall in demand [5], the general consensus seems to be that we are entering a flat period as opposed to the beginning of a decline in prospective tenants. In addition, the number of properties managed by letting agents has also increased. It seems uncertainty is also causing some tenants to extend for longer period until the waters settle.

### RPI All Items

RPI All Items: Percentage change [6]

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	4.0
2018 Q1	3.7
2018 Q2	3.3 <small>Estimated</small>

Apr-18	May-18	Jun-18
3.4	3.3	3.3

### A Landlord's market

All of this leads to the market currently favouring Landlords, with some recent deals even seeing the unwelcome re-appearance of the questionable practice of "gazumping".

### 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. **GLA Economics** – London Economy today June 2018
2. **EY 2018 – UK Attractiveness Report**
3. **Knight Frank Residential Market Update** – June 2018
4. **OnTheMarket** – recent Blog
5. **ARLA Propertymark** – Private rented sector report May 2018
6. **Office of National Statistics** – June 2018