■ info@r3location.co.uk
■ 44 0203 463 9774
■ www.r3location.co.uk

R3Location
Reliability Reputation Relationships

MARKET R3VIEW Q2 2019

Leadership election dominates

Brexit. Yes, still Brexit

The extension of Article 50 to the end of October and a new leadership election have dominated the quarter.

There remains considerable uncertainties about the outcome of the Brexit process.

Is future rental demand at risk?

This is clearly affecting how companies choose to invest now and in the future.

With London and the South East hosting 55% of the world's largest 500 companies' HQs, the reputational risk from a drawn-out process should not be underestimated.

London showing resilience

Despite indicators of economic sentiment declining, London is showing resilience, with some signs of growth, and expected growth, in the coming few years. GLA's[1] recent forecast sees increases in the number of workforce jobs in London for 2019, 2020 and 2021. Good for future rental demand.

A boost in demand

In addition, and somewhat counter-intuitively, these continued political uncertainties have boosted current tenant demand in London.

Against the same period last year, the number of prospective tenants registering with agencies is up, the number of viewings are up, and the number of tenancies agreed for corporate relocations are up too.

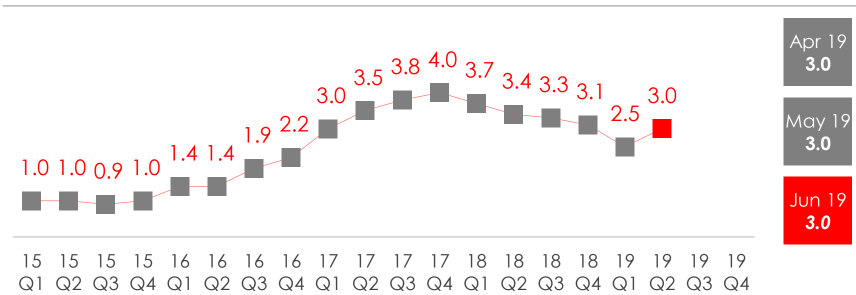
Some agents attribute this trend to the recent introduction of the tenant fee ban, eliminating tenant's administrative costs associated with renting properties at £100k a year and below. R3 is less convinced this is the case, given the ban only came into effect in June.

31 October – what next…?

What's very possible, however, is that this upward trend will show signs of decline the closer we get to the new end-of-October deadline for Brexit.

For now, London is enjoying a revival and this in turn is putting upward pressure on rent and availability of stock.

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



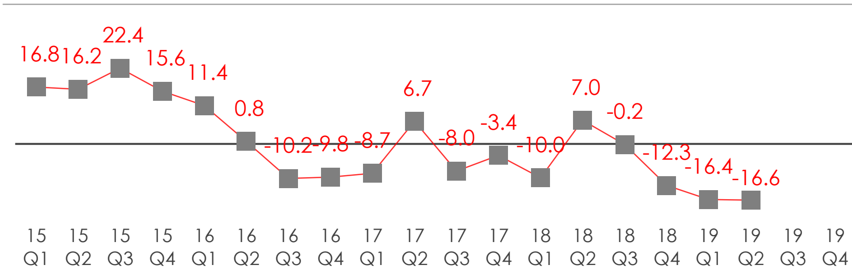
Source: Office of National Statistics

* 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 is used mostly in the context of up-lifts in rent on annual renewals and has seen it's first increase since the last quarter of 2017. Upward pressures in rent over the last six months, and price increases linked to RPI in January may be the cause of this (probably) temporary raise.

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 continues to decline and at -16.6 is at its lowest in a decade. Wonder why…?

It has fallen almost continuously for the past five years. And whilst the rate of decline has decreased, considerable uncertainties about the outcome of Brexit remains the principle explanation about the subdued current sentiment.

1 – Greater London Authority's London's Economic Outlook: Spring 2019 (June 2019)

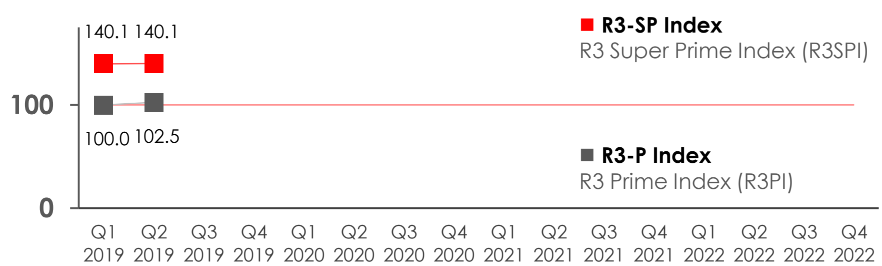
R3Location
Reliability Reputation Relationships

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

Super Prime Markets show some stability in rent with Prime Market's rental value showing an increase on listed rents of 2.5%. This may be linked to a very strong demand in the quarter – highest against the same period last year, and diminishing stock of good quality family homes.

FIGURE 3 – R3 RENTAL INDEX

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



Source: R3Location Research

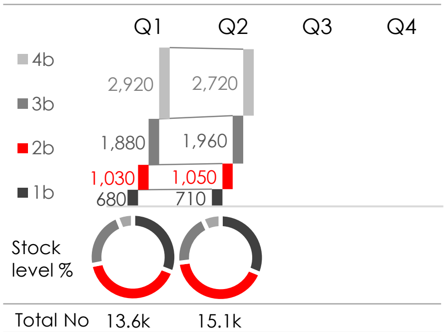
Marco Previero

Director and Research Lead at R3

"This current quarter has seen a rise in prospective tenants, a rise in the number of viewings and a rise in the number of tenancies agreed at £5,000+ a week against the same period last year. It is possible this is – somewhat counter-intuitively – linked to the current political uncertainty with more people choosing to rent rather than buy."

FIGURE 4 – AVERAGE RENT LONDON

Average weekly rent and size for Central London



Source: Home.co.uk

FIGURE 4 Figure 4 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.

Other than 4 bedroom properties, there has been a consistent increase in average weekly rent for 1 bedroom through to 3 bedrooms in London overall. This is consistent with what R3 is observing in Prime and Super Prime markets.

Anna Barker

Director and Operations Lead at R3

"We are experiencing a Landlord's market at the moment. Good properties are going quickly and, more frequently than in previous quarters, not even hitting the open market."

FIGURE 5 – Spotlight on… Kensington (W8)

Every quarter R3 provides market information on a single Prime or Super Prime London postcode or other issue relevant to the rental market. This quarter the focus is **W8** (**Kensington**).

Kensington lies within the Royal Borough of Kensington and Chelsea. Its main underground stations are the District and Circle lines, linking High Street Kensington at its heart – with all its rich shopping legacy - to the City on the East side of it.

W8 includes many Prime and Super Prime areas, but some value can still be found as can be seen on the spread of rents, especially for larger properties such as 4 and 5 bedroom houses.

FIGURE 5 – SPOTLIGHT ON… Kensington (W8)

Average weekly rent for 1, 2, 3 and 4 bedroom properties, and distribution