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Prime rents in the commuter belt

The market is most robust for smaller properties

The rental value of prime property in London's commuter belt showed little movement in the first quarter of 2018, meaning that rents fell, on average, by 2.3% during the past 12 months.

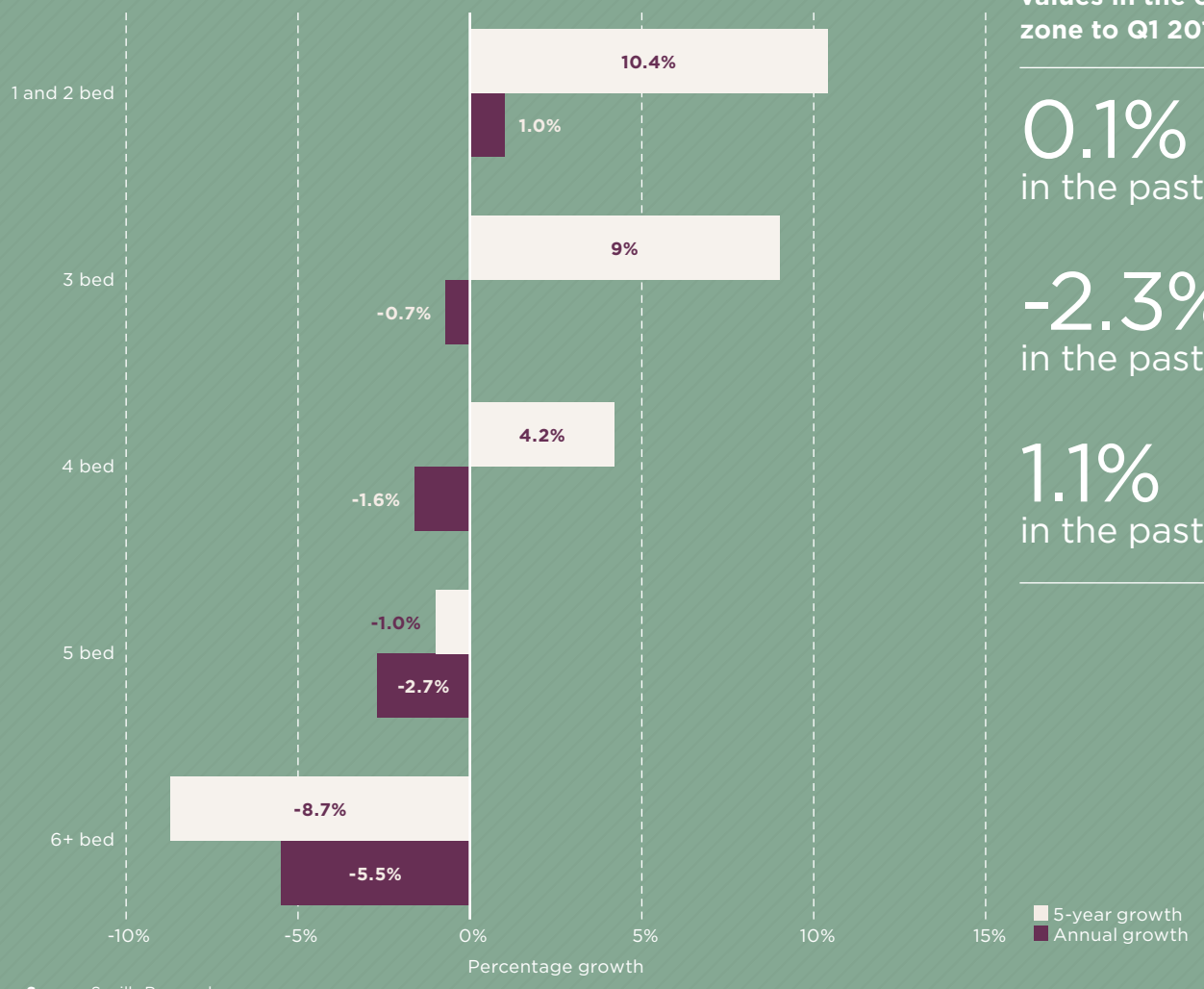
Size matters

In line with the pattern of the past five years, the market has been most robust for smaller properties. Here, demand is underpinned by younger households on good salaries who are struggling to raise a deposit. As a consequence, rents for one- and two-bedroom properties have continued to rise over the course of the past year, contributing to five-year rental growth of more than 10% (see below).

