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Savills World Research
UK Residential

Market in Minutes
Prime Rental Markets in the Commuter Belt

Q3 2016

SIZE MATTERS

Smaller properties are outperforming larger ones across the commuter zone

SUMMARY

Demand is being driven by professional couples and young families

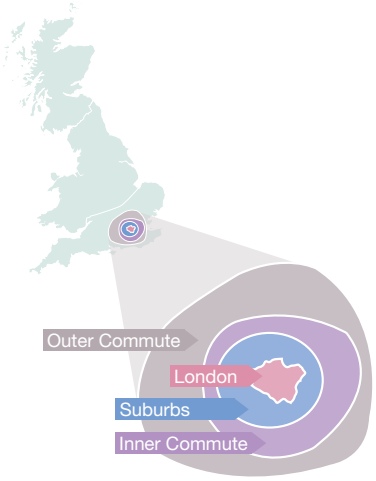

FIGURE 1

Prime Rental Movements to Q3 2016

	Quarterly	Annual	5 year	£/sq ft
Suburbs	-0.7%	-0.6%	10.0%	£18
Inner Commute	-2.7%	-1.5%	2.2%	£17
Outer Commute	0.7%	2.5%	N/A	£16
All Commuter Belt	-1.3%	-0.3%	7.3%	£17

Source: Savills Research

Rental values in the prime markets of London's commuter belt fell by -1.3% over the third quarter of this year, leaving annual growth at -0.3%.

Smaller properties continue to outperform larger ones across all locations in the commuter zone. One or two bedroom properties have seen growth of 1.4% over the past year to September. In comparison, properties with three or more bedrooms have either seen just marginal growth or small falls over the same period. For large, 'trophy' properties of six or more bedrooms, the falls have been greater with average rents now -1.5% lower than a year ago.

This trend reflects a divide in the market between needs based renters who are looking for smaller properties and big budget tenants looking for prized properties, who are relatively scarce in the market.

The demand comes from professional couples and young families, looking for flats and small houses, who aren't yet ready to buy and are working on a 'try before you buy' basis. In 2016 so far, 42% of tenants renting in the commuter belt are doing so because of employment relocation, meaning they may want to get to know an area before committing to a purchase.

Being near to good schools continues to be very important to young families renting in the prime commuter belt. This has resulted in stronger rental growth being seen in locations with a good reputation for education such as Cambridge and Winchester.

Properties that are within a city or town centre, close to local amenities such as shops and stations also continue to attract strong demand. City locations in the prime commuter zones of London saw growth of 0.9% over the quarter as a result of this demand. In contrast, both village and rural locations saw falls of -0.4% over the same period.

1.4%
Growth of one or two bedroom properties over past year to September

42%
Tenants renting in commuter belt due to employment relocation

OUTLOOK

Ongoing demand to continue

Looking forward, we expect ongoing demand for prime rental properties in the suburbs and key commuter locations of the capital to continue, especially as we see an increase in those following the traditional relocation routes out of London. Professional couples and young families will continue to drive demand as they 'try before they buy' before committing to a purchase.

A potential short term risk to rental values is high levels of stock coming onto the market as a result of increases in accidental landlords. Following the stamp duty changes introduced in the autumn statement of 2014, there has been an increase in the number of this type of landlord bringing property to the rental market. The uncertainly resulting from the decision to leave the EU is likely to see this trend continue.

As an attempt to offset this, landlords will need to remain competitive on asking rent and flexible on terms, as well as ensuring the property is presented in good condition to ensure they attract tenants in the long term.

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