NEWSLETTER | OCTOBER 2022



MARKET R3VIEW Q3 2022



Point of no U-Turn?

Making sense of it all

It is difficult to know how to start this update given the way in which political events are changing day to day in the UK, and the very real and material impact they are having on the economic landscape. Let's go back to basics then and look at higher level, longer term indicators.

Demand-Supply imbalance

Looking at the broader, longer term trends, stock levels are low by historical standards, predominantly as a result of sustained demand (higher than historical standards) over the last year. High demand and low supply inevitably leads to upward pressure on rents. R3's own research suggests that rent levels in London are up by some 17% to 19% annually, with the sharpest increase in the last quarter. So what next?

Uncertainty and predictions

makes Uncertainty always predictions more difficult. Up until Making prediction on rents is mid-October, we did expect things to settle but then the mini-budget and subsequent U turns, and latest resignation happened, with significant repercussions for the mortgage industry.

The mini-budget

increase in the cost of borrowing, and uncertainty on the sales market onset of 2021.

may drive buyers to defer any purchase, opting to rent in the short term, and sellers to switch to putting properties on the rental market. If a shakier sales market creates more landlords than prospective tenants, then rent levels may well start to decline. If the opposite is true, upward pressure on rents will continue its current trend, on the basis that demand driven by international travel - in London particularly - remains at current levels.

What of 2023?

difficult at this stage. FIGURE 5 shows forecasts from three prominent Estate Agents - but these will undoubtedly be revised over the coming month (if they haven't been already) with the possibility that we will see some Estate Agencies suggest a decline in rent What to make of all this? The over the next two years to bring London back to levels seen at the

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



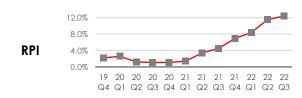
For the Quarter

100.8

OECD UK Business Confidence Monitor

Unsurprisingly, business confidence is declining, and declining at a faster rate in the UK than the rest of OECD countries, with September 22 confidence standing at 99.7. This is reflection of the current perceived political and financial instability resulting from the current political environment.

Source: OECD data – amplitude adjusted base 100



Jul 12.3% Aug 12.3% Sep 12.6%

RPI All Items: % change over 12 months

RPI is a measure of inflation. The BofE is set to raise interest rates by as much as 1% at its meeting on 3 November after inflation returned to a 40 year high of 10.1%. Both inflation and RPI have broadly stabilised but higher borrowing costs are set to have an effect on the property market over the next 12 months.

Source: Office of National Statistics - Retail Price Index

Rental **Tracker**

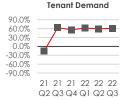
AREAS	AVG. MTH	QTR CHANGE	ANNUAL CHANGE
National avg. (NA)	£1,159	+4.1 %	+9.3 %
NA exc. London	£ 961	+2.7 %	+7.6 %
London	£1,945	+5.3 %	+11.0 %

Rental Price Tracker

Prices continue to increase from the combined effect of low supply and three months of seasonally high demand over the summer. The current political crisis may not help matters in the medium term with an expected possible slow down on the sales market, forcing potential buyers to rent instead.

Source: HomeLet







New LL Instructions



21	21	21	22	22	22
Q2	Q3	Q4	Q1	Q2	Q3

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

A surprisingly stable picture here showing a broadly flat line across the three indicators. This is contradictory to current market conditions characterised by low stock and strong pressure on rents pushing prices up. We are not entirely sure what to make of this, so would inject caution on reading too much into it.

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.

The combination of continued low supply of stock, and sustained high levels of demand over the summer months, has had a material impact on the rental market. Prices have experienced a sharp increase. R3's expectation is that this will settle, subject to any longer term impact of the "minibudget" on the sales market.

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 ■ R3-P Index Super Prime Index Prime Index

R3-Ave. Yield %



Marco Previero

Director and Research Lead at R3

"Rent levels in London are up by some 17% to 19% annually, with the sharpest increase in the last quarter reflecting a continued squeeze on stock levels as a result of increased demand over the summer period – always a busier time for the relocation industry and people moving. We expect things to settle over the coming months."

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. 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



"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."

at R3

FIGURE 5 - Spotlight on... forecast

Every quarter R3 includes a Spotlight On section. This month, the focus is on rent level forecast over the coming years.

Forecasting isn't straightforward at the best of times (in fact, like the weather, the more into the future we look, the less likely we'll get it right). In the current economic environment, with upward pressure on inflation and interest rates, and a cost of living crisis – it's almost impossible - so reader beware of how you interpret these figures as they probably can't be relied on!

FIGURE 5 - SPOTLIGHT ON... RENT FORECAST

High level view of latest available rent forecast from three key estate agents

LONDON		2023	2024	2025	2026
Knight Frank		3.5%	2.5%	2.5%	2.0%
Savills		4.0%	3.5%	3.5%	3.0%
Hamptons Int'l		6.0%	5.0%	5.0%	-
	AVERAGE	4.5%	3.7%	11.0%	2.5%
UK WIDE		2023	2024	2025	2026
Knight Frank		3.5%	3.0%	3.0%	2.5%
Savills		3.7%	3.2%	3.2%	3.0%
Hamptons Int'l		5.0%	5.0%	4.0%	-
	AVERAGE	4.1%	3.7%	3.4%	2.7%

Source (for tables on the right):

- 1. Knight Frank (06/22) UK House Price Forecasts revised up for 2022 Weblink
- 2. Savills Market Update (10/22) Weblink
- 3. Hamptons Autumn forecast 2022 Weblink

R3 forecast **UK WIDE**

LONDON **PRIME**

LONDON SUPER PRIME 2.0%