

MARKET R3VIEW Q2 2023



Is low supply coming to an end?

A new equilibrium

The period of low supply in London is slowly coming to an end, but the replenishing of stock levels is not homogenous across the capital with popular neighbourhoods such as Kensington, South Kensington, Chelsea and Notting Hill still in demand.

Rent increases are easing, but...

As a result of this, and prospective tenants levels reverting back to levels more consistent with pre-COVID times, rent increases are beginning to ease though still on the rise (see **FIGURE 2** – R3 Rental Index).

...Mortgage rates adding pressure

Mortgage rates have risen sharply, and this may (if not already) put additional pressure on Landlords to increase rents. This could go some way to explain the rise in rental level recorded in the quarter. R3 has added to its research by tracking quarterly changes to rent (see **FIGURE 3** – Quarterly Rental % change) showing an increase in the quarter of just over 4%.

A focus on renewals

Moreover, sustained high inflation is putting additional pressure on tenants, in particular during renewals, as Landlords look to maximise rental increases at this

sensitive point. While RPI is trending downwards, like inflation (see **FIGURE 1** – Property Market Dashboards), it still came in at 10.7% in June, making it 11.2% for the quarter. These are levels not seen for a long time and will continue to put pressure on rents in the coming months.

A look ahead

As always, past performance is not always indicative of future results, and R3 expects rent level increases to slowly deflate over the remainder of the year.

Finally...

R3 has added to its AR3A Insight updates (see **FIGURE 4** – A spotlight on...) by publishing quarterly average rents to include all UK regions. Please do take time to visit our [website](#) where these updates are shared for free. R3 continues to lead the way in how it undertakes and shares research in the relocation market.

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

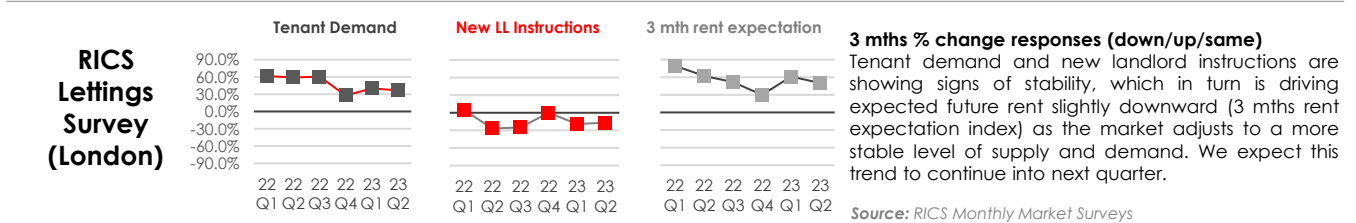
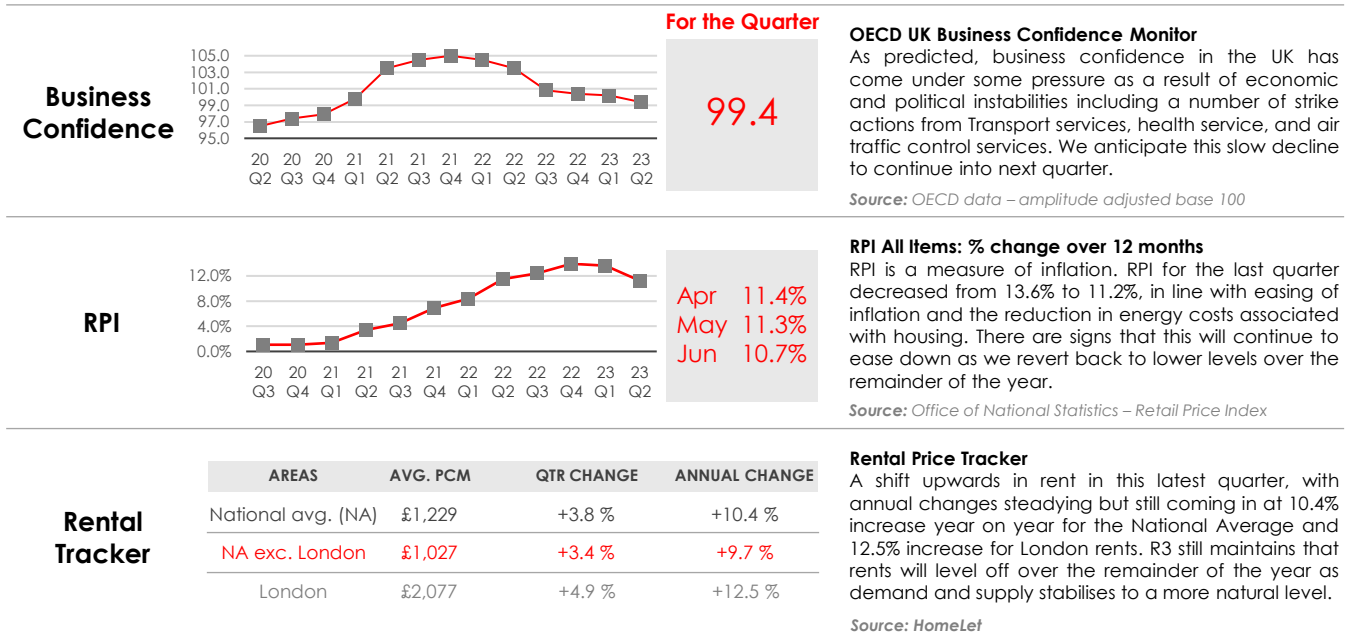


