PRIME CENTRAL LONDON RENTAL INDEX

This report analyses the performance of single-unit rental properties in the second-hand prime central London market at £500 per week and above.
For an analysis of the build-to-rent market and the institutional private rented sector in London and the rest of the UK, please see our Private Rented Sector Update report **here.**

GLOBAL VOLATILITY REDUCES BUDGETS IN THE PRIME CENTRAL LONDON LETTINGS MARKET

Falling stock markets and commodity prices has helped drive demand in lower rental brackets, says Tom Bill

April 2016

Annual rental value growth was -1.8% in April, the lowest rate in two years

Demand is stronger below £1,000 per week as corporate budgets are reduced

Higher stock levels at above £1,000 per week increased downwards pressure on rental values

Prime gross yields were **flat at 2.9%**

Macro View: Offshore companies and London property

Demand in the prime central London lettings market remained subdued in April against the background of falling stock markets and commodity prices.

Given the volatility in global financial markets, the FTSE 100 is about 12% lower than it was a year ago while the Goldman Sachs Commodity Index has fallen about 30% over the last 12 months.

As a result, many companies are cutting their accommodation and relocation budgets for senior staff or, in some instances, sending them to London for shorter periods of time.

As a result, executives formerly on budgets of £1,500 per week or more are now typically in accommodation where rental values are less than £1,000 per week, often in lower-value areas of London that are further east.

Accordingly, City & Fringe, King's Cross and Tower Bridge are the three areas of central London where annual rental value growth remains positive, as the map on page 2 shows.

Across prime central London, the decline in rental value growth has been less marked in lower price brackets, as figure 2 shows. It is reflective of stronger demand below £1,000 per week, a price bracket that encompasses professionals at early stages of their career and more senior executives on reduced budgets.

Exacerbating the fact demand has slowed between £1,500 to £5,000 per week is the fact more supply has come onto the market due to uncertainty over the short-term trajectory of the sales market.

One area of uncertainty for companies is the EU referendum in June and there are signs some are taking precautions ahead of a vote that could see the UK leave the EU. Some international companies are delaying relocations and lettings deals until after the Brexit vote and there is anecdotal evidence others that are requesting two-month break-clauses from the start of the rental contract, something usually only possible after six months.

Against this uncertain backdrop, annual rental value growth declined to -1.8% in April, which was the lowest rate for two years. Prime gross yields have edged up to 2.90% from 2.83% over that period as capital value growth has slowed.

TOM BILL
Head of London Residential Research

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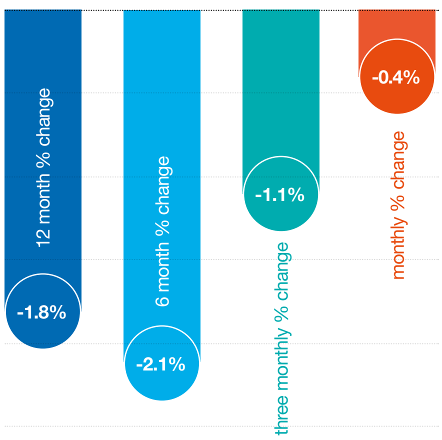
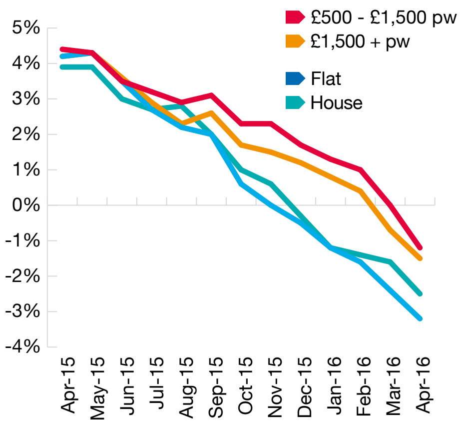
FIGURE 1
Rental value growth in prime central London



