

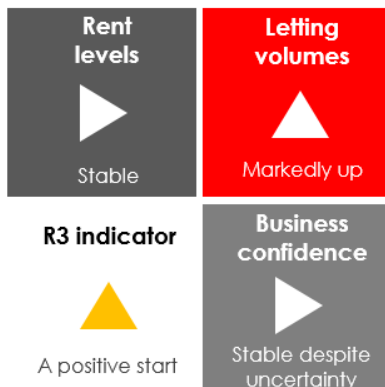
# MARKET R3VIEW Q1-2017



## A strong start to 2017

Despite the recent uncertainty and the triggering of Article 50, the Market is showing signs of strength and recovery as far as relocations into London are concerned. People seem to be moving again after a deep seated period of indecision.

### R3Location Indicator



- **Rent levels:** Seem to have bottomed out and the market is showing real signs of stability both on the demand and the supply side.
- **Letting volume:** are markedly on the up across Prime and Super Prime residential areas in London. All indicators point to an increase in activity in the first quarter of this year against the same period last year and the previous quarter.
- **Business confidence:** The trigger of Article 50 has not brought to an end uncertainty – much remains to be decided but London seems to continue to hold its top spot in an uncertain Europe.

## The London Economy

### Art. 50 – the beginning of the end

On 29 March, the Government triggered Article 50 – the process by which the UK notifies the EU of its intention to leave. This initiated the start of the two year negotiation process [1]. While some uncertainty remains for the Economy as a whole, it is worth remembering that Brexit has had little impact so far on the property market [2].

### London and Brexit

**Marco Previero**, Director at R3 says: *"In response to Brexit concerns some organisations have announced their intention to review or set up small bases in Luxembourg, Frankfurt or Paris"*. But most would acknowledge that it's in their own interest to have a strong financial centre in London and all are likely to retain strong footholds in the Capital. And London also continues to hold its spot at the top of the Global Financial Services Index, maintaining its lead over New York [3].

### What about Sterling?

Sterling has weakened significantly since the referendum, but this has probably had more of an impact on the sales market rather than the rental market.

## The Rental Market

### A stable market

As indicated in our previous update, stock levels seem to be stabilising – a trend corroborated by some of the main market reports [4]. Recent uncertainty on the rental market have also contributed to a boost in demand, viewings and agreed tenancies.

### Relocations on the rise

This trend has been observed on relocations into London, with levels in super prime and prime remaining strong on the demand side. *"We have observed a peak of activities in Canary Wharf in particular over the last three months, but generally, more people seem to be moving than has been the case for the latter part of 2016"* says **Anna Barker**, Director at R3.

### But Budgets are being squeezed

The higher level of activities has been counter-balanced by tight budgetary controls from Corporates – and indicative signs that they may be reviewing and revising the way in which relocation

support is being deployed. How this will play out in the next two years is uncertain, but it is possible that moves towards giving assignees more autonomy on how to use lump sum allowances may make a resurgence. Others are also reviewing the value of providing ongoing tenancy management support to their relocating assignees whilst on assignment.

### RPI

In Prime Residential London, rents have decreased by some 5% in the last 12 months. In spite of this, inflationary pressures remain and RPI continues to be on the rise. R3Location is still of the view that RPI will continue to increase over the course of 2017. The Index was at 3.2 in February 2017, with little signs of abating. This will give rise to pressures from Landlords to include higher renewal increase brackets in tenancy agreements – and higher rent renewals 12 months down the line.

FIGURE 1

RPI (ONS) Mar 17 not available [5]

Period	RPI
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	1.4
2016 Q2	1.4
2016 Q3	1.8
2016 Q4	2.2
Jan-17	2.6
Feb-17	3.2
Mar-17	

### 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. **GLA Economics** – London's Economy Today – Mar 17
2. **Knight Frank** – London Residential Review (LRR) Spring 2017
3. **Z/Yen** - GFCI 21 Ranks - March 2017
- 4- **Knight Frank** – LRR Spring 2017
- 5- **Office of National Statistics** - ONS Apr 17