News Release

Date: 12 April 2010

Central London rental recovery

Knight Frank London Lettings Index – Q1 2010

Headlines

- **Rents in London's prime residential market are on the rise, up 3.9% in the first quarter of 2010**
- **After falling 20% in the 12 months to June last year, rents have now risen by 6.3% over the past three quarters**
- **Rental growth has been led by the mid to upper end of the central London market, with 5% growth in the £1,500 per week and above sector**
- **With recruitment levels increasing in central London – tenant demand is forecast to outstrip supply of property meaning there is further room for rental growth in 2010**
- **Landlords are facing ever tighter yields as capital price growth of 20% in central London outpaces the rental recovery, prime yields are now 3.33% across prime central London**

Liam Bailey, head of residential research, Knight Frank, commented: "London's rental market has experienced a dramatic turnaround in recent months. The supply of rental properties in March was 15% below and demand was 10% above the long term trend levels we would expect to see. The result has been the emergence of a 'landlord's market' for the first time in two years.

"Lettings demand has been driven by the improvement in London's jobs market since the middle of 2009. Morgan McKinsey confirms that the number of new job vacancies in the City has risen by nearly 60% over the past year, and the numbers of candidates looking for work in London's high value added service sector has similarly seen a noticeable rise.

"Supply has declined, as the so called "forced landlords" from 2008 and early 2009 (potential vendors who did not want to sell in a falling market so let their properties) shifted their stock into the sales market over the past nine months.

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"With rents rising again, investors are eyeing the market, our own experience confirms that the number of purchase enquiries from potential investors has risen by 42% in the year to the end of March.

"Very strong capital price growth, 20% in the year to the end of March, has outpaced the improvement in rents meaning that landlords are faced with ever lower yields. At the end of the first quarter of 2010 yields hit a record low of 3.33% for prime stock, although investment grade stock is still able to achieve 5% or greater gross yields.

"The outlook for 2010 is likely to be positive for existing landlords. There is no sign so far of a return to high supply, if anything the amount of property coming forward into the market is weakening as we move into spring.

"The risk for landlords is that uncertainty around the election means that employers put recruitment plans on hold, thus slowing demand for rental accommodation over the pre- and post-election period.

"Our view is that rents are likely to grow from here – however landlords expecting more than 5% growth in 2010 are likely to be disappointed. The main advice for landlords' remains – competitiveness is key to avoid void periods – overly ambitious rents will still result in empty properties."

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Notes to Editors

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