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R3Location
Reliability Reputation Relationships

MARKET R3VIEW Q1 2022

Q1 2022

A strong start to the year

A landlord's market

The rental market has remained favourable for landlords in the last quarter. Pressure on supply endures, and coupled with high demand, this continues to put upward pressure on rents, with increases somewhere between 3% and 5% in central London depending on neighbourhoods. This is even more marked on an annual basis with rent increases up in the high 20s in some areas. We were coming out of the pandemic in 2021, but rents are currently also higher than they were at pre-pandemic levels by some 7% to 8% on average in London.

Demand still strong

Whilst there are signs that demand may be levelling off – in particular against the last two quarters – it is still elevated and international relocations are seeing record highs in terms of number against pre-pandemic levels. Additionally, whilst the rate of increase in demand has slowed down, it is still higher against a slower growing stock supply.

Supply still an issue

This imbalance is creating upward pressure on rents and the last quarter has been a challenging quarter for prospective tenants.

For mid to high tenancies in particular, we are seeing bids at above asking price with multiple offers being put on the table. Prospective tenants have to act quickly and decisively.

Calmer times ahead?

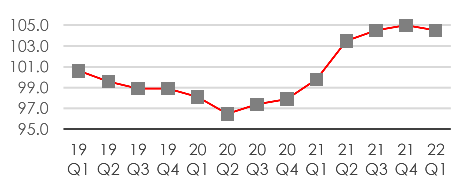
R3 believes we may now have reached the peak of this imbalance between sustained high demand on the one hand, and lack of stock on the other. There are signs the market is beginning to stabilise, this despite recent macro headwinds generated by global events, such as the conflict in Ukraine, and pressure on energy prices.

The latter is beginning to affect renters with the recent increase in the energy price cap - the maximum price suppliers can charge households – seeing average annual bills go up by £700.

Some challenging market conditions ahead still.

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

Business Confidence



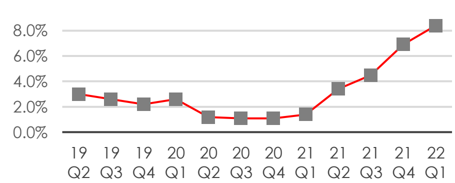
For the Quarter

104.5

OECD UK Business Confidence Monitor
Business confidence has peaked in the previous quarter and is now showing signs of decline in the quarter, trending downwards. However, in contrast with previous quarter, this is not out of line with the OECD consolidated index – a reflection of the recent instability, in particular relating to the war in Ukraine.

Source: *OECD data – amplitude adjusted base 100*

RPI



Jan	7.8%
Feb	8.2%
Mar	9.0%

RPI All Items: % change over 12 months
RPI is a measure of inflation. The Office for Budget Responsibility inflation forecast has almost doubled as a result of the surge in global energy prices and the impact of sanctions against Russia. It is now expected to peak at 8.7% this winter; a stark increase from its October 2021 forecast predicting 4.4 % in April 2022.

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

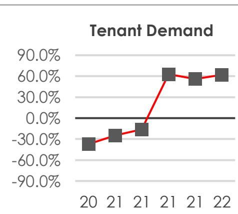
Rental Tracker

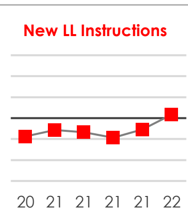
AREAS	AVG. MTH	QTR CHANGE	ANNUAL CHANGE
National avg. (NA)	£1,078	+1.7 %	+8.7%
NA exc. London	£ 910	+1.9 %	+11.6%
London	£1,770	+1.0 %	+7.4%

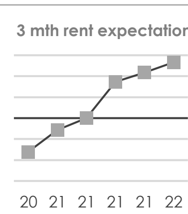
Rental Price Tracker
Average rent is going up across all regions; by 8.7% nationally, and 11.6% and 7.4% in the regions (excluding London) and in London respectively year on year. The trend continues to be upwards against the previous quarter too with the market driving rents slowly up.

Source: HomeLet

RICS Lettings Survey (London)







3 mths % change responses (down/up/same)
Three-months tenant demand has levelled off. Supply levels are also now beginning to show some positive signs but expectations from Agents of rent increase over the next three month is still high. Nevertheless, we may begin to see some signs of a less competitive rental market for the rest of 2022.

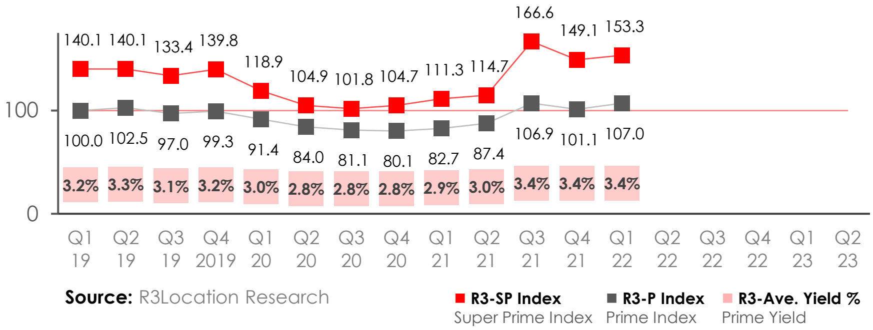
Source: *RICS Monthly Market Surveys*

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.*

Whilst stock levels are picking up, demand is still outstripping supply. This has continued to put pressure on rents – now higher than pre-pandemic levels. R3-P stands at 107.0 this quarter against 99.3 just prior to COVID restrictions being implemented, with a similar trend identifiable for R3-SP. It looks like the market is stabilising, though.

FIGURE 3 – R3 RENTAL INDEX & YIELD

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



Source: R3Location Research

Marco Previero

Director and Research Lead at R3

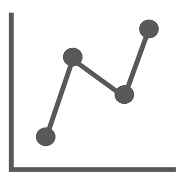
"Q1 2022 has been a very tough market for tenants. Demand outstripped supply for much of the quarter. Good properties are often being agreed at more than asking price, and are frequently receiving multiple offers from prospective viewings. However, there are signs the market is stabilising and rent levels will begin to level off."

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.

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…

Utility costs

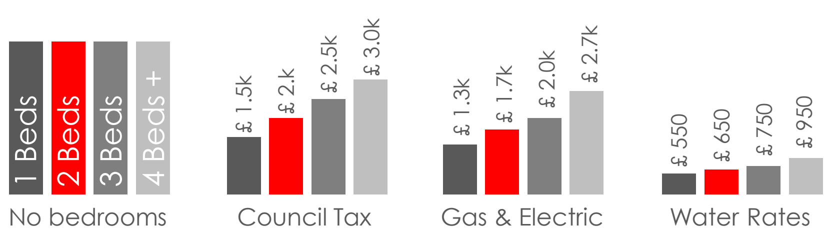
Every quarter R3 includes a Spotlight On section. This month, the focus is on ***typical utility costs normally associated with housing in the UK.***

Unfortunately, bills associated with utilities in the UK (gas and electricity in particular) are going up because the energy price cap - the maximum price suppliers in England, Wales and Scotland can charge households - is being raised. Household can expect up to £700 more on average a year.

Energy firms have been able to increase bills by 54% following the introduction of the new cap on 1 April. The price cap is reviewed every six months, and prices are expected to rise yet again in October.

FIGURE 5 – SPOTLIGHT ON… UTILITY COSTS

High level view of annual utility costs typically associated with housing



Some useful & trusted websites

MY COUNCIL TAX	uswitch .com	Water Rates UK
Check how much your council tax is	Price comparison service for utilities	Find your supplier & information