

# MARKET R3VIEW Q4-2018



## What a start to the year!

With 29<sup>th</sup> March deadline looming, many feel some relief that the lights at the end of the Brexit tunnel can finally be seen. Others think they may well belong to an oncoming train. Regardless, Brexit uncertainties have continued to dominate the current economic and political landscape this quarter, but with only some moderate short-term effects on the rental market.

### R3Location Indicator



- **Rent levels:** rent levels continue to hold, as they did last quarter, and show resilience against uncertain market conditions with 12 months growth of up to 1% in some cases.
- **Letting volume:** prospective tenants are steady. A removal of uncertainty in the coming months – here's to hoping - could lead to an upsurge in demand.
- **Stock levels:** are down and will likely remain down in the coming months, despite a slowdown of sales as a result of Brexit uncertainties.

- **Business confidence:** despite the current political turmoil, some indicators suggest that businesses continue to show cautious optimism.

## The London Economy

### Brexit – time is running out

There are now less than 70 days left before Brexit – in whatever shape or form it will take. Or not take. And less than 40 legislative days left in which to do it. Or not do it. Time is running out. Thankfully. As the dust settles on Theresa May's historic defeat - her Brexit deal having been rejected by the House of Commons by 432 votes to 202 – it is still difficult to predict what will happen over the coming days and weeks. Uncertainty about what, if any, Brexit deal will occur has led to continued volatility on the value of the pound – hitting a nearly two-year low against the dollar last month [1]. **Marco Previero**, Director at R3, says: *“Clearly a disorderly Brexit scenario will not lead to good things for the London economy over the next 12 months or Businesses' ability to plan for movement of key roles in and out of the Capital in the short-term at least”*.

### And yet...

And yet, life still seems to go on – even though many of us exposed to UK Politics of late may have lost the will to live. The Brexit noise can be distracting. It's important to keep things in perspective. For example, take-up of central London office space – a good indicator of business confidence – has been recorded as the second highest since 2015 [2]. Additionally, employment figures display a similarly strong outlook, hitting record rates at the end of 2018. **Anna Barker**, Director at R3, reflects: *“Both of those indicators underpin current and possible future demand on the rental market – and suggest this will continue to show signs of resilience despite recent uncertainty”*.

## The Rental Market

### Demand is holding, supply isn't

Against a relatively consistent demand, some strain on levels of supply are becoming apparent. Despite a slowdown in sales in the last quarter linked predominantly to Brexit uncertainties, price declines over the last 12 months have now more than compensated for new Stamp Duty levels and are beginning to level off. Prospective buyers' enquiries also

continue to rise against supply [3]. With less competition now from accidental Landlords, Tenants are likely going to be faced with falling overall supply over the coming months. This in turn will put upward pressure on rents, which remain steady despite current Brexit-related chaos.

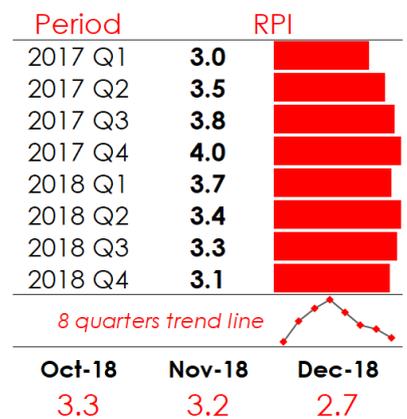
What's more, demand for “best in class” stock in premium locations continues to face stiff competition and with limited supply there are no signs that this will be affected in the coming months.

### Financial Services and Brexit

Prime Central London lettings continue to be reliant on a strong financial services environment. Any Brexit related impact on the relative strength of London as a leading Financial Centre against Global competition will affect demand. So far, there are very few indications that any such impact will be material. Some reports have even suggested – and R3 would agree - that a removal of uncertainty may well trigger a positive upsurge in new prospective tenants [4].

### RPI All Items

RPI All Items: Percentage change [5]



### Finally....

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

### References

1. **GLA Economics** – London Economy today December 2018
2. **Knight Frank** – Prime London Lettings Index December 2018
3. **Knight Frank** Prime London Sales Index – Summer December 2018
4. **Benham & Reeves** – The London Rental Market Update - January 2019
5. **Office of National Statistics** – January 2019