

RENTAL RECOVERY TAKES HOLD AS SALES MARKET PAUSES FOR BREATH

Rental values in prime central London are climbing and the signs are growth will continue, as Tom Bill explains.

Results for May 2014

Rental values rose 0.2% in May as the **annual decline narrowed to 1.4%**

The half-year change in rental values was **positive for the first time since January 2012**

New lettings registrations were **17% higher than 2013 and 48% up on 2012**

Broad-based demand is coming from oil & gas, IT and mining companies

Softening demand in the sales market suggests growth will continue

Rents in prime central London rose for the third consecutive month in May as growth took hold in the lettings market after a two-and-a-half year decline.

The change over a six-month period was positive for the first time since January 2012 and rental values climbed back to the level recorded at the start of 2011, about nine months before the last peak.

Rental values grew 0.2% in May, which meant the annual decline narrowed to 1.4%, the lowest figure since July 2012.

Despite the growth, a full-blown upswing is not yet underway and half of Knight Frank's prime central London offices reported an increase while the other half reported that rents were flat or falling in May.

The signs are encouraging, however.

The first is that the number of new lettings registrations in the first four months of 2014 is 17% higher than the equivalent period last year and 48% higher than 2012.

Demand is coming from a range of industries, including oil and gas, IT and mining, sectors that have all experienced relatively strong performance in the last six months, as figure 2 shows.

The graph also shows that the recovery in the banking sector, which has traditionally been a strong source of demand, is still tentative.

The second positive sign is that demand appears to be softening in the sales market, with applicant registrations in May 2014 about a third down on the same month last year (see figure 1).

A prolonged period of strong growth combined with growing talk of a price correction means buyers have become sensitive to high prices in prime central London, which mirrors a trend in the mainstream market.

As the sales market pauses for breath, it is starting to benefit the lettings market and several high-value deals have been struck in recent weeks.

In previous cycles this has translated into more buyers deciding to rent and more vendors becoming landlords, though there is no evidence of this trend yet.

A further boost to the lettings market will come in the summer with the seasonal inflow of students before the start of the next academic year.



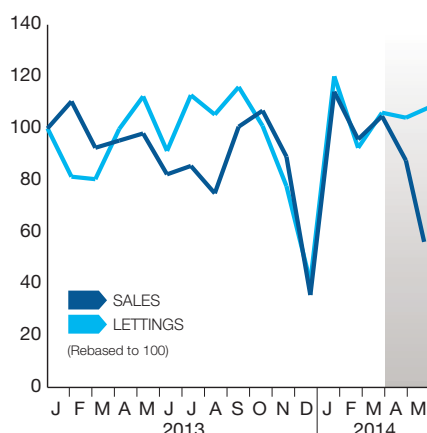
TOM BILL
Head of London Residential Research

“Demand is coming from a range of industries, including oil and gas, IT and mining companies.”

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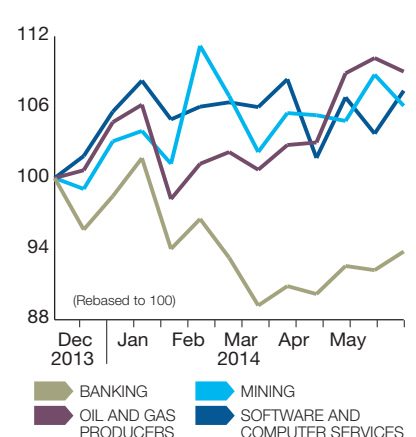
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FIGURE 1
New applicant registrations



Source: Knight Frank Residential Research

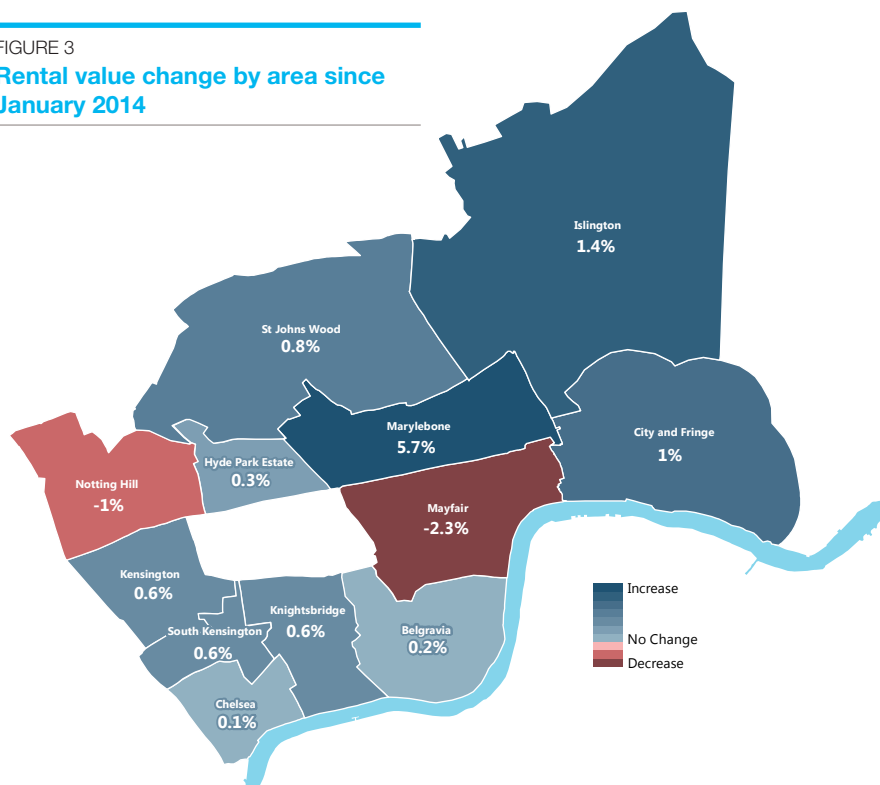
FIGURE 2
Performance of FTSE 350 sector indices



Source: Knight Frank Residential Research

PRIME CENTRAL LONDON RENTAL INDEX

FIGURE 3
Rental value change by area since January 2014



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

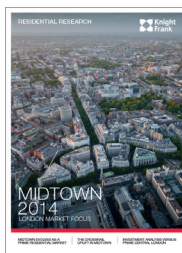
	KF Prime Central London Index	12 month change %	6 month change %	3 month change %	Monthly change %
May-13	171.7	-2.9%	-0.8%	-0.1%	0.0%
Jun-13	171.6	-3.0%	-0.4%	-0.1%	-0.1%
Jul-13	170.8	-2.7%	-0.7%	-0.5%	-0.4%
Aug-13	170.5	-2.5%	-0.8%	-0.7%	-0.2%
Sep-13	170.3	-2.5%	-0.9%	-0.7%	-0.1%
Oct-13	169.4	-2.5%	-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%
Feb-14	168.0	-2.3%	-1.5%	-0.6%	-0.4%
Mar-14	168.4	-2.0%	-1.1%	0.1%	0.2%
Apr-14	169.0	-1.6%	-0.2%	0.2%	0.3%
May-14	169.4	-1.4%	0.3%	0.8%	0.2%

Source: Knight Frank Residential Research

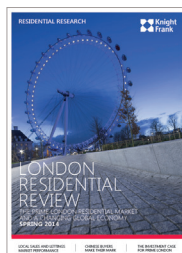
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RESIDENTIAL RESEARCH

Tom Bill

Head of London Residential Research

+44 20 7861 1492

tom.bill@knightfrank.com

PRESS OFFICE

Daisy Ziegler

+44 20 7861 1031

daisy.ziegler@knightfrank.com



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