



City job losses lower residential rents

Liam Bailey, Head of Residential Research at Knight Frank comments: “Rental falls in winter are not uncommon, the employment market is quieter and less people are typically looking to move to new positions.

Results for January 2012

Residential rents in prime central London fell back by 0.2% in January, meaning rents are now 0.6% below their September 2011 peak

Despite the recent monthly falls residential rents are still around 7% higher than a year ago

The key drivers for the recent weaker residential rental performance in central London are: City of London job losses and, ultimately, affordability for tenants

“However there are signs that the weakness in the City of London jobs market, where new employment vacancies are down 51% year-on-year at the current time (according to Morgan McKinley), is beginning to feed through to the rental sector.

“With the banking sector expected to deliver much lower bonuses in the first quarter of 2012 compared to last year, tenants who are building deposits for eventual entry to the housing market are looking to reduce their rental costs in the interim.

“Additionally rental budgets for corporate tenants, employees who have been relocated to London by their firms, have been cut back by anything up to 15% over the past 12 months.

“The other main driver helping to push rents lower is affordability. Tenants saw rents rise 27% in the two years to September 2011 – hitting all-time highs at that point. At best, disposable income even in central London, only rose by around 8% over the same period – landlords are

having to accept that continually rising rents are not a fixture of the market.

“In terms of sub-market performance, across central London there is a particular shortage of prospective tenants looking in the mid-market, a definition which varies depending on the area, but is typically around £800 or £1,000 to £2,000 a week.

“Activity has been strongest at the lower end of the market and to a lesser extent, the top-end. The sub-£1,000 a week bracket has seen more demand recently as people have been tightening their budgets, with both individual tenants and companies housing corporate tenants.

“The £4,000+ per week bracket has also been active, especially in Belgravia and Knightsbridge with the arrival of a number of Russian tenants at this level of the market.

“Our view looking ahead is that rents will begin to rise slightly from the spring onwards. We are not expecting significant rises from here.”

Figure 1
Monthly growth
Prime central London average residential rental change

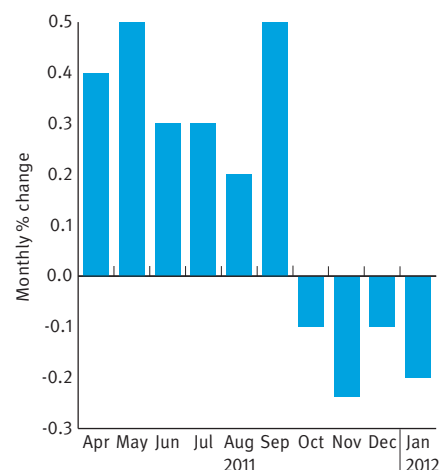
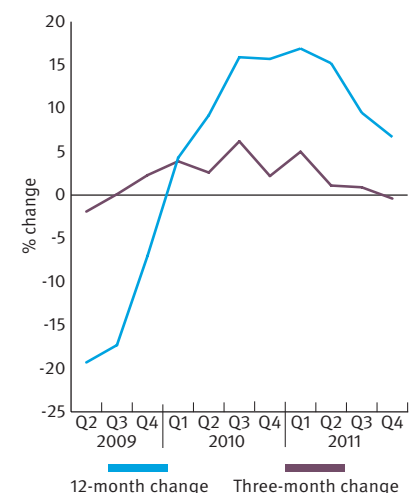


Figure 2
Annual and quarterly growth
Prime central London average residential rental change



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Liam Bailey, Head of Residential Research

RESIDENTIAL RESEARCH PRIME CENTRAL LONDON RENTAL INDEX

Knight Frank



Know your tenant

Top 15 prime London tenant nationalities, 2010 and 2011

2010		2011	
40%	United Kingdom	42%	United Kingdom
15%	US	14%	US
6%	France	5%	France
3%	German	3%	Italy
2%	Australia	3%	Russia
2%	India	3%	Germany
2%	Italy	3%	Spain
2%	Spain	2%	Australia
2%	Russia	2%	India
2%	Sweden	2%	Ireland
2%	Netherlands	1%	Sweden
2%	Canada	1%	Netherlands
1%	Ireland	1%	Canada
1%	Norway	1%	Japan
1%	Switzerland	1%	China

Asia-Pacific North America Europe

Source: Knight Frank Residential Research

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-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.	0.4%
		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%	

Key market metrics

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

Demand	New tenant registrations	20% ▲
	Property viewings	32% ▲
Supply	New property instructions	6% ▲
Activity	Tenancies commenced	-2% ▼
Demand and supply balance	Ratio of new applicants/new instructions (2010)	2.94
	Ratio of new applicants/new instructions (2011)	3.44

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