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MARKET R3VIEW
Q3 2020

Q3
2020

Caught between a COVID and a hard Brexit

In the wake of Tier 2 restrictions

London has recently woken up to Tier 2 restrictions. Whilst these are targeted at reducing the R number (the rate of infection) by limiting social interactions, uncertainty prevails as to whether tougher measures affecting business and movement of people into and out of the Capital will soon be on us.

Difficult to predict, but the uncertainty will continue to have repercussions, both on the rental market and on corporates' willingness to commit to major moves over the next six months.

Rents continue to fall

Weaker demand, relatively high levels of supply accrued during and post lockdown continue to have an effect on rental values. These have steadily declined since the start of lockdown.

R3's own research on 40 popular postcodes in Prime and Super Prime estimates a decrease of some 15%-20% against listed prices since March 2020 (these can often be inflated when openly marketed). The reality is probably closer to 10% on agreed tenancies with other commentators putting it anywhere between 3% to 12% – with some suggesting this to be the "largest annual fall in more than a decade".

V shape, U shape debate

A relatively strong sales market, low interest rates, and government rescue packages aimed at safeguarding jobs should provide some comfort that this downturn is nothing like what London experienced in 2008.

However, uncertainties surrounding COVID and now no-deal Brexit being branded around again by politicians will spook the Financial Services market more than other markets, leading many institutions to delay decisions on key moves into the Capital. And this always has detrimental effects on the rental market in London.

How COVID will progress and the nature of a future Brexit deal will drive the shape of the recovery, and in turn the movement of expatriates into London, above Paris or Frankfurt (the former turning out to be a more popular alternative to the initially favoured latter).

Winter is coming…

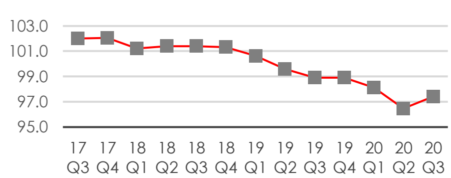
And winter is coming, to coin a phrase. The time of year certainly won't help kick-start the recovery and we will likely have to wait until early 2021 to try and predict with any degree of accuracy what the long-term future will hold.

There were some clear and positive signs that companies were starting to move executives to the Capital again post lockdown – R3 has experienced its busiest two months in over a year. For now we remain cautious about reading too much into this. Long-term doubts about the practical implications of Brexit and the prospects of a no deal exit should not be discounted and now loom increasingly larger on the fast-approaching horizon.

Business remains cautiously optimistic that the recovery will be swifter and healthier than anticipated (see Business Confidence below). For now, it seems the rental market has finally bottomed out and should, subject to getting both the virus and Brexit negotiations under control, start to show signs of revival come early 2021. Here's to hoping.

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

Business Confidence



For the Quarter

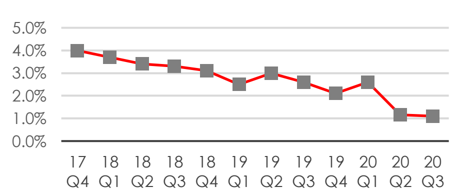
97.4

OECD National Business Confidence Monitor

Business confidence normally provides an early indication of speed of possible V shape recovery noted by many. And this quarter, BC is up from previous quarter following lifting of lockdown. Many recent development, inc. Brexit outcomes, however, are not reflected yet here.

Source: *OECD data – amplitude adjusted base 100*

RPI



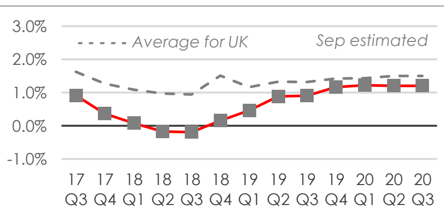
Jul	1.6%
Aug	0.5%
Sep	1.1%

RPI All Items: % change over 12 months

After showing clear signs of decline in August, unsurprisingly, reflecting some lag experienced since lockdown has lifted, RPI is increasing again and may well maintain this level for the next quarter given supply and demand is showing signs of stability.

