

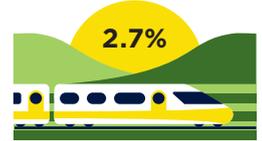
# Prime Residential Rents



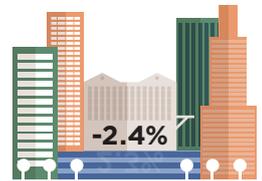
London SE11  
Guide: £2,354  
per week

## Market monitor

Key statistics in the prime rental market



Annual rental growth across the prime commuter belt



Annual rental growth across prime London



**80%**

Agents across London reporting stock levels increasing over the past three months



**77%**

Agents across the commuter belt reporting competitive bidding

Source Savills Research

## The London and country divide

Rents across the commuter belt continued to recover in the three months to the end of September 2020. In the prime markets up to an hour's commute from London, rents rose by 1.2%, marking the strongest quarterly growth for more than five years. This now leaves rents 2.7% higher than a year ago.

Much of this growth has been driven by high levels of demand, but also a lack of stock: 77% of Savills agents in the commuter belt reported available stock levels had decreased over the past three months. Half of those agents attributed this to accidental landlords now looking to sell because of the strong sales market.

Ongoing regulatory changes putting pressure on finances and rumours that capital gains tax rates could be increased in the future were also reported as reasons for landlords exiting the market. With stock levels low, 77% of our agents in the commuter belt report competitive bidding, yet almost three-quarters said this applied to less than 30% of deals.

By contrast, across prime London, rents were down by 1.3% in the past three months, the second consecutive quarter of rental falls. This leaves average rents across London 2.4% below where they stood a year before.

Despite strong tenant demand levels, 80% of agents in London reported stock levels increasing over the past few months. As the number of short lets and new build stock that increased over lockdown continues to work through the market, supply levels now look to be slowly correcting. However, many agents also reported tenants choosing to vacate or not to renew in order to look for a larger property with more outside space, given the changing priorities we have seen as a result of Covid-19.

Travel restrictions continue to impact some parts of prime central London and although applicant levels have significantly increased since lockdown, students and other international tenants are yet to return to normal levels.

| Prime rental movements | Central London | North West London | South West London | West London | North & East London | London's commuter belt* |
|------------------------|----------------|-------------------|-------------------|-------------|---------------------|-------------------------|
| Quarterly growth       | -2.3%          | -1.7%             | 0.7%              | -0.8%       | -2.6%               | 1.2%                    |
| Annual growth          | -4.7%          | -2.6%             | 1.3%              | 0.4%        | -4.6%               | 2.7%                    |
| 5-year growth          | -21.4%         | -8.3%             | -5.0%             | -4.5%       | -1.9%               | -1.8%                   |

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

## Drivers of demand

Following lockdown, we have seen a change in demand from tenants, now primarily driven by a particular location, attribute or property size. Consequently, headline rental movements hide variation across regions and property types.

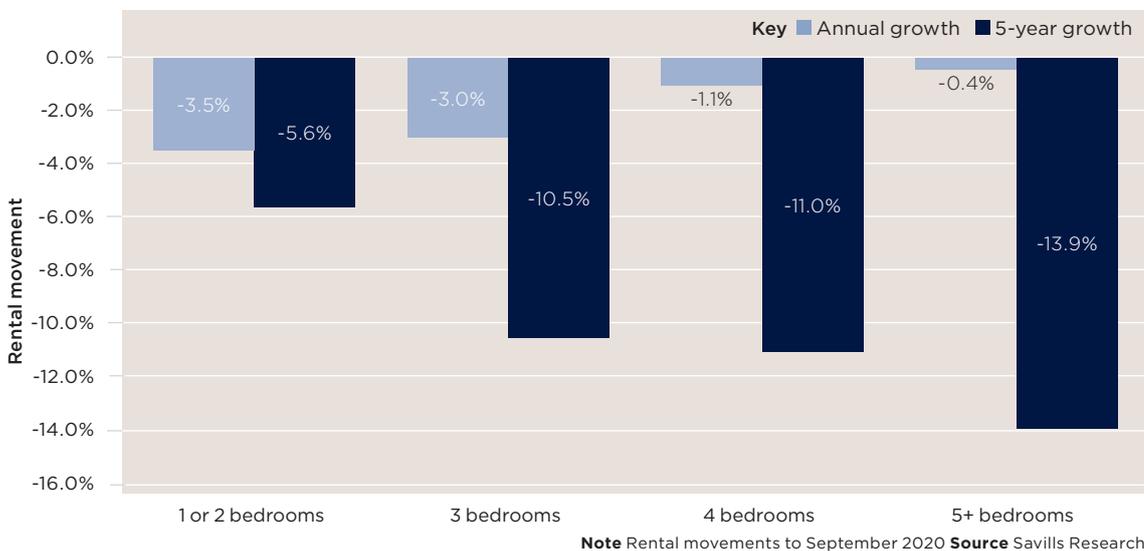
South West London was the only London region to see rental growth this quarter of 0.7%, mainly as a result of strong family demand for houses in areas such as Richmond,

Barnes and Wandsworth. Across London as a whole, rents for houses have slipped by only 0.3% over the past three months in contrast to falls of 2.1% for flats. Similarly, average rents for properties with one or two bedrooms have fallen by 3.5% over the past year compared to just 0.4% for those with five or more bedrooms.

These trends have been replicated across the commuter belt, though here it is a case of

houses and larger properties seeing higher rental growth rather than smaller falls. Properties with one or two bedrooms have seen rents increase by 0.4% in the three months to September 2020, but those with five or more bedrooms have seen growth of 1.4% during the same period. This reverses the trend of the past five years, when smaller properties more suited to young professionals have tended to outperform.

### London properties with more bedrooms are in demand



### OUTLOOK

In the short term, we expect a continuation of current trends to drive the market. How long it takes the London market to absorb the high supply levels will partly depend on the return of demand from corporate relocation tenants and international students. While we have seen corporate demand increase to three-quarters of normal levels, ultimately this will be determined by the easing of social distancing restrictions. That suggests London will remain a tenants' market over the remainder of this year and the early part of next, before more sustained rental growth returns.

In the country, we expect to see continued demand for family houses from those relocating from London over the same period, especially where they are unable to secure their dream property to purchase. Once a Covid-19 vaccine is found, this demand is likely to ease back, with less urgency to relocate, even from those planning on working from home more regularly.

While the reduced availability of mortgage finance will support demand for smaller properties from frustrated first-time buyers in the short term, we expect this end of the market to remain price sensitive, given the underlying economic backdrop.

### Revised prime rental value forecasts

|               | 2020  | 2021  | 2022  | 2023  | 2024  | 5-year compound growth |
|---------------|-------|-------|-------|-------|-------|------------------------|
| London        | -3.0% | +1.0% | +4.5% | +2.0% | +3.0% | 7.6%                   |
| Commuter zone | +3.5% | +2.0% | +1.5% | +2.0% | +2.0% | 11.5%                  |

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

## Savills team

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