PRIME CENTRAL LONDON RENTAL INDEX

This report analyses the performance of single-unit rental properties in the second-hand prime central London market between £500 and £5,000-plus per week. 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.

RENTAL VALUE GROWTH BOTTOMS OUT AS GROWTH IN SUPPLY EASES

Demand is strong in the upper and lower price brackets but demand from senior executives has slowed, says Tom Bill

March 2017

Annual rental value growth eased to -4.9% as the rate of growth of new supply slowed

The number of new tenancies agreed was **22% higher year-on-year in the six months to February**

Annual rental value growth was -1.2% between £250 and £500 per week

Average prime gross yield was 3.26% in March

Macroview: The implications of weak sterling

TOM BILL
Head of London Residential Research

"There were twice as many deals done above £5,000-plus per week in the first two months on 2017 compared to last year"

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Rental value declines continued to bottom out in March as the rate of increase of new lettings properties coming onto the market slowed.

The annual rate of growth eased to -4.9% and the quarterly rate of decline was -0.7%, which was the lowest level since November 2015.

The amount of lettings property coming onto the market in prime central London has risen over the last 12 months as uncertainty grew over pricing in the sales market following a succession of tax hikes. This was compounded by political uncertainty surrounding the EU referendum.

While the annual increase in new lettings properties on the market was 51% last June, this figure had eased to 23% in February.

In a sign that demand is increasing, the number of new prospective tenants registering rose 1.5% year-on-year in the six months to February. Meanwhile, the number of tenancies agreed increased by 22% over the same period.

While this indicates a marked increase in activity in the prime central London lettings market, demand levels vary at different price points.

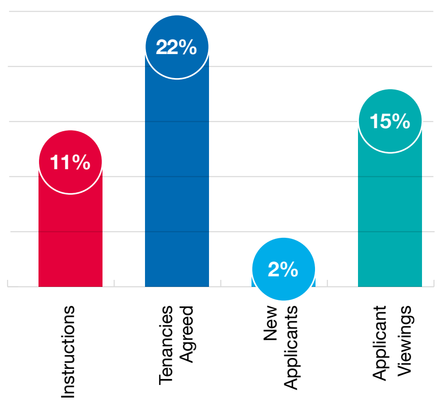
Below £1000 per week activity is particularly strong, as shown in the relative rental value declines in figure 3 on page 2. Demand has been bolstered by continued strong demand from students, a greater acceptance of renting as a tenure model by young professionals and the fact some corporate accommodation budgets have been cut, increasing demand in lower price brackets

Demand is slower between £3,000 and £5,000 per week, a market where demand has traditionally been strong among senior executives in financial services. A recent series of news stories about banks cutting staff bonuses underlines the ongoing financial pressures they face.

It means landlords at this price point frequently have to make double-digit percentage reductions to asking rents to prevent void periods.

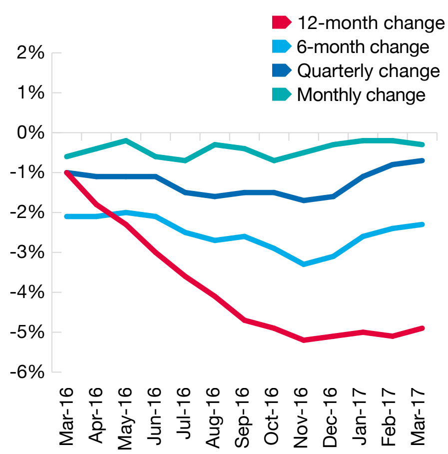
Meanwhile, demand in the super-prime lettings market above £5,000-plus per week remains robust. There were twice as many deals done above £5,000 per week in the first two months on 2017 compared to last year, LonRes data shows.

FIGURE 1
Demand is on the rise
Year-on-year change, six months to February



Source: Knight Frank Research

FIGURE 2
Rental value declines bottom out



Source: Knight Frank Research

MACROVIEW | A WEAK STERLING

After the UK government triggered the formal process to leave the European Union on 29 March, the pound showed a degree of volatility on foreign exchange markets but was broadly unchanged against the dollar on previous days' trading.

Since the EU referendum in June, sterling has weakened markedly. A US buyer in prime central London would have benefitted from an effective discount of 21% between the EU referendum and February given currency and house price movements.

It was the same figure for an Indian and Hong Kong buyer, while the figure was 17% for a Chinese buyer and 28% for a Russian buyer.

It is an example of how the currency markets are likely to act as a "shock absorber" for the UK economy as formal Brexit talks get underway, said Savvas Savouri, chief economist at asset manager Toscafund.

"The immediate reaction to the pound falling is that it must be a bad thing which is absurd because, as we have seen, it can help the economy," said Savouri.

Furthermore, he believes the competitive advantage that a weak pound would imply for the UK compared to the EU in the event of no deal is a primary reason that such a scenario is unlikely. "I believe the outcome will be something like what we know as soft Brexit because of this shock absorber advantage."

The weakness of sterling is part of the reason overseas capital is targeting the UK more generally. "It seems like nobody has told China about Brexit and their interest goes beyond London," said Savouri.

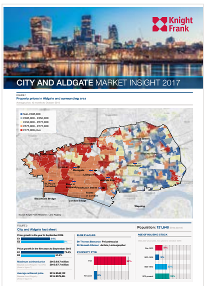
FIGURE 3 **The pound versus the US dollar**

FIGURE 4
Rental value growth in prime central London by price bracket and property type, March 2017

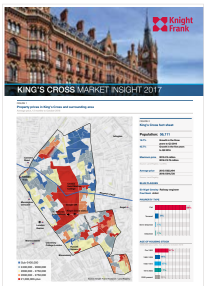
Prime Central London Index **165.0**

	£250 - £500 pw	£500 - £750 pw	£750 - £1,000 pw	£1,000 - £1,500 pw	£1,500 - £2,000 pw	£2,000+ pw	Flat	House
1 month	-0.1%	0.0%	-0.8%	-0.5%	-0.8%	-0.1%	-0.3%	-0.3%
3 months	-0.3%	-0.4%	-0.3%	-1.5%	-1.7%	-0.6%	-0.7%	-0.9%
6 months	-0.8%	-0.8%	-1.8%	-4.0%	-4.3%	-2.6%	-2.1%	-2.9%
1 year	-1.2%	-2.4%	-5.2%	-7.6%	-6.0%	-6.1%	-4.1%	-6.6%
YTD	-0.3%	-0.4%	-0.3%	-1.5%	-1.7%	-0.6%	-0.7%	-0.9%

London Review Spring 2017



City and Aldgate market insight 2017

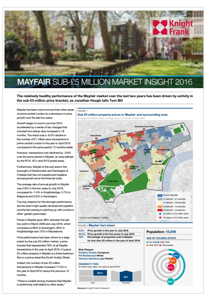


King's Cross market insight 2017

Riverside market insight 2017

Victoria and Westminster Market insight 2017

Martlebone market insight 2016



Mayfair market insight 2016

Prime Central London Rental Index March 2017

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.

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