

## PRIME CENTRAL LONDON LETTINGS MARKET ADJUSTS TO NEW POLITICAL LANDSCAPE

Activity in the prime central London lettings market has been fitful ahead of an expected seasonal upturn in activity this summer, says Tom Bill

### June 2015

Annual rental value growth **eased to 3.4% in June**

**June marked the 12th consecutive month of annual growth** but activity remains inconsistent

High stock levels in some areas means **setting realistic asking rents has become more important**

**Shortage of family houses in areas including Kensington and St John's Wood** as demand moves from sales market

**Prime gross yields remained at 2.96%** for the second month running

Annual rental value growth in prime central London eased to 3.4% in June, reflecting the positive but hesitant mood in the prime central London lettings market.

While June marked the twelfth consecutive month of annual growth, demand has been inconsistent ahead of an expected seasonal upturn in the summer as companies digest the outcome of the general election.

In similar fashion to the sales market, the prime central London lettings market is in a period of adjustment following an election result that few predicted.

One example is high stock levels in some areas, the result of landlords having waited for clarity around the result of the vote before deciding whether to let their properties.

The health of the prime central London lettings market is linked to that of the UK economy and some perceive it to be on a firmer footing under a majority Conservative government, which has caused stock levels to rise.

Properties for sale are also moving across to the lettings market, the result of some vendors

choosing the rental option after a post-election spike in prices failed to materialise.

The result of higher stock levels is that prospective tenants are shopping around to a greater extent than before, which means setting realistic asking rents has become increasingly important.

However, the picture is mixed across different markets and there is a shortage of family houses in areas including Kensington and St John's Wood, as more families opt to rent due to affordability constraints in the sales market.

The impact of the election on decision-making by large financial institutions over whether they remain in the UK will also have a bearing on demand in the second half of 2015.

Some banks are reviewing whether to stay against the background of an in-out EU referendum as well as a wider debate surrounding the merits of the bank levy and plans to claw back bonus payments. Figure 2 shows how the share price performance of banks has lagged the FTSE 100 in the last two years, reflecting the stricter regulatory environment.

Prime gross yields held steady at 2.96% for the second consecutive month.



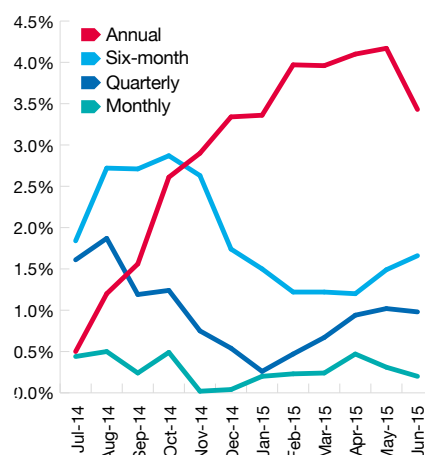
**TOM BILL**  
Head of London Residential Research

"Prospective tenants are shopping around to a greater extent, which means setting realistic asking rents has become more important"

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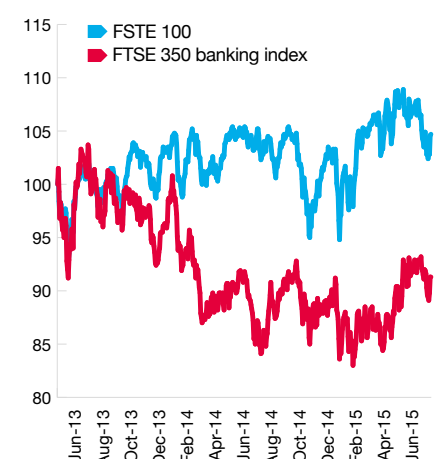
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FIGURE 1  
**Rental value growth in prime central London**



