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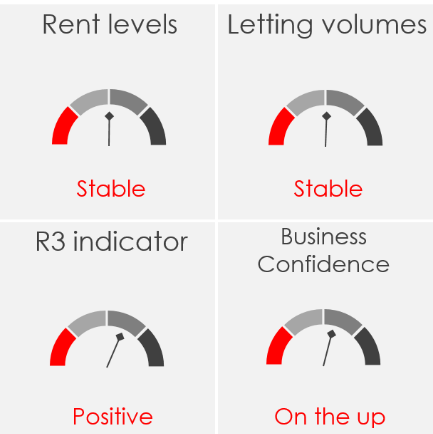
R3Location
Reliability Reputation Relationships

MARKET R3VIEW Q2-2017

An eventful quarter…

Further uncertainties have plagued the second quarter. In particular an unexpected UK Election and unanticipated result. A weaker Government may translate into hopes the country could be heading towards a softer Brexit.

R3Location Indicator



- **Rent levels:** The market continues to show signs of stability, with rate of decline now firmly bottomed out, and a year on year decline almost down to zero.

- **Letting volume:** Slightly stronger rental demand, combined with lower levels of new supply (and strengthening demand on the sales market) is promoting further stability on rental prices.

- **Business confidence:** While an unexpected UK election (and result) probably did not help in this area, some reports are suggesting business confidence is back into positive territories in Q2 [1].

The London Economy

On our way to a softer Brexit?

Marco Previero, Director at R3 says: "*Brexit, ever since the immediate aftermath of the referendum result, has not had a material impact so far on rental levels in prime residential markets in London.*" The operative words being "so far". It is difficult for anyone to speculate the final terms of the Brexit negotiations, and their long term consequences on the UK economy as a whole. The latest election results are pointing to the Government being more willing to adopt a softer stance. This in turn may well temper the impact on the changing nature of the UK-EU relationship and its repercussion on work force in the financial sector (the main driver for rental demand in the corporate relocation space). Following an extensive consultation with businesses and Government, a recent report has suggested that the UK remains a highly attractive destination for international business talent [2]. The question is for how long?

Changes a-foot for letting fees

Other recent developments include the confirmation in the Queen's speech that a Tenants' Fees Bill will be brought forward to ban letting agents charging fees to tenants and a capping of rental deposits.

Unsurprisingly, this has been met with some disappointment from Letting Agents; the objection relates to the short consultation period and future decline in revenue leading, it is claimed, to potential loss of jobs in the Industry. No details are yet available on this, and it is possible that this new initiative may eventually put upward pressures on rent levels and further unpredictable tenancy restrictions relating to lower deposits (e.g. reluctance from Landlords to accept pets for example, where higher deposits are normally sought to cover for greater possible damage deductions at the end of the lease).

The Rental Market

Strong and stable…

Well, mostly stable. While rental values in prime London residential markets are down by some 4% year to date [3], rent decline has now firmly bottomed out – continuing a trend identified by R3Location in our previous quarterly update. "*This can come as a surprise to relocating assignees, often expecting material bargains as a result of Brexit and other recent uncertainties*" says **Anna Barker**, Director at R3. The reality is different – higher demand, combined with less available stock (supply) is stabilising rental levels, especially in some prime residential areas, with instances of best and final bids become more frequent of late…

RPI on the up

Not only are rental levels resilient to recent macro-economic developments, further pressure on future rent increases inherent in lease agreements are also on the up with RPI in May at 3.7% and inflation now at the highest level in four years [4]

RPI All Items
June 2017 not yet published and below is estimate [5]

Period	RPI
2016 Q1	1.4
2016 Q2	1.4
2016 Q3	1.9
2016 Q4	2.2
2017 Q1	3.0

Apr-17	May-17	Jun-17
3.5	3.7	3.7

RPI has not been this high since February 2012 – though at the time it was on its way down from 5.6% in September 2011. Higher RPI is resulting in Landlords more validly insisting on rental increases in later years with the minimum and maximum being adjusted to between 2% and 5%.

Finally….

If you have any questions on this or any other areas related to the London rental market or relocations therein, please do not hesitate to contact us.

References

1. UK Business Confidence monitor Q2 2017 ICAEW
2. Deloitte – UK Power Up report June 2017
3. Knight Frank – Prime Central London Index – June 2017
4. GLA Economics – London's Economy Today – Jun 17
5- Office of National Statistics - ONS Apr 17