

# MARKET R3VIEW Q2-2016



## Brexit rules agenda

The quarter has been dominated by the EU referendum and the unexpected "leave" result. Uncertainty, therefore, remains top of the Agenda, especially in London.

### R3Location Indicator



- **Rent levels:** Rent levels are broadly stable though have shown a small decrease (3% approx.) over the last 12 months.
- **Letting volume:** Stable, with healthy potential interest, but increasing stock level is likely going to keep rents in check.
- **Business confidence:** Uncertainty is the flavour of the day, with a shock result in the recent EU Referendum. No one can predict what the next two years are likely to bring.

## The London Economy

### Brexit is now a reality

The dust will take a long time to fully settle from the vote last month by the British Public to leave the European Union.

### The next few weeks

The immediate impact from the result was seen on the currency market, with the pound dropping to a 30 year low. Short-term political uncertainty at home (now almost resolved) may well have an effect on market sentiment but this should be short-lived.

### The next few months

The pound will continue to provide one the best "real-time" indicator of how the market perceives Britain's new place in the World and within Europe. If the UK can secure a better place on the international stage, with favourable trading agreements, the currency will rise. If it cannot, then it may fall further [1].

### The next few quarters

Indicators for the medium terms may be harder to find. The FTSE100 is not a good barometer of strength in domestic earnings and reliance will have to be placed on future GDP figures released in the coming quarters, and for the housing markets, movements in levels of enquiries, number of agreed tenancies, new applicants and number of viewings. What we don't expect is any violent movements in rental levels, supply and demand in Central London [2]. The market will adjust, but will do so gradually as macro-economic factors become clearer.

### The next few years

**Marco Previero**, Director at R3 says: *"It is difficult at this early stage to speculate on what the impact of this result will mean for the property market in London, and the rental market more specifically. Time will have to elapse, and more clarity will be needed on the ensuing details of any exit agreement as the UK negotiates its way out of the EU"*.

In the meantime, general uncertainty is likely to be prevail over the coming years. And uncertainty is seldom a good thing for market and business confidence.

## The Rental Market

### Financial Sector

All eyes will be on the Financial Sector and London's new place within Europe as negotiations progress. This sector is a dominant force in driving rental supply and demand in particular. *"Any negative impacts on the Financial Sector will lead to*

*negative impact on the rental market"*, says **Anna Barker**, Director at R3.

### Stock Levels

And these negative impacts are not just driven by low demand, but also on availability of good quality stock. Uncertainties prevailing on the Sales market as a result of Brexit, and its possible medium and long-term effects on borrowing, may well see stock level rise further as more properties shift into the rental market – this in turn is likely to keep any rental value in check [3].

### Rent levels

Rental levels have already decreased by some 3% over the last 12 months across London, but this trend must be balanced against one of the healthiest levels of prospective tenants' registrations and number of viewings in six months.

Despite of this decrease, RPI continues to trend at above 2015 levels, and is likely to stabilise around 1.4/1.5 for 2016.

FIGURE 1

RPI (ONS) June is an estimate [4]

Period	RPI
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	1.4
2016 Q2	
Apr-16	1.3
May-16	1.4
Jun-16	1.4

### 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. **The Telegraph:** Business briefing July 2016
2. **Savills UK:** Brexit Briefing July 2016
3. **Knight Frank:** Prime Central London Index June 2016
4. **Office of National Statistics** – July 16