Source: Knight Frank Residential Research

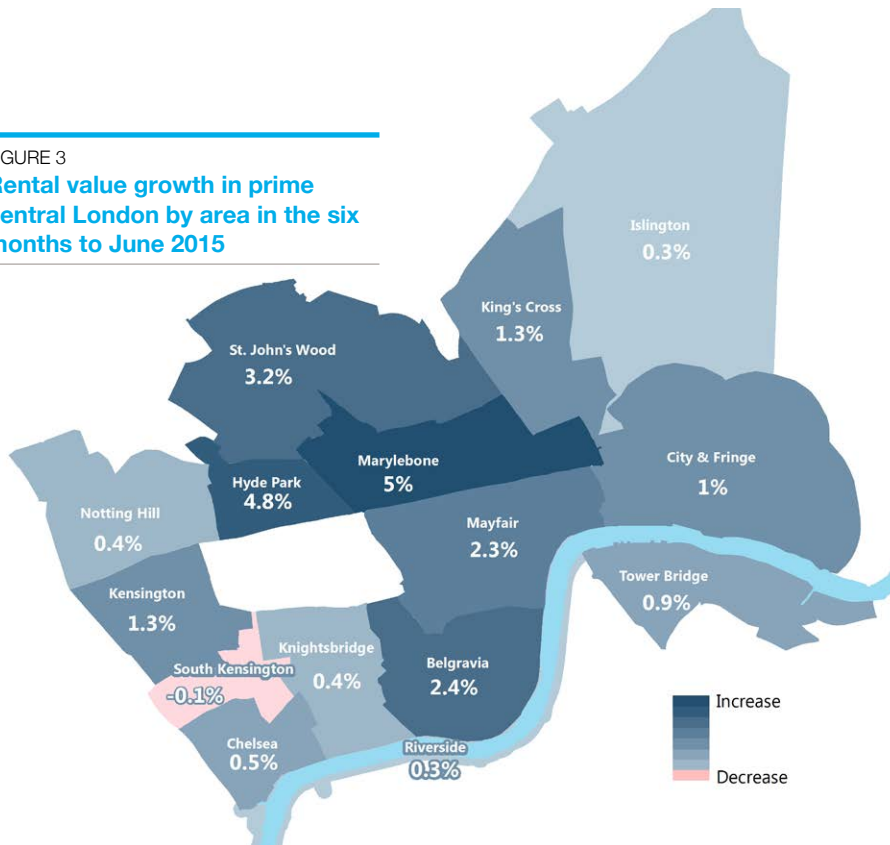
FIGURE 2  
**Bank share prices lag the FTSE 100**



Source: Knight Frank Residential Research

# PRIME CENTRAL LONDON RENTAL INDEX

**FIGURE 3**  
Rental value growth in prime central London by area in the six months to June 2015



## DATA DIGEST

The Knight Frank Prime Central London Index, established in 1976, is the longest running and most comprehensive index covering the prime central London residential marketplace. The index is based on a repeat valuation methodology that tracks capital values of prime central London residential property. 'Prime central London' is defined in the index as covering: Belgravia, Chelsea, Hyde Park, Islington, Kensington, Knightsbridge, Marylebone, Mayfair, Notting Hill, South Kensington, St John's Wood, Riverside\* the City and the City Fringe. 'Prime London' comprises all areas in prime central London, as well as Barnes, Canary Wharf, Chiswick, Clapham, Fulham, Hampstead, Richmond, 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.

## Knight Frank Prime Central London Index

	KF Prime Central London Index	12-month % change	6-month % change	3-month % change	Monthly % change
Jun-14	170.9	-0.4%	1.6%	1.5%	0.9%
Jul-14	171.7	0.5%	1.8%	1.6%	0.4%
Aug-14	172.5	1.2%	2.7%	1.9%	0.5%
Sep-14	173.0	1.6%	2.7%	1.2%	0.2%
Oct-14	173.8	2.6%	2.9%	1.2%	0.5%
Nov-14	173.8	2.9%	2.6%	0.7%	0.0%
Dec-14	173.9	3.3%	1.7%	0.5%	0.0%
Jan-15	174.3	3.4%	1.5%	0.3%	0.2%
Feb-15	174.7	4.0%	1.2%	0.5%	0.2%
Mar-15	175.1	4.0%	1.2%	0.7%	0.2%
Apr-15	175.9	4.1%	1.2%	0.9%	0.5%
May-15	176.4	4.2%	1.5%	1.0%	0.3%
Jun-15	176.8	3.4%	1.7%	1.0%	0.2%

Source: Knight Frank Residential Research



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