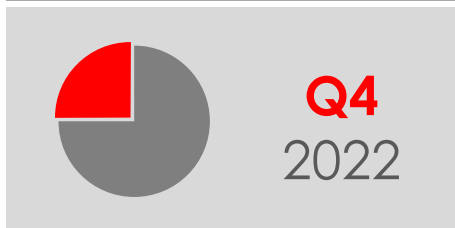


MARKET R3VIEW Q4 2022



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

rental market in London and the UK more generally in 2023.

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 pre-pandemic 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?

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 began.

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.

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

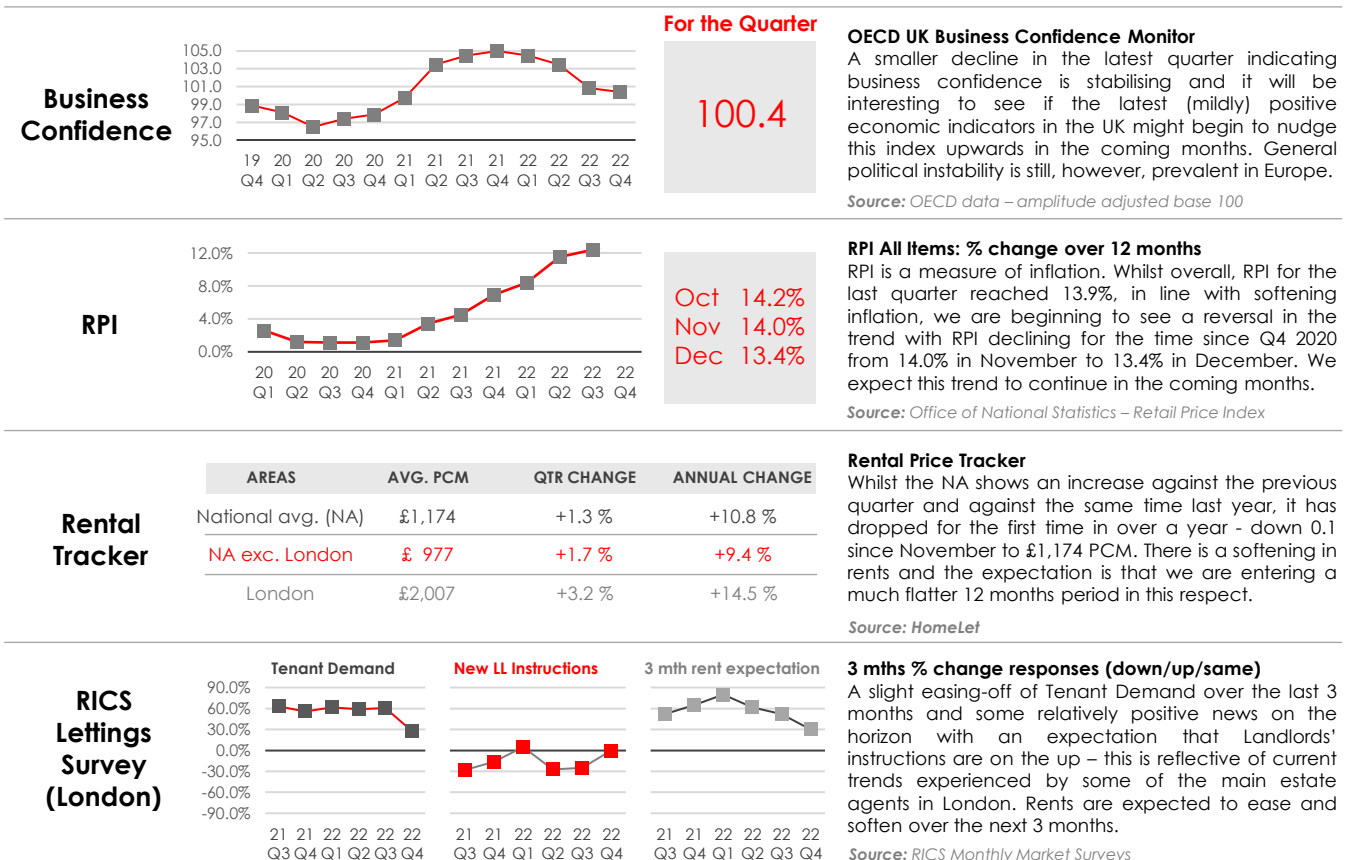
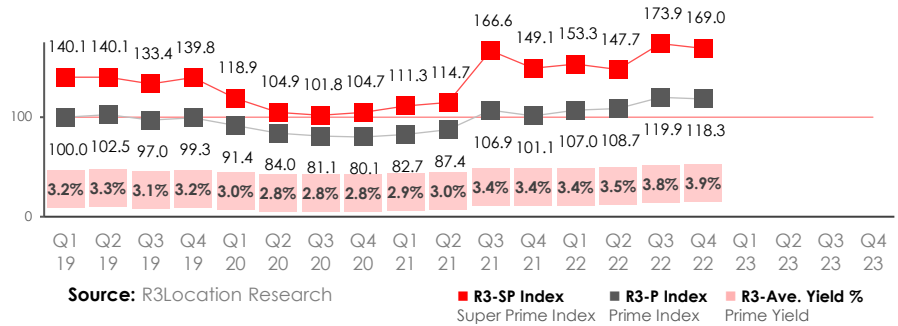


FIGURE 3 Frustrated with the lack of open and reliable consolidated rental data in London, R3 started its own **two rental tracking indices** in Q1 2019.

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](#).

AR3A 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...

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.

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

