

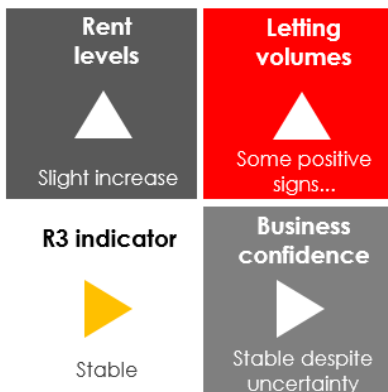
MARKET R3VIEW Q4-2016



Uncertainty prevails

Uncertainty prevails and not much has happened in the last quarter to clarify any of the issues surrounding Brexit – we still don't know much about the when and how, and will be unlikely to know for a few months yet.

R3Location Indicator



- **Rent levels:** A timid reversal of rent decrease in London has occurred – with the market showing signs of stability for the next quarter.
- **Letting volume:** the slight upward trend in the last quarter continues – but the market is still tentative in this area, especially for corporate relocations.
- **Business confidence:** Uncertainty remains the material theme – but the London economy shows signs of stability and resilience.

The London Economy

A resilient economic outlook

Despite the results of bank stress tests released at the end of last year by The Bank of England, the UK's financial system

remains resilient to potential global risk [1]. The outlook for London is positive, with forecast rises in employment over the next three years.

And what about Brexit?

London aside, the UK currently remains part of the EU and the evidence for a strong – instant – impact of last year's referendum remains low, save for the material drop in value of the Pound [2]. So many global material events have crystallised since the UK referendum last year, including a new US President Elect, the Federal Reserve continuing their push to raise interest rates in December (and an indication that the trend was set to continue), and several other EU related affairs coming to a head in the coming 12 months.

Looking forward to 2017

Marco Previero, Director at R3 says: *"The difficulty with Brexit and other macro-economic events is not so much the impact to date, but knowing when the market will normalise – and how long this will take."* There are just too many assumptions to consider in 2017 to make any sensible predictions. Cautious optimism prevails, however. And there are signs that the property market in London may be on the rise again.

The Rental Market

High stock levels abating

2016 saw an increasing trend of high stock levels and pressure on rental values [3]. These fell for much of 2016 but were showing signs of reversal towards the end of last year, showing minor improvements across London Prime Residential areas. One swallow does not a summer make and we will need to wait to see if this turns into a trend in the early parts of 2017.

Stock levels may be stabilising – with fewer new properties coming on the market of late. A decline in the supply side of the property market may boost (and indeed is probably related to) the prospect of the trend reversal on levels of rent.

What about demand then?

Activity levels remain high overall, with key indicators suggesting viewings and tenancies agreed are on the up [3]. Perhaps, but the picture for corporate relocations may be somewhat different. *"Larger organisations with head-quarters*

in London are adopting a prudent approach when it comes to moving talent into the Capital. Business drivers still prevail, but some are taking on more temporary solutions to their mobility needs until the Brexit-fog begins to lift" says **Anna Barker**, Director at R3.

Some of this may well reflect a seasonal slowdown. Many still envisage a robust 2017 as far as the movement of people is concerned, and an even more positive stable outlook in the longer term as far as the rental market is concerned.

RPI

Inflationary pressure, meanwhile, continues to push RPI upwards. The last four months (December as yet unpublished) has seen RPI go above 2% for the first time since November 2014. The expectation is that RPI will continue to increase at a slow steady pace over the course of 2017 and pressure for higher renewal increases to be included in leases should be expected.

FIGURE 1

RPI (ONS) Dec is an estimate [5]

Period	RPI
2014	2.4
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	1.9
2016 Q4	2.1
Oct-16	2.0
Nov-16	2.2
Dec-16	

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 – Dec 16 issue
2. **GLA Economics** - London's Economic Outlook 2016
3. **Knight Frank** - Prime Central London Rental Index – December 2016
4. **Office of National Statistics** – Dec 16