



Rents rise first time in six months, but demand lags new supply

Prime central London rents increased by 0.1% in April, but landlords should not expect a rapid rise in the next few months, Liam Bailey, Head of Knight Frank Residential Research explains

Results for April 2012

Rents increased by 0.1% in April, following falls in the preceding six months

Rents have now risen 1.2% over the past 12 months

New tenant registrations (up 5% year-on-year in the three months to April) are not keeping pace with new property instructions (up 56%)

The ratio of new applicants to new instructions was 2.9 in April compared to 4.3 a year earlier

Prime central London rents increased in April for the first time in six months. Although the rise was just 0.1% and followed falls totalling 0.8% in the six months to March, rents have now risen by 1.2% over the past year.

But landlords should not expect a rapid rise in rents in the next few months, as demand is currently failing to keep pace with supply.

Although new property instructions were up 56%, and new tenancy starts were up 40%, in the three months to April compared to the same period in 2011, new tenant registrations were up by just 5% and property viewings up by 15%.

Further confirmation of this gap comes in the form of the ratio of new applicants to new instructions, which last year stood at 4.3 and this year, to date, stands at just 2.9.

This can be explained by the continued lull in the City employment market and restricted budgets, both individual and corporate. It can also be attributed to the continued strength of the sales market in prime central London, which is encouraging some to buy rather than rent.

Within the prime market, there are differences in performance. Belgravia for example saw prices rise by 1.2% in April while Hyde Park saw a 0.9% fall. And while some two or three-bedroom houses in the £1,700 to £1,800 per week price range in Knightsbridge, for example, are failing to attract attention, properties in certain developments in the area are proving quite the opposite and achieving good rents.

Our view remains that we will see a modest growth in rents (1%) in 2012, before a more sustained recovery in 2013.

Figure 1
Monthly growth
Prime central London average residential rental change

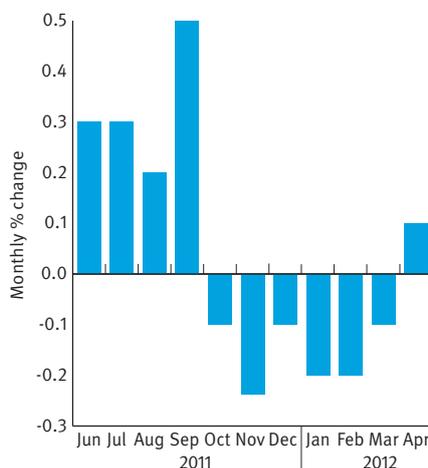
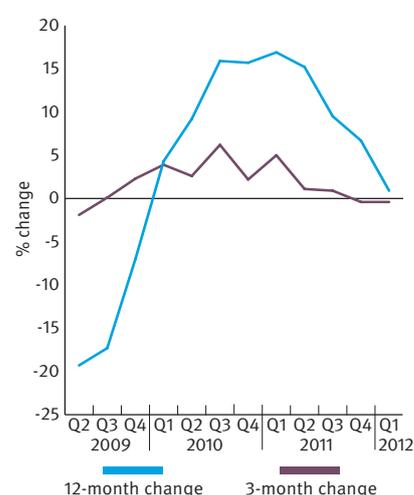


Figure 2
Annual and quarterly growth
Prime central London average residential rental change



“But landlords should not expect a rapid rise in rents in the next few months, as demand is currently failing to keep pace with supply.”



Liam Bailey, Head of Residential Research

RESIDENTIAL RESEARCH PRIME CENTRAL LONDON RENTAL INDEX

Knight Frank



Data digest

The **Knight Frank Prime Central London Rental Index**, established in 1995 is the most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks rental values of prime central London residential property. 'Prime central London' is defined in the index as covering: Belgravia, Chelsea, The City of London, Hyde Park, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, Hyde Park, South Kensington and St John's Wood. 'Prime London' comprises all areas in prime central London, and in addition Canary Wharf, Fulham, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.

Key market metrics

Prime central London rental market activity, three months to April 2012 compared to same period last year

| | | |
|----------------------------------|---|-------|
| Demand | New tenant registrations | 5% ▲ |
| | Property viewings | 15% ▲ |
| Supply | New property instructions | 56% ▲ |
| Activity | Tenancies commenced | 40% ▲ |
| Demand and supply balance | Ratio of new applicants/new instructions (2011) | 4.3 |
| | Ratio of new applicants/new instructions (2012) | 2.9 |

Knight Frank Prime Central London Rental Index

| | KF Prime Central London Index | 12-month change % | 6-month change % | 3-month change % | Monthly change % | |
|---------------------------------------|-------------------------------|-------------------|------------------|------------------|------------------|-------|
| Index quarterly to the end of Q1 2011 | Q1 2009 | 143.5 | -18.2% | -16.3% | -7.4% | n.a. |
| | Q2 2009 | 140.8 | -19.3% | -9.2% | -1.9% | n.a. |
| | Q3 2009 | 140.9 | -17.8% | -1.8% | 0.1% | n.a. |
| | Q4 2009 | 144.2 | -7.0% | 2.4% | 2.3% | n.a. |
| | Q1 2010 | 149.8 | 4.3% | 6.3% | 3.9% | n.a. |
| | Q2 2010 | 153.7 | 9.2% | 6.6% | 2.6% | n.a. |
| | Q3 2010 | 163.2 | 15.9% | 9.0% | 6.2% | n.a. |
| | Q4 2010 | 166.8 | 15.7% | 8.5% | 2.2% | n.a. |
| | Q1 2011 | 175.1 | 16.9% | 7.3% | 5.0% | n.a. |
| | Index monthly from April 2011 | Apr-11 | 175.7 | n.a. | n.a. | n.a. |
| May-11 | | 176.6 | n.a. | n.a. | n.a. | 0.5% |
| Jun-11 | | 177.1 | 15.2% | 6.1% | 1.1% | 0.3% |
| Jul-11 | | 177.5 | n.a. | n.a. | 1.0% | 0.3% |
| Aug-11 | | 177.9 | n.a. | n.a. | 0.7% | 0.2% |
| Sep-11 | | 178.7 | 9.5% | 2.1% | 0.9% | 0.5% |
| Oct-11 | | 178.5 | n.a. | 1.6% | 0.6% | -0.1% |
| Nov-11 | | 178.1 | n.a. | 0.9% | 0.1% | -0.2% |
| Dec-11 | | 178.0 | 6.7% | 0.5% | -0.4% | -0.1% |
| Jan-12 | | 177.7 | n.a. | 0.1% | -0.5% | -0.2% |
| Feb-12 | | 177.3 | n.a. | -0.3% | -0.4% | -0.2% |
| Mar-12 | | 177.3 | 1.2% | -0.8% | -0.4% | -0.1% |
| Apr-12 | 177.3 | 1.2% | -0.8% | -0.4% | 0.1% | |

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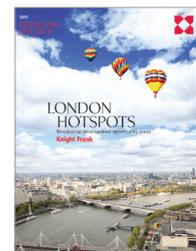
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