With these needs-based tenants continuing to rent into later life stages, the market for small family homes has also remained relatively robust, supporting five-year rental growth of 9%. However, this sector has been more difficult to sustain during the past 12 months.

Demand has been thinner for larger properties, reflecting both pressure on corporate budgets and the time of year. In the past year, rental values for properties with either five, or six or more bedrooms, have fallen 2.7% and 5.5% respectively.

Small size, larger gains The market has been most robust for smaller properties in terms of annual and five-year growth (to Q1 2018)



Source Savills Research

Prime residential rental values in the commuter zone to Q1 2018

0.1%
in the past quarter

-2.3%
in the past year

1.1%
in the past 5 years

Renewals and release

Faced with a lack of growth in the rental market, landlords of the larger properties have been keen to retain existing tenants by becoming more flexible on terms. The relatively fickle nature of demand has also meant the quality of the accommodation has become critically important in securing a successful letting. Dated stock has proved difficult to let, even at discounted rental values.

In the face of increased lettings regulation and a harsher tax environment, there is evidence that some landlords are bringing their property to the sales market to cash in on the long-term increase in value that has dominated total returns. This is contributing to a lack of new stock coming to the market.

> "The landlords of larger properties have been keen to retain tenants by becoming more flexible on terms"

Stock shortage

The anticipated resurgence of the accidental landlord has failed to materialise, despite a relatively subdued sales market. Those who have found a new property to buy have been reluctant to proceed with the purchase and let out their existing home, given the 3% stamp duty surcharge they would incur on their new home. This appears to be irrespective of the ability to recover the amount on a sale within three years.

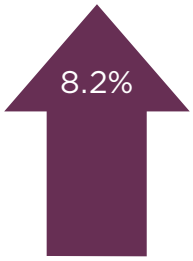
Likewise, the restriction on tax relief on mortgage interest, combined with the prospect of rate rises, has deterred new investors who require borrowing to fund a purchase.

Data from UK Finance indicates that the number of new buy to let mortgages granted to facilitate a purchase across the UK has fallen from 117,500 in 2015 to 74,900 in 2017. The data also shows a shift towards lower-value, higher-yielding markets, where it is easier to deliver cash returns.

Our analysis of this data shows that there are seven local authorities outside of London where the average mortgaged buy to let purchase price exceeds £500,000. These are South Bucks, Elmbridge in Surrey, Chiltern, Cambridge, Windsor & Maidenhead together with Three Rivers and Hertsmere in Hertfordshire.

Across these seven areas, the average buy to let yield is 4.3%, with buy to let investors typically borrowing 54% of the value of their property.

In two years, the number of buy to let loans for house purchases has fallen by 52% from 1,436 in 2015 to just 653 in 2017.



We expect an increase of 8.2% in prime rents in the commuter zone during the next five years

Outlook

The lack of stock is expected to put a floor on rental values and may contribute to some long overdue rental growth over the next five years. As a result, we are forecasting for prime rents in the commuter zone to increase by 8.2% over the next five years. Strong recovery is likely to only come once the market regains some confidence regarding our exit from the EU.

In the short term, landlords will need to ensure they are presenting property of the best possible condition and remaining flexible on terms and the packages they offer to retain the fickle demand.

Prime rental forecast Lack of stock is expected to contribute to longer-term growth

	2018	2019	2020	2021	2022	5-year compound growth
Prime London	-3.0%	1.0%	2.0%	4.0%	3.0%	7.0%
Prime commuter zone	-1.0%	1.0%	2.0%	3.0%	3.0%	8.2%

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

Savills team

Please contact us for further information

Lucian Cook
Director
Residential Research
020 7016 3837
lcook@savills.com

Gaby Day
Analyst
Residential Research
020 7299 3003
gday@savills.com

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