

MARKET R3VIEW Q3 2023



The market continues to be challenging

Rents keep on going up

We mentioned last quarter that past performance is not always indicative of future events, and that our expectation was that rent level increases would slow down over the remainder of the year. Well, they haven't. In fact, rents have grown more in Q3 than they had in

in Q2 going from 4.2% increase from April to June 2023 to 4.8% for July through to September (see **FIGURE 3** – Quarterly Rental % change). That's a cumulative increase, over six months, of 9.0% for London's Prime and Super Prime markets.

What is driving the increase?

Pressure on rent levels in the past were probably more driven by a sustained high level of demand, and resulting depletion of stock levels. Of late, increased mortgage costs and increased regulatory compliance faced by landlords have further depleted the number of properties available on the market. Fewer properties (i.e. less supply) has led to stronger than expected rental growth.

Not great for tenants – but it is worth remembering that landlords have not benefited evenly from higher rents as a result of sustained pressure on financing costs and lower resulting profit margins.

The tide is shifting

The market therefore still favours landlords but the tide is shifting, with **R3's recent research** suggesting that there is a softening taking place with a move more towards a balanced position between tenants and landlords.

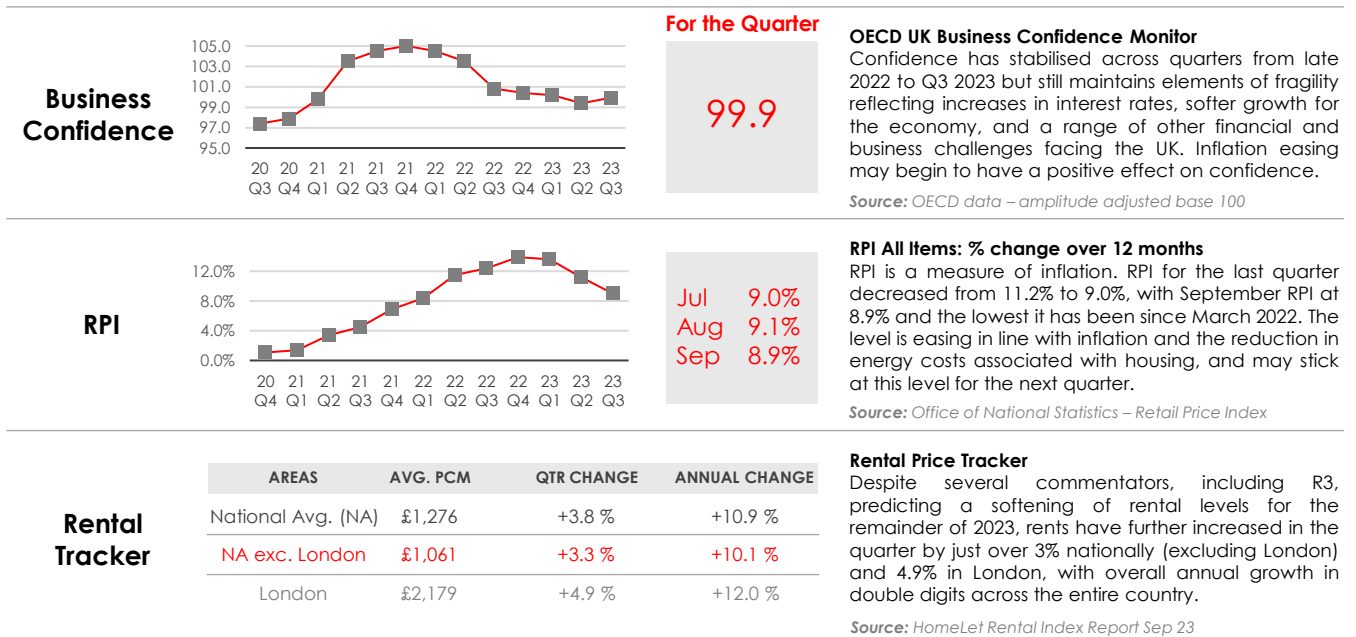
A look ahead

Looking at this trend generally, it is clear that the shift is happening across the market as a whole and it is R3's expectation that rent levels over the next 12 months will not exhibit the same rate of growth as has been the case in the last year.

Finally...

It is worth remembering that draft legislation in the form of the Rent (Reform) Bill is very slowly working its way through parliament (see **FIGURE 4** – a spotlight on... and previous **Newsletters**). This may yet have further effects on an already tight rental market. Watch this space...

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



OECD UK Business Confidence Monitor

Confidence has stabilised across quarters from late 2022 to Q3 2023 but still maintains elements of fragility reflecting increases in interest rates, softer growth for the economy, and a range of other financial and business challenges facing the UK. Inflation easing may begin to have a positive effect on confidence.

Source: OECD data – amplitude adjusted base 100

RPI All Items: % change over 12 months

RPI is a measure of inflation. RPI for the last quarter decreased from 11.2% to 9.0%, with September RPI at 8.9% and the lowest it has been since March 2022. The level is easing in line with inflation and the reduction in energy costs associated with housing, and may stick at this level for the next quarter.

