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Savills World Research
UK Residential

Market in Minutes
Prime London Rental Markets

April 2017

SUMMARY

Prime rents continue to come under pressure from growing stock levels

Over the past year, the prime London rental market has felt the impact of growing stock levels and weaker corporate demand against the backdrop of Brexit uncertainty. This is translating into lower rents and greater choice for tenants.

For landlords, already facing changes to the taxation of investment properties, this means further pressure on net yields, and will require properties to be very well maintained to ensure they remain fully let.

FIGURE 1

Prime Rental Movements to Q1 2017

	Prime Central	Prime North West	Prime South West	Prime West	Prime North and East	All Prime London
Quarterly	-1.0%	2.0%	-1.1%	0.2%	0.0%	**-0.4%**
Annual	-8.0%	-3.9%	-5.2%	-4.8%	-1.3%	**-5.4%**
5 Year	-9.7%	-5.2%	-1.4%	n/a	8.7%	**-3.5%**
£ per sq ft	£53	£42	£27	£29	£35	**£38**

Source: Savills Research

Across prime London average rents fell -5.4% in the 12 months to March 2017. Further marginal softening of -0.4% in the first quarter of this year suggests they are still finding a level. The most significant falls were seen in the highest value prime central London markets, which were down -8.0% in the year.

Rents continue to come under pressure from the amount of stock being added to the market. New build completions, buy to let investors and accidental landlords alongside weakening demand from corporate tenants have combined to inflate stock levels.

Smaller, less expensive properties continue to outperform larger family homes. Although prime properties renting for less than £500 a week have seen annual falls, over the past five years average rents for these properties have risen by 9.3%.

In comparison, at the top end of the market, properties renting for above £1,000 per week have seen rents fall back by -10.9% over the same period. These properties are particularly exposed to weakening demand from those employed in the finance industry who, since the referendum, have been more budget conscious, particularly at a senior level.

On the other hand, this declining level of demand will be offset from tenants who see an advantage to putting the money they would have spent on stamp duty into renting a trophy home instead.

But despite being much more price sensitive, the prime rental market has remained relatively active. London still retains its reputation as a global city underpinning demand, but increased choice means tenants are now primarily focused on finding value and 'best in class' properties.

This means that tenants are favouring new and newly refurbished stock over tired stock, even if heavily discounted, meaning that landlords need to invest to avoid voids.

OUTLOOK

A challenging market

The outlook for the prime market in London has its challenges. While we expect strong continued demand from young affluent households facing a significant deposit hurdle to buy their first home, the strength of the rental demand from other tenant groups will be more dependent on the outcome of the EU negotiations and London's ability to remain a leading global financial centre.

Alongside this, the current supply imbalance is likely to suppress rental growth in the mid term. As such, we are forecasting small further rental falls in prime London in 2017 with marginal price growth in the following two years.

With this in mind, landlords in prime London will need to continue to remain realistic in their price expectations, whilst offering stock of the best quality to capture demand.

FIGURE 2

Prime Rental Markets Five-year forecast values

	HISTORICAL ANNUAL			FORECAST ANNUAL					5-YEAR FORECAST
	2014	2015	2016	2017	2018	2019	2020	2021	2017–2021
Prime London	0.8%	1.3%	-5.1%	-3.0%	0.0%	1.0%	3.0%	3.0%	4%
Prime Commuter Zone	2.9%	1.0%	-0.7%	-1.0%	0.0%	1.5%	2.5%	2.5%	6%

Source: Savills Research

NB: these forecasts apply to average rents in the second hand market. New build rents may not move at the same rate

Savills Research team

Lucian Cook
UK Residential
020 7016 3837
lcook@savills.com

Kirsty Bennison
UK Residential
020 7016 3836
kbennison@savills.com

Jane Cronwright-Brown
Head of Lettings
020 7578 9980
jcronwrightbrown@savills.com