



Rents fall as the gap between demand and supply widens

Despite a promising upturn last month, prime central London rents fell by 0.3% in May on the back of deflated demand and growing supply. Liam Bailey, Head of Residential research, looks at the numbers

Results for May 2012

Rents fell by 0.3% in May, reversing the 0.1% rise in April

New tenant registrations were down 8% and property viewings down 7% in the three months to May compared to the same period last year

New property instructions were up 21% while tenancies commenced were up 1%

The higher and lower price brackets remain active but the mid-market is suffering from deflated demand

The ratio of new applicants to new instructions has fallen from 4.6 in 2011 to 3.6 in 2012

Rents in prime central London fell in May, dropping by 0.3% and reversing April's small but promising 0.1% rise. Rents have fallen modestly for seven of the past eight months, and are now just 0.2% higher than in May last year.

While supply is rising as keen landlords bring more properties to the market, the appetite for them is failing to keep pace – a reflection of continued uncertainty in the city employment market.

This is most evident in the mid-market – notably properties with two or three bedrooms in the £1,000 to £2,000 per week bracket – due to the fact that it is the mid-level city jobs that have been most affected by cutbacks. With the ongoing troubles in the Eurozone and associated uncertainty in the finance sector, there is little sign of this reversing in the coming months.

The higher and lower rental brackets remain active, however, with seasonal demand for

family houses with four or five bedrooms and priced above £2,000 per week holding out as families look to settle over the summer before the academic year starts in September.

Reports that rental accommodation in prime London could be in short supply due to this summer's Olympic Games have clearly not yet been borne out. While this could be because this high demand for short lets simply wasn't there, it could be argued that the demand was in effect removed by the move by LOCOG, the London Organising Committee, to release a further 600,000 hotel room nights which were previously set aside for officials and the media but are no longer required.

Demand could pick up over the summer as more families search for their new home in time for their children to start school in September, and also as London's foreign students, estimated to total around 102,000, prepare to arrive in August to secure accommodation for the new term.

Figure 1
Monthly growth
Prime central London average residential rental change

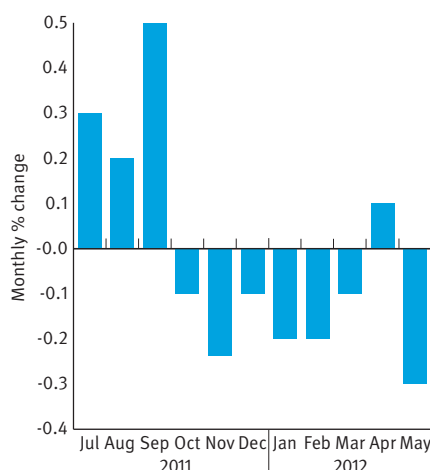
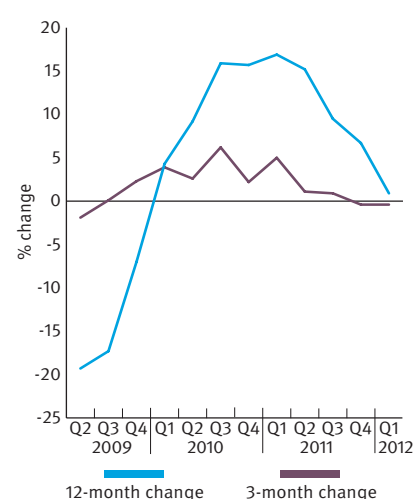


Figure 2
Annual and quarterly growth
Prime central London average residential rental change



"Demand could pick up over the summer as families aim to settle before the new academic year and foreign students arrive ahead of their new term."



Liam Bailey, Head of Residential Research

Source: Knight Frank Residential Research

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RESIDENTIAL RESEARCH PRIME CENTRAL LONDON RENTAL INDEX

Knight Frank



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.

Key market metrics

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

Demand	New tenant registrations	-8% ▼
	Property viewings	-7% ▼
Supply	New property instructions	21% ▲
Activity	Tenancies commenced	1% ▲
Demand and supply balance	Ratio of new applicants/new instructions (2011)	4.6
	Ratio of new applicants/new instructions (2012)	3.6

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.
	May-11	176.6	n.a.	n.a.	n.a.	0.5%
Index monthly from May 2011	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%
	Feb-12	177.3	n.a.	-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%

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