MARKET IN MINUTES
Savills Research

UK Residential – Q1 2019

Prime London Rentals

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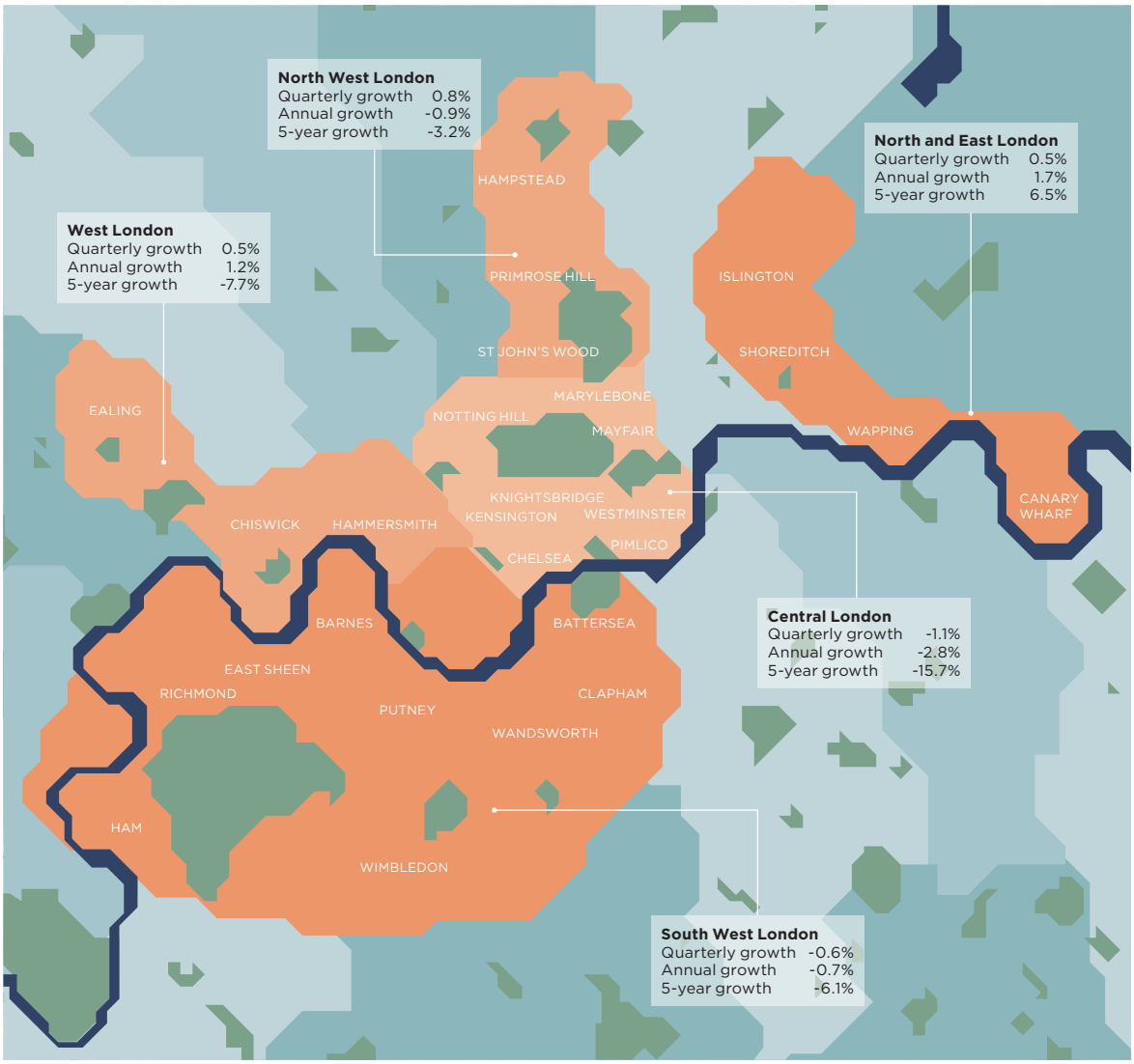


Source Savills Research **Note** Prime rental values to March 2019

Price monitor

Key statistics for rental growth across all prime London

-0.3%

Quarterly rental value movement

-0.9%

Annual rental value movement

-7.1%

Five-year rental value movement

11.5%

Forecast rental growth over the next five years

Activity stays strong while falls continue to slow

Activity levels across prime London remain robust, driven by strong demand from young professionals. However, the market remains price sensitive with a gap between landlord and tenant expectations.

The rental value of prime property is down over the past year, although the rate of annual falls continues to slow. Over the first quarter of the year, rents fell by a further 0.3%, leaving values 0.9% lower than they were a year ago.

Across the more discretionary prime central London markets, rental falls have been greater, with average rents falling 2.8% annually. While stock levels are starting to level out in some locations and price points, central London continues to see high levels of supply, which push down values.

Landlords continue to face a number of challenges. The 3% stamp duty surcharge for additional homes and cuts to tax relief for interest payments mean some mortgaged investors are re-evaluating their portfolios; whether de-leveraging or taking advantage of the current competitive lending market to remortgage.

