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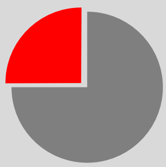
R3Location
Reliability Reputation Relationships

MARKET R3VIEW Q4 2019



Q4
2019

Brexit outcome gets resolved

A conservative majority

Many predict greater confidence in outlook as more political certainty returns to the UK following the recent general election.

A conservative government may well promote momentum in the housing market – in particular the sales market which has suffered the most in the last three years.

London economic outlook

Whilst the passing of the withdrawal bill is expected to take the UK out of the EU by 31 January, the exact terms of the new trade relationship between the UK and the EU remains uncertain. The market did not react well to the news the Government was planning to implement legislation blocking extensions of the transition period at the end of 2020.

Hard Brexit still a possibility

What this effectively means is that a hard Brexit is still an option very much on the table and the market and current predictions made by Agents may be conflating the removal of political uncertainty in the short term, with the possible reversal of economic impact of a harder Brexit than anticipated in the long-term.

Local demand vs global trends

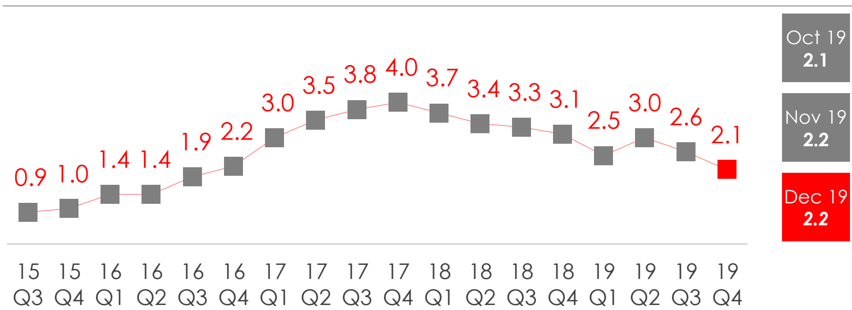
In spite of these long-term uncertainties remaining, tenants will continue to experience a strong Landlord market as a result of two overriding trends. The first is a boom to buyers' sentiment with some release of pent-up demand that has built in recent years. This will lower stock available on the rental market, especially for properties at the £1k - £5k a week level.

Secondly, continued affordability issues will continue to exert pressures on the renal market generally, with nearly a third of tenancies now being transacted with private individuals and families.

So what's next?

In the short-term, rents may experience some increase as a result of this. Some Agents are predicting 2% a year on average for prime and super prime London over the next 5 years. This seems over-optimistic but should not be entirely discounted until we get final clarity on Brexit following the transition phase.

FIGURE 1 – RPI
RPI All Items - % change over 12 months – quarterly rate.

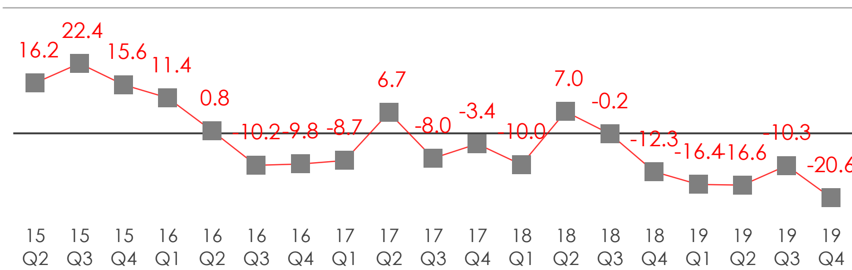


Source: Office of National Statistics
* Estimate

FIGURE 1 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.

RPI, following a reversal of its downward trend in Q2, continues to decline. Uncertainties in the property market (sales) relating to Brexit in the last quarters have dragged this down further to 2.1% and it is possible that we are now entering a period of stability on this index over the next quarter.

FIGURE 2 – BUSINESS CONFIDENCE INDEX
Trend in UK Business Confidence



Source: *ICAEW Business Confidence Monitor Index™*

FIGURE 2 Business Confidence as published by ICAEW. This is now at its lowest level for a decade.

However, much of this relates to political uncertainties which existed at the time of publishing including possible outcomes of the general election and resulting uncertainties surrounding Brexit. Now that there is more political clarity, it is possible that business confidence will increase in the short-term but may show some signs of caution as the December 2020 deadline approaches .

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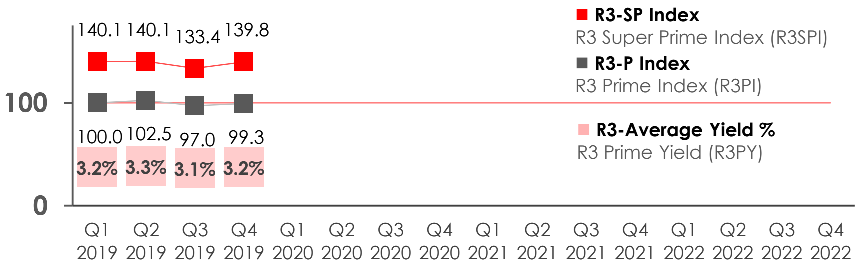
FIGURE 3 Frustrated with the lack of open and reliable consolidated rental data in London, R3 started its own **two rental tracking indices** in Q1 2019.

Prime and Super Prime Indices have finished the year where they started and shown great resilience against a backdrop of significant political uncertainty. Partly, this is due to London being more aligned to global trends rather than local and regional ones, partly, this is due to continued high demand for rentals generally.

FIGURE 3 – R3 RENTAL INDEX & YIELD

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



Source: R3Location Research

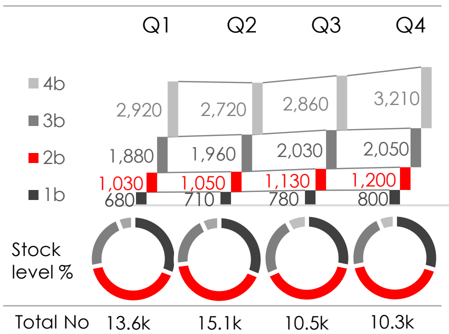
Marco Previero

Director and Research Lead at R3

"It will be interesting to see how the property market will react to the much clearer prospect of the UK leaving the EU on 31 January 2020. Generally, the London Market has been more affected by broader global trends on the one hand, and the continuing local pressures on home affordability driving demand for rentals up on the other."

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 low average level of stock continued in Q4 2019, with the market being affected by prevailing uncertainties relating to the General Election and Brexit. Average rents are up against each category of size, and in line with trends identified in the quarter for R3 Rental Indices above.

Anna Barker

Director and Operations Lead at R3

"More political certainty over the next 12 months and higher local demand is likely to see some upward pressure on rents over the quarters in London and the South East"

FIGURE 5 – Spotlight on…

London's complexity

Every quarter R3 includes a spotlight on section. This month, the focus is on **London's complexity as a rental market**.

London is not just one market – it is several distinct markets all different from each other in terms of price, quality, mix of size and nature of properties, total stock levels and demand.

As illustrated on the right, over a relatively central area of London, across six prime neighbourhoods, the rental market stats can be very different shifting from markets that are tenants' biased to markets that favour Landlords in their make up. R3 leads the way across all of London and is ready to help provide insightful advice to clients and assignees.

FIGURE 5 – SPOTLIGHT ON… **The complexity of the London rental market**

London is not just one market. London is several micro-markets all different form each other