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R3Location
Reliability Reputation Relationships

MARKET R3VIEW Q2 2020

Q2 2020

Post COVID-19

Open for business

After three months of lockdown, the UK and services relating to the relocation industry are slowing re-opening for business and we are seeing an upturn in activities from companies moving people into the Capital again.

This upsurge in activity must be viewed with caution given recent data from the Office for National Statistics (ONS) showing a drop in GDP of 20% in the month of April. Whilst this was expected, it still represents the biggest ever monthly drop.

A price-sensitive rental market

The continued economic uncertainty has led to a price sensitive market when it comes to rentals in London – and this was true in particular during the first few weeks of lockdown easing.

This is partly because the supply of rental properties in prime and super prime did not slow down over lockdown. A resurgence of accidental landlords – choosing to edge their bets by putting houses on the rental market as well as the sales market – may have reinforced this trend.

And partly also as a result of prospective tenants' long-term doubt about employment, the economy and the looming of further Brexit uncertainties.

An increase in supply

This increase in supply relative to demand has put some downward pressure on rent initially, but R3 is seeing this trend reversing as the decline in COVID cases continues.

There is no doubt prime and super prime residential neighbourhoods in London have undergone a price adjustment over the last quarter, with listed prices decreasing by some 10% in certain postcodes since the beginning of March. However, this decline is bottoming out and R3 is seeing a much more balanced market in these popular areas of London.

Business confidence key

Business confidence will play a large part in the degree of sustainability of rental market prices going forward.

There are some clear and positive signs that companies are moving executives to the Capital again post lockdown and the level of activity has resumed to almost pre-Brexit levels.

Brexit… again! And the pandemic

Long-term doubts about the practical implications of Brexit and the prospects of a no deal exit should not be discounted and will loom increasingly larger the closer to January 2021 we get.

And clearly, at the moment, the economic consequences of the pandemic dominates most economic news. Nearly a third of the UK workforce was furloughed in May, London is seeing large rise in employment-related benefit claims, and visitors to the Capital are down.

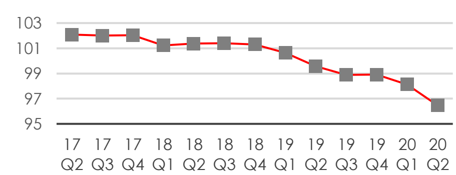
What next?

For now, it's all hands on deck within the relocation market. Borders have broadly re-opened, with some restrictions still applying depending on country of origin. Agents, moving companies, schools, furniture rentals and other relocation related businesses have all re-engaged on the ground.

FIGURE 1 – Property Market Dashboard: Quarterly summary of key performance indicators linked to the London rental market

For the Quarter

Business Confidence

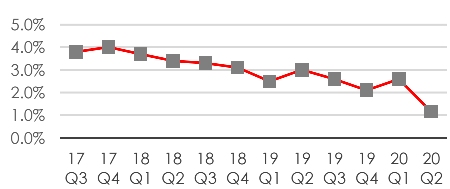


96.5

OECD National Business Confidence Monitor
A predictable drop in confidence, though not as low as that measure post 2008 financial crisis. Business confidence will provide an early indication of speed of possible V shape recovery noted by many.

Source: *OECD data – amplitude adjusted base 100*

RPI

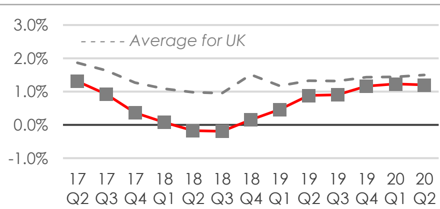


Apr 1.5%
May 1.0%
Jun 1.1%

RPI All Items: % change over 12 months
A slight increase since May to 1.1% could be the first signs of the market recovering from the lows of lockdown, and indications on the ground certainly validate this possible upward trend.

