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MARKET IN MINUTES | APRIL 2018

Prime London rental markets

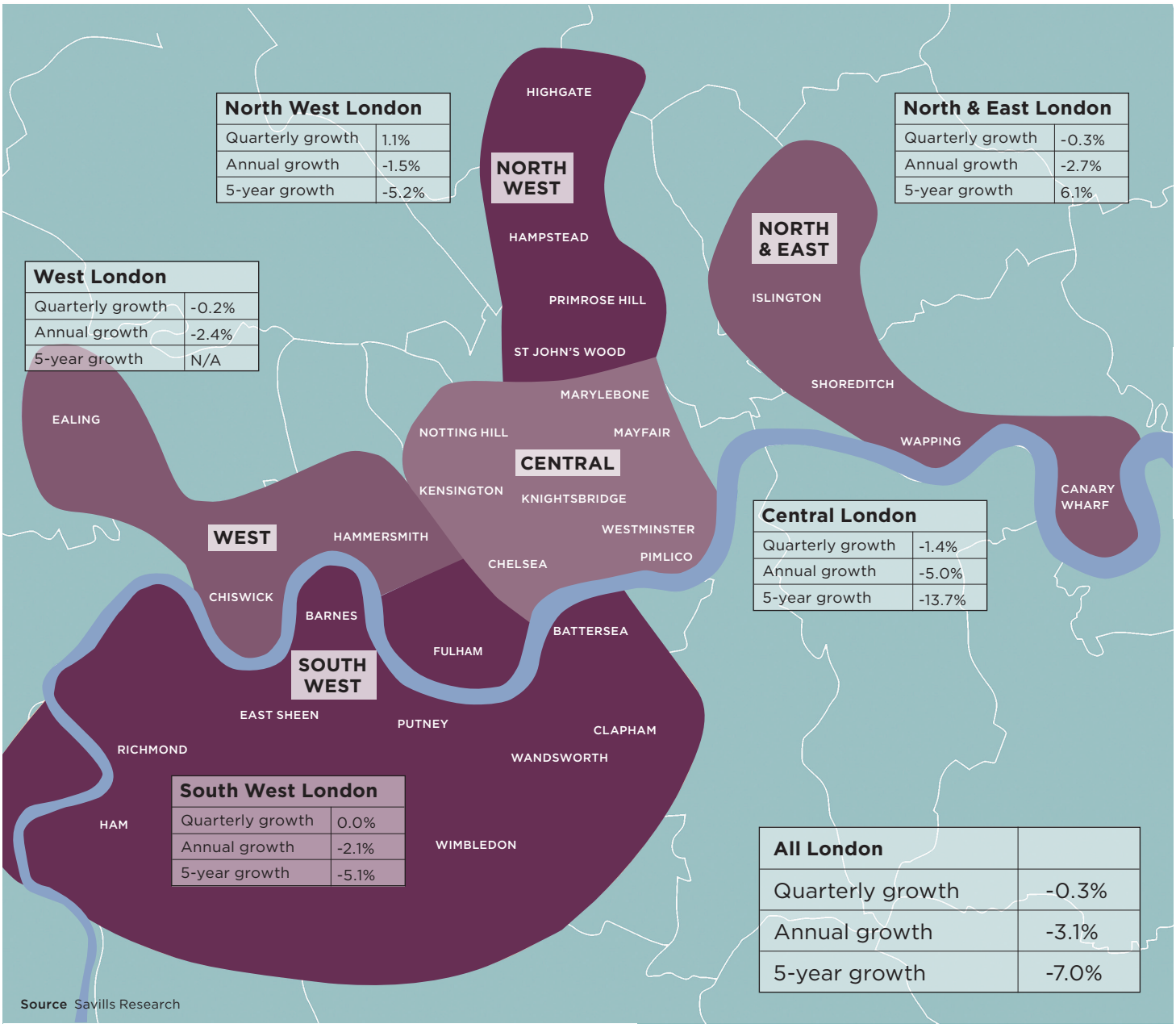
Activity remains strong despite price sensitivity

Price falls across the prime London rental market have continued to ease as a shortage of stock means supply and demand levels are becoming more aligned. However, the increasingly picky nature of tenants has prevented any significant upward pressure on rents.