Source: Office of National Statistics – Retail Price Index

Rental Price Tracker

Despite several commentators, including R3, predicting a softening of rental levels for the remainder of 2023, rents have further increased in the quarter by just over 3% nationally (excluding London) and 4.9% in London, with overall annual growth in double digits across the entire country.

Source: HomeLet Rental Index Report Sep 23

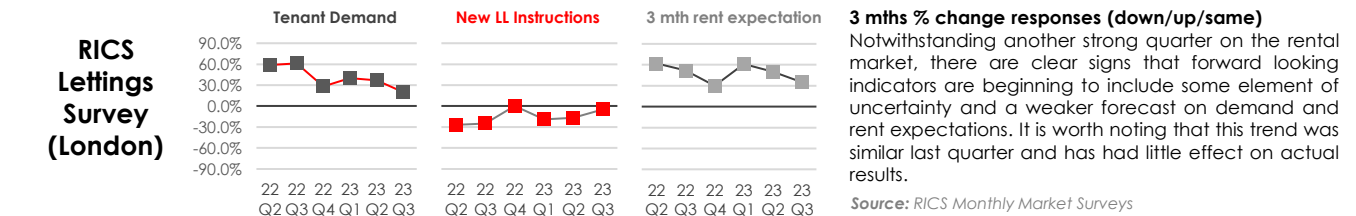


FIGURE 2 Frustrated with the lack of open and reliable consolidated rental data in London, R3 started its own **two rental tracking indices** in Q1 2019.

Pressure on rent levels continued in this quarter with Prime and Super Prime now 30% up on pre-COVID levels. This sustained growth has been fuelled by declining stock levels resulting from high borrowing costs and regulatory and financing pressures on landlords. We expect rent levels to slow down over the next 12 months, however.

FIGURE 2 – R3 RENTAL INDEX & YIELD

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

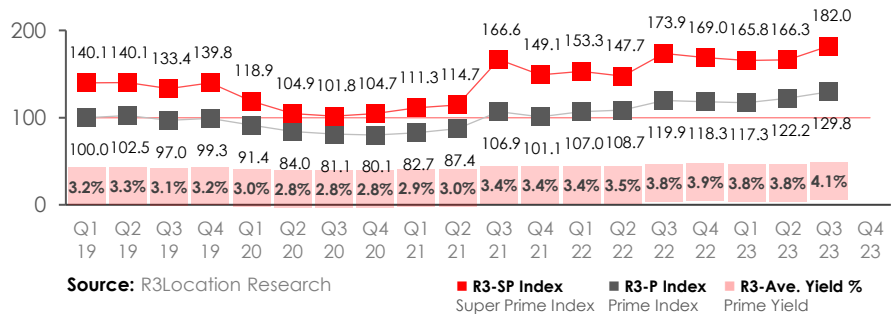
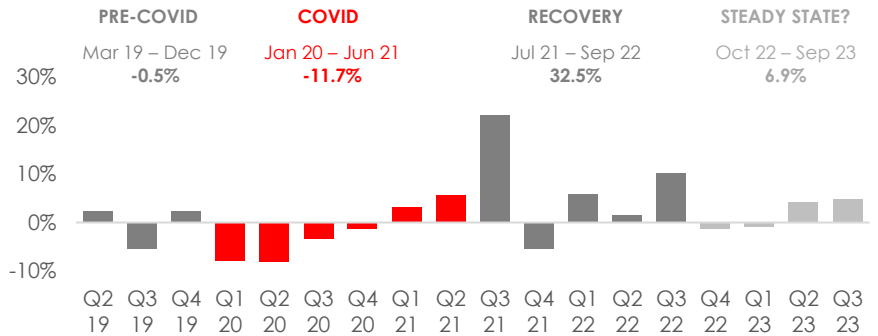


FIGURE 3 Quarterly Prime and Super Prime Rents % change since Q2 2019.

Rent levels in Prime and Super Prime rental markets in London have increased by 4.8% in the last quarter, having already posted a growth of 4.2% in Q2 2023 and are up by 8% for the year. Making predications in the current market is difficult and whilst demand maintains its steady decline, stock levels are not replenishing as quickly as initially anticipated.

FIGURE 3 – QUARTERLY RENTAL % CHANGE

Quarterly Prime and Super Prime Rents % change



Marco Previero

Director and Research Lead at R3

“While rental levels remain high, financial and regulatory pressures, and numbers of internal assignment reverting back to levels more aligned with pre-COVID times, should begin to have some effect on the rental market and we anticipate a slower pace of increase over the coming months than has been experienced in the past.”

FIGURE 4 – Spotlight on...

Every quarter R3 includes a Spotlight On section. This month, the focus is on the **Renters (Reform) Bill**.

This Bill represents the biggest change in the regulation of the private rented sector for over two decades. It is currently slowly making its way through Parliament, with a second reading undertaken. It is unclear whether all measures will remain as detailed in the draft legislation (concession on s21 has already taken place with a postponement of that measure beyond 2024) and it is possible that the introduction of new requirements will be made in stages across 2024. On the right are the main changes proposed, and notably a move to periodic tenancies (abolition of s21 has now been postponed). R3 will continue to monitor the bill closely as it moves towards becoming law.

FIGURE 4 – SPOTLIGHT ON... RENTERS (REFORM) BILL

The bill will look to introduce several changes to the way properties are let

