UK Residential – Q1 2020

Prime London and Commuter Belt Rents

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Rental recovery on lockdown

The prime rental markets across both London and its commuter belt continued to recover in the three months to the middle of March 2020. Rents across London increased by 1.1% during this period and by 2.3% over the past year – the strongest growth for five years.

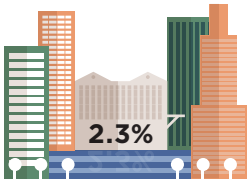
Prime markets up to an hour from London saw rents grow by 0.7% over the quarter and 0.5% annually, the first increase since the introduction of the 3% surcharge on additional homes in 2016.

Much of this recent growth was being driven by a lack of stock – 68% of London agents and 75% of those in the commuter belt reported it was their major challenge over the past three months. Some of this came from accidental landlords looking to sell into a stronger sales market following the general election. Other landlords were driven to sell because of continued pressures on the buy-to-let market. This lack of stock has led to an increase in competitive bidding – with 70% of London agents reporting an increase in bids over the past three months.

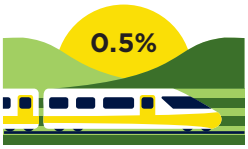
But with the UK now in lockdown amid the Covid-19 pandemic, rental growth may not continue at the same rate. Though we initially saw a short-term increase in activity, as many looked to secure properties (particularly in commuter belt markets), restrictions on home moves is likely to mean fewer new tenancies. This may result in a drop in demand over the short term as many look to renew their current tenancies instead. The impact this will have on rental growth is unlikely to be known until later in the year.

Market monitor

Key statistics in the prime rental market



Annual rental growth across prime London



Annual rental growth across prime commuter belt

Proportion of London agents reporting an increase in competitive bids

75%
Proportion of commuter belt agents reporting a lack of stock as their biggest challenge

Source Savills Research

Prime rental movements

	Central London	North West London	South West London	West London	North & East London	London's commuter belt*
Quarterly growth	0.2%	1.2%	1.6%	0.5%	1.7%	0.7%
Annual growth	0.6%	1.8%	3.8%	2.9%	2.5%	0.5%
5-year growth	-16.5%	-3.4%	-5.7%	-4.5%	6.4%	-2.5%

Note *Within a one-hour commute. Rental movements to March 2020 **Source** Savills Research

Recovery drivers

South West and West London saw the strongest growth for prime rental properties over the past year, at 3.8% and 2.9% respectively. The return of the family market in early spring particularly benefitted houses in areas such as Wimbledon and Chiswick, where best-in-class property continues to achieve rental premiums.

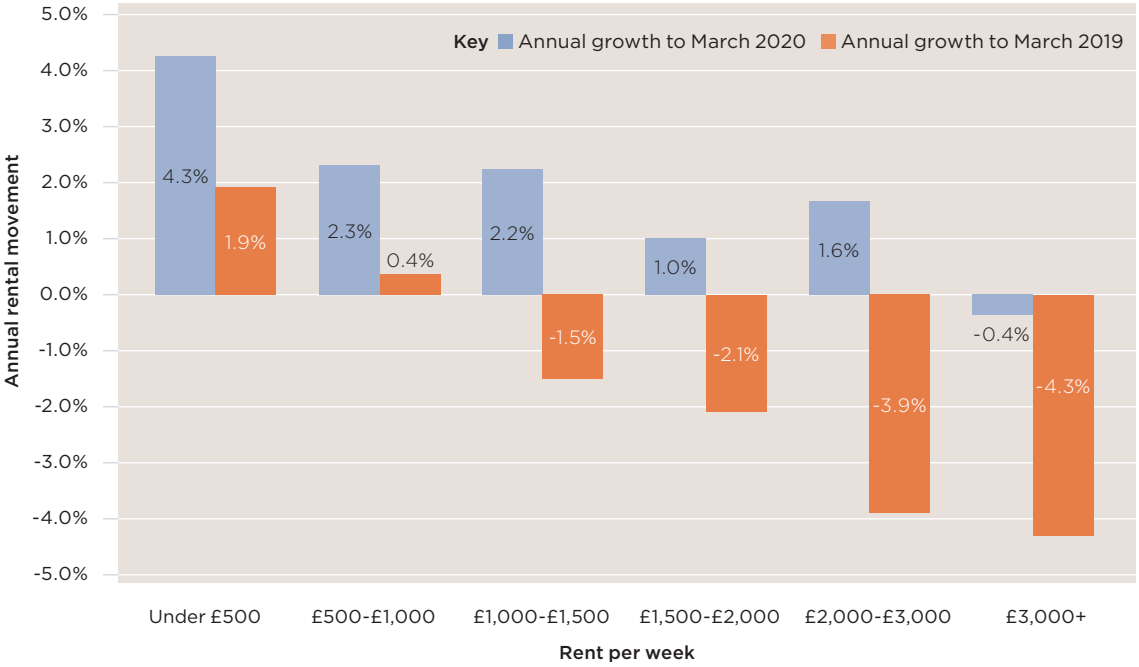
Rents in prime central London increased for the first time since December 2015. In the year to mid-March 2020, rents saw growth of 0.6% compared to a fall of 2.9% over the same period a year earlier. Again, much of this was driven by stock, with 80% of agents in this region reporting an increase in the number of landlords selling their properties during the past quarter.

The strongest levels of growth continued to be in the lower end of the market across London, with properties worth less than £500 per week seeing rents grow by 4.3% over the past year.

The super-prime market was also finally showing signs of recovery. Properties worth more than £3,000 per week saw a marginal fall of just 0.4% in the year to March 2020 compared to a 4.3% fall a year earlier.

This trend was also seen across London's commuter belt. While the strongest growth is being driven by one- and two-bedroom properties from young professionals, the rate of falls for properties with five or more bedrooms has slowed considerably. Over the past year, rents fell by just 0.3%.

London by price The top end of the market has recovered significantly



Source Savills Research

OUTLOOK

Although both the London and commuter belt markets had a strong start to 2020, government advice to freeze the housing market amid the pandemic will likely impact this recovery in the short term at least. The extent of the disruption to the market largely depends on the success of measures to curb the spread of Covid-19 across the UK.

The length of the lockdown will affect the economy and, therefore, people's finances which will in turn influence the extent that rents can increase in some markets. Limitations on travel will also likely affect corporate demand from both international and national relocators. But activity may be postponed rather than cancelled, with some employment sectors being less impacted economically than others.

The more pressing influence on the prime rental market will be that of supply. Those looking to sell rental stock into a stronger sales market might decide to hold back, 'boomeranging' the stock back to the rental market. With travel bans, short-term rental stock and serviced apartments aimed at tourists may also come to the market for longer tenancies.

In previous downturns, such as the global financial crisis, the prime London rental market recovered relatively quickly back to peak. Rents in prime London currently sit 6.4% below their most recent 2015 peak and with the prospect of a V-shaped economic downturn, pressures on people's finances should be relatively short-lived. Therefore, the long-term risk to the market may not be significant.

In the short term, activity is likely to slow, so landlords will need to act quickly and be flexible in their pricing, and perhaps even consider a period of rent reduction to secure a tenant and prevent a void period.

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