Rents fell by 0.3% on average in Q1 of 2018, leaving them 3.1% below where they were a year ago. In spite of these falls and the noticeable price sensitivity, new tenancies are being agreed and activity remains strong for much of the market.

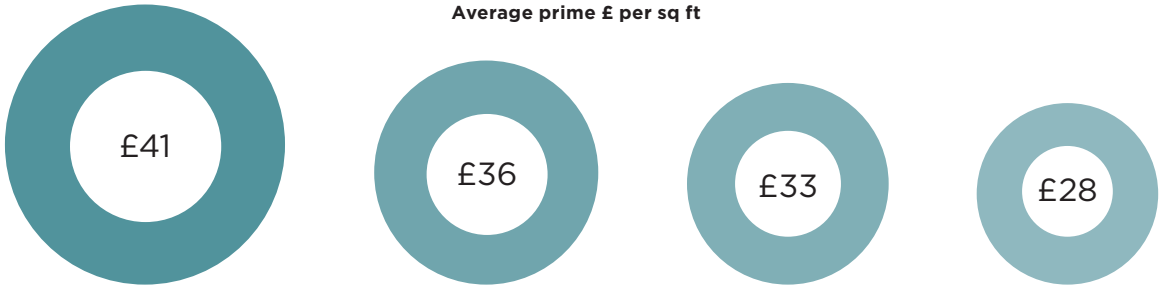
Prime North West London has seen strong demand for family houses, but lower levels of appropriate and available properties, which has led to some price rises. By contrast, higher-value central London is yet to see rents increase as a result of the more discretionary nature of the market.

Rental values to Q1 2018 Prime London rents are down over the year, but falls continue to slow



Source Savills Research

Quality control Tenants are prepared to pay a significant premium for properties in immaculate condition



Source Savills Research

Quality is key

Demand from tenants for stock of only the best quality is more apparent than ever. Tenants are prepared to pay almost 30% (about £10 per sq ft) more for prime properties which are in immaculate condition compared with those considered moderate or poor.

However, it is not just that tenants are willing to pay a premium. For landlords to secure a tenancy, their properties must be presented to the highest standard.

Tenant flexibility

Tenants are continuing to be more flexible on location, prioritising the specification and price of the property over where it is.

Indeed, almost half of all prime tenants are moving from a different borough. Most noticeably, tenants from the central London boroughs of Kensington and Chelsea, and Westminster are increasingly relocating to neighbouring boroughs such as Camden, Hammersmith and Fulham, and Wandsworth, in search of value.

A move from prime Kensington to prime Fulham, Clapham or Putney, for example, would save an average of around £20 per sq ft.

29.3%
Premium for properties in an immaculate condition

2019
When new build completions are expected to be at their highest

Outlook

Although supply and demand seems to be aligning, there is a significant new build pipeline expected to complete over the next few years. Many of these properties will come to the rental market. However, the stamp duty surcharge for additional homes and recent cuts in tax relief for interest payments mean that some mortgaged investors are re-evaluating their portfolios.

As for demand, while uncertainty surrounding Britain's exit from the EU has changed the nature of the corporate relocation market, some would-be buyers will continue to look for rental properties in the mid-term. As a result, we expect rental falls to continue for the remainder of this year.

By 2019, we anticipate confidence to return to the prime residential markets, once we have a better idea of how our exit from the EU will unfold. This would usually translate into the stabilising of rental values, but as the number of new build completions is expected to be at its highest in 2019, this will limit any significant rental growth. We are forecasting that capital value growth will exceed rental growth over the next five years so landlords are advised to take a longer-term view regarding the value of their assets.

Prime rental forecast We expect confidence to return by 2019

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

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

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