

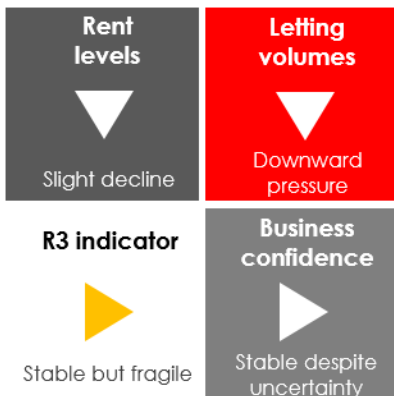
MARKET R3VIEW Q1-2016



A mixed quarter

A mixed quarter with uncertainty being the dominant theme including some instability in global financial markets, a reduction of headcount from banks, and two upcoming elections: The EU referendum and the London Mayoral election.

R3Location Indicator



- **Rent levels:** Rent levels continue to be stable with an average 12 month increase to February 2016 of just 1% in prime London areas.
- **Letting volume:** Greater supply of properties in the period has put some downward pressure in rental level overall but this trend may reverse post June 2016.
- **Business confidence:** despite some macro-economic uncertainties, confidence seems to be remaining stable in London.

The London Economy

London maintains top slot

Consumer and business confidence continues to remain positive in London [1].

Moreover, London has very recently retained the top slot in the latest Global Financial Centres Index rankings [2] (Figure 1). The index studies factors including infrastructure and reputation, as well as competitiveness. London holds a small lead over New York, with the study indicating that the two cities "are complimentary rather than purely competitive". **Anna Barker**, Director at R3 says: "This axis plays a critical role in maintaining strong level of demand in the London property market".

FIGURE 1

GFCI 19 Ranking – April 2016

City	Rank	Ratings
London	1	800
New York	2	792
Singapore	3	755
Hong Kong	4	753
Tokyo	5	728

Budget blues

This positive sentiment was somehow flattened by the Chancellor George Osborne in his recent budget speech where he talked about headwinds, financial market turbulence and "cocktails of risks" facing the UK economy. Forecasts for economic growth in the UK were thus revised downwards (Ed. growth forecasts inevitably always are during Budget Speeches, so there is little to be concerned about here). And overall, the UK is still on course for a steady period of growth, with some short-term uncertainties affecting rental demand relating to the EU referendum and London Mayoral election.

The Rental Market

Uncertainties over Brexit

Uncertainty is also the overriding driver in the lead up to the June referendum. **Marco Previero**, Director at R3 says: "Uncertainty spooks markets and this in turn can lead to a stalling of the property market as the in/out vote approaches" – this was the case in the period leading up to the UK general election in 2015.

Large organisations are reluctant to commit to long-term projects and hiring permanent talent until after June of this year. Equally, Landlords may also be hesitant in signing long-term deals between now and June, preferring to wait it out until after the referendum.

"R3Location expects a full recovery to business as usual post June of this year, but the lag will have a negative knock on effect on the property market, probably until January 2017", says **Anna Barker**.

RPI increases

For the time in the last 5 years, the RPI has seen an increase in the last quarter from 1% from Q4 2015, to close to 1.3% for Q1 2016 [3] (Figure 2).

FIGURE 2

RPI (ONS) March is an estimate

Period	RPI
2013 Q3	3.2
2013 Q4	2.6
2014 Q1	2.7
2014 Q2	2.5
2014 Q3	2.4
2014 Q4	1.9
2015 Q1	1.0
2015 Q2	1.0
2015 Q3	0.9
2015 Q4	1.0
2016 Q1	1.3
Jan-16	1.3
Feb-16	1.3
Mar-16	1.3

While still very low historically, there are increasing indications that RPI will now continue to increase over the next three years putting some pressure on rental increases for long-term residential tenancies.

This increase is set against a backdrop of slight rent reduction as a result of greater supply of properties over the last three months [4]. The overall consensus, however, is that rents will look to increase again over the next 12 months. Such rental increases are unlikely to be uniform. "The old North/South London axis seems to be shifting to a West/East one of late. R3Location is seeing an increasing number of enquiries for areas not previously popular with Expats such as Shoreditch", says **Marco Previero**.

References

1. **GLA Economics:** London's Economy Today (LET) March 2016
2. **GFCI 19:** Global Financial Centre Index 19: Semi-annual index April 2016
3. **ONS:** Office of National Statistics – March 2016.
4. **Knight Frank:** Prime Central London Rental Index - March 2016