MARKET IN MINUTES

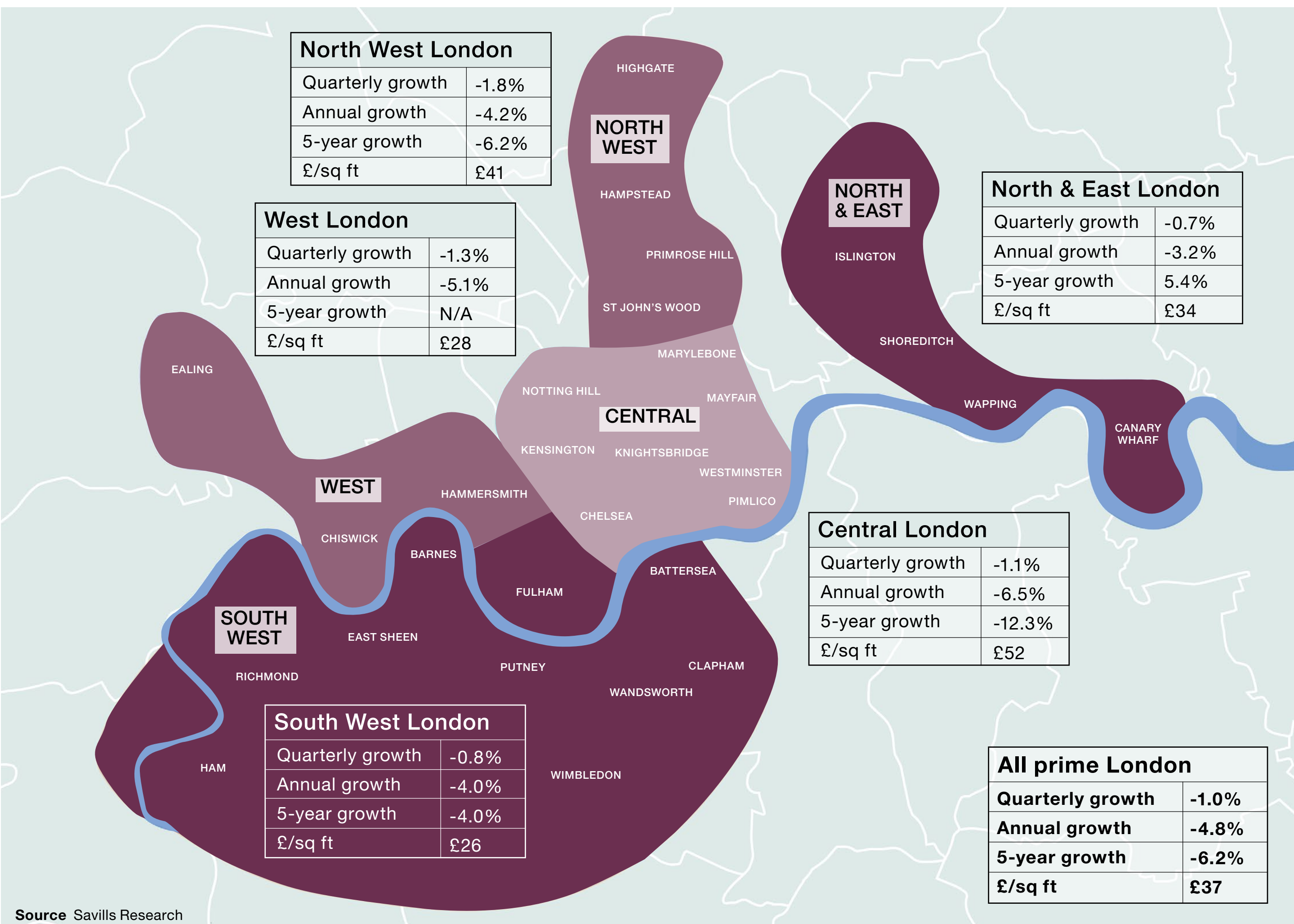
Prime London rental markets

Price growth summary

Despite prime rents across London falling by 1.0% over the third quarter of 2017, rates of annual falls have slowed, most noticeably in the most expensive markets in central London. Here, demand and supply are becoming more aligned, particularly for super prime properties (£4,000+ per week). A key driver is the rising number of high-net-worth individuals choosing to rent rather than buy as a consequence of high stamp duty purchasing costs.

-1.0%
Quarterly growth in prime London markets

Prime London by region Despite prime rents falling, the rates of annual falls have slowed across London



North West London	
Quarterly growth	-1.8%
Annual growth	-4.2%
5-year growth	-6.2%
£/sq ft	£41

West London	
Quarterly growth	-1.3%
Annual growth	-5.1%
5-year growth	N/A
£/sq ft	£28

North & East London	
Quarterly growth	-0.7%
Annual growth	-3.2%
5-year growth	5.4%
£/sq ft	£34

Central London	
Quarterly growth	-1.1%
Annual growth	-6.5%
5-year growth	-12.3%
£/sq ft	£52

South West London	
Quarterly growth	-0.8%
Annual growth	-4.0%
5-year growth	-4.0%
£/sq ft	£26

All prime London	
Quarterly growth	**-1.0%**
Annual growth	**-4.8%**
5-year growth	**-6.2%**
£/sq ft	**£37**

Source Savills Research

Active market

Although rents have been falling marginally for eight consecutive quarters, the prime rental market in London remains active, defying some of the economic uncertainty surrounding the UK's decision to leave the EU.

