PRIME CENTRAL LONDON RENTAL INDEX

Knight Frank

Prime central London rents rise as economic optimism grows

Prime central London rents grew in January, coinciding with official confirmation that economic growth in 2013 was the highest since the financial crisis, as Tom Bill explains.

Results for January 2014

Prime central London rents **rose for the first time** in 21 months in January

Increase of 0.2% highest since September 2011

Lettings volumes up 19% in year to January

Rental yields dropped below **'risk-free' government bond yield at end of 2013**

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Prime central London rents rose for the first time in 21 months in January, as UK economic sentiment continued to improve.

Rents for London's best residential properties rose 0.2% in January, which was the highest monthly increase since September 2011. Rents fell 2% versus January 2013, which was the lowest annual decline since August 2012, and we expect annual growth to return by the end of this year.

More senior executives from industries like banking, insurance, shipping and mining are searching for rented property than last year and relocation agents are increasingly prevalent in the central London lettings market as more employees move to the capital from overseas. This trend helped to push the total number of lettings higher by 19% in the 12 months to January.

While there are some generous relocation packages for the most senior people, the purse strings are still tighter than they were before the crash for most staff. This has caused many to seek better value beyond traditional markets like Mayfair and Chelsea and look in areas like Marylebone and Hyde Park Estate.

Meanwhile, the UK passed more economic milestones in January, including the announcement that its economy grew by 1.9% in 2013, the fastest rate since the financial crisis.

Furthermore, permanent job vacancies in London grew by the fastest rate since January 2001, according to the December Markit Economics Report on Jobs.

Prime central London rental yields fell in January to 2.86%, the result of falling rents and strong investor demand. The full extent of this demand was demonstrated in December, when yields fell to 2.88%, dropping below the benchmark 10-year UK government bond yield of 3.02% recorded at the end of the month.

UK government bond yields have risen as the US Federal Reserve winds down its stimulus programme but it meant, at least on paper, prime central London property ended 2013 as a safer bet than UK government debt.

It followed a 32-month period when rental yields were higher than the so-called 'risk-free rate' though investors typically buy prime central London property in the hope of capital growth, rather than just for rental income.

TOM BILL
Associate, Residential Research

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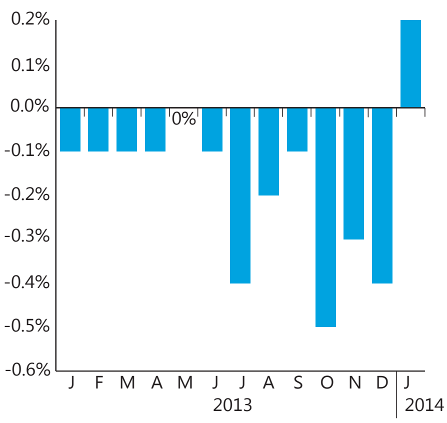
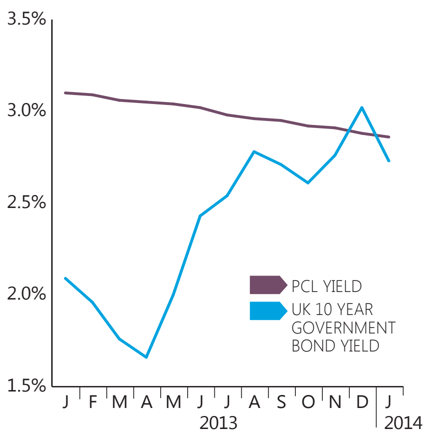
Follow Tom at @TomBill_KF

Figure 1
Monthly growth
Prime central London average residential rental change



Source: Knight Frank Residential Research

Figure 2
Prime central London yield vs UK 10-year gilts



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 & Fringe, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington and St John's Wood. 'Prime London' comprises all areas in prime central London, and in addition Canary Wharf, Fulham, Hampstead, Richmond, Riverside*, Wandsworth, Wapping and Wimbledon.

* Riverside covers the Thames riverfront from Battersea Bridge in the west running east to include 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.

Knight Frank Prime Central London Rental Index

	KF Prime Central London Index	12 month change %	6 month change %	3 month change %	Monthly change %
Jan-12	177.7	0.0%	0.1%	-0.5%	-0.2%
Feb-12	177.3	0.0%	-0.3%	-0.4%	-0.2%
Mar-12	177.3	1.2%	-0.8%	-0.4%	-0.1%
Apr-12	177.3	0.9%	-0.7%	-0.2%	0.1%
May-12	176.9	0.2%	-0.7%	-0.3%	-0.3%
Jun-12	176.9	-0.1%	-0.6%	-0.2%	0.0%
Jul-12	175.6	-1.1%	-1.2%	-1.0%	-0.8%
Aug-12	174.9	-1.7%	-1.4%	-1.1%	-0.4%
Sep-12	174.6	-2.3%	-1.5%	-1.3%	-0.1%
Oct-12	173.8	-2.7%	-2.0%	-1.0%	-0.5%
Nov-12	173.2	-2.8%	-2.1%	-1.0%	-0.3%
Dec-12	172.3	-3.2%	-2.6%	-1.3%	-0.5%
Jan-13	172.1	-3.1%	-2.0%	-0.9%	-0.1%
Feb-13	171.9	-3.1%	-1.7%	-0.7%	-0.1%
Mar-13	171.8	-3.1%	-1.6%	-0.3%	-0.1%
Apr-13	171.7	-3.2%	-1.2%	-0.2%	-0.1%
May-13	171.7	-2.9%	-0.8%	-0.1%	0.0%
Jun-13	171.6	-3.0%	-0.4%	-0.1%	-0.1%
Jul-13	170.8	-2.7%	-0.7%	-0.5%	-0.4%
Aug-13	170.5	-2.5%	-0.8%	-0.7%	-0.2%
Sep-13	170.3	-2.5%	-0.9%	-0.7%	-0.1%
Oct-13	169.4	-2.5%	-1.4%	-0.8%	-0.5%
Nov-13	168.9	-2.4%	-1.6%	-0.9%	-0.3%
Dec-13	168.3	-2.3%	-1.9%	-1.2%	-0.4%
Jan-14	168.6	-2.0%	-1.3%	-0.5%	0.2%

Source: Knight Frank Residential Research

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