

# MARKET R3VIEW Q3-2018



## A mood of indecision

Unknowns facing the market in Q3 are the same as they were at the end of Q2. If Brexit has delivered anything at all, it's uncertainty. Much of what has driven the market in the last three months reflects a mood of indecision resulting from political uncertainty, and its rising influence on the letting industry. And the effect this has had on the supply and demand for properties in Prime London Residential.

### R3Location Indicator



- **Rent levels:** rent levels continue to hold and show resilience against uncertain market conditions with a growth of nearly 1% over the last 12 months.
- **Letting volume:** is up relative to supply. And possibly up overall, especially in some of the more popular Prime London Residential areas.
- **Stock levels:** are down, mainly as a result of better Sales conditions continuing a trend first identified a couple of quarters ago.
- **Business confidence:** whilst uncertainty remains firmly on the

menu, the UK economy has managed to serve up a few positive indicators. But they make slim reading.

## The London Economy

### 5 months to go...

There are now only five months left before the UK is due to leave the EU. It will come as no surprise to anyone by now that the final outcome of the Brexit negotiations remains unclear. Hard or soft Brexit, or somewhere in between, uncertainty will continue to persist for at least another two quarters, and with the possibility of a two year transition period, even longer than that. Faced with an ambiguous future, several organisations have continued to issue warnings about the impact on the UK economy. And yet GDP shows resilience with future forecasts only tweaked here and there, and continued increase in office space take-up in Central London [1].

### Relatively speaking...

Whilst in absolute terms, such forecasts may hold true, in relative terms, there are signs of some dwindling. Indeed, for the first time since Q1 2015, London has fallen a couple of points behind New York in second place on the Global Financial Centre Index [2]. Hong Kong is not far behind, just three points adrift. **Marco Previero**, Director at R3, reflects: *"Is this a sign of things to come? Perhaps. Although a broader time frame should give some comfort. 10 years since the collapse of Lehman Brothers, the London Economy has recovered in many ways by the recession triggered by the Financial Crisis"*. There are indications that we might still be in a good position to weather the Brexit storm.

## The Rental Market

### Rents are holding on

The first such sign is that (marginal!) annual rental value growth has returned to Prime residential markets [3]. This bottoming out of rent decline – and slight reversal even – may be due to sentiment and market conditions driving the Sales market. *"As more accidental Landlords sell or list their property for sales, the supply of properties on the letting market suffers and drives rental values upwards"* says **Anna Barker**, Director at R3. This is further validated by recent reports indicating not just fewer

listings on the rental market, but a downward trend in the ratio of properties to let against properties to sell [4].

### Less supply and more demand

Fewer listings came with new prospective tenants trending upwards. This is now the highest it has been in quite some time. Some are suggesting this is also as a result of local tenants competing with expatriate assignments [5]. "Lifestyle relocation", as it has been named, may represent as much as a third of tenants across London.

Further pressure has also been observed at the £5,000+ per week rentals where year on year increase is up by a third. London has always been a collection of micro-climates when it comes to Lettings and Sales.

Whilst this may be good news for Landlords, continued uncertainty about the state of play cannot be underestimated. The fog of Brexit is not dissipating and makes onward visibility

### RPI All Items

RPI All Items: Percentage change [6]

Period	RPI
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	3.4
2018 Q3	3.3
<b>Jul-18</b>	<b>3.2</b>
<b>Aug-18</b>	<b>3.5</b>
<b>Sep-18</b>	<b>3.3</b>

very tricky indeed. Watch this space...

### 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 September 2018
2. **Z/Yen** – Global Financial Centres Index 24
3. **Knight Frank** London Residential Review – Summer 2018
4. **Knight Frank** – Prime London Letting Index September 2018
5. **Savills** – Prime UK Residential Autumn 2018
6. **Office of National Statistics** – October 2018