

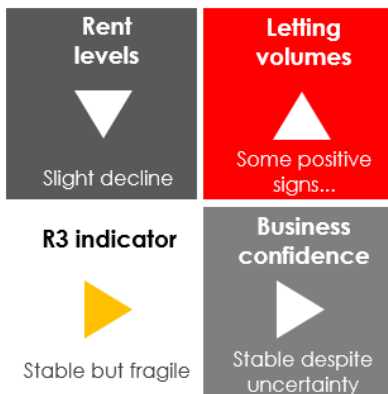
MARKET R3VIEW Q3-2016



Uncertainty tops Agenda

Uncertainty, following the Brexit referendum, remains top of the Agenda, especially in London. Some clarity on the UK exiting the EU has recently been revealed, but the road is still long and winding.

R3Location Indicator



- **Rent levels:** Rent levels continue to trend slightly downwards but may stabilise over the next 12 months.
- **Letting volume:** is showing positive signs with tenants benefiting from greater level of stock, but higher competition from other tenants.
- **Business confidence:** Uncertainty remains the material theme – and is likely to be so for at least the next two years.

The London Economy

Brexit means Brexit, probably...

On Sunday 2nd October, Mrs May said she would notify the EU of the UK's intention to leave between January and March 2017, beginning the process of formal negotiations over the terms of exit. Two days later sterling fell to a 31-year low

against the dollar (this being the best "real-time" indicator of how the market perceives Britain's new place in the World and within Europe).

No major effects on the economy

Other than the FTSE (inversely correlated to the pound) and the Pound itself, UK data relating to the period since the June referendum shows that there has been 'no major effect' from the Brexit vote on the UK economy [1]. So far... **Marco Previero**, Director at R3 says: "*Far too early to say of course, but this is also true of the property market in London, with other major reforms such as the introduction of SDLT having more of an effect on the market than Brexit*".

Initial inertia may not continue

Less positively, forward looking surveys generally show a more mixed economic picture than data to date illustrates, with many of London's largest firms, and indeed, employers, reported to have already started to make contingency plans for 'Brexit'. A survey of the UK 100 CEO suggests that more than three-quarters of them are considering moving their headquarters or some of their operations away from London, despite 69 per cent of them predicting continued growth [2].

The Rental Market

Financial Sector is key

Such move would impact the property market. "*The most critical economic factor for the London Rental market is how Brexit will affect the UK's standing as a world city and global financial centre*", says **Anna Barker**, Director at R3. At present, no other European city has the infrastructure to match that of London and so it would not be unreasonable to presume that the City will retain its position as the main European global financial centre without a substantial loss of jobs or relocation of banking activities [3]. The question no one knows the answer to is: for how long...

Higher Stock levels

For now, uncertain conditions in the sales market has pushed more vendors to become Landlords. Higher levels of supply means that landlords have to be more competitive to secure tenants, and headline rents are beginning to be under pressure. Rents fell in prime central London by some 4.0% in the year to August – with

some Borough suffering more than others [4].

Rent is not the only element normally included in heads of terms when negotiating a deal. Uncertainty also means landlords need to show greater flexibility around break clauses, works to the property, and levels of furnishing.

But demand is also on the up

It is possible this will not last for long, however, with key property market indicators suggesting demand is on the up including higher registration of prospective tenants, new tenancies agreed, and number of viewings.

RPI meanwhile continues to trend at above 2015 levels and this may impact future renewals on tenancies negotiated in the next few months [5].

FIGURE 1

RPI (ONS) Sept is an estimate [5]

Period	RPI
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	1.4
2016 Q3	1.8
Jul-16	1.9
Aug-16	1.8
Sep-16	1.8

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
2. **KPMG** – UK 100 CEO Survey
3. **Savills** Prime London Residential Markets – Autumn 2016
4. **Knight Frank** – UK Residential Market Update Sept 2016
- 5- **Office of National Statistics** – July 16