FIGURE 2 Frustrated with the lack of open and reliable consolidated rental data in London, R3 started its own **two rental tracking indices** in Q1 2019.

Rents continue to show signs of stability in Q2 2023 – but it is worth noting that rents, in London, generally, are up by some 22% since pre-COVID times. There are signs that demand is beginning to level off, but it is taking time for stock to replenish fully and this still provides further challenging conditions for prospective tenants.

FIGURE 2 – R3 RENTAL INDEX & YIELD

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

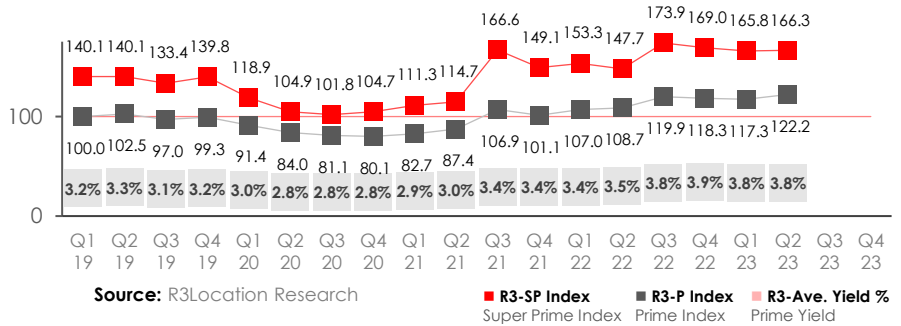
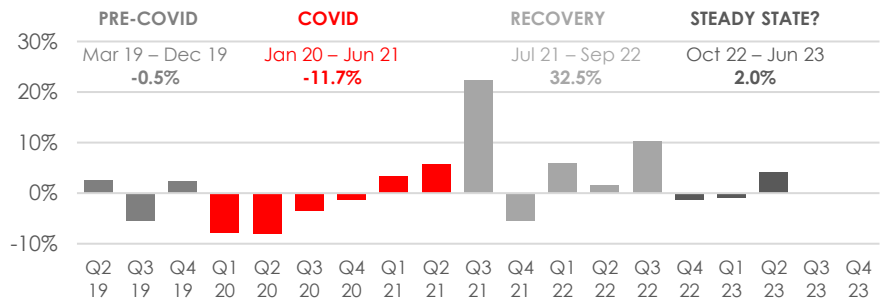


FIGURE 3 Quarterly Prime and Super Prime Rents % change since Q2 2019.

While rents are up some 22% since pre-covid times, rental levels in London have been affected – as one might expect – by COVID and the resulting increase in demand following the lifting of international travel restrictions. It seems we have now entered a flatter period where rents have increased by some 2% since October 2022, with some prospect of further stability ahead.

FIGURE 3 – QUARTERLY RENTAL % CHANGE

Quarterly Prime and Super Prime Rents % change



Marco Previero

Director and Research Lead at R3

“Rental prices remain historically high, and higher than at pre-pandemic levels. These remain challenging times for tenants and it is critical for clients to use a trusted, specialist destination services company like R3, with depth and breadth of in-house resources and expertise to maximise support for their employees moving to the UK”

FIGURE 4 – Spotlight on...

Every quarter R3 includes a Spotlight On section. This month, the focus is on **our AR3A Insights research**.

R3 is the only relocation company in the UK providing free, relevant, qualitative research on the market for corporates and the relocation industry.

Every quarter, R3 produces its own rental postcode and area research analysis which it publishes on its website and is available to all. R3 has published its latest AR3A Insights research to include London, the lower Thames Valley region, and Birmingham and its commuter belts.

In line with our expanding remit as UK expert, R3 is now also producing quarterly Regional AR3A Insights with average rent information for each of the ten regions of the UK.

FIGURE 4 – SPOTLIGHT ON... AR3A INSIGHTS

Every quarter, R3 produces AR3A insights summaries and we are adding to it!

For the full-scale version, please visit our website by following this [LINK](#).

