



International tenants take 60% of prime London lettings, driving rents to new high

Rents have hit record highs having risen by 26.3% since June 2009, highlighting the dramatic turnaround in landlords' fortunes on the back of new tenant demand from Asian and European tenants, Liam Bailey explains.

Results for August 2011

Rents for prime London property rose 0.2% in August 2011, contributing to growth of 6.6% since January

Rents have risen 26.3% since their post-credit crunch low in June 2009

Rents are now at a record high, 1.4% higher than their previous peak in March 2008

International tenants now account for six out of every 10 lettings in central London, with Asia-Pac and Europe driving demand

New rental instructions have risen by 23% over the past year, while new tenant registrations are higher by 16%. The volume of tenancies commenced has risen by 21% over the same period

Prime London rents have been rising for over two years, and since January have risen by nearly 7%, including a 0.2% rise in August.

Despite the high levels of capital value growth in London over the past two years investors have been securing higher investment yields. Average prime gross yields have been pushed higher by rapid rental growth, moving from 3.3% to 3.6% in central London between June 2010 and August 2011.

Landlords are beginning to see increased competition, with new rental instructions higher by 23% in the three months to August, compared to the same period in 2010. There is scope for more substantial increases over the next few months, with inspections of potential new rental properties up by 45%.

Demand has also risen, offsetting the growth in supply, with an annual rise of 16% in new tenant registrations and a corresponding 17% rise in viewings in the three months to August.

One of the main drivers of this is the fact that international demand for London's prime properties is even more pronounced in the

rental sector than in the sales sector, with almost six out of 10 tenants coming from overseas.

While tenants from Asia-Pac have risen in importance this year, with a doubling in their representation in our table of top nationalities (overleaf), European tenants have grown as a proportion of the overall market, reflective of the demand for accommodation from smaller banks and financial organisations from Europe who have been setting up or expanding operations in London over the past two years.

The number of tenancies started in the three months to August rose by 13% year-on-year, but the pipeline of tenancies agreed, which is up by nearly 50%, suggests new lettings volumes will rise steadily through the third quarter.

Our view is that rental growth should continue in the prime London markets. Rents have surged recently, but over the long term they have not kept pace with average earnings growth in London, meaning that renting prime property is cheaper now than it was a decade ago. Our forecast is for above-inflation levels of rental growth over the next two to three years.

Figure 1
Monthly price change
Prime central London average residential rental change

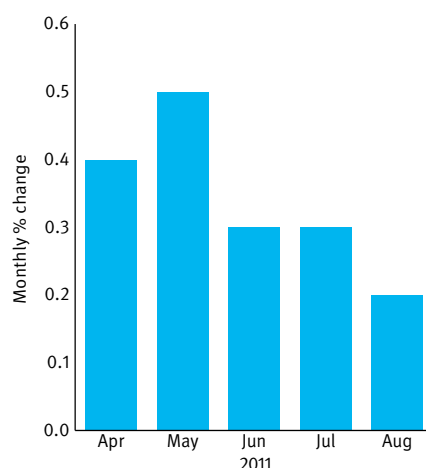
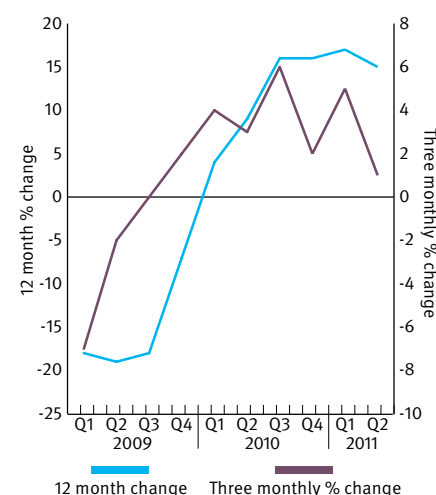


Figure 2
12 month and 3 month price change
Prime central London average residential rental change



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Source: Knight Frank Residential Research

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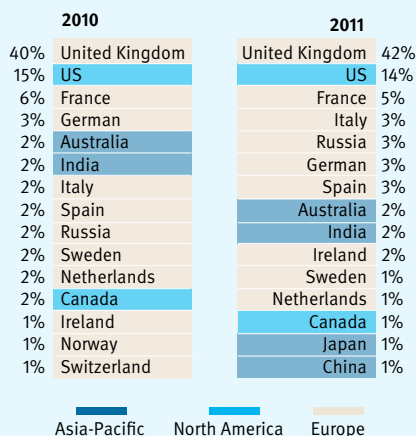
RESIDENTIAL RESEARCH PRIME CENTRAL LONDON RENTAL INDEX

Knight Frank



Know your tenant

Top 15 prime London tenant nationalities, 2010 and 2011



Source: Knight Frank Residential Research

Key market metrics

Prime central London rental market activity, 3 months to August 2011 compared to same period last year

Demand	New tenant registrations	16% ▲
	Property viewings	17% ▲
Supply	New property inspections	45% ▲
	New property instructions	23% ▲
Activity	Tenancies agreed	50% ▲
	Tenancies commenced	21% ▲

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.

Knight Frank Prime Central London Rental Index

	KF Prime Central London Index	12 month change %	6 month change %	3 monthly 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%

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