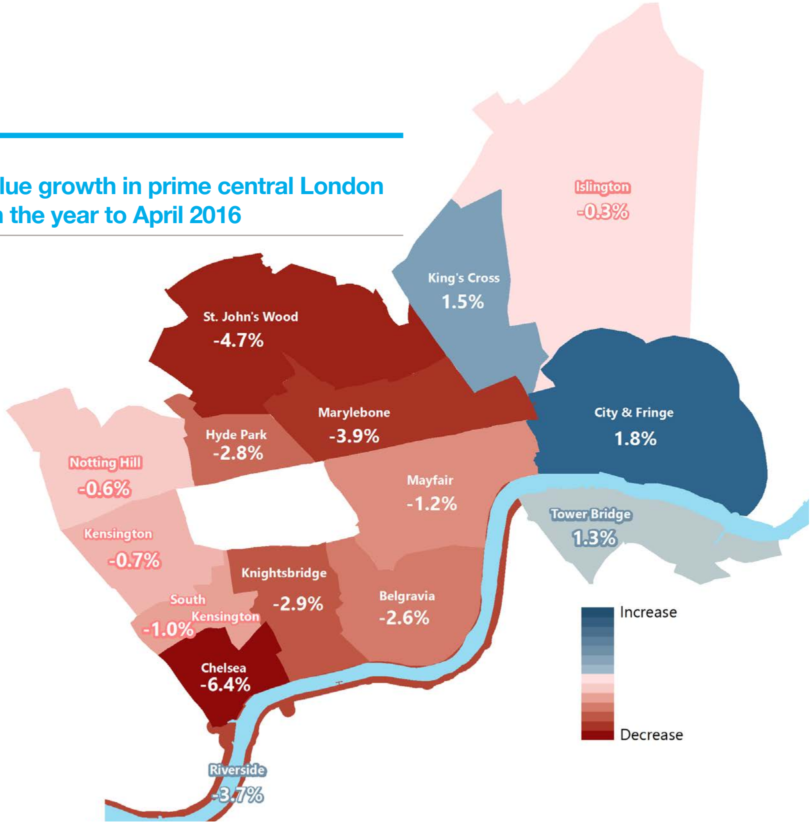
Source: Knight Frank Research

FIGURE 2
Growth slows more in higher price brackets
Annual rental value growth by price brakcet and property type



Source: Knight Frank Research

FIGURE 3
Rental value growth in prime central London by area in the year to April 2016



DATA DIGEST

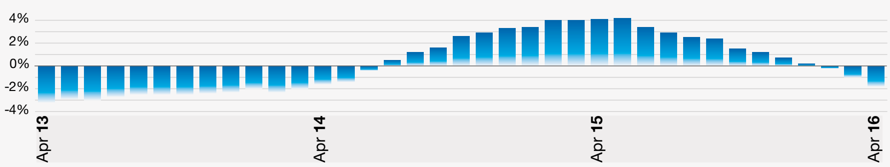
The Knight Frank Prime Central London Index, established in 1995 is the most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks rental values of prime central London residential property. 'Prime central London'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

* Riverside in prime central London covers the Thames riverfront from Battersea Bridge in the west to Tower Bridge in the east, including London's South Bank. The City Fringe encompasses the half-mile fringe surrounding most of the City including Clerkenwell and Farringdon in the west and Shoreditch and Whitechapel in the east.

THE MACRO VIEW APRIL 2016

Prime Central London Index | **172.7**

Annual rental value growth in prime central London over the last three years



OFFSHORE COMPANIES AND LONDON PROPERTY

Offshore companies have been the focus of regular media stories in recent weeks, particularly following the so-called 'Panama Papers' data leak.

The leak came against the backdrop of a drive by the UK government for greater transparency around offshore companies and growing global scrutiny on cross-border money flows from organisations including the OECD and IMF.

The media coverage has focussed on high-profile individuals named in the files and the fact opaque structures can be used to conceal a variety of motives.

However, the reality of buying London property through an offshore company is far more prosaic, according to Paul Ayres, a tax partner at accountant BDO.

"Anonymity has not been a big reason for clients using offshore vehicles to buy property," he said. "They have been overwhelmingly used for inheritance tax reasons," he told Knight Frank.

Until recently, offshore companies were exempt from paying 40% inheritance tax but the government has signalled this will change from next year.

On its own, the change is unlikely to have a material impact on demand for London property. The primary reason is that the vast majority of property transactions in London do not involve offshore companies

The second reason is that buyers will still want to buy a home in London, irrespective of how the transaction is structured.

"In other countries it can still make sense to buy through an offshore company but rules are changing everywhere to make owning via structures less attractive so owning property directly is becoming the new global norm," said Ayres.

Furthermore, the number of deals that would not happen if anonymity was removed is "not significant", he said.

"From what we see demand is holding up despite the changing tax environment. Brexit is more of a concern to buyers right now."

RESIDENTIAL RESEARCH

Tom Bill
Head of London Residential Research
+44 20 7861 1492
tom.bill@knightfrank.com

PRESS OFFICE

Jamie Obertelli
+44 20 7861 1104
jamie.obertelli@knightfrank.com

Harry Turner
+44 20 3861 6974
harry.turner@knightfrank.com

Knight Frank