Source: *Office of National Statistics – Retail Price Index*

London Rental Index



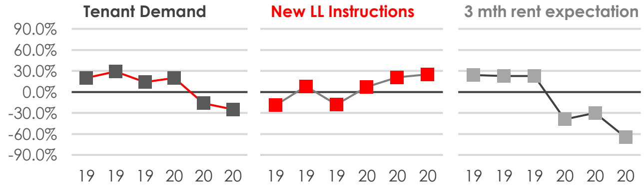
1.2%

London Private Housing Rental Prices Index 12 mth %

Across the whole of London, private housing rental index indicates stability since Q1 2020. This may well be due to lower transactional volume and with the bulk of tenants remaining in their accommodation or choosing to renew rather than move.

Source: *Office of National Statistics – London Rental Index*

RICS Lettings Survey



3 mths % change responses (down/up/same)

Tenant demand over the **last** 3 months continues to be at odds with many messaging about pent-up demand from the Letting Industry. LL instructions have maintained their positive momentum but expectation on rent levels over the **next** 3 months continue to plummet.

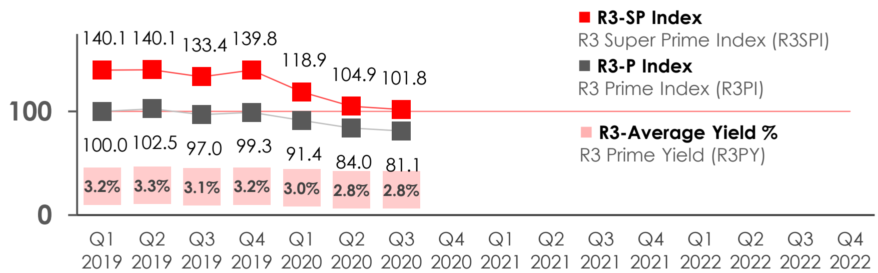
Source: *RICS Monthly Market Surveys*

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.*

Whilst we are seeing a continued decline in list prices across both Prime and Super Prime, it looks like values are beginning to bottom out and may remain depressed at this level until the early parts of 2021. Brexit and COVID-developments will play a part on whether rents will start to rise again come the new year.

FIGURE 3 – R3 RENTAL INDEX & YIELD

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



Source: R3Location Research

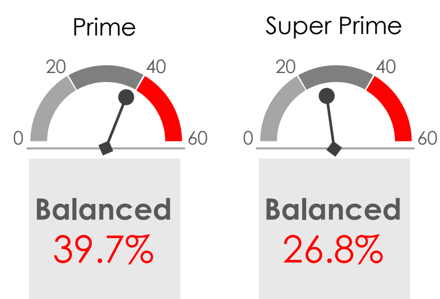
Marco Previero

Director and Research Lead at R3

"Demand in London has been affected by weaker volume of expatriates. The recent upsurge in moves experienced by many is down to several relocations being put on hold during lockdown. Nevertheless, should COVID be kept within reasonable control, and a no-deal Brexit avoided, we remain optimistic about the market in 2021".

FIGURE 4 – STOCK TURNOVER (T/O)

Average stock T/O for prime and super prime



T/O %: Tenancies agreed in the month against total available rentals

FIGURE 4 *This provides a snap shot of the type of market for Prime and Super Prime and whether it favours tenants, landlords or if it's balanced overall.*

London Super Prime has suffered more markedly than London Prime, showing a greater swing towards market favouring tenants since last quarter.

Stock levels have begun to be reabsorbed following three months of activity, and we are now experienced a more balanced, albeit relatively slow, market environment.

Anna Barker

Director and Operations Lead at R3

"Demand for best in class properties is relatively immune to the ebbs and flows of the economy. Good quality stock is still a valuable commodity in the current market"

FIGURE 5 – Spotlight on…

Business Continuity Planning Update

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

We continue to update this graphic given COVID restrictions tend to change on an on-going basis.

London was recently put on Tier 2 lockdown – broadly increasing social restrictions and mixing of households. Home finding and viewings remain unaffected by this but greater measure for tenanted properties will need to be made.

This is an ever changing environment and R3 is constantly talking to its clients to ensure they are up to date with restrictions.

FIGURE 5 – SPOTLIGHT ON… **Business Continuity Planning Update**

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