Strong demand continues to come from needs-based tenants, who are particularly driven by the space and quality of accommodation they can get for their money, rather than limiting their search to a specific geographical area.

This is also true for corporate relocators who want to stretch what they can get with their allocated budget. As such, prime zone 2 to 4 locations such as Clapham and Richmond have become more attractive.

Small more in demand

Less expensive properties in the market below £500 per week have witnessed smaller annual rental falls than more expensive properties.

Likewise, smaller properties of one and two bedrooms have performed better than larger properties on both a quarterly and annual basis.

This is not a recent trend. During the past five years, demand from affluent households – who either prefer to rent or are unable to raise a deposit to purchase – have supported rents.

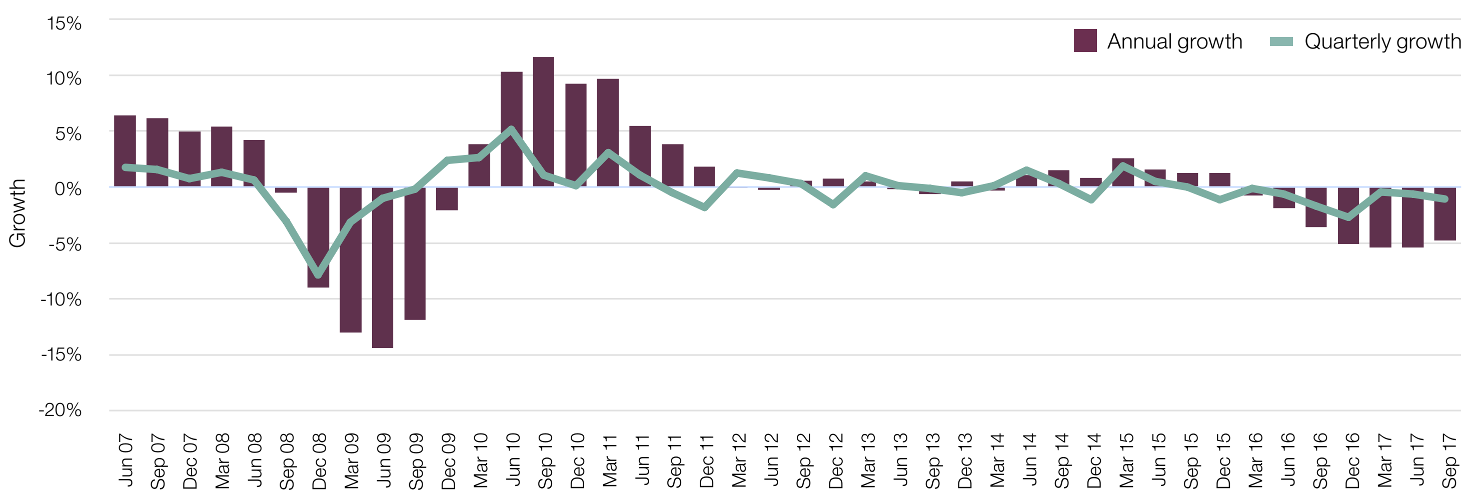
Over this period, prime rents for one-bedroom properties have held their own, displaying growth of 3.6%.

By contrast, larger homes with six or more bedrooms (for which demand is much more discretionary) have seen falls of 13.6%.

Growth pattern Smaller properties with one and two bedrooms have performed better than larger properties

Bedrooms	1	2	3	4	5	6+
Quarterly growth	-0.2%	-0.9%	-0.9%	-1.2%	-0.8%	-2.7%
Annual growth	-1.9%	-3.7%	-4.8%	-5.8%	-5.1%	-8.2%
5-year growth	3.6%	-2.0%	-6.1%	-10.7%	N/A	-13.6%

Prime London rental values Despite rents falling over the last quarter, annual falls have slowed



Source Savills Research

Outlook

Looking ahead, we expect that the prime rental market in London will continue to face headwinds. Although there are early signs that the amount of secondhand rental stock coming to the market is easing, there still remains a significant supply imbalance which we expect will suppress rental growth over the short to medium term.

For landlords, pricing remains key. They must remain realistic to maintain demand for their property and prevent the risk of long void periods. With tenants increasingly widening their search areas to seek best value, landlords will need to make sure their property is of the best quality to attract demand.

	Historical annual			Forecast annual					5-year compound growth
	2014	2015	2016	2017	2018	2019	2020	2021	
Prime London	0.8%	1.2%	-5.1%	-3.0%	0.0%	1.0%	3.0%	3.0%	4.0%

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

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