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.

March 2018

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Average rents increased 0.2% between February and March, the first monthly rise since September 2015

The number of new lettings listings fell 5% year-on-year in the 12 months to February

Lettings properties accounted for 71% of all listings in prime central London in July 2017. By February of this year, it was 62%.

Macroview: The Politics of Brexit

DROP IN SUPPLY PUTS UPWARDS PRESSURE ON RENTAL VALUES IN PRIME CENTRAL LONDON

As more landlords become vendors, rental values are likely to strengthen, says Tom Bill

A supply decline in the prime central London lettings market has begun to have a discernible impact on rental values.

Average annual rental values fell 1.5% in the period to March, which was the most modest rate of decline in almost two years.

Furthermore, average rents increased 0.2% over a one-month period, which was the first positive monthly movement since September 2015.

The supply of new lettings properties has declined over the last 12 months due to a combination of factors.

The first is that pricing in the sales market has shown increased signs of stability as stamp duty hikes have become more fully absorbed. Political uncertainty means the market is not set for an upswing in the short-term but signs of stability are likely to have caused some property owners to explore the option of a sale.

The other reason behind this trend is the succession of tax changes in recent years, which include a stamp duty surcharge and tighter restrictions around tax relief and other allowances for landlords.

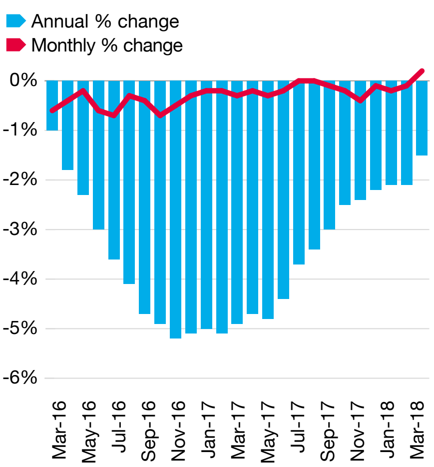
The number of new lettings listings fell 5% in the year to February compared to the previous 12-month period, LonRes data shows. It was the largest such decline since July 2015.

A survey by insurer AXA last year showed almost half of UK landlords planned to leave the private rented sector by 2020. To put that in context, the last English Housing Survey estimated that the private rented sector accounted for 30% of all tenure types in London, a figure Knight Frank estimates could be as high as 50% in Kensington & Chelsea and Westminster.

The same trend is underlined by Rightmove data. Lettings properties accounted for 71% of all listings (sales and lettings combined) in prime central London in July 2017. By February of this year, that number had declined to 62%, as figure 2 shows.

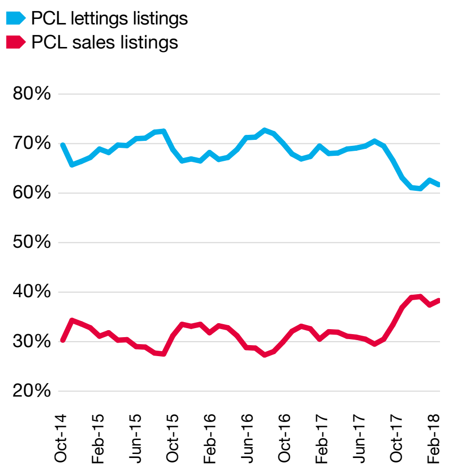
Meanwhile, tenant demand continues to grow, suggesting continued upwards pressure on rents. The number of new prospective tenants that registered in the year to February was 16% higher than the previous 12-month period, Knight Frank data shows. Meanwhile, the number of viewings rose 14% over the same period.

FIGURE 1
Monthly growth returns in prime central London



Source: Knight Frank Research

FIGURE 2
Supply levels decline in prime central London
Sales and lettings listings as a % of the total



Source: Knight Frank Research / Rightmove

TOM BILL
Head of London Residential Research

"Lettings properties accounted for 71% of all listings in prime central London in July 2017. By February of this year, that number had declined to 62%."

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MACROVIEW | THE POLITICS OF BREXIT

Political uncertainty is one of the key factors limiting liquidity and causing uncertainty in prime central London sales and lettings markets.

The finely-balanced Parliamentary arithmetic creates uncertainty over the stability of the government, which is aggravated by Brexit.

However, March brought some signs of progress between the UK and EU as both sides agreed a transitional deal.

It is significant because it avoids a so-called 'cliff edge' for businesses, which will have 21 months after Brexit to adapt to life outside of the EU. It also creates a sense of momentum that will raise the stakes for any group of MPs who may wish to derail the process.

There has also been a subtle shift in position on the part of the EU in relation to financial services, a sector that is a key driver of demand in the prime central London property market.

The latest draft of the EU's negotiating guidelines refers to market access for financial services based on "reviewed and improved equivalence rules".

While the exact meaning of this is unclear, it marks a departure from its previous public statements that a trade deal including financial services was not on the table.

It implies access for UK companies on the EU's terms, which is something the UK rejects in favour of a system where both sides set the rules.

One way through the impasse could be a proposal from the International Regulatory Strategy Group for financial services to be included in a free trade agreement, but with a joint dispute resolution body and mechanisms for mutual market access.

The fact so many EU companies have a financial interest in the UK is also likely to have a strong bearing on trade talks, said Savvas Savouri, the chief economist of asset manager Toscafund.

"A pleasant resolution would not happen out of any selfless benevolence towards the UK, but because an uninterrupted transition out of the EU serves their financial interests," he said.

FIGURE 3

Rental value growth in prime central London by price bracket and property type

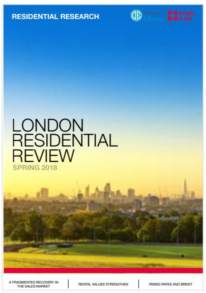
Prime Central London Index **162.4**

	£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%	0.0%	0.2%	1.4%	0.1%	0.3%	0.1%
3 months	0.3%	-0.4%	-0.4%	-0.6%	0.9%	-0.1%	0.0%	-0.3%
6 months	-0.5%	-0.9%	-0.7%	-2.2%	-0.4%	-0.4%	-0.7%	-1.2%
1 year	-1.2%	-1.0%	-0.2%	-3.9%	-1.5%	-1.5%	-1.4%	-1.8%
YTD	0.3%	-0.4%	-0.4%	-0.6%	0.9%	-0.1%	0.0%	-0.3%

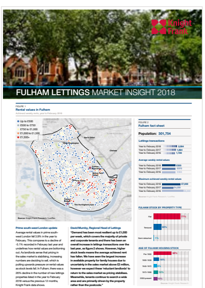
Prime Central London Sales Index March 2018

London Super-Prime Lettings 2018

St John's Wood Lettings Market Insight 2018



London Review Spring 2018



Fulham Lettings Market Insight 2018

Belgravia Lettings Market Insight 2017

Residential Market Update

Prime Country House Index

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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