Source: *Office of National Statistics – Retail Price Index*

London Rental Index

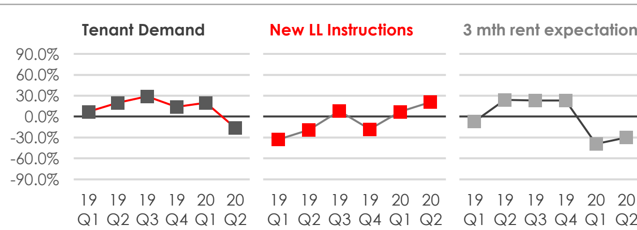


1.2%

Private Housing Rental Prices Index 12 months %
ONS Rental Index for London is showing stability over the last 12 months, with only a slight decrease to 1.2% since Q1 2020 and a slight increase from 0.9% from the same time last year.

Source: *Office of National Statistics – London Rental Index*

RICS Lettings Survey



3 mths % change responses (down/up/same)
Expectation on tenant demand is at odds with many messaging about pent-up demand. LL instructions are on the up, and a reversal of rent level expectations can be noted in Q2 2020.

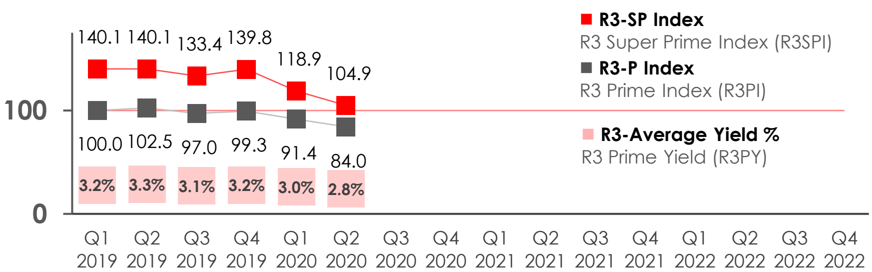
Source: *RICS Monthly Market Surveys*

***FIGURE 3** Frustrated with the lack of open and reliable consolidated rental data in London, R3 started its own **two rental tracking indices** in Q1 2019.*

Both Prime and Super Prime indices have continued to decline as a result of COVID19. These residential areas have probably suffered the most from COVID but show signs of bottoming out. This is a combination of both an increase in stock and lower demand over the last three months.

FIGURE 3 – R3 RENTAL INDEX & YIELD

Prime and Super Prime Rental Index & Yield – started Q1 2019, base 100 against Prime.



Source: R3Location Research

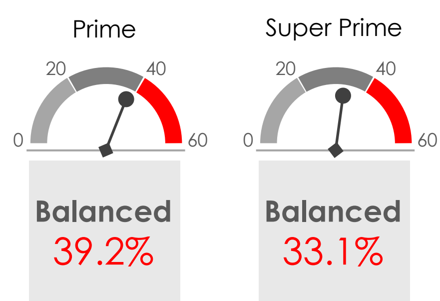
Marco Previero

Director and Research Lead at R3

"The supply of rental properties in Prime and Super Prime did not slow down over lockdown. This was at odds with demand and has created a tenant market over the last month. However, R3 does not believe this situation will continue as many corporates are now beginning to move people into the Capital again. "

FIGURE 4 – STOCK TURNOVER (T/O)

Average stock T/O for prime and super prime



T/O %: Tenancies agreed in the month against total available rentals

***FIGURE 4** This provides a snap shot of the type of market for Prime and Super Prime and whether it favours tenants, landlords or if it's balanced overall.*

After three months of pause, demand is showing signs of recovery for both Prime and Super Prime.

Stock levels continued to rise over the COVID period but are now showing signs of flattening as new tenancies are being agreed and some accidental landlords are switching back to the sales market after hedging their bets during the lockdown.

Anna Barker

Director and Operations Lead at R3

"Both tenants and landlords are cautious at the moment. Demand is on the up and this will start putting some pressure on available stock."

FIGURE 5 – Spotlight on…

Business Continuity Planning Update

*Every quarter R3 includes a Spotlight On section. This month, the focus is on **Business Continuity Planning**.*

COVID-19 disrupted companies' workforces, their clients, technology and business partners. Last quarter, we set out what these restrictions meant for the relocation market.

This quarter, we have updated the status of the current environment and how the services related to our domestic industry are re-starting and how they have changed to adapt to new working norms so as to best continue to support clients. Health and safety measures continue to be important during this "new normal".

FIGURE 5 – SPOTLIGHT ON… **Business Continuity Planning Update**

R3's working norms have changed to help in each and every area listed below