MARKET R3VIEW

Q3 2025 : All eyes on the Budget

R3Location
Reliability Reputation Relationships

NEWSLETTER
OCTOBER 2025

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> *The November's Budget, with threats of new taxes on landlords, is the single greatest factor after Renters' Rights Bill to push London rents even higher in the coming months.*

The Budget
As we approach the Chancellor's November Budget Statement, the prime and super-prime London rental market may be poised for a shift.

Landlords are bracing for increased costs, which could translate into upward pressure on rents, though the overall impact remains complex.

National Insurance on Rents
The most significant proposal on the table is the potential extension of National Insurance (NI) to rental income. If enacted, this would directly increase operating costs for landlords. The natural response for many will be to pass these costs onto tenants, pushing rents up.

This uncertainty has already triggered a reaction, with pre-emptive rent increases in some prime postcodes (See **FIGURE 2 overleaf)**.

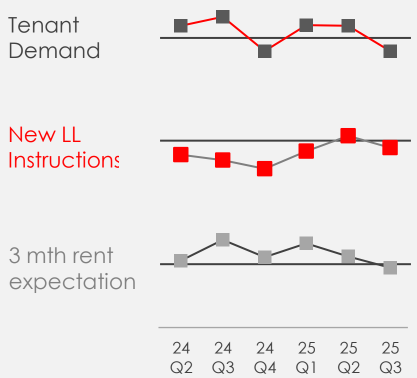
A complex picture
Other announcements may have an impact on rental supply and demand, such as any change in Inheritance Tax and Council Tax.

We should all prepare for a period of adjustment as the market absorbs the new fiscal reality, including the very real impact of such costs being eventually passed on to tenants.

The Road Ahead
The prevailing uncertainty that precedes any major Budget Statement has undoubtedly dampened activity, with many high-net-worth individuals choosing a "wait-and-see" pattern until the fiscal landscape becomes clearer. The full impact of the Budget will likely take time to materialise, and market conditions are expected to fluctuate in the months that follow.

Demand from international tenants (corporate executives, diplomatic staff, and UHNWIs) remains important, especially for Prime and Super Prime markets. Their presence is highly sensitive to the UK's fiscal and political stability. The Statement's tone on broader economic management, and any changes to the non-dom tax regime or inheritance tax, will be scrutinised for their impact on the UK's global competitiveness. A perceived hostile environment could be very detrimental to the market London.

Market Pulse

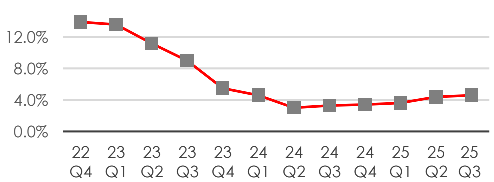


Source: *RICS Monthly Market Surveys*

3 mths % change responses (down/up/same)
Tenant demand shows to have slowed down in London over the last month, in line with Landlord instructions. Coupled with a dip in sentiment about future rent expectations, this aligns squarely with the general uncertainty that normally prevails prior to a major Budget Statement, and one with so much negative press attached to it.

FIGURE 1 – Property Market Dashboard: Quarterly summary of key performance indicators

RPI



JUL	4.8%
AUG	4.6%
SEP	4.5%

Source: *Office of National Statistics – Retail Price Index*

RPI All Items: % change over 12 months
RPI is a measure of inflation. While RPI has broadly remained stable over the last two quarters, it is still reflective of an inflation rate of 3.8% running at nearly double the Bank of England's target rate of 2%. Prices are therefore still rising, and overall, despite RPI being 4.5%, rents are rising at a slower pace than the rate of inflation.

Rental Tracker

AREAS	AVG. PCM	QTR CHANGE	ANNUAL CHANGE
National Avg. (NA)	£1,343	2.7%	+1.0 %
NA exc. London	£1,141	1.2%	+1.5 %
London	£2,199	5.8%	0.0 %

Source: *HomeLet Rental Index Report Sep 24*

Rental Price Tracker
London has experienced a real spike in rents over the last quarter, though still flat annually. We think this is due to the budget uncertainties triggering a reaction in London in particular, with pre-emptive rent increases in some prime and super prime postcodes.

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R3 Prime Index

Index **136.9**

4.6% Annual

7.7% Quarter

R3 Super Prime Index

Index **202.9**

8.7% Annual

17.1% Quarter

Marco Previero

Director & Research Lead at R3

We may be witnessing a defensive play in prime London with Landlords anticipating a Budget hit. Many are pre-emptively raising rents today, using the current uncertainty as a lever to lock in higher returns before the fiscal landscape shifts.

R3 Indices

Frustrated with the lack of open and reliable consolidated rental data in London, R3 started its own **two rental tracking indices** in Q1 2019 for Prime and Super Prime London at 100 and 140 base

Budget uncertainty is already impacting prime London rents, triggering pre-emptive increases in postcodes like Knightsbridge, Kensington and Mayfair. This surge is evident in the sharp increase in listed rents (**FIGURE 2 below**) though the expectation is that this will soften post-budget in Q4 2025.

This is particularly prevalent in the super-prime segment (**See R3 indices above** for Super Prime at 202.9, a 17.1% increase from last quarter), where corporate or affluent tenants are perceived as more able to absorb higher costs.

SPOTLIGHT ON…

Josh Sokhal

Account Manager at R3

"Spotlight On" this quarter features our new hire since our last Newsletter: Josh.

Josh is a Londoner with strong operational experience developed in supporting high-profile individuals across the Premier League and EFL.

We're delighted to welcome him to the team here in our offices in Central London. Feel free to drop him a line on
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FIGURE 2 – QUARTERLY RENTAL % CHANGE Quarterly Prime and Super Prime Rents % change