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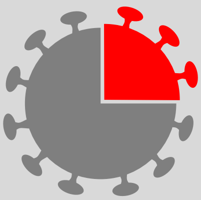
Reliability Reputation Relationships

MARKET R3VIEW Q1 2020



Q1 2020

COVID 19 Special

The year had started so well…

2020 had every promise to be a great year for the relocation industry, with a new Conservative majority in place to provide stability and comfort for large organisations to start moving people across to the UK after a subdued Brexit period.

The resurgence was stopped in its tracks by COVID19, the consequence of which we have all been experiencing first-hand since the beginning of March – and much earlier in Asia.

Caveat – handle with care

This quarterly update has, by necessity, diverged slightly from our usual market review. The rental market, like any market, is dependent on transactional volume for figures and trends to acquire any meaning.

So any numbers you see here are likely going to be out of date within a couple of weeks, if not before.

Research out there which talks about the "softening" of short-term prices, or compares this week to last week, fails to consider that the pause button has effectively been pressed on both the rental market and the sales market. Only transactions which have started prior to the crisis are completing – and even those not without some challenges. And so market values have not yet reflected the potential downturn that COVID 19 will have on this industry.

We're not into predictions

It seems every company has turned into epidemiology experts. R3 does not fall into this category. Instead of trying to predict the unpredictable, in an area we are astronomically unqualified to comment on, we will set out two possible scenarios based on leading research organisations' modelling and see if we can infer any possible consequences on the relocation industry and more specifically, knock-on effects on residential lettings and movement of people into the capital.

It's the economy… as always

London and the letting industry in the capital are intrinsically linked to the global economy. When the global economy does badly, the letting market suffers.

Figure 1 sets out two possible scenarios, with at best, a recession towards the end of Q2 beginning of Q3 which will take a good 12 months to recover from and worst at a contraction of the global economy which will take years of effort to redress.

So what's next?

Who knows what the next two critical months will bring. What is already evident is that the advertised rents for prime and super prime rental markets in London are showing signs of decline from Q4 2019, with a like for like decrease of 8% and 15% respectively (see **Figure 3** – R3 Indices). R3 believes those numbers are still inflated by very low transactions currently going through. Landlords still retain some hope value that things will get back to normal once the crisis is averted. Perhaps.

Or perhaps not

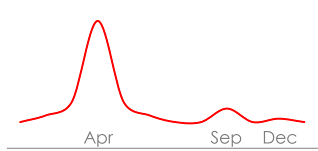
Being too optimistic about demand recovery can be a problem in itself. What's clear is that the world needs to, collectively, solve for both the virus and the economy and strive to ensure most people can have both their lives and livelihood back as soon as possible. It certainly won't be easy.

FIGURE 1 – Scenario planning: Possible scenarios for the relocation industry

Scenarios | **How will the virus spread?** | **What will it mean for the rental market in London?**

Progressive recovery

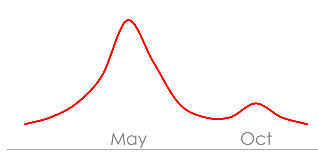
New cases rise till mid-April but slowed by effective implementation of social-distancing measures and remote working. Late seasonal resurgence more effectively managed.



- sharp initial fall in demand as a result of lockdown
- likely rise in unemployment and fall in revenues may lead to recession late Q2 start of Q3
- rental market takes a hit both in transactional volume and rent levels
- COVID and BREXIT may lead to longer term drag on inbound assignees and depress rental market

Delayed revival

Peak not observed till early summer, with virus resistant to changes in temperature leading to shallower tail slope of reducing cases. Restrictive measures stay on for longer than anticipated.



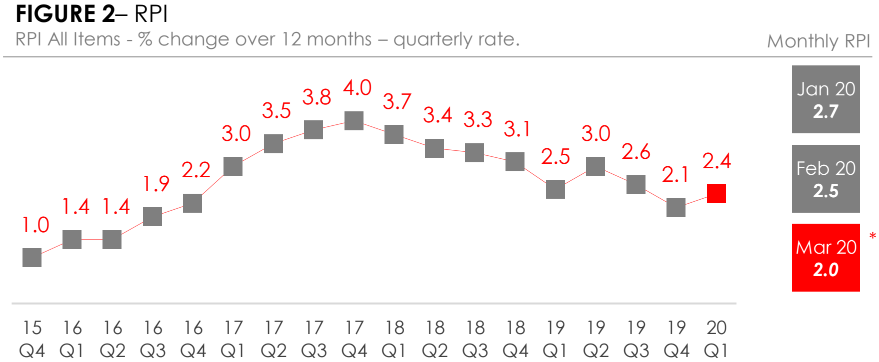
- sharp initial fall in demand as a result of lockdown
- prolonged lockdown leads to high unemployment due to business failures and therefore fewer moves
- Banks and financial system under severe pressure, with adverse effect on rental demand in London
- Global economic downturn severe leading to long term recession and drag on rental market demand