Source Savills Research

Prime rental forecast There are signs of a recovery in rental values in the medium term

	2019	2020	2021	2022	2023	5-year compound growth
London	0.5%	1.0%	3.5%	3.0%	3.0%	11.5%

Source Savills Research **Note** These forecasts apply to average rents in the second-hand market. New build values may not move at the same rate

FINDING THE BEST STOCK

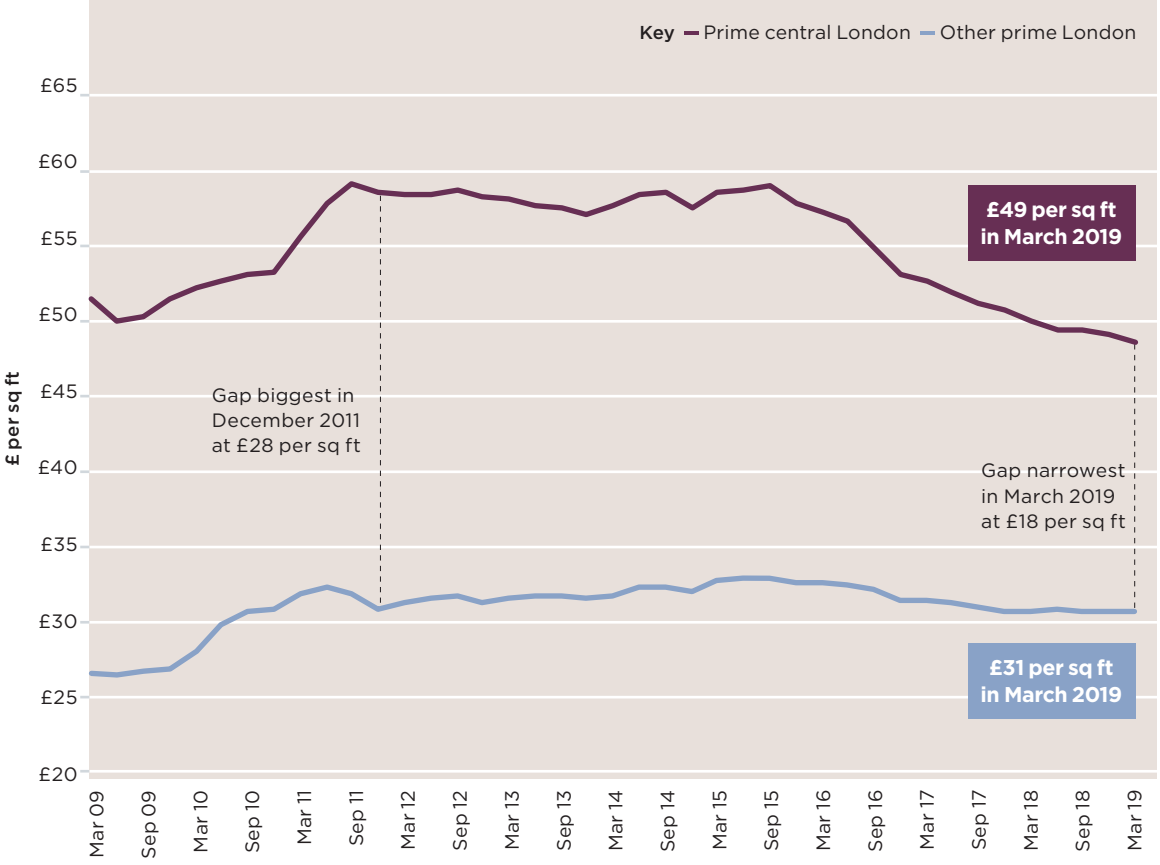
The prime London rental market continues to be driven by quality. The standard of property is becoming ever more important than the location or prestige of a well-known address. Tenants prefer high-specification properties in immaculate condition with the best new build properties setting the bar in terms of amenities, specification and connectivity.

Consequently, landlords are having to invest in the condition of their product to remain competitive. In central London, the large landowning estates have continued their programme of stock upgrades and public-realm improvements to retain a rental premium and minimise voids.

That has presented further challenges for the private landlord, who often has a shorter-term investment horizon. Faced with potentially significant refurbishment costs and increased regulation, some have chosen to bring their property to the sales market.

> “Although the gap between the average £ per sq ft in central London and the rest of prime London is narrowing, moving from central London to outer locations would save around £18 per sq ft”

The gap between values is closing The fall in prime central London prices and steady growth in other prime London locations has reduced the price gap



Source Savills Research

OUTLOOK

Supply and Brexit’s influence on employment will shape the rate of rental recovery over the next five years. The status of London as a global commercial centre and the resilience of its economy remains fundamental to the strength of rental demand across the market.

On the assumption we avoid a no-deal Brexit, we are forecasting a gradual recovery in rental values across the prime London markets with rents growing by 11.5% over the next five years. The amount of new build stock brought to the rental market is expected to peak over the next two years. This will likely limit rental growth but provide more choice for tenants.

With stock still working its way through the market, pricing and ensuring their property is well presented is absolutely key to landlords in order to retain demand.

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