MARKET R3VIEW

Q4 2025 : All eyes on 2026

> *Current forecasts underestimate the pressure on rental stock from cumulative fiscal burdens on landlords, combined with the untested complexities of the RRA 2025. Rents will go up by more than we think in 2026.*

R3Location
Reliability Reputation Relationships

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A look ahead – navigating a fragile stability

The general consensus amongst key commentators is that the London rental market is transitioning toward a more stable phase in 2026, characterised by moderated rent growth of 2% to 4%, sustained demand, and a new regulatory era under the Renters' Rights Act.

We feel this forecast of stability may be deceptively smooth, overlooking variables that are difficult to model with certainty, and the degree to which the Renters Rights Bill will shift the commercial nature of Landlords in London in the medium to long term.

Pressure from cumulative policy changes

Expectations of 2% to 4% annual increases suggest a rebalancing, but this hinges on a stable supply, a factor under severe pressure from cumulative policy changes affecting landlords.

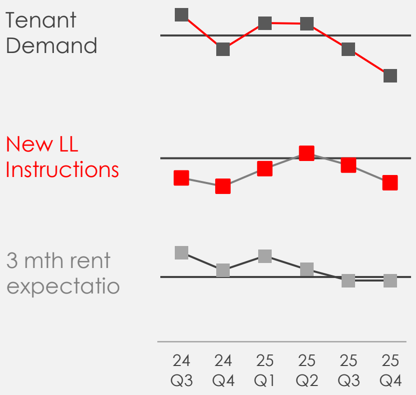
The May 2026 implementation of the Renters' Rights Act, limiting increases to once yearly, and making all tenancies periodic is the defining known variable, pushing the market toward what we might call the "professionalisation" of Landlords; and therefore upward pressure on rental levels to reflect greater costs and risks of renting as a business.

The unpredictables: Threats to equilibrium

The supply side remains, in our view, the greatest uncertainty. Cumulative adverse policies, from taxation changes like National Insurance on rental profits to the costs of complying with new legislation, threaten a more severe landlord exodus than currently priced in.

A contraction in supply against steady demand could alter the 2% to 4% growth forecast significantly, creating renewed upward pressure. The practical application of the 2026 Act is untested. Its annual increase mechanism could create perverse incentives and administrative logjams. While the directional trends for 2026 are broadly clear, many unknowns remain.

Market Pulse



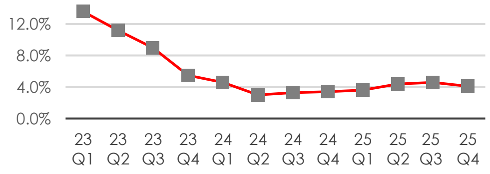
Source: *RICS Monthly Market Surveys*

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

Tenant Demand over the last three months has changed considerably, with a marked downturn leading up to Christmas. In parallel, on the supply side, Landlords' instructions have also continued to decline. Overall, there is a sense from Estate Agencies that rents should remain stable as a result of an unchanged demand/supply equilibrium.

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

RPI



OCT	4.3%
NOV	3.8%
DEC	4.2%

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

RPI All Items: % change over 12 months
RPI is a measure of inflation. RPI climbs back above 4%. This rise directly pushes up rents via indexed leases and landlord cost pressures. It will be interesting to see how, if at all, RPI will be used to dictate rent increases when the law changes in May 2026, and rental increases are limited to once a year.

Rental Tracker

AREAS	AVG. PCM	QTR CHANGE	ANNUAL CHANGE
National Avg. (NA)	£1,317	-1.9%	+2.6 %
NA exc. London	£1,124	-1.5%	+2.2 %
London	£2,129	-3.2%	2.8 %

Source: *Latest HomeLet Rental Index Report*

Rental Price Tracker
London experienced a real spike in rents over Q2 and Q3 2025, so it is not surprising to see rents generally adjusting to a more natural level in the last quarter of the year (always slightly more subdued on the demand side). Overall, rents have increased at similar rates and between 2.2% and 2.8% annually.

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R3 Prime Index

Index **131.2**

⬆ **1.4%** Annual

⬇ **4.1%** Quarter

R3 Super Prime Index

Index **194.1**

⬆ **2.3%** Annual

⬇ **4.3%** Quarter

Marco Previero

Director & Research Lead at R3

> *We anticipate the supply of rental properties will suffer greatly due to cumulative adverse changes impacting landlords. This constraint, against steady demand, will exert significant upward pressure on rents. A real shame and, paradoxically, tenants will suffer the most."*

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

R3's latest indices show prime and super-prime rents are down for the quarter, though marginally up annually. This recent cooling follows a post-legislation spike in rents across both markets (**FIGURE 2**) and reflects an adjustments to higher landlord costs, like NI on rental profits and additional costs and risks associated with the new Renters' Rights Act.

How will such pressures interact with the upcoming May 2026 rules changes, which will cap increases to once yearly, and potentially temper future market movements despite underlying cost pressures, remains to be seen.

SPOTLIGHT ON…

Raj Sethi

Sales Director at R3

"Spotlight On" this quarter features our new hire since our last Newsletter: Raj Sethi

Raj brings expertise across APAC & EMEA, known for managing enterprise level mobility contracts, and drives trusted, long term corporate partnerships.

We're delighted to welcome him to the team here in our offices in Central London. Feel free to drop him a line on raj.sethi@r3location.co.uk

FIGURE 2 – QUARTERLY RENTAL % CHANGE Quarterly Prime and Super Prime Rents % change