FIGURE 2 RPI shows the changes in the cost of living. It reflects the movement of prices in a range of goods and services used regularly, and significantly for rentals, it includes a high weighting on costs associated with housing.

Projected rate of inflation shows a decrease of nearly 18% from February to March and this may not be the full picture. Even though the average RPI for the quarter shows an increase against Q4 2019, this has been inflated by a high January. Expect a steady decline going forward.

FIGURE 2– RPI

RPI All Items - % change over 12 months – quarterly rate.



Source: *Office of National Statistics*

* Estimate

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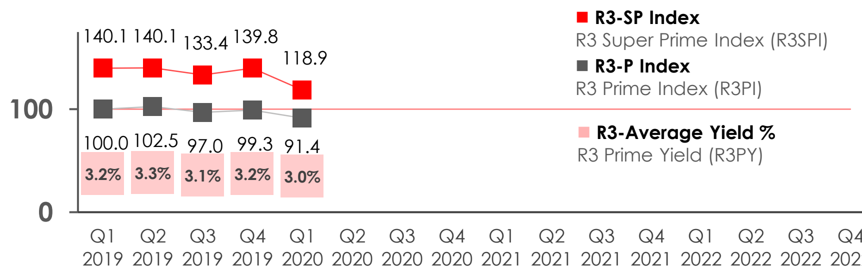
FIGURE 3 Frustrated with the lack of open and reliable consolidated rental data in London, R3 started its own **two rental tracking indices** in Q1 2019.

Both Prime and Super Prime indices have declined as a result of COVID19. This is a substantial fall in listed rentals across London. Moreover, given the imperfect market conditions, these indices need to be viewed with caution and an expectation that they may fall even more over the coming weeks.

FIGURE 3 – R3 RENTAL INDEX & YIELD

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



Source: R3Location Research

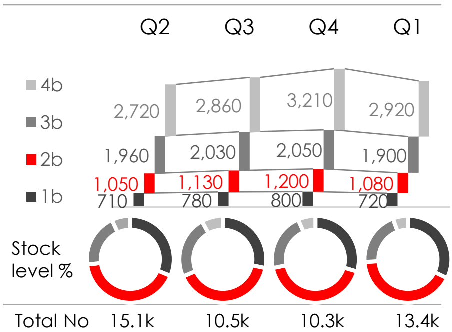
Marco Previero

Director and Research Lead at R3

"Advertised rents for both prime and super prime have declined by 8% and 15% respectively since the end of last quarter. But very little reliance can be placed on data and predictions at the moment as we lack any level of transactional volume to indicate where the point of equilibrium between supply and demand of properties might be. "

FIGURE 4 – AVERAGE RENT LONDON

Average weekly rent and size for Central London



Source: Home.co.uk

FIGURE 4 This provides a snapshot of average weekly rent for 1 through to 4 bedroom properties, as well as proportion of number for each size, and total number of listed properties in central London.

The trend for advertised rents for the whole of London is following prime and super prime with a fall across all bedroom categories as well as an increase in stock availability (people not moving). Worth noting stock level still lower than broadly same time last year when we were in full Brexit-mode.

Anna Barker

Director and Operations Lead at R3

"The London residential market has hit the pause button, as have many other industries. Very little is happening and likely to happen over the coming weeks."

FIGURE 5 – Spotlight on… Business Continuity Planning

Every quarter R3 includes a spotlight on section. This month, the focus is on **Business Continuity Planning**.

COVID 19 has disrupted companies' workforce, their clients, technology and business partners. No one has been immune (forgive the pun). And it has been a reminder of how interconnected we all really are.

Navigating the current environment is critical, as is protecting people's health at a time of crisis. This quarter, we set out how the different services related to our domestic industry have been affected, and how they have changed to adapt to new working norm so as to best continue to support clients.

FIGURE 5 – SPOTLIGHT ON… Business Continuity Planning

R3's working norms have changed to help in each and every area listed below