

MARKET R3VIEW Q2 2022



Supply / Demand imbalance

Rents have fully recovered

Rent levels are now essentially back at levels not seen since before the pandemic, recording an increase, according to R3's own indices, of 5.6% for London super prime residential areas and 9.4% for London Prime Residential areas. The average asking rent for London is

up nearly 15% against the same period last year, and the national average excluding London following similar trends with an 8.7% uplift.

This is largely due to the fall and subsequent recovery of rents during the pandemic, but the signs show a full recovery of the London market with some worrying signs for prospective tenants, who are now spending (in London), according to a report by Homelet, a third of their income on rent.

Demand / Supply imbalance

Rent increases are largely due to two trends that have developed over the last 12 months. Firstly, tenant demand has increased significantly (and almost two fold according to some reports) as international travel eases and the effect of the pandemic taper out.

Secondly, the number of available properties has declined materially

over the last 12 months as a result of higher seasonal demand, incumbent tenants choosing to extend rather than try their luck on the market, and a buoyant sales market driving the number of so called "accidental landlords" down, preferring to focus on sales rather than rent.

This near-perfect storm of sustained increase in tenant demand, a steady decline of good quality stock, and fewer landlords' instructions, has led to some challenging times for prospective tenants.

The outlook is steady

There are signs that the supply of rental homes will increase in London in particular (according to the latest RICS Residential Market Survey) but we expect rents to continue to rise over the coming months (though at a slower rate) and for Landlords to remain in strong position when it comes to negotiating terms.

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





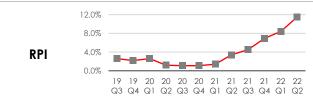
For the Quarter

103.5

OECD UK Business Confidence Monitor

Business confidence is slowly declining, not just in the UK but generally. This is a reflection of several perceived threats to the economy including a possible long-term recession, uncertainty about trading relationships with the EU (for the UK), resurgence of COVID cases and rising interest rates.

Source: OECD data – amplitude adjusted base 100



Apr 11.1% May 11.7% Jun 11.8%

RPI All Items: % change over 12 months

RPI is a measure of inflation. The Bank Of England has forecast the rate of inflation to keep on rising this year, but expect it to slow down next year, and be close to 2% in around two years' time. Rising costs and pressures caused by an imbalance in supply and demand on the rental market is pushing rents up.

Source: Office of National Statistics – Retail Price Index

Rental Tracker

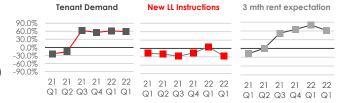
AREAS	AVG. MTH	QTR CHANGE	ANNUAL CHANGE
National avg. (NA)	£1,113	+3,2%	+10.5%
NA exc. London	£ 936	+2.8 %	+8.7%
London	£1,846	+4.3 %	+14.9%

Rental Price Tracker

The last quarter has seen an acceleration in growth across all three "regions" – national, national excluding London and London, with increases seen against the same time last year too. This is in line with other indices and driven by dynamics of low supply and high demand in recent periods.

Source: HomeLet

RICS Lettings Survey (London)



3 mths % change responses (down/up/same)

Three-months tenant demand continues at the same strong expectation levels. On the new LL instructions, a clear drop in the last three months can be seen, reflecting the saturation we are beginning to experience in the market, with lead indicators such as rent expectations now on the decline.

Source: RICS Monthly Market Surveys

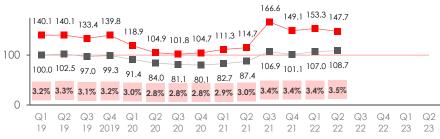


FIGURE 3 Frustrated with the lack of open and reliable consolidated rental data in London, R3 started its own two rental tracking indices in Q1 2019.

Demand has continued to outstrip supply and the gap between tenant's demand and available stock has continued to widen. Both R3's indices are now back at just above prepandemic levels and the outlook for the rental market in London remains Landlord's biased for the rest of 2022.

FIGURE 3 - R3 RENTAL INDEX & YIELD

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



Source: R3Location Research

R3-SP Index Super Prime Index Prime Index

■ R3-P Index ■ R3-Ave. Yield %



Marco Previero

Director and Research Lead at R3

"Rent levels are now essentially back at levels not seen since before the pandemic. Against Q4 2019 (quarter pre-pandemic), they are tracking at 5.6% higher for London super prime residential areas and 9.4% higher for London prime residential areas. With lowering levels of stock, we are very much in a Landlord's dominated market."

AR3A INSIGHTS Every auarter, 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.

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...

Referencing

Every quarter R3 includes a Spotlight On section. This month, the focus is on typical referencing required when renting in the UK.

With current market conditions favouring Landlords, it is very important that prospective understand how best to negotiate best terms for tenancies at the offer stage to agree points of principle (called "heads of term") to include in the draft lease.

This includes the type of lease (AST, Common Law), initial terms (usually no less than six months, but market dependent), rent, payment terms deposit, options to break, renewal terms, and specific wish lists prior to the tenancy starting.

FIGURE 5 - SPOTLIGHT ON... REFERENCING

High level view of the type of reference checks and tenancy terms associated with renting

With current market conditions favouring Landlords, it is very important that prospective tenants understand some of the complexities surrounding referencing to secure a UK tenancy

Credit Checks Convictions **Affordability** Paying late

Anti-Money Laundering

Right to Rent Legal right of abode

Previous Landlord Behaving in tenant-like

Reference

UP TO THE LANDLORD TO DECIDE