



First signs of recovery? Not so fast...

More of the same

2022 finished more or less as it started, with an imbalance between supply and demand in London and other major UK cities. This led to both an upward pressure on rent and continued diminishing stock levels. Here, we consider what might be in store for the

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rental market in London and the UK up. And the recent upwards more generally in 2023. pressure on rent and favourable

Looking back

But first a brief look at 2022. Average rental values in prime and super prime central London ended the year 10.7% and 13.3%, respectively, higher and 12% and 20%, respectively, above their prepandemic average (see **FIGURE 3** – *R3 Rental Indices*).

This was driven by a persistent imbalance between supply and demand – with stock levels unable to keep up with sustained and historically higher levels of demand.

Prospective tenants have therefore been operating in a highly competitive market for much of 2022.

Positive signs for tenants ahead?

FIGURE 1 - Property Market Dashboard: Quarterly summary of key performance indicators linked to the London rental market

There are some signs that supply is improving with some indication that Landlords' instructions are on the

up. And the recent upwards pressure on rent and favourable yield may also start driving so-called 'accidental landlords' back onto the rental market, adding to stock.

This, with an expectation generally that demand levels are finally beginning to plateau, could be the first signs of stability on the rental market since the pandemic first begun.

What of rent levels for 2023?

It may be a while longer before we see some self-correction on rental levels, and R3's expectation is that rents will continue to rise, albeit at a much slower pace, with possible steady increases of between 2% and 3% across all markets in 2023.

Predictions continue to be difficult, and the market is still competitive, but a clear softening is occurring and may bring some relief for prospective tenants in 2023 after two challenging years.

	105.0			For the Quarter	OECD UK Business Confidence Monitor A smaller decline in the latest quarter indicating
Business Confidence	103.0 99.0 97.0 95.0 19 20 20 20 20 21 21 21 21 22 22 22 22 94 91 92 93 94 91 92 93 94 91 92 93 94		100.4	business confidence is stabilising and it will be interesting to see if the latest (mildly) positive economic indicators in the UK might begin to nudge this index upwards in the coming months. General political instability is still, however, prevalent in Europe.	
					Source: OECD data – amplitude adjusted base 100
RPI	12.0% 8.0% 4.0%			Oct 14.2% Nov 14.0%	RPI All Items: % change over 12 months RPI is a measure of inflation. Whilst overall, RPI for the last quarter reached 13.9%, in line with softening inflation, we are beginning to see a reversal in the
	0.0% 20 20 20 Q1 Q2 Q3	20 21 21 21 2 Q4 Q1 Q2 Q3 Q	1 22 22 22 22 4 Q1 Q2 Q3 Q4	Dec 13.4%	trend with RPI declining for the time since Q4 2020 from 14.0% in November to 13.4% in December. We expect this trend to continue in the coming months. Source: Office of National Statistics – Retail Price Index
	AREAS	AVG. PCM	QTR CHANGE	ANNUAL CHANGE	Rental Price Tracker Whilst the NA shows an increase against the previous
Rental	National avg. (NA	A) £1,174	+1.3 %	+10.8 %	quarter and against the same time last year, it h dropped for the first time in over a year - down (
Tracker	NA exc. London	£ 977	+1.7 %	+9.4 %	since November to £1,174 PCM. There is a softening ir rents and the expectation is that we are entering of
	London	£2,007	+3.2 %	+14.5 %	much flatter 12 months period in this respect.
RICS Lettings Survey (London)	90.0%	mand New LL Instructions		3 mth rent expectation	3 mths % change responses (down/up/same) A slight easing-off of Tenant Demand over the last 3 months and some relatively positive news on the
	30.0% 0.0% -30.0% -60.0% -90.0%				horizon with an expectation that Landlords' instructions are on the up – this is reflective of curren- trends experienced by some of the main estate agents in London. Rents are expected to ease and soften over the next 3 months. Source: RICS Monthly Market Surveys
	21 21 22 2 Q3 Q4 Q1 Q		1 22 22 22 22 4 Q1 Q2 Q3 Q4	21 21 22 22 22 22 Q3 Q4 Q1 Q2 Q3 Q4	

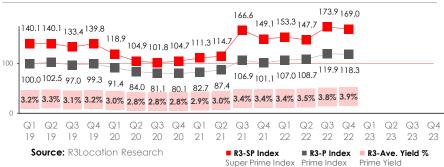
MARKET R<mark>3</mark>VIEW

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.

Whilst the cost of living crisis continues to bite, a slowdown in demand and a slight increase in stock levels has seen a levelling off in the rate of rental growth with a slight quarterly decline in both our Prime and Super Prime indices. The expectation is that, whilst pressure remains on rental levels, the rate of increase will decline in the year ahead.

FIGURE 3 - R3 RENTAL INDEX & YIELD

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





Marco Previero

Director and Research Lead at R3

"Even in the face of a minor dip, rental prices remain historically high, and certainly higher than at pre-pandemic levels. There are some cautiously optimistic signs on the horizon with demand levelling off – though still seasonally high - and the expectation of a slight increase in Landlords' instructions nudging stock levels upwards. "

AR3A INSIGHTS Every quarter, R3Location produces its own research which it publishes on its website and is available to all. The most recent one is now available.

R3 has **published** its latest AR3A Insights research to include London, the lower Thames Valley region, and Birmingham and its commuter belts. We will be adding **one more** shortly, so do look out for it!

You can access these and other valuable (free) research on our website.

FIGURE 5 - Spotlight on...

Every quarter R3 includes a Spotlight On section. This month, the focus is on average monthly rent levels across the UK.

HomeLet is the UK largest referencing firm and produces qualitative monthly data on rent in the UK. Its latest report shows a softening of rental levels with the first (very minor) drop in the average UK rental price for over a year.

Annually, the picture is very much in line with what we have all experienced over the last 12 months: namely rent levels at historic highs showing annual increases ranging from **6.6%** in the North East to **14.6%** in London.

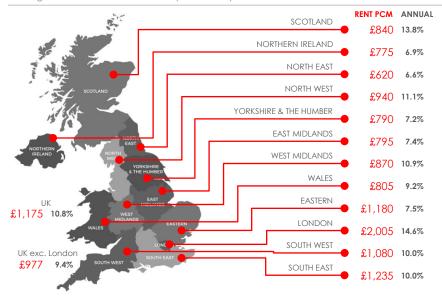
The expectation is that rent levels will continue to rise overall but the rate of growth will decline significantly.

AR<mark>3</mark>A INSIGHTS Anna Barker Director and Operations Lead at R3



"Our research efforts are in direct response to clients' needs. They value data that's helpful to their relocating employees. R3 is the only DSP engaging in this activity."

FIGURE 5 – SPOTLIGHT ON... AVERAGE MONTHLY RENT ACROSS THE UK Average PCM rents across the UK as published by Homelet as at end of December 2022



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