

# MARKET R3VIEW Q3 2019



## Brexit uncertainty persists

### 31 October deadline

Last month, Parliament voted for a bill which gives the Prime Minister until 19 October to either pass a deal in Parliament or get approval of a no-deal Brexit.

Beyond that date he will be required – forced – to ask for an extension to article 50 to 31 Jan 2020. This is now very likely.

## London economic outlook

The rental market in Prime London Residential still depends heavily on the Financial Sector. The latest Global Financial Centres Index (GFCI 26) confirms that London remained in second place behind New York (but with New York extending its lead over London). And London may also be losing relative strength against other centres like Paris and Hong Kong.

## Hard Brexit looming?

The last quarter has seen continued uncertainty in this area. With a 31 October deadline looming, R3 is seeing annual rental values in prime residential areas decline, reflecting a lower demand from senior corporate tenants.

## Knock-on effect of uncertainty

Brexit uncertainty is also having a knock-on effect on sales – with owners looking to let rather than sell until more is known on possible outcomes.

## Pressure on rental values

More owners putting their property on the lettings market means more stock. This in turn means more choice and availability. As a result, all of this has put pressure on rental values and has seen rents decline this quarter – especially in the £3k to £5k a week bracket. London Super Prime has not remained immune either with areas such as Notting Hill and Kensington also seeing slight declines in rents.

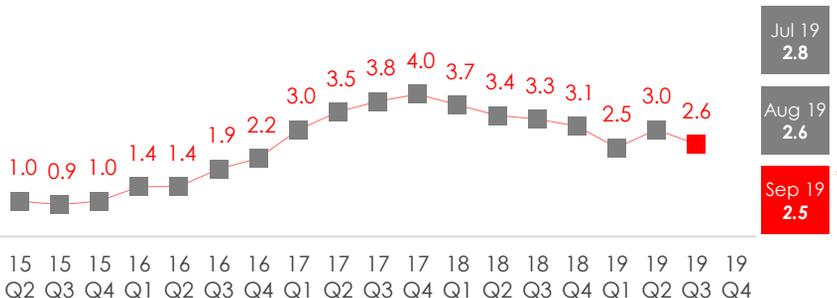
## So what's next?

19 October will be a key date in the ongoing negotiation to establish the likelihood of a hard Brexit. Despite the PM's hard stance, there is growing speculation that Article 50 will be extended (or that the PM won't be able to prevent an extension) and so essentially stretch out this period of uncertainty further. London seems more resilient to this than other regions in the UK.

**FIGURE 1 – RPI**

RPI All Items - % change over 12 months – quarterly rate.

Monthly RPI



Source: Office of National Statistics

\* Estimate

**FIGURE 1** RPI shows the changes in the cost of living. It reflects the movement of prices in a range of goods and services used regularly, and significantly for rentals, it includes a high weighting on costs associated with housing.

RPI, following a reversal of its downward trend in Q2, continues to decline. Current uncertainties in the property market (sales) relating to Brexit may be having an effect on this, and it is possible that we will see a continued decline in this index over the coming months.

**FIGURE 2 – BUSINESS CONFIDENCE INDEX**

Trend in UK Business Confidence



Source: ICAEW Business Confidence Monitor Index™

**FIGURE 2** Business Confidence as published by ICAEW. This seems to have shown a temporary peak in the last quarter – but don't be fooled.

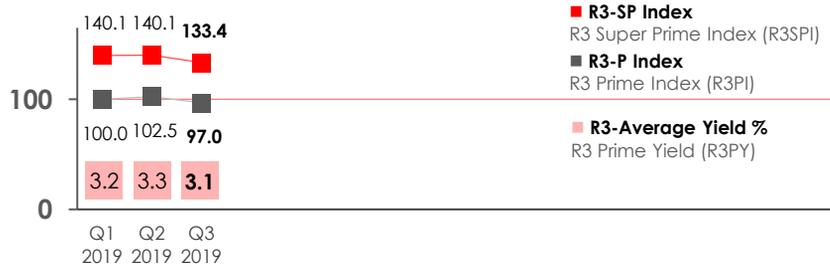
Whilst there is a slight reversal from the last quarter, business confidence is still negative at -10.3%. As before, political uncertainty at home, and a rising risk of a 'No Deal' Brexit, continue to be the main drivers of subdued business confidence in the UK. A slowdown in some of the larger economies may have also contributed to anchoring negative confidence.

**FIGURE 3** Frustrated with the lack of open and reliable consolidated rental data in London, R3 started its own **two rental tracking indices** in Q1 2019.

Both Prime and Super Prime have shown signs of decline this quarter, as a result – directly and indirectly – of Brexit related uncertainty of the sales and rental market (see overleaf). Average rental yield against those two indices is broadly maintained at 3.1% and has shown resilience in 2019.

**FIGURE 3 – R3 RENTAL INDEX & YIELD**

Prime and Super Prime Rental Index & Yield – started Q1 2019, base 100 against Prime.



Source: R3Location Research



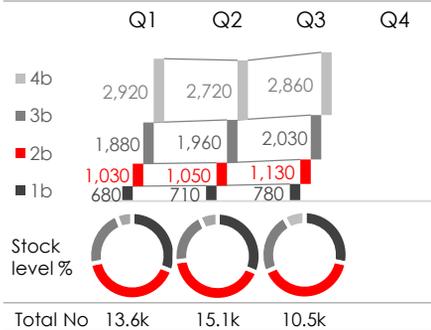
**Marco Previero**

Director and Research Lead at R3

“After one of the busiest months we have had as a company since inception, we are beginning to experience what could possibly be a slightly more subdued period. Looming Brexit deadlines do inject a more cautious approach to moving, but we expect the London economy will ride this out quickly.”

**FIGURE 4 – AVERAGE RENT LONDON**

Average weekly rent and size for Central London



Source: Home.co.uk

**FIGURE 4** This provides a snapshot of average weekly rent for 1 through to 4 bedroom properties, as well as proportion of number for each size, and total number of listed properties in central London.

There is a marked decline in stock levels this quarter, probably as a result of exceptionally high enquiries and demand over the last six months following through to completion; particularly in the mainstream market. Opposite trends are observed in Prime and Super Prime Markets.

**Anna Barker**

Director and Operations Lead at R3



“A tale of two cities this month – with upward pressure on rent generally in London, for 1 beds through to 4 beds, but a decline in the Prime and Super Prime market in the same period.”

**FIGURE 5 – Spotlight on... R3Location Rental Guide**

Every quarter R3 includes a spotlight on section. This month, we are using this space to let you know that our **2019 London Rental Guide** will be out next month! The 2018 guide can still be found on our website – [R3 Guide](#).

Our comprehensive London Rental Guide provides detailed rental information on more than 30 London residential post codes.

It is the single, most comprehensive guide available in the Industry targeted specifically to the relocation market and families coming over on assignment to the Capital and the South East.

Make sure you look out for it!

**FIGURE 5 – SPOTLIGHT ON... R3Location Rental Guide**

Below is an extract from our 2018 guide – look out for the